

Sam Sedaei compares to major economic theories: liberalism and dependency. Note: the term “liberal” in economics refers to a system of free markets with minimum governmental intervention in the flow of trade. “Liberalism” should not be confused with political liberalism as it is understood within the United States.

**LIBERALISM VS. DEPENDENCY:
A CLASH BETWEEN THE TWO MAJOR POLITICAL ECONOMIC THEORIES**
Sam Sedaei

As countries across the world move more toward globalization and develop economic relations with one another, the supporters of two major international political theories clash on explaining the benefits and disadvantages of the third world’s engagement in an economy that is making the geographical borders meaningless in an economic sense. Liberals believe that the world economy is benefiting every country that is a part of globalization and free trade; hence there is no reason for the north or the third world countries to make any radical changes in their foreign policies and cut relations. Dependency theorists, however, argue that there *are* winners and losers as an outcome of modernization, and it is to the advantage of the third world and less developed countries to cut ties with the north and develop their internal industries. In order to evaluate both points of view, it is necessary to first review the stances each group of theorists take on different aspects of the global economy.

Liberals and dependency theorists take different stances when it comes to explaining benefit dynamics of globalization and free trade. In explaining the nature of the states’ political economic relations, liberals see the pursuit of economic advantages in the world as a positive-sum game.¹ They believe that if the countries join the modernization and open their markets to the world, every country’s economy would advantage since the efficiency would rise as a result

¹ Chapter 5, Cohn, Theodore, *Global Political Economy*, 2002.

of specialization. Structuralists² and dependency theorists, however, view the free market system as a zero-sum game. They believe that when it comes to international economic relations, there are always winners and losers, and the third world countries and the LDCs³ are the losers in this game. They argue that there is only a certain amount of profit that could be made in the world, and free trade is the north's tool to obtain a bigger portion of this profit pie, thus decreasing the profit acquired by the third world.

One of the economic concepts that supports liberals' point of view in this case is the concept of "comparative advantage." Ricardo, the founder of this concept explains that since the economy works based on the concept of opportunity cost,⁴ each country is giving up the production of a certain amount of an item in order to produce another item. Based on Ricardo's concept, each country has a comparative advantage in the production of certain products, those products that the country has to give up the least amount of economic resources to produce. Hence, liberals would argue, it is to the advantage of all the countries to specialize in the production of few products, and obtain the rest of their needed products through free trade with other countries.

Cardoso and Faletto, two of the less extreme dependency theorists, challenge liberals' comparative advantage argument. Cardoso states that the opportunity cost theory does not take into account the historical aspect of the globalization. He states, "We stress the social-political nature of the economic relationship of production, thus following the nineteenth century of treating economic as political economics."⁵ Dependency theorists emphasize the fact that since wealth results in power, there is a strong link between economy and politics. As a result of this

² According to Cohn, dependency is a sub-category of structuralism.

³ Less Developed Countries.

⁴ Opportunity Cost is defined as an amount of some item that must be given up to obtain another item.

⁵ Cardoso, Fernando Henrique, and Enzo Faletto. 1979. *Preface to the English Edition* in "Dependency and Development in Latin America".

connection, it would be very unrealistic to look at modernization exclusively from an economic perspective, such as the concept of “Comparative Advantage.”

Another aspect of modernization that dependency theorists and liberals have different stances on is the main effects and purpose of globalization in the first place. Frank, an extreme dependency theorist, argues that advanced countries promoted modernization and free trade to create the underdeveloped world.⁶ Frank believes that the whole idea of globalization is to lead the third world to open their markets to the world. Third world countries, with their underdeveloped industries and large populations of inhabitants that are ready to consume the north’s products, would solely be beneficial for the developed countries. He also explains that undeveloped is not underdeveloped. This means that the countries that are not developed could still develop, but the reason for their struggle to develop is that the more technologically advanced countries are preventing their domestic industries to grow by ways of controlling the markets of the third world. Liberals, however, deny Frank’s argument about the reason that globalization was created. Liberals believe that colonialism has a positive effect for the third world countries. They argue that colonialism and modernization introduces the elements that belong to the modern societies (modern mentality, culture, etc.) to the third world inhabitants. This introduction of modernization would cause the third world to develop at a faster pace. They claim that globalization was created as a result of a natural process, similar to an economic evolution. They claim that as every country functioned for centuries solely to serve their own interests, a positive-sum system was created in which all the countries benefit.

