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## Neoliberal Economics and Imperialist Ideology

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**Keywords**

Development theory · Underdevelopment · Economic imperialism

### Synonyms

Critique of development economics; Neocolonialism and transnational corporations; Theories of economic development; Washington consensus

This entry explores the ways in which the apologists of imperialism seek to camouflage the true causes of the unequal position occupied by a vast number of developing countries within the system of international capitalist relations. It will be shown that this goal has been achieved through the adoption of a more veiled but equally reactionary theoretical platform that tries to shift the blame for the misfortunes of millions of people in backward countries onto these very same people. Methodologically speaking, the goal of exonerating imperialistic relationships from any responsibility for the backwardness of the former colonies is served by thrusting into the foreground the psychological propensities of people in developing countries and the institutional failures allegedly arising from their incapacity to conform to market norms. However, the task of providing a "scientific" substantiation of the "irrationality" of people in backward countries and of their "inability" for managing and developing their economies is complemented by the absence of any systematic consideration of the structural processes that have produced the underdevelopment of such countries.

### The Essence of Imperialist Ideology and its Reproduction in Mainstream Economics

Imperialist ideology refers to a set of ideas intentionally designed in order to justify, preserve, or strengthen the dominant position of the international monopolies based predominantly in Western Europe, North America, and Japan in many of the economically underdeveloped countries of Asia, Africa, and Latin America. In a bid to conceal that it is the very nature of the penetration of international capital into developing countries that produces new forms of dependency, the ideologues of imperialism exert a great deal of effort to persuade the public that the export of state and private capital, respectively, by imperialist states and their giant monopolies, operates as a type of integrating factor whose historical mission is to accelerate the transfer of equipment, technology, technological experience, and managerial skills. In the apologist

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narrative of imperialist ideology, this is presumed to narrow the technological and economic gap between advanced capitalist countries and developing ones and to lead to the elimination of the pronounced differences in the rate of economic development and welfare around the world.

The arsenal of modern imperialist ideology which encourages the South's opening up to foreign capital investments is loaded with the weapon of neoliberal economics (monetarist, supply-side, neoclassical policies, neo-institutional theories, etc.). In accordance with Adam Smith's concept of the invisible hand of the market, the advocates of economic neoliberalism believe that, under conditions of free competition, the private enterprise system guided by the profit incentive automatically directs toward the maximization of the total product and the most effective use of society's productive resources. The absolutization of the potentialities of the free play of market forces for promoting development ultimately serves the goals of the international monopolies, which is that of moving their capital across the globe and placing it in countries with a more favorable business climate. Neoliberal economics is a tool to legitimize imperialist policies designed to intensify the integration of the former colonial periphery into the world capitalist economy with the aim of perpetuating developing countries as profitable spheres for investment. On the one hand, the purpose of neoliberal economists is to remove hesitation on the part of the ruling circles of backward countries who are concerned with the foreign monopolies' penetration into their economies, by fostering the illusion that an "open door" policy is the only means through which to achieve rapid economic growth and raise the living standard of their populations. On the other hand, the goal of the defenders of the imperialist system is to convince the local ruling circles to create a favorable sociopolitical and economical "climate" for large-scale private foreign investments by means of enforcing the polices which preserve the free market system in liberated and emerging countries. Overall, the promotion of the private sector is intended to encourage the creation of a wide network of participation in foreign activities by international monopolies. This entry is structured as follows. The next section of this paper retraces the key historical events that supported the global offensive of the neoliberal ideology which has been disseminated worldwide by US-backed imperialist institutions such as the IMF and the World Bank. By starting from the assumption that economic theories are the product of their social, political, and economic settings and the conflictual circumstances in which they are conceived, the section pinpoints the causal nexus between the numerous failure of government-led import substitution industrialization (ISI) growth programs based on Keynesian principles and the ascendency of conservative policy and ideology within leading imperialist countries (what came to be known as the "Washington Consensus"), which became the hegemonic model of international development starting in the early 1980s. Neoliberal economics and the apologetic conception of free market presents illustrations of the way in which the theoretical core informing the so-called structural adjustment programs imposed on the former colonies and dependent countries of the Global South by leading international financing institutions since 1980 is derived from basic principles of neoliberal economics. The purpose here is to scrutinize the theoretical foundations underpinning the typical neoliberal arguments regarding the need for a strengthening of the role of the market mechanism at both the national and international levels. Development economics and the ideological defense of imperialism discusses the specific forms of colonization of development economics by neoliberal economic theory. In doing so, it will be argued that the adoption of neoliberal dogmas by development economists fulfils a certain ideological function: it reflects the search by imperialist ideologues for the most effective theories capable of throwing a smoke screen around the true nature of the impact of the privatization of national assets privatization and the extensive inflow of foreign capital into developing countries. The final section concludes with an attempt to pierce the veil of imperialist ideology backed by neoliberal economics.

### The Crisis of US-Led Imperialism and the Restructuring of International Economic Relations

The evolution of the explanations provided by economists and the ideologies they are based upon are shaped by the emergence of new practical problems “that are thrown up from a particular social context” (Dobb 1973: 16). In view of this, one can interpret the substantial shifts in Western economic thought away from the orthodox Keynesian doctrine of government economic regulation and toward laissez-faire neoliberalism as a reflection of the aggravation of the crisis in US capitalism and the subsequent changes in international economic relations during the 1970s. The disintegration of the global institutional configuration under which the newly independent countries successfully resisted the diktats of US imperialism throughout the 1960s until the late 1970s can be traced back to the serious crisis of confidence in the US dollar as the global reserve currency. Such crisis reflected the decline of US global hegemony mainly due to the following factors: the rise of international competitors such as Germany and Japan, the fall of profitability of US firms’ investments, the growth of state debt, and the intensification of chronic inflation caused by the actions undertaken by the US government, which continued to print dollars to sustain growth internally and mainly to fund both the war in Vietnam during the late 1960s and the Cold War against the Soviet Union.

