

SOCI 424: THE CONTEXT OF DEVELOPMENT AND UNDERDEVELOPMENT

SESSION 5: THE DEVELOPMENT PROJECT I: THE MARSHALL PLAN AND THE BRETTON WOODS SYSTEM

Lecturer: Dr. James Dzisah

Email: jdzisah@ug.edu.gh



UNIVERSITY OF GHANA

College of Education

School of Continuing and Distance Education

2014/2015 – 2016/2017

SESSION OVERVIEW

In this session, we explore the multilayered nature of development premised on with national economic growth strategies and bilateral and multilateral international aid. We examine the construction of the Bretton Woods system and how its multilateral arrangements shaped national development strategies. We introduce the World Bank and International Monetary Fund, examine the First World imprints on these development institutions, and outlines their influences on development practices.

Goals and Objectives:

At the end of the session, the student will be able to:

1. Explain the construction of the Bretton Woods system and how its multilateral arrangements shaped national development strategies.
2. Outline the imprint of the First World on the World Bank and the IMF, and outline their influences on development practices
3. Interrogate the difference in national application of development practices based on the legacy of colonial relations and on U.S. Cold War containment policies.



SESSION OUTLINE

1. The Development Project
2. Development Project: Key Ingredients
3. The International Framework
4. U.S. Bilateralism: The Marshall Plan
5. Multilateralism: Bretton Woods System
6. Result of Bretton Woods Institutions
7. First World Imprint on Bretton Woods Institutions
8. Politics of the Postwar World Order
9. The Non-Aligned Movement (NAM)
10. The Group of 77
11. Remaking the International Division of Labour
12. Newly Industrializing Countries (NICs)
13. Activity
14. References



THE DEVELOPMENT PROJECT

- How could a national development strategy be simultaneously international?
- Newly independent states:
 - Had colonial division of labour's legacy of "resource bondage" embedded in their social structures
 - Purchased First World technology with loans or primary export earnings
 - Integrated into universal political-economic relations within the international financial, normative and legal framework of United Nations and Bretton Woods institutions



DEVELOPMENT PROJECT: KEY INGREDIENTS

- Universal claims
- National economic growth
- International military and economic aid
 - Bound the developing world to developed world and secured access to human and natural resources
- Industrial growth
- Agro-industrialization
- Political alliances for supporting industrial growth
- New inequalities spread through markets



THE INTERNATIONAL FRAMEWORK

National economic growth depended on:

- International material and political-legal relations based in colonial relationships
- The United States' containment of the rival Soviet empire
- The Bretton Woods institutions



U.S. BILATERALISM: THE MARSHALL PLAN

- After World War II, U.S. transferred billions to Europe and Japan to facilitate international trade and encourage U.S. direct investment in Europe
- Bilateral financial aid:
 - To stabilize discontented populations
 - To rekindle economic growth and production
 - To restore trade and price stability
 - To contain socialist movements and communism
 - To allow purchase of U.S. goods
 - To re-arm



MULTILATERALISM: BRETTON WOODS SYSTEM

- Post-WWII meeting in Bretton Woods, NH, July 1944
- Financial ministers created international banking system to restore trade via credit to devastated regions
- The World Bank
 - Borrowed money in international capital markets to raise money for development
 - Loaned funds to states for national infrastructure projects (dams, highways, power plants)
 - Invested in cash crop agriculture, which deepened legacy of colonial division of labour
- International Monetary Fund (IMF)
 - Disbursed credit to stabilize national currency exchanges and revitalize international trade



RESULT OF BRETTON WOODS INSTITUTIONS

- “Lubricated” the world economy by expanding trade and stimulating growth
- Encouraged Third World states to adopt capital-intensive technologies
- Displaced substantial populations from customary habitats



FIRST WORLD IMPRINT ON BRETTON WOODS INSTITUTIONS

- In governance
 - World Bank is controlled by five biggest shareholders.
 - Overwhelming male representation still exists
 - U.S. administration selects the President of World Bank
 - Largest European nations appoint Managing Director of IMF



FIRST WORLD IMPRINT ON BRETTON WOODS INSTITUTIONS Cont.

- IMF “conditionality” required (Third World) states to adopt specific economic policies, which became criteria for other lenders
- World Bank policy reflected First World priorities:
 - Investments in energy, export agriculture, large-scale capital-intensive projects
 - Sponsored Western technology transfer
 - Encouraged import dependence
 - Established institutional presence in the Third World
- Multilateralism, World Bank style, set the parameters for development



POLITICS OF THE POSTWAR WORLD ORDER

- Cold War rivalries:
 - Soviet Union expanded economic and political relations with Third World, created aid for strategic states, favouring those who pursued policies of central planning and public ownership
 - United States/allies aid stabilized strategic states and undercut rival (socialist) ideologies
 - Iran, Turkey, Israel, India, Pakistan, South Vietnam, Taiwan, South Korea, Philippines, Thailand, Laos
- Selectivity of aid contradicted the espoused universalism of the development project



THE NON-ALIGNED MOVEMENT (NAM)

- “Non-aligned” Asian and African states met in 1955 at Bandung, Indonesia
 - Articulated philosophy of noninterference in international relations; economic self-reliance
 - Questioned legitimacy of development model
 - Demanded more loans and concessions for Third World
 - Key players: Indonesia (Sukharno), India (Nehru), Ghana (Nkrumah), Vietnam (Ho Chi Minh), Egypt (Nasser), and China (Zhou Enlai)
- First World Response:

Created a new subsidiary of the World Bank, the International Development Association (IDA), and regional banks (Inter-American Development Bank, African Development Bank, Asian Development Bank). Made loans at discounted rates.



THE GROUP OF 77

- 1947 General Agreement on Tariffs and Trade
 - Enabled states to negotiate reciprocal trade concessions, but without adjusting for the uneven effects of colonialism.
 - During the 1950s, the Third World's share of world trade fell from one-third to almost one-fifth.
- Third World pressure founded United Nations Conference on Trade and Development in 1964
 - Caucusing as the **Group of 77 (G-77)**, they demanded world-economic reforms



THE GROUP OF 77

- Goals
 - Stabilize and improve primary commodity prices
 - Open First World markets to Third World manufactures
 - Expand financial flows from the First World
- Impact of UNCTAD
 - Spread “Third Worldist” perspective
 - World Bank president Robert McNamara (1968-81) refocused development (for a time) on quality of life issues rather than simply income measures
 - “growth with equity”



REMAKING THE INTERNATIONAL DIVISION OF LABOUR

- By 1980, exports from Third World included more manufactured goods than raw materials
 - ISI protected Third World “infant” industries
- The First World exported 36% more primary commodities than the Third World
 - Farm subsidies protected First World agriculture
- Uneven success of development project in promoting Third World industrialization



NEWLY INDUSTRIALIZING COUNTRIES (NICS)

- Legitimized the development project with rising living standards and upward mobility
- Demonstrated selectivity of the project
 - Cornered bulk of private foreign investment and (Cold War driven) military aid sustaining authoritarian regimes
 - Concentrated on export production of textiles and electronics and industrial growth
- 50% of increased value in Third World manufacturing occurred in 4 countries
 - But, 2/3 of increase in 8 countries



SESSION SUMMARY

- The development project was multilayered with national economic growth strategies and bilateral and multilateral international aid.
- This session examines the construction of the Bretton Woods system and how its multilateral arrangements shaped national development strategies.
- It introduces the World Bank and International Monetary Fund, examines their First World imprints, and outlines their influences on development practices.
- The espoused universalism of the development project was undermined by the difference in national application of development practices based on the legacy of colonial relations and on U.S. Cold War containment policies.
- During the Cold War, foreign aid was used to stabilize strategic states and undercut socialist experiments, revealing contradictions in the espoused universalism of the development project.



SESSION SUMMARY Cont.

- The session outlines the emergence of “Third World” groupings that challenged U.S. and Soviet development models, including the Non-Aligned Movement, United Nations Conference on Trade and Development (UNCTAD), and the Group of 77.
- These in turn pressured the World Bank to consider Third World perspectives and incorporate “poverty alleviation” efforts in their projects.
- The development project proposed national strategies but also remade the international division of labour. By 1980, Third World exports included more manufactured goods than raw materials and the First World exported 36% more primary commodities than the Third World.
- The success of six Newly Industrializing Countries (NICs), countries with growth rates higher than the Third World average, have been used to legitimate the development project, but also show that development benefits were not equal among countries and that growth did not lead to democracy.



ACTIVITY

- The 'development project' focused on national economic growth, but it had definite international dimensions. What were they, and how did they reinforce or modify development processes?
- In what ways did the Bretton Woods system institutionalize development as an international project? And how did Cold War rivalry and Third World demands contribute?



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