

PREBISCH-SINGER HYPOTHESIS AND THE WORLD-SYSTEM THEORY: HOW DO THEY DEVIATE FROM THE CLASSICAL DEVELOPMENT PARADIGM?

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Abstract

Within the postdevelopment literature the classical development paradigm has been identified as the dominant perspective that in its main tenets still remains dominant today. The aim of this paper is to present the classical development paradigm and show two heterodox theories from the international political economy and analyze how these two theories deviate from the classical development paradigm. As such, this paper is a contribution to the broader field of critical development studies and enriches the field of international political economy as well. The deviation consists in perceiving the liberalization of trade not necessarily as a win-win situation and at the same time focusing on the global market instead of methodological nationalism.

Keywords

Prebisch, Singer, Development, Paradigm, Methodological, Nationalism

I. Introduction

The practice of development has changed in many ways during the past decades. Its core, however, remains the same. This core has been analyzed by many analysts from within the field of critical development studies (see, eg, Escobar 1995, Sachs 1992, Cooper – Packard 1997, Crush 1999). Still a rather sophisticated analysis of the classical development paradigm has been conducted by Aram Ziai at the beginning of 2000s (Ziai 2004). His analysis is particularly useful for the aim of this paper, which is to show the difference between the classical development paradigm on the one hand and the Prebisch-Singer hypothesis and the world-system theory on the other hand. These two approaches have a lot in common with the classical development paradigm from which they emanate just like Marxism itself, but at the same time they deviate in important ways. This article shows both the commonalities as well as the deviations. This topic is important because of the criticism addressed to development theories from the postdevelopment approach (see, eg, Escobar 1995, Ziai 2004). If this criticism is valid, then it makes sense to engage in the comparison like the one conducted in this paper in order to enable practitioners to take the best from both approaches – the classical one as well as the heterodox one. The method of this paper is comparative. The first section briefly reproduces the conceptualization of the classical development paradigm, the second and the third presents the Prebisch-Singer hypothesis and the world-system theory and the last section before conclusion engages in the comparison with the classical development paradigm.

II. The classical development paradigm (CDP):²

The CDP could be understood as a theoretical approach to development since World War II until at least the 1980s, when the paradigm has been partly modified. The beginning of development can be rhetorically traced back to the 19th century, material origins go back to the 1940s (see Profant 2021). During this period ‘reality, in sum, had been colonised by the development discourse’ (Escobar 1995). The relevance of the study of the CDP then stems from the assumption that ‘the discourse and strategy of development produced... massive underdevelopment and impoverishment, untold exploitation and

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² This section has been revised and translated from Profant 2010.

ECONOMIC POLICY

oppression' (ibid.: 4). Since the 1980s the classical development paradigm is changing and incorporating novelties from within the expanding development discourse.

The following text is a short summary of the paradigm as proposed by Ziai (2004), see also Profant 2010:74-75 for the Slovak version of this summary). Ziai differentiates several levels – philosophical, metatheoretical, theoretical, methodological, methodical and practical. They are stated in Table 1.

Table 1 Ziai's assumptions

Philosophical assumptions (concerned with scientific conditions)
Kartesian rationality
Baconian understanding of nature
Homo oeconomicus

Metatheoretical assumptions (concerned with the possibility of creating a theory)
The normative image of a good society should be called development.
There is a universally valid image of development as a goal.
There is a universally valid image of development as a process leading to this goal.
All societies can reach the development goal if they follow this development path.
The path to development and the goal of development can be identified by development experts.

Theoretical assumptions (concerned with creating a theory)
The norm of development as a goal is the Western industrialised nations.
The norm of development as a process is the Western industrialised nations.
Societies with deficits regarding this norm need economic growth, modernisation of society and technological advancement in order to pass further on the development path and to reach the state of a developed society.

Methodological assumptions (concerned with the possibility of empirical research)
It is possible to identify developed and underdeveloped societies through comparative analyses.
It is possible to capture and measure development through statistical indicators.

Methodical assumptions (concerned with the empirical research)
The units of measurement and comparison are nation states.
The measure of development is the Western industrialised nations.
The most important indicator of development is the economic performance in the form of GDP or GNP or income per capita.

Practical assumptions (concerned with the use of empirical results)
It is possible to bring about development through planned interventions into societal structures.
The actors of these interventions are states and development organisations.
The negative accompanying effects of development measures and projects are acceptable with regard to the overall development goal.

Source: Entwicklung als Ideologie? Das klassische Entwicklungsparadigma und die Post-Development Kritik zur Analyse des Entwicklungsdiskurses (Ziai 2004)

Ziai distinguishes three basic intellectual heritages at the philosophical level – cartesian rationality, baconian understanding of nature and the perception of a human as a homo oeconomicus. First, the development paradigm presumes that there is a universally valid scientific system. Its method makes it possible to divide the world into isolated units. One may then analyze them and abstract from the analysis universally valid laws (1st philosophical assumption).