In the meanwhile, it became apparent that the practice of state regulation oriented toward the closed economy not only ceased to correspond to the practical task of strengthening the position of American monopolies on both domestic and foreign markets, but was even an obstacle to its execution. It was in this context that the US political and economic leadership under President Carter and the Federal Reserve Chairman Paul Volcker, respectively, in a desperate effort to reverse the slide in US power, decided to throw off the shackles of bankrupt Keynesian methods of government regulation in favor of previously discredited monetarist strategies proposed by neoliberal theorists. This process started at the end of the 1970s with a drastic contraction in the money supply and the sharp rise in interest rates, which reached 14–16% in the early 1980s. The monetarist shift in the Federal Reserve’s economic policy to stabilize the dollar set up the conditions for an outbreak of the debt crisis in developing countries, to the extent that they found themselves unable to bear the burden of debt repayments, which were issued in US dollars (Brenner 2006: 187–236; Parboni 1981).

This fundamentally restructured the relationship of the United States to the global economy. On the one hand, in the 1980s, US financial institutions re-established their financial power over the world economy, as the “Third-World debt crisis” led to a reversal of private capital flows, which began flowing back to the United States once the IMF stepped in to resolve such crisis in favor of the US international banking monopolies. The lowering of the limit for gaining access to its resources and the toughening of the terms of credit by the IMF led to a substantial inflow of funds into the US economy (Arrighi 2002: 20; Duménil and Lévy 2004: 90; Vasudevan 2009). The other side of the coin is that underdeveloped countries were left with extremely meager funds to promote their economic growth. By absorbing the developing countries’ savings, the developed countries – first and foremost the United States – did not allow poor countries to amass sufficient resources to finance large-scale economic programs that would diversify their economies, thereby setting backward nations on an upward path, taking them from poverty to development. This problem was exacerbated by the fact that, as Western developed capitalist states started to adopt strong “deflationary” and protectionist measures, the demand for raw materials mainly exported by developing countries slowed down in the early 1980s. The response adopted by these countries was to expand their exports all at once, causing a further collapse in the price of their traditional primary materials. As a result, the less-developed countries found themselves in a disastrous situation, as the falling export earnings were eaten by interest payments and the redemption of credits. Many of the Asian, African, and Latin American developing nations could do nothing but contract more and more credits to pay the interest on their debt or

repay the existing debt to the international bankers, which caught them in a debt trap that ended up in an inevitable spiral (Nakatani and Herrera 2007). The growing external indebtedness of these countries contributed to a shift in the global balance of power in favor of the United States, as it marked the failure of ISI-based developmental strategies in most backward countries – based on protection, regulation, and state subsidies. The outcome of this process was that "the entire program of action for a new world economic (NIEO) order came up against serious difficulties in the 1980s" (Buzuev 1990: 263).

## Imperial Policies and the Rise of Neoliberal Ideology

It is in this context that the global offensive of neoliberalism in practice and of neoliberal ideology in economic theory must be understood. At the Cancun Summit on International Development in 1981, both Mrs. Thatcher and President Reagan "killed" the South-backed NIEO idea, calling for a greater reliance on the free market as the vehicle for promoting economic development and fighting poverty (Cypher 2014: 237). Afterward, the United States simply refused to engage in global negotiations, forcing the North-South dialogue to stall. Such actions were applauded by Margaret Thatcher, who suggested that one of the valuable outcomes of Cancun was that it "was the last of such gatherings" (Taylor 2003: 410). Henceforth, she noted, "the intractable problems of Third World poverty, hunger and debt would not be solved by misdirected international intervention, but rather by liberating enterprise, promoting trade – and defeating socialism in all its forms" (Thatcher 1993: 170).

This pro-market philosophy soon became commonly accepted in the influential circles of big Washington-based developmental agencies. According to the new development policy that became codified in what was called the Washington Consensus (Williamson 1993; Babb and Kentikelenis 2017), the reasons behind the developing nation's troubles and the resulting growth in global inequality relied neither on the questionable neoliberal policies of the United States and its allies nor on the prolonged colonial rule imposed by the developed capitalist powers. On the contrary, neoliberal economists and orthodox policy makers sought to shift any responsibility for the disastrous situation fully upon the developing countries themselves and the government-led ISI strategies which they had adopted during the 1970s. These strategies, it was argued, lay at the root of many of the problems of developing economies, including the rent-seeking character of government and government officials, pervasive inefficiencies, misallocation of resources, endemic inflation, decline of primary sector output and exports, high levels of unemployment and informality, unequal distribution of incomes, high poverty rates, and systemic corruption (Moreno Brid and Pérez Caldentey 2010: 404–405).