The last aspect of the dependency theory was introduced by theorist Goldsmith. He stated that despite liberals’ claim, the colonialism is designed to impose foreign interest rather than to help the third world develop. He goes even farther as to recognize a set of steps that, he believed,

⁶ Frank, Andre Gunder. 1966. *The Development of the Underdeveloped*, Monthly Review.

existed in the process of colonialism in one country.⁷ These steps include setting up indigenous elites supported by western factors, killing domestic economy to increase the colony's need to import foreign products, and having international fund organizations, such as the IMF and the world bank, to protect western interests. Goldsmith's idea of internal elites with similar interest is also supported by Cardoso. He states, "Internal penetration in a result of external social forces. What we affirm simply means that the system of dominant reappears, as internal force, through the social practice of local groups and classes which try to enforce internal, not because they are foreign, but because they may coincide with values and interests of these groups pretend are their own."⁸ During the process of colonialism, Goldsmith believes, the north even implements the strategy of lending large amounts of money to the third world. The reason for this practice is to have the LDCs not be able to pay the loans back, hence making them more dependant on the north. Although liberals could make the argument that countries, such as Hong Kong and South Korea, that once owed lots of capital to the west, were able to pay back the loans, become dependant and develop at rapid paste.

An article published on BBC is a great presentation of the clash that exists between liberalism and the dependency theory. In this article, the author announces Bechtel's⁹ obtainment of a 1.8 billion dollar contract to reconstruct Iraq.¹⁰ Dependency theories challenge this grant to an all-American company, by claiming that the US is using Iraq as a tool to expand its own wealth, rather than providing the same fund for the Iraqi engineering company to implement the reconstruction. They would also explain that the reason for this grant to Bechtel is the fact that

⁷ Goldsmith, Edwards. 1996. *Development as colonialism*, in "The Case Against Global Economy."

⁸ Cardoso, Fernando Henrique, and Enzo Faletto. 1979. *Preface to the English Edition* in "Dependency and Development in Latin America".

⁹ Bechtel is one of the largest engineering companies in the US.

¹⁰ *Bechtel gets 1.8bn Iraq Deal*, British Broadcasting Corporation.

Bechtel is a major donor to the ruling republican party and president Bush's election in 2000. Thus, this contract is Mr. Bush's way to return the favor to his fellow businessmen. Liberals, however, would defend this contract by stating the fact that the selection was run completely by USAID,¹¹ and there was no influence whatsoever from Mr. Bush. As we can see, the conflict between the dependency theory and liberalism is an ongoing clash that affects countries' important political economic decisions everyday.

There are different ways of looking at the viewpoints of both dependency theorists and liberals. It is very appealing to take the liberal stance on the issue. An economist or a businessman, such as myself, might favor using solely economic models to describe the world economy. In that case, Ricardo's theory of "comparative Advantage" seems very appealing, since its logic makes perfect sense for the free trade to take place among countries, because it will supposedly make the profit pie larger, benefiting every country as a result of their specialization and efficiency. But it would be very dangerous to look at the world in black and white, and in this case, exclusively from an economic standpoint. Goldsmith's theory of internal loyal elites of similar interest to serve the north could definitely be supported based on factual evidence from the less developed countries. For instance it is proven by fact that before the Iranian revolution of 1979, Reza Shah Pahlavi¹², spent his days under the crown serving the American interests. It was precisely after he conducted his famous patriotic speech, during which he promised the Persians not to let the "blue-eyed foreigners" take over the national economy and oil, that he was overthrown by the religious revolutionary, khomeini, a factor nourished and supported by Britain for years. As we can see, it would be too naïve to ignore the real connection that exists between political and economic decisions that are made in the world. However, the

¹¹ the US Agency for International Development.

¹² The last Persian king before the fall of the Persian kingdom.

best way to view the political economic world is to take neither stances, but to look at the issues using both perspectives. For instance on the Bechtel issue in Iraq, even though it is very tempting to see the contract as Mr. Bush's payback to the fund raiser for his 2000 election, we should also keep in mind that the reconstruction of Iraq is a very advanced project and out of the ability of the Iraqi engineering companies, hence making it impossible to grant them the contract. Although, there should have been a more open bidding process before granting the full contract to just one or two companies.

As the dependency theorists clash with liberals, the third world countries are becoming more and more aware of the influence foreign factors have on their internal economies. However, we should keep in mind that for the past century, the world has been moving more toward globalization, modernization, and free trade. By looking at the countries' course of actions from both economic and political standpoint, we would be able to expand our mind as to see the hidden, but real, factors that lead the countries to setting their economic foreign policies toward one another.