Bacon understood nature as subordinated to man who can manipulate it. There is a clear boundary between human and nature, which leads to an anthropocentric understanding of the world (2nd philosophical assumption).

The perception of the human being as homo oeconomicus presumes that s/he acts individually, rationally and according to his/her primary economic needs, which grow without limits (3rd philosophical assumption).

The first assumption at the metatheoretical level is the connection of the term development with the positive image of a good society. It allows various aspects of development to be called by the same name with this positive connotation. At the same time it is unclear what exactly does this word mean and the term becomes a meaningless buzzword (1st metatheoretical assumption).

In order to make the construction of the CDP as approachable as possible I will not follow Ziai's successions of assumptions but a slightly different one. First (2nd metatheoretical assumption) it is necessary to realize that there is the possibility of a better – culturally or otherwise more advanced – society.

In case of the CDP, the image is the Western industrialised society (1st theoretical assumption) characterized by the nation state and the industrial production, which is supposed to lead to mass consumption and consequently to the wellbeing of the whole society.

It is then possible to compare other societies with the universally valid image of development as a goal that is represented by the Western industrialised society (1st methodological assumption). An arbitrary differentiation between developed and underdeveloped societies thus emerges. Universalised particular images become the measure of development. Since this particular image is the Western society, the units that are supposed to be compared are the nation states (1st methodical assumption) and the measure is the Western society (2nd methodical assumption). The consequence of the nation state as a unit of development leads to diminishing the importance of the non-state actors in this process. The Western society as a measure results in accepting those features of this particular society, in which it has taken a lead. But if we took the crime rate, the suicide rate, social cohesion of the rural society, the degree of hospitality towards foreigners or the respect towards elderly for the measures of development, the rankings would look differently.

Just as there is the possibility to imagine better society as the ultimate goal of development (2nd metatheoretical assumption), it is possible to identify the process that leads to such a society and call it development (3rd metatheoretical assumption). The point of most of development theories and policies is that it is possible to formulate them in such way that they will be valid, and hence of use, in any part of the world. The assumption of one development path is that all countries or societies should be able to reach development taking this path (4th metatheoretical assumption).

Just as in the case of development as a goal, the ideal of the development process is the path taken by the Western industrialised states (2nd theoretical assumption). This process is based on the theories of evolution that propose the idea that progress happens through certain stages of development. These stages, however, are not natural, but are ascribed to the idea of development according to the process through which the Western states reached their current “stage of development”.

Even if there is a clear, unchallenged goal of development and it is possible to identify its process with the stages underwent by Western Europe, the question, who defines development in the concrete, remains. Following the cartesian rationality – the possibility of knowing the world and using this knowledge for our benefit – the idea of development becomes a mere technical problem, which one may solve by applying expert, scientific knowledge. The group of people with this knowledge are experts (5th metatheoretical assumption). They assess and construct reality on the basis of their own experience and values without taking into account ideas of those who are affected by development.

In practice, development then happens through planned interventions into societies (1st practical assumption). Even if it is the knowledge of development experts that is being used to define development goals, the actors who carry out development interventions are states or development institutions (2nd practical assumption). These gain their legitimacy thanks to the knowledge the experts that work for them possess.

Since the norm of development as a goal and as a process is the Western industrial society, it is necessary that underdeveloped countries improve in areas, in which the Western societies have taken a lead – economic growth, modernisation and technological advancement (3rd theoretical assumption). This assumption stems from the generally accepted positive notion of economic growth and the use of technologies in peoples' lives.

Abstract economic thinking manifests itself in understanding development as measurable through statistical indicators (2nd methodological assumption). According to this way of thinking it is possible to reduce life to several quantifiable indicators and through them compare different ways of life.

The measurement of development then focuses on the most important indicator of economic growth – the gross domestic product (GDP), the gross national product (GNP) or GDP/GNP per capita (3rd methodical assumption). The inequalities within a country are disguised by concentrating on this measure; only the production of the formal sector is included; but all exchange and that also means the exchange that damages environment is considered positive, as contributing to economic growth.

The last is the 3rd practical assumption that any negative side effects of development are acceptable, even necessary as one considers the greater good of the ultimate goal. One accepts here the need to sacrifice in order for a better life. Next I will first briefly introduce the Prebisch-Singer theory and then the world-system theory in order to show their relation to the CDP.

III. Declining terms of trade: the prebisch-singer theory

The Prebisch-Singer theory (see, eg, Singer 2003, Weissenbacher 2019, Kaplinski and Farooki 2017, Raffer 2011, Kvangraven 2021) belongs to what is most often called structuralism or the structuralist paradigm. This approach focuses on the structural constraints that prevent economic growth and the subsequent “development” in the countries of the global South. There are two sets of constraints – internal and external.