From this perspective, the solution to the most pressing social, economic, and political problems was to be found in the institutionalization of market relations and, conversely, on a significant cutback of the role of government. Rather than resources, what developing nations really needed was better organization. The latter was something of a code word that meant, primarily, shifting resources away from the state sector into areas assumed to be of much higher value in the private sector. What poor nations essentially needed was not more capital or infrastructure. Developing nations were advised to not waste their time and resources on creating national, domestic technologies because they could easily obtain them from the West through international trade. Indeed, the "privatization agenda" was complemented by the promotion of "free trade" as the most effective vehicle for forcing Third-World countries to open their markets to foreign goods and foreign direct investment by US multinational corporations.

Under the banner of "free trade," poor countries were urged to dismantle protectionism, minimize domestic restrictions on foreign ownership, and liberalize domestic markets so that state-owned assets (such as mines, manufacturing, electricity generation plants, public transport, and most infrastructures) could be available to foreign capital. These measures would facilitate the attraction of foreign investments by transnational corporations. By providing for an

"interdependent" market-economic linkage between developed and underdeveloped countries, foreign investments allegedly constituted the major factor in developing the world economy, insofar as they transfer the most advanced equipment and technology which can be easily assimilated by the local producers.

The standard package of supply-side macroeconomic policies to promote economic growth embodied in the Washington Consensus was actively supported by the internationally competitive economic powers through the two main multilateral agencies – the IMF and the World Bank. The former has for decades imposed neoliberal policies on the vast majority of less-developed economies in the form of so-called structural adjustment programs, consisting primarily of a series of conditions or actions to which the borrowing government must agree before receiving a loan. Such programs were nothing but a punctilious application of the Washington Consensus-type economic policies that were imposed upon 70 developing debtor countries after the change of the global political climate in the early 1980s. Basically, these programs were the global disciplinarians that would ensure a long-term strategy for commercial banks getting their money back (Bracking 2009: 20), as the conditions attached to IMF loans are usually associated with the demand for developing countries to implement processes of market liberalization, which typically implies the retrenchment of public subsidies on essential needs such as food, water, and other staple products, education, transportation, healthcare, housing, and the like. As the establishment of market pricing usually led to increased prices for basic necessities, these were roundabout ways of taxing the working people of Asia, Africa, and Latin America to pay the powerful creditors in the West (Vasudevan 2009: 297; Hossein-Zadeh 2010).

The fund's rescue schemes imposed on dozens of poor Third-World nations also included the currency devaluation to generate trade export, the privatization of national industries, and the liberalization of external trade and capital movements. Overall, these measures had the effect of allowing greater access to domestic markets for the industrialized nations, their banks, and transnational corporations. In this way, productive and financial institutions of the leading countries could buy up the peripheral countries' domestic assets at a very low price. This form of acquisition, other than constituting a kind of repayment for the existing external debt obligations, represented a new way of gaining access to newly created markets in emergent countries while, at the same time, allowing leading international monopolies to maintain controlling positions in the production and exchange of commodities.

The World Bank occupied a hegemonic position in setting the developmental agenda throughout the 1980s and into the 1990s (Fine 2002: 2065). Indeed, the World Bank became the key "maintainer and projector of the neoliberal economic paradigm. . .and that centers on deregulation, privatization, and financial and trade liberalization" (Broad 2006: 388). With the advent of neoliberalism, the diversity of the World Bank's points of view on the role of the state in economic development narrowed. Between the late 1970s and the 1980s, about 800 orthodox macroeconomists were hired to replace budding development economists hired during the 1960s and the 1970s. This is considered by one World Bank official to be a type of "economic genocide" for older economists who had been learning about development during the McNamara era (Goldman 2005: 92).

Having virtually silenced all dissent within its ranks, the World Bank cemented a core community of development economists ideologically committed to defending neoliberal orthodoxy. They argued that markets are uniquely suited to allocate resources efficiently and that the best way for individuals to allocate such resources is to expand the sphere of the market. In their view, markets are desirable because they are superior to other social forms of economic and social organization. As such, they made a serious effort to convince the public that there is no alternative to development other than to laissez-faire economic policies. As a consequence, any idea of development outside of the free market economy seems to

be prohibited or marginalized at best (Angresano 2007: 41–42).

### Neoliberal Economics and the Apologetic Conception of Free Markets

Since the early 1980s, the neoliberal revolution promoted by the global governance institutions in tandem with the governments in the United States and the United Kingdom has been inseparable from neoliberal domination in the field of economics. The neoliberal idea that free markets are the most efficient method of organizing a society is founded upon some theoretical and methodological premises, which can be identified along the following four dimensions of neoliberal economics.

First, the key point of entry of neoliberal economics is the decisions made by people in terms of the theory of *rational choice*, which assumes that everyone is equipped with an inborn and ahistorical rationality which helps him/her to maximize his/her own well-being. He/she is presumed to be a sort of rational computer which mechanically processes "the information available to weigh the costs and benefits of every action and undertake those that are the most beneficial" (Chernomas and Hudson 2016: 6), irrespective of the socioeconomic organization of society in which he or she is embedded. It is worth noting that the homo economicus is a simple apologia of the capitalist system, as he/she reflects the subjective goals of a capitalist who interacts within a primordial system of pure markets insofar as his/her only goal is to extract the greatest amount of utility (profit) for himself/herself, without regard to the methods employed in the process.

Second, from the individual and his/her rational behavior, neoliberal economic theory defines the meaning of all the social and economic phenomena that it seeks to understand. Neoliberal economics moves from its basic unit of the atomistic, hyper-rational individual to draw inferences on society as a whole by assuming that the whole is the sum of the individual isolated parts. The essential proposition of the theory is that the isolated individual represents the whole of society (in the words of Margaret Thatcher, there is no such thing as society – just individuals). This typifies *methodological individualism*, according to which the explanatory movement is from individuals to society, taking the maximizing behavior of atomistic individuals as given. Accordingly, the behavior of all individuals does not depend on the context in which they operate.

