

**ECONOMIC ANALYSIS OF UNDERDEVELOPMENT BY ECLA:
A SELECT REVIEW**

JUNE 1985

K. V. SEBASTIAN

ECONOMIC ANALYSIS OF UNDERDEVELOPMENT BY ECLA :
A SELECT REVIEW

A Dissertation Submitted to
THE UNIVERSITY OF POONA
In partial fulfilment of the Degree of
MASTER OF PHILOSOPHY IN ECONOMICS

By
K. V. SEBASTIAN

GOKHALE INSTITUTE OF POLITICS AND ECONOMICS

PUNE 411 004

JUNE 1985

PREFACE

"The fox knows many things, but the hedgehog knows one big thing", wrote Archilochus of Greece in the 7th century B.C. Development analysis also has its hedgehogs and its foxes. Knowing many things or knowing one big thing may refer to aims and objectives or it may refer to causes and obstacles.

We have had a large number of theories explaining the absence of development or distorted development in terms of a single cause or rather a single barrier, the removal of which would release the forces of progress. There are economists who see in neocolonialism and imperialism the chief barrier to development. Some stress a shortage of savings. Others see the main obstacle in the lack of incentive to invest. A few find it in the difficulty of constructing overhead capital which requires large, indivisible investments. By instinct and training these economists seem to be hedgehogs rather than foxes.

This study is a review, with no pretense to be comprehensive or exhaustive, of the development analysis of a group of economists who can be considered as foxes rather than hedgehogs in development economics. It is an attempt on over-viewing studies of the men who are committed to the process of development in the oppressed and underdeveloped

land of Latin America. A reorientation from a descriptive approach, drawing conclusion from a simple comparison between economic structures of rich and poor countries, towards a more "structural" and comprehensive approach stressing the interlink between the two historical processes of 'development' and 'underdevelopment' is a specific feature of the analysis of these economists. Their study, borne of the experience of shared efforts to change the current unjust situation and to build a different society — free and more human, provides a unity of thought and purpose to the Third World countries which otherwise have their own economic, political and cultural differences. Whatever the validity of these pages, it is due to their experience and reflection.

I am most obliged to Professor B.S.R. Rao, the R.B.I. Professor of Finance, Gokhale Institute of Politics and Economics, for sparing his valuable time and insight to guide me writing this dissertation. This piece of work would never have been conceived and completed without his constant encouragement, critical comments and valuable suggestions. I thank him for the same but mere words can not express my indebtedness to him.

I would like to express my deep sense of gratitude to Dr. N.Rath, the Director, and all the members of the faculty at the Gokhale Institute of Politics and Economics, for the goodwill extended to me during my study in the

Institute.

I owe a special word of thanks to Shri A.V. Moghe for his generous, prompt and skillful assistance in typing and retyping of the manuscript.

June 28, 1985

K.V.S.

CONTENTS

<u>Chapter</u>		<u>Page No.</u>
I	INTRODUCTION	... 1
	Importance of the Study	... 1
	Organization of the Study	... 12
II	THE COMPONENTS OF THE ECLA DOCTRINE	... 14
	The ECLA 'Vision' and Approach	... 15
	The "Centre-Periphery" System : Its Structure and Formation	... 18
	Terms of Trade and Fruits of Technical Progress	... 23
	Causes for Deterioration of Terms of Trade	... 27
	The Dynamics of the System : Unequal Development	... 30
	The Case for Import-Substitution and Industrialisation	... 34
	Planning and the Market	... 38
III	FURTHER DEVELOPMENT OF THE ECLA PARADIGM	... 45
	Dependency and Underdevelopment	... 46
	The "Peripheral Capitalism" Analysis	... 51
IV	REACTION TO THE ECLA ANALYSIS	... 57
	Repudiation of the ECLA's View on Deterioration of Terms of Trade	... 57
	Repudiation of the ECLA's View of Underdevelopment	... 62

<u>Chapter</u>			<u>Page No.</u>
V	SCOPE AND LIMITATIONS OF THE ECLA ANALYSIS	...	67
	The Impact of the ECLA Analysis	...	67
	Some Limitations of the ECLA Analysis	...	74
VI	A SUMMING UP	...	79
	SELECT BIBLIOGRAPHY	...	88