The structuralist approach focused mainly on economic aspects of the societies in the global South. According to this approach, there is a large agricultural sector characterized by land tenure and low level of productivity and a small modern sector that uses advanced technology. The modern sector is very open, employs a fraction of the society and is dominated by foreign capital that exports the primary production of a given economy. These economies do not manufacture capital goods and there is a high population growth (Hunt 1989).

The result of such a structure is a lack of investment. The capital that could be invested is simply not there, because there is no way how to generate it, if everybody is equally poor. This is related to the problem of complementary demand. It is impossible to sell for example shoes in a country with only one factory that manufactures these shoes. The problem is that only the employees of this factory earn enough money to buy the shoes, but nobody else does. The farmers just do not have the means. It is therefore necessary that several factories are built at once, but the market is not capable of securing such simultaneous investments. According to structuralists, a governmental intervention is necessary to overcome these internal constraints.

The problem of depoliticization makes the external constraints seem more important. There are two main problems that cause the terms of trade to decline. The first one is based on Engel's law, which claims that as income rises, the proportion of this income used on food and other primary product tends to decline. The income elasticity of demand for primary commodities is thus low. The rise of income does not lead to more demand for food and the rise in supply of such primary goods will require lower prices. From the other side, Engel's law does not apply to manufactured goods. Quite the contrary. Income elasticity of demand for industrial goods is high, which means that even if people in the poorer countries earn more, they will spend a larger proportion of their income on industrial goods than before.

Another cause for the decline in terms of trade is to be found in the unionization of labor in the North and a lack thereof in the South (that is partly caused by the surplus of labor there). The technological

advancement that leads to higher productivity (in both North and South) can lead (apart from higher profits) to lower prices of the goods or higher wages for the workers. Whereas in the South due to the lack of unionization results in lower prices, strong unions in the North translate higher productivity into higher wages.

The ultimate result of these mechanisms is a decline in terms of trade. This analysis was followed on the one hand by recommendation in terms of economic policies that should lead to import substitution industrialization, on the other by numerous attempts to confirm or to refute the Prebisch-Singer hypothesis. An approach with similar basis is the world-system theory.

IV. World-system theory

Another theoretical approach that follows several crucial tenets of the classical development paradigm is Neo-Marxism. I will here focus only on one representative of this strand of thought – Immanuel Wallerstein – and his world-system theory.

To explain the theory, it is first necessary to define few terms. Under the term world-economy (Braudel's *économie-monde*), Wallerstein understands a large geographic zone with a division of labor, exchange of goods and flows of capital and labor that “is not bounded by a unitary political structure. Rather, there are many political units inside the world-economy, loosely tied together in our modern world system in an interstate system” (Wallerstein 2004). The defining feature of capitalism is not just the existence of profit, an exchange between people or companies, or a wage labor, but “[w]e are in a capitalist system only when the system gives priority to the endless accumulation of capital” (ibid.: 24).

The harmony between the world-economy and the world-system lies in the need to have one system that consists of a sufficiently large number of units – states. Capitalists need “that they can gain the advantages of working with states but also can circumvent states hostile to their interests in favor of states friendly to their interests“ (ibid.). One therefore cannot speak of a free market. Quite the contrary, free market (or something close to it) would bring the profits to zero and the system would lose one of its basic principles – the profit motive. There is a need for barriers that enable this world-system as a playing field to emerge. It is precisely these barriers and their combination with the market that embody the relations or power.

So how does the world economy work, if not through free market? According to Wallerstein, the world-economy functions the way it does through monopolies and oligopolies. Owners of capital (or their managers) prefer higher rather than lower profits and one way to acquire this is by establishing a monopoly. This is rather difficult to achieve, but quasi-monopolies or oligopolies that bring sufficient profits are more common. The creation of monopolies is often secured through patent laws. Other ways include trade restrictions (e.g., protectionist measures), state subsidies, or tax reliefs. Stronger governments are also capable of preventing weaker governments from introducing retaliative measures. Another way of keeping high profit for companies is by paying unnecessary high prices for certain products of particular companies. This again can weaken foreign producers.

On the other hand, there are ways how to remove the quasi-monopolies. According to Wallerstein, the capitalist world-economy has inbuilt anti-monopolistic features. Those on the losing side are always trying to remove the advantages of the winners of the capitalist game. Thus, as time passes by, every monopole and quasi-monopole is eliminated by the entry of new producers on the market. “Quasi-monopolies are thus self-liquidating.“ (ibid.: 27). However, as soon as the quasi-monopoly ceases to exist, “the large accumulators of capital simply move their capital to new leading products or whole new leading industries. The result is a cycle of leading products” (ibid.).