Third, the mechanistic concept of the nature of human beings lies at the heart of the ideology of neoclassical economic theory: when all rational buyers and sellers in the marketplace exchange their resources with the aim of maximizing their individual self-interest, "competition will produce a unique set of prices and quantities that will create a perfect match between the supply and demand" (Herrera 2006). At this point, the economy reaches an inherently harmonious and stable *equilibrium*, which supposedly fully satisfy the needs of all members of society. It follows that deviations from market-based equilibrium are associated with disorder and irrationality (Carchedi 1995: 172; Perelman 2002: 22). Note that the stability of equilibrium crucially depends on the existence of a well-defined system of property rights. These are mainly defined as the right to use, derive an income from, and sell a resource (an asset). These resources, in turn, are assumed to be scarce. Scarcity of all resources affects individuals' behavior, in the specific sense that it is because resources are scarce that individuals have the incentive to use them more efficiently. The implication is that open access to resources – or more precisely, the absence of markets where property rights are bought and sold – leads to inefficiency and waste of resources. A single-minded advocacy of eroding the system of public ownership and "protecting" the use of resources by means of their privatization is among recent policy reflections of this view. Actually, the assumption in neoliberal economics against state ownership of national assets is that public interference carries the danger of economic inefficiency and stagnation, since it frustrates the spontaneous tendency of the market to reach the equilibrium. As ultraliberal economist Harold Demsetz (1967) argued, the stronger the protection of private ownership, the higher the incentive for individuals to mobilize their resources

efficiently to the extent that private property allows individuals to realize the rewards of their investments.

Finally, the concept of equilibrium involves a basic assumption: "all individuals express freely their preferences, without any form of coercion or *power* relation" (Palermo 2016: 83). By completely omitting from the analysis the asymmetrical distribution of property among various classes of society, the competitive market is regarded as an impersonal arena through which buyers and sellers are free to buy and sell whatever they like. As the prices emerge from the "free" interaction of demand and supply, the market price system is therefore elevated to the role of the most equitable allocation system possible, where all individuals can extract equal benefits from the system. It is important to note that the introduction of market imperfections by post-Walrasian economics does not fundamentally challenge the power-free nature of competitive capitalism argued by traditional neoliberal economic models. They all agree that within a perfectly competitive arena, there is no power relation. In both benchmarks, thus, the true cause of power relations, coercion, non-clearing markets, and allocative inefficiencies is to be found in imperfections (asymmetric information, bounded rationality, uncertainty, historical time, etc.) in the decision-making context that make perfect competition impossible. "Eliminate them, these authors maintain – either implicitly or explicitly – and power relations disappear" (Palermo 2014: 132).

It goes without saying that this is perfectly suited to the neoliberal utopia of market freedom: "if we assume that production is conducted by atomistic agents maximizing their utilities in perfect competition, then market competition controls their behavior and the need for formal social control is minimized" (Dugger 1992: 88). This contributes to impose the view of unregulated capitalism as the only neutral way of regulating social relations on the whole society. Indeed, this core principle forms the basis of the mainstream, neoliberal economist's instinctive position that if a problem arises, then some "anti-market" and/or "monopolistic" forces, typically the trade unions or government, are to blame: the imposition of high corporate taxes kills the capitalist incentive to make new investments; the imposition of high tariffs, quotas, and other forms of barriers aimed at protecting indigenous industries against foreign competition creates costly distortions that end up penalizing exports and weakening the national economy; state support to employment, wages, and social needs creates a free-ride mentality that encourages workers to prefer voluntary unemployment and state assistance rather than to look for work. To put it bluntly, by shifting onto the regulatory activity of the state and other extra-market institutions all the responsibility for unemployment, inflation, and stagnant economic growth, neoliberal economists argue the necessity of dismantling the system of state regulation, curbing social spending, and opening up the economies to foreign investment. To the extent to which the state maintains an economic function, this is reduced to providing the most favorable environment for the functioning of the market system and to increasing the effectiveness of private capital investments.

## Development Economics and the Ideological Defense of Imperialism

The previous section has provided a brief account of the core of neoliberal economics, which traditionally deals with an advanced capitalist world of power-free, voluntary, market transactions. This is because advanced countries are presumed to be populated by rational economic agents who exchange private property rights over their resources on the basis of purely individualistic, self-interested considerations and utility calculations. It will not come as a surprise that neoliberal economists have paid particular attention to advanced countries, which are allegedly characterized by automatic price adjustments "and equilibrium outcomes in all product and resource markets" (Todaro and Smith 2011: 7).

One of the most effective instruments in the hand of imperialist ideologues that help them propagate free-market principles and related policy prescriptions to underdeveloped countries is "development economics." Generally speaking, the task of development economics is to clarify:

(a) The reasons behind the lower incomes and living standards in developing countries
(b) The origin of and the machinery perpetuating the sharp economic inequality of different groups of nations in the world
(c) Ways and means of solving the problem of economic backwardness and, as a result, eradicating the economic inequality of states

Since the early 1980s, the analytical tools of neoliberal economic theory discussed above have been amply applied to the field of development, so much so that the theoretical core of neoliberal economics has come to define the core of mainstream development economics. As Todaro and Smith (2011: 25) candidly admit "Development economics is a distinct yet very important extension of. . .traditional economics," or, as Kanbur (2002: 477) put it, "mainstream development economics today is mainstream economics applied to poor countries." In what follows, it will be examined how the adoption of neoliberal economic tools by development economics has reshaped the way in which academics, policy makers, and leading development institutions understand problems related to development. Development economists take the core tenets of neoliberal economic theory and try to apply them in analyzing the economy of poor countries as well as in devising development and growth strategies.

Firstly, the focus will be on the first two assumptions which have been discussed in the previous section: methodological individualism and rational choice theory. To begin with, once it is recognized that the whole of society must be analyzed largely in terms of isolated individuals and their properties, it follows that the global dynamic of capitalist development is seen as merely the aggregation of national dynamics. The elevation of individualism to the level of the most important methodological principle imposes narrow limits on the subject matter of neoliberal development economics, which is essentially reduced to the identification of internal features of the economically backward countries supposedly underlying their backwardness and economic inequality in the world. For example, Ray (1998: 4) states in his widely adopted textbook, *Development Economics*: "I move away from a long-held view that the problems of all developing countries can be understood best with reference to the international environment of which they are a part." According to this view, "the problems of underdevelopment must first and foremost be seen in a global context. . . .but I wish to emphasize equally fundamental issues that are internal to the structure of developing countries." Through this methodological lens, the persistent poverty of developing countries cannot be ascribed to the specific features of economically backward countries themselves, such as incompetent economic policy. This position, therefore, determines the normative function of mainstream development economics, namely, the design of appropriate domestic policies. As succinctly stated by Akbulut et al. (2015: 751), development economics within the contemporary mainstream is reduced to "a mere technical issue that can be resolved through the implementation of the right mechanism."

On the other hand, this individualistic approach, which automatically opens up the possibility of resolving problems by purely administrative methods, sanitizes the question of development as this is discursively detached from the system of states in which the world market is embedded, the interdependent but often antagonistic international relations and reproducing mechanisms that shape, constrain, or condition agents' behavior. Poor countries remain poor not because others are rich, but because they have not "done as well." The overlooking of the dynamics of global exploitation, extraction, and dispossession and the relegation of the asymmetrical distribution of property (power) between developed and underdeveloped countries to the periphery of its analytical field is an ideological device used (consciously or not) by neoliberal development economics to propagate the belief that, overall, the capitalist system is an inherently harmonious and egalitarian system. In this framework, all underdeveloped countries need to do is choose the "right" path of capitalist development.

Secondly, the field of development economics has been dominated by the rational-actor model

for the past quarter-century. "Despite the abandonment of some of the unrealistic assumptions of the standard neoclassical framework. . .mainstream development economics unmistakably retains the assumption of homo economicus" (Akbulut et al. 2015: 746). The micro-focus is reduced to the (ir) rational (opportunistic or rent-seeking) choices adopted by the representative individual or individual state, which, however, is also treated as an optimizing individual. Since the theories of development are based on the psychological propensities of individuals or groups of individuals, the engine economic growth and development for all nations must be powered by economically rational subjects. As an important corollary of this, one must note that underdevelopment is reducible to the consequences of the irrational (wrong) decisions undertaken by policy makers and individuals. The issue, in fact, is that "in comparison with the more developed countries, in most less-developed countries, prices often do not equate supply and demand" because at "the individual level, family, clan, religious or tribal considerations may take precedence over private, self-interested utility or profit-maximizing calculations" (Todaro and Smith 2011: 9).

The main argument in such assertion is that the main obstacle to economic development of some countries is the lack of economic rationality, which neoliberal development economics alleges to be innate in the common people of the economically backward countries. Since psychological barriers, conservative habits, religious prejudices, fear of change, and so forth prevent people from behaving in a hyper-rational manner, the spread of the market mechanism over economically backward nations, it is asserted, will overcome the ancient culture of these peoples and, together with this, will induce an entrepreneurial spirit and economic development. Such concerns were exported to adjacent fields such as poverty alleviation and human well-being literature epitomized by the work of Banerjee and Duflo (2005, 2007). The starting point of their analysis is that poor people are poor because they often make poor decisions with harmful consequences. The poor are poor, they say, because "they are reluctant to commit themselves psychologically to a project of making more money" (Banerjee and Duflo 2007: 165). With such theoretical view, Banerjee and Duflo deride poor people on the account that they supposedly undermine their own interests with very high discount rates, that is, the tendency for people to overweight present costs relative to future benefits. Since poor people cannot resist immediate temptation to squander their money on immediate gratification, making the decision to save is put off day after day, and so it is never done. This misbehavior discourages the accumulation of personal savings which, by decreasing the inducement to invest in subsequent periods, inevitably results in depression, unemployment, and poverty. In general, this speculation about poor people's tendency to deter sacrifices creates the impression that, left to their own devices, the poor are victims of their own irrationality, which makes them incapable of planning for the future.

The main conclusion of Banerjee and Duflo's work is that had they properly adopted a profit-maximizing behavior, poor people might have been able to undertake the most forward-looking investments, which could have allowed them to make some progress. As poor decisions make poor people, then neoliberal development economists' recommendation on this issue boils down to changing people's behavior to bring it into line in every way a with profit-maximizing behavior through the implementation of market system of incentives. Within capitalism, such incentives are generally provided by the liberalization of the labor market and the reduction of unemployment benefits and financial and other forms of assistance from the state after retirement – these being indispensable conditions for motivating individuals to curtail their present consumption relative to planned future consumption.

The proposition that the existence of an explicit system of private property rights is a highly important factor in promoting growth represents the third instance of direct, and effective, invasion of neoliberal economics into the domain of development. Typically, mainstream development economists hold the view that underdevelopment is the inevitable result of the lack of a system of legal sanctions and/or the assurance of legality for the protection of private ownership.

Due to the uncertainty in the area of property rights, "in most less developed countries, commodity and resource markets are typically highly imperfect, consumers and producers have limited information, and disequilibrium situations often prevail (prices do not equate supply and demand, emphasis added)" (Todaro and Smith 2011: 8). It is then argued that the state of persistent disequilibrium due to a lack of an explicitly defined system of private property rights makes it difficult for developing countries to make good (efficient) use of the existing scarce productive resources, which prevents their markets from freely spreading or working properly. Following this line of thought, orthodox development economists like Debraj Ray claim that "the irregular, uncertain, and unpredictable nature of land expropriation and transfers, together with the free-rider problems caused by the formation of cooperatives with ill-defined property rights, surely undermined the productivity of Mexican agriculture and caused it to stagnate over a very long period" (Ray 1998: 461).

A similar view is held by leading economists working in the new institutional economics tradition, namely, Acemoglu and Robinson (2010, 2012). In tackling the link between macro-level institutions and national income growth, they argue that poor economic performance throughout the developing world is primarily caused by too much government interference into the functioning of the market. This arbitrary concentration of power in the hands of the government, in turn, leads to the persistence of institutions that are unfit (defined as those that threaten private property), thereby undermining market exchange and posing serious impediments to long-term technological investment and economic growth. For instance, in their discussion concerning the roots of African poverty, Acemoglu and Robinson (2010: 22) point out that "property rights are insecure and very inefficiently organized, markets do not function well, states are weak and political systems do not provide public goods." Then, they go on to say that the greatest threat to property rights and markets is a predatory state in which the government levies high taxes or expropriates land and property. This uncertainty is viewed as one of the basic obstacles to investment and innovation and is the root cause of low productivity and growth.

To sum up, the main argument of neoliberal development economics is that poverty results from the failure to support the development of necessary "market prerequisites," namely, a strong system of property rights and legal regulations. This deprives firms of the opportunity to mobilize the necessary capital, which leads to the paralysis of investment activity and hence underdevelopment. The ultimate cause of such failure relies on oppressive, activist governments that reduce market efficiency and impede economic growth. This view is fully consistent with the neoliberal focus on privatization which originates from the idea that any regime based on strong intervention of the state in the economy is almost universally prone to failure due to its inherent wasteful, inefficient, and costly character (Stewart 2005).

The fourth essential feature of mainstream development economics is its reliance on the neoliberal belief that unfettered markets are necessarily power-free, that is, that there is no inherent asymmetry of power and authority between market agents – be they individuals, firms, or states.

This premise determines the interpretation given to development issues: economic development is being held back because of enduring power relations that arise from imperfections in the working of market competition. Such imperfections, which are always related to the subjective nature of individuals (their irrational economic behavior), are conducive to numerous market failures that hinder the full deployment of factors of production in developing countries. Since market transactions in underdeveloped countries are inefficient due to various types of failures and imperfections, development economics must therefore focus on the specific conditions which will re-establish market efficiency. As Ray (1998: 4) points out, "the point is to understand the conditions under which they (markets in developing countries, emphasis added) fail or function at an inefficient level and to determine if appropriate policies grounded in an understanding of these conditions can fix such inefficiencies...Few people would disagree that these

considerations lie at the heart of many observed phenomena." In a similar vein, Todaro and Smith (2011: 8) suggest that development economics "must be concerned with the economic, cultural, and political requirements for effecting rapid structural and institutional transformations of entire societies in a manner that will most efficiently (that is, at the lowest cost and highest profit, emphasis added) bring the fruits of economic progress to the broadest segments of their populations." The passages quoted above are enough to show that the contemporary mainstream in development economics is about "getting policy right," that is, fixing market imperfections which, in turn, will speed the creation of those "market-friendly" institutional environments most favorable to capital accumulation. A concrete example of this approach can be found in orthodox development economists' treatments of "globalization," which is presented in the most favorable light with the intention to convince relatively underdeveloped countries that they should dismantle protectionist barriers to make foreign monopoly capital welcome in every possible way.

Within mainstream development economics itself, the idea of market inefficiency caused by various forms of market failures has recently been used to justify discretionary state intervention in the economy. In this framework, the state is conceptualized as one that intervenes, often extensively, to resolve problems that the spontaneous market itself endangers but is unable to resolve. It is worth noting that the reinvention of the nature of the state in efficiency terms and the search for the best ways to deal with market imperfections went hand in hand with the transition from the Washington to the post-Washington Consensus spearheaded by Joseph Stiglitz after his appointment as chief economist at the World Bank in the late 1990s. At least in principle, this is more state-friendly and less pro-market than the previous neoliberal Washington Consensus, "as it emphasizes the significance of market and institutional failings and their correction through state intervention as the key to developmental success" (Ashman et al. 2010: 28). Nevertheless, this definition of the problem provides a narrow perspective on the concept of the state. In fact, by using the Pareto efficiency principle as a driving factor in governance decisions, the state is reduced to an alternative, nonmarket institution that intervenes every time the market fails to allocate resources efficiently with the aim of improving economic efficiency by correcting such market failures.

This approach is a methodological device used by neoliberal development economists to launch their own version of state regulation of the development process. Here, the regulatory activity of the state is restricted to "intervention on behalf of capital" (Saad-Filho 2003: 9), for example, to the opening up of the national economy to international trade and foreign investment by international private corporations. Other forms of state intervention to stimulate private capital accumulation are the limitation of trade unions' rights, which gives private capital unlimited freedom of action in the labor market, and the assumption by the state of the burden of insuring international capital against the commercial and political risks connected with possible revolutionary perturbations and/or the upsurge of anti-imperialist movement in emerging countries. In brief, such an understanding of the economic role of the state provides an ideological cover for the promotion and strengthening of capitalist relations within developing countries' borders. This ultimately reflects the interests of international capital, insofar as it improves the conditions for extracting the greatest possible profit for minimal initial investment by foreign corporations.

## Critique and Conclusion

A major trait of neoliberal economics, especially that branch which studies the problem of the development of economically underdeveloped countries, concerns its attempt to arm the supporters of imperialism with new tools for applying various forms of pressure within developing countries. Under the flag of the "free market system," neoliberal economists have, in fact, launched an offensive on an unprecedented scale aimed at extending the freedom of entrepreneurial activity throughout the world and discrediting the idea of public ownership of the means of

production (and/or central planning) as the basis of economic development. The typical neoliberal argument regarding the need for the dismantlement of the system of state regulation and the privatization of public assets is nothing more than an ideological cover for weakening the economic and political position of developing countries. This primarily serves the multinational corporations' aim of extending the ability to relocate investments at the level of the entire world capitalist economy. This point is attested to by the active use of free market policy principles addressed primarily to developing countries and designed to clear the way for the relaxation of trade and foreign direct investment restrictions and the opening of capital markets.

The approach taken by neoliberal development economists in analyzing factors determining economic development, and the laws and categories expressing these factors, is an extremely important criterion in penetrating the significant influence of imperialist ideology on backward economies. To a decisive extent, the adoption of abstract models claimed to be applicable both in developed and underdeveloped countries forms the principal characteristic of the methodology of neoliberal economic theories of the economic development of backward countries. The predominant use of an individualistic methodology must be seen as a form of ideological practice, whose precise function is to mask the economic essence of contemporary imperialism, namely, the maintenance of a dominant position by international private capital over all modern industrial sectors of developing countries, where conditions for extracting monopolistically high profits are favorable. In an attempt to hide the exploitative nature of imperialism, neoliberal development economists who dominate major academic institutions and intergovernmental organizations claim that underdevelopment is a result of a diversity of internal, accidental causes which supposedly could be eliminated by the expansion of the scope of the market and the simultaneous retrenchment of government intervention in economic matters.

The bankruptcy of neoliberal theories of economic development is confirmed by the historical experience of all countries where these have been applied. First, the neoliberal dogma that economic development can only be achieved on the basis of the private ownership of the means of production and market competition in the pursuit of individual profits is dangerously disconnected from reality. As a matter of fact, the historical paths of currently developed countries support the evidence that the governments of these nations played a major role in all aspects of their development – ranging from public health, education, and other social measures to the creation of the most important inventions (Chang 2002; Mazzucato 2013). This suggests that the very specifics of the problem of overcoming economic backwardness and of winning economic independence compel the governments of developing countries to invest large sums in those branches of the national economy in which the criterion of current profitability does not play a substantial role in guiding individual behavior: public health, universal education, housing, transport, working environment, social security, and so forth. The social results achieved on the basis of these "unproductive" investments create material conditions for securing the growth of people's creative potential and physical powers which, in turn, "serve as the prerequisites for the acceleration of scientific-technical progress and the growth of productivity of social labor and national income" (Vainshtein 1974: 8).

Directly related to this point is the need to channel public funds to new branches of production which demand more sophisticated technology. As a matter of fact, government funding normally contributes to foster innovation due to the fact that private business is extremely reluctant to finance new investment projects because of the lack of a clearly defined relationship between these expenditures and companies' profitability. This implies the need to make large-scale state-led investment in R&D which encompasses massive outlays on powerful new equipment and costly structures such as laboratory buildings, experimental plants, testing grounds, and computational centers equipped with computers – along with public investment in new scientific institutions and in the formation and training of

scientists and highly qualified specialists. As before, the scale of these expenditures requires a departure from the criterion of current profitability, insofar as "it can be determined only on the basis of a general consideration of prospects for the development of the national economy as a whole" (Kollontai 1970: 11). In other words, objective circumstances frequently demonstrate the inadequacy of market competition and profit-driven entrepreneurship as a method of stimulating innovation and development.

Second, the "theoretical" arguments advanced by neoliberal economics to present free trade as the most important vehicle for closing the gap in living standards between advanced economies and the rest of the world are neither supported by historical facts nor take into account the question of real economic power which is closely connected to the ownership problem. On the one hand, the widespread adoption of neoliberal economic programs during the 1980s and 1990s, which were meant to ensure the liberalization of trade and capital movement (along with fiscal austerity and privatization), to a large extent failed to support the convergence of the global income gap between developed and developing countries (Chossudovsky 1997; Milanovic 2016). Since the start of the wave of market liberalization in the mid-1980s until 2005, the less-developed economies' share of total world income stagnated at 22% even as its share of world population has grown. As a consequence, the income per capita received by three-quarters of humanity fell over that period. In US dollars, while income per person in advanced countries rose from 18,088 to 26,201, in the rest of the world, it fell by around 30% – from its 1980 peak of 1690 to its 2000 trough of 1160 (Freeman 2004: 47), leaving a surplus of people living in extreme poverty.

On the other hand, the failure of neoliberal economics (and the free-trade policies promoted under this banner) to adequately address the fundamental question of development is not accidental but is the inevitable manifestation of its methodology, which ignores the asymmetrical distribution of power in society, which is determined by the asymmetrical distribution of the property of the means of scientific and technological production. Casting aside property relations, neoliberal economic science provides an apologetic treatment of the economic operations of transnational corporations, where their foreign investments are understood as a neutral channel that freely transfers technology from economically advanced to poor countries, thereby raising the technical level of their production and contributing to technological convergence.

This view entirely neglects or glosses over the fact that the dominant relations of ownership of the means of scientific production and abundant supply of skilled labor in imperialist countries give transnational corporations the opportunity to distort the mechanism of global competition to serve their own ends. Although the "the results of scientific labor (new technologies, emphasis added) are potentially accessible to all countries, individuals and groups of people [. . .], under capitalism, monopoly of scientific knowledge emerges" (Anchishkin 1987: 204). The massive availability of financial resources, in fact, allows transnational corporations to concentrate scientific and research work and centralize the most qualified labor power in their headquarters. The results of scientific work performed by such skilled and technical personnel are manifested in the development and introduction of more sophisticated technology, which becomes the source of higher labor productivity. By lowering the unit production cost, labor productivity gains create mounting opportunities for increasing investment in new technology to be incorporated in new means of production, thereby further strengthening the monopoly power of transnational corporations vis-à-vis technological laggards.

Developing countries' position on the technological marketplace is far more complex. As a direct legacy of the recent colonial past, these countries are extremely limited not so much in the availability of material resources, as in the supply of creators of scientific ideas, engineering specialists with higher qualifications, and networks of scientific research institutions (Skorov 1970; Wood 1995; Lall 2001; Gürak 2015). The acute shortage of educated and skilled human resources armed with modern scientific knowledge, experience, and professional skills makes

developing countries even more dependent from an economic point of view. In fact, the formation of numerous science and technology gaps implies the uneven use of the economic effect of science, meaning that not only science-intensive products and scientific up-to-date equipment but also scientific and technological patents, technical know-how, and so on have to be imported on an ever-large scale by less-developed countries. This allows industrially developed countries to remain the main source of obtaining technology to such an extent that they have the power of making more rigid the condition of technology acquisition by developing countries.

Besides selling technology to the developing countries selectively (e.g., blocking access to latest technology) and with many restrictions, this also offers international monopolies the opportunity to make local producers frequently pay for the technology in excess of its actual cost. This has varying effect. On the one side, this technological rent is used by giant monopolies in imperialist countries to buttress their position. The other side of the coin is that the payment of new technology imported on unfavorable terms means a colossal squandering of developing countries' financial resources that could instead be used to support a country-wide scientific and technological policy for the sake of national interests. In any event, it must be noted that, even if the dissemination of scientific information through a complete liberalization of intellectual property rights was possible, there is another and perhaps more crucial factor that constrains the free flow of technology and knowledge. This is represented by the relative territorial stability of the labor force and/or the imposition of restrictions over people's ability to move across borders. The relative immobility of labor (often enforced through various forms of political coercion) "leads to stable differences in the scientific and technical levels of individual branches of production, regions and entire countries" (Anchishkin 1987: 35). In a nutshell, the ability to compete of technologically latecomers in the developing world is structurally constrained by the asymmetric distribution of material resources, differences in the availability of skilled labor within the international capitalist system, and restrictions over the form of the its mobility.

International monopolies take maximum advantage of their monopoly power over the most advanced technology to penetrate new markets and sectors and participate in the capital of developing countries' private firms to acquire control over them. Due to their financial and technological inferiority, domestic firms are confined to low value-added activities which are typically of a dependent nature such as export-oriented subsidiaries. These supply-oriented enterprises, which widely employ low-paid female labor as well as the labor of teenagers and children, are chiefly engaged in the production of component parts for Western and Japanese multinational corporations that are not able to yield a maximum rate of return on domestic investments. That is to say that, given the dominant capitalist relationships and the asymmetrical levels of technological development in the world today, the imposition of economic policies based upon the principles of laissez-faire provides international monopolies hidden opportunities for preventing the most up-to-date branches of their economies from emerging and effectively competing on both the internal and world market (Chufrin 1982).

To conclude, the transfer of technology is more than merely a material process influencing production. It is a process that also influences the development of social relations, to the extent that foreign monopolies, which have control over global scientific and technical potential and financial flows, stimulate the local development of dependent forms of capitalism by adapting the industrialization of newly free nations to their own interests. The current practice of imperialist relations impedes the worldwide spread of scientific and technological progress, which in turn inhibits the full development of emergent states' productive forces. It is precisely this form of dependence in science and technology (and the unequal international division of labor that follows) which prevents emergent states from building truly independent national economies and liberating themselves from the financial bondage of imperialism.

## Cross-References

- ▶ Academic Apologetics for Colonialism
- ▶ Global Free Trade, Imperialism and
- ▶ Protectionism, Development and Imperialism
- ▶ Western Anti-communism and Imperialism
- ▶ Western Democracy Promotion and Imperialism

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