The Rebirth of Dependence: Offering an Alternative Understanding of Financial Crisis

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The Rebirth of dependence – offering an alternative understanding of the financial crisis

Ciara Hackett¹

Abstract

Dependency theory situated within the broader field of development studies draws on Marxist inspired theories of development and tends to oppose the neo-liberalism interpretation of the markets that is prevalent today. In considering the global system as a mixture of dependent relationships, it goes beyond inter-dependence, suggesting that such relationships are unequal.

The financial crisis of 2007 – 2010 has provided academics and commentators with a unique environment to debate, discuss and analyse our current understanding of the global financial system, the relationships within and the role of entities such as the multi-national corporation (MNC). This article takes dependency theory and expands on the basic premise, incorporating the processes of globalisation and thereby widening the application of the theory.

In doing this, this article presents an alternative assessment of the global system, and, by extension, the financial crisis. Considering the importance of the MNC and the class which oversee its activities, the article concludes that the global system is going through a transition - one in which capital exchanges have evolved beyond the national and federal approach, but where the new peripheries are attempting to regulate and legislate to oversee the activities of the core despite their limited autonomy.

Key Words: Financial Crisis, Dependency, Multi-National Organisations, Underdevelopment

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Introduction

Barings, Goldman Sachs, Lehman Brothers, Northern Rock, Anglo Irish; the banks that were too big to fail, who did so anyway, and in their demise annihilated markets, toppled governments and led to the questioning of much of the national governance and regulatory infrastructures in place to monitor banking, and big business. Much has been written on the failure of corporate governance, the causes of the financial crisis and the challenges for capitalism going forward. This article, in considering the lens through which the capitalist system was understood, proposes that, in reaching a theoretical crossroads, alternative means of assessing the capitalist system needs to be addressed and which, in so doing, notes the inevitability of the most recent crisis. In light of recent revelations centred round the fiscal crisis, the purpose of this article is to consider that the free market experiment has failed and that similar crises will pepper the future financial landscape.

This article looks at dependency, a theory of development that emerged in the 1970s and fell into disrepute by the mid-1980s. In challenging the criticisms of the theory, it posits that the basic parameters of the paradigm were just – rather, the understanding of the scope of the theory, and our understanding of capitalism has been limited to nation state relations. Increased globalisation together with the most recent financial crisis has facilitated a reimagining of the dependency concept, and, in so doing, providing an alternative means by which to view the global market.

The Transnational Capitalist Class

“International capital flows, while potentially beneficial, are said to increase a country’s vulnerability to crisis”.2

These words seem particularly apt when considering the global fall from the economic highs of the 2000-2007 era to the lows of collapse of the markets post 2007, bursting of property bubbles, the subprime mortgage crisis, IMF and EU bailouts and the promise of austerity. Globalisation, despite the benefits it offers to consumers and traders has made the market economy even more susceptible to problems, or rather, has highlighted the inadequacies of the infrastructure governing such

relationships, illustrating the need to pursue a new means of interpreting the system with a view to righting the proverbial wrongs. The aim of this article is to highlight the ever increasing global dependence on capital generated by multi – national corporations (MNCs) and how this represents a crossroads in our hitherto understanding of financial system. Suggestions in the literature would point to the emergence of a new class which oversees MNCs. This Transnational Capitalist Class (TCC) described primarily by Sklair and Robinson has the sole purpose of profit accumulation\(^3\). This, in an ever shrinking world due to globalisation, improved infrastructure etc has implications for national development – economic social and political. If our economic development “goes global” the implications for national economic, social and political policy; our understandings of the financial system and the role of national governments all needs to be explored. To do this, it is necessary to rework an alternative theory of development which first emerged post World War II. It is in reworking the dependency theory of the 1960s-1980s, and adapting it to globalisation trends, that a modified approach to dependency theory can provide a viable tool for alternative assessment of the global economy. As illustrated in the following sections, traditional dependency theory consisted of the periphery which was dependent on the core for prosperity, employment and trade which, in itself, led to criticism\(^4\). In addressing these issues, and indeed considering the rise of other actors in the global capital landscape, this article provides for an alternative assessment of the markets, one which, although not claiming to “solve” the inadequacies of the financial system, will rather provide commentators with a better means to understand the problems facing legal, regulatory and policy reform.

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\(^4\) Foremost of this criticism was the idea that there had been a failure to include concrete typologies of what constituted a “core” and what amounted to “periphery”. For more on this refer to Leys, Underdevelopment and Dependency: Critical Notes. (1977) 7 (1) Journal of Contemporary Asia 92 – 107.
Dependency Theory

Origins of the Theory

Dependency theory emerged for a number of reasons in the post World War II era. Prior to this, writings on development appear limited to the work of Marx and Hegel. Indeed, Leys refers to Marx and Hegels as the “true originators of development theory” in the way they “recognised that it was the sudden acceleration in the rate of change that the establishment of capitalist production and bourgeois society has generated that made it necessary and possible to...view world history as a process of development”. Limitations in the literature can, as Roxborough suggests, be attributable to the fact that there was no real reason for it to be considered until “the period of the rapid dissolution of the empire in the post-war world”.

Then, as now, the combination of the world economic structures with the shifts in the global political climate led to increased academic consideration of our understanding of “development”. Given the political discourse at the time, much of this consideration was limited insofar as the work of Marx was considered a taboo by Western theorists of development. The combination of these propaganda style Westernised theories with the Bretton Woods system of financial regulation ensured that Keynesian

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6 Leys The Rise and Fall of Development Theory, (James Currey Ltd, London 1966) 4

7 Ibid.

8 Roxborough, Theories of Underdevelopment. (Macmillan Press 1979)63. One could also look at the work of Kay here where he considers that up until the post WWII era, economic and social differences tended to be put down to natural differences in race and climate. For more see Kay, Development and Underdevelopment: A Marxist Analysis. (Macmillan Press Ltd 1975)

9 Today, the world economic structures under scrutiny centre around national governments’ capacity to embrace the challenge of financial crisis, the rise of trans-and inter-national entities such as the IMF, the EU, and finally the bailout – implications and future directions of national, federal and international economies. From a political point of view, theorists and academics today, the interest is less Cold War and more Arab Spring and to a lesser extent the Occupy movement, and the implications that this has in areas of development – Human Rights, Corporate Governance, Accountability, Legitimacy, Transparency etc. As discussed later in the article, critics of dependency argued that the theory emerged as a response to the economic and political climate of the time. Facing a similar environment, perhaps now - as is discussed later – is the perfect time to revisit these disused understandings of the system in which we operate.
style economics presented an easy and uncontroversial means of assessing “development” for early theorists\textsuperscript{10}.

Post World War II however there was a world-wide recession. The existence of closed economies at this time (such as that in the Soviet Union), questioned the success of the “invisible hand” style of economics