Wallerstein lists some of the former leading products such as steel, automobiles or computers (the book is from 2004). Current leading products include aircraft production or genetic engineering. Within the leading product cycle, a new product is invented in the core and is sold for (quasi-)monopolistic prices. As soon as possible, semiperipheral countries imitate the product and

start to produce it themselves selling it for a lower price lowering also the profit margins in the industry. At the end of the cycle, peripheral states begin to produce the product (e.g., clothing). Whereas competition is typical for the sectors that are to be found also in the peripheral states, monopolies and oligopolies are typical for the core. Semiperipheral production includes the production of former leading products as well as the less profitable goods. As soon as profits decline, the core state come up with a new leading product. The result of this cycle is a constant flow of the surplus value from the periphery to the core.

“The strong states, which contain a disproportionate share of core-like processes, tend to emphasize their role of protecting the quasi-monopolies of the core-like processes. The very weak states, which contain a disproportionate share of peripheral production processes, are usually unable to do very much to affect the axial division of labor, and in effect are largely forced to accept the lot that has been given them” (ibid.: 29).

Peripheral countries follow aggressive protectionist and policies and at the same time, their goal is to export as much production as possible. They compete with other semi-peripheral states to make it to the core. The main competitors for the semiperipheral countries are therefore not the core countries, but other semi-peripheral states. Their aim is to get as much as possible from the relocation of the former leading products and turn the profits into the production of more sophisticated products that could eventually compete with the products from the core and if possible even invent new products and secure the monopolistic advantage for themselves.

In 2004 Wallerstein considered Brazil, India and South Korea to belong into the semiperiphery as these export steel, cars or drugs to the periphery, but at the same time import more sophisticated products from the center. The capacity to produce exports with the highest added value seems to be the crucial factor that divides states into their positions within the world-economy. The semi-peripheral countries export manufactured goods to the periphery (but also elsewhere), but are incapable of exporting most sophisticated goods into the core. Peripheral countries mostly export primary commodities.

V. Comparison

What are the features of the Prebisch-Singer theory and the World-System theory that make these theories to belong to the classical development paradigm and what are the features that make it stand out?

Both of these theories are economic in nature implying the three philosophical assumptions. The way the world is perceived by these theories shows that a human is some kind of a homo oeconomicus, a rationally calculating individual whose decisions focus on the material satisfaction and make it possible for these theories to analyze the world they do. It is not presumed that other values simply enter people’s thinking. The theories do not engage in analyzing the relation between humans and nature, but accept the export of nature in the form of natural resources. Nature thus becomes a resource, ie something that is to be used by humans. It is not perceived as for example Mother of all beings.

Both theories accept ‘development’ as a term that denotes the process of some kind of improvement as well as the goal of this process. The Western nations are an ideal that is to be followed and development is connected with economic growth, modernization and technological advancement. Statistical indicators enable development experts to identify through a comparative analysis developed and developing countries.

The two theories differ from the classical development paradigm by focusing on the global economy or on the relation between states rather than on the states or the nations themselves. Whereas the units of comparison are the states, the units of measurement are the states as well as the global economy. What needs to be measured are the terms of trade or the global profitability of the leading and

the former leading products. These measurements escape the methodological nationalism of the classical development paradigm.

Most importantly, societies with deficits do not need only economic growth, modernization and technological advancement. Development will be reached through changes within the structure of the world economy. The change of this structure is the first necessary step in order to achieve other elements of development as defined by the classical development paradigm.

VI. Conclusion

The aim of this paper was to compare the Prebisch-Singer hypothesis and the world-system theory on the one hand with the classical development theory on the other. These two perspectives have many theoretical elements in common with the classical development paradigm. Most of all they do not question that there is such a thing as development that Western nations are the dominant developed ones and that other nations should be catching up with them. Nor do they question the general possibility of a comparison of nations using statistics and the dominant understanding of development through GDP and technological progress.

They differ from the classical development paradigm by questioning the capacity of the poorer nations to reach the level of development of the richer nations. Due to structural constraints these nations may in fact be incapable of reaching such a level of development (as understood by both the classical development paradigm as well as the world-system theory and the Prebisch-Singer theory). Also, the level of analysis is not the state, but the global economic structure.

Overall, it is clear that even though there are strong commonalities, the Prebisch-Singer theory and the world-system theory differ substantially from the classical development paradigm. One implication of these findings can be an attempt to begin a process of reconceptualization of the Prebisch-Singer and world-system theory should this be considered meaningful on the side of the proponents of these two theories. This reconceptualization would take into account the postdevelopment critique of some of the assumptions held by the two theories. Another implication could be an opposite rethinking of postdevelopment from the Prebisch-Singer and world-system theory. These two reconceptualization then also represent two avenues for further research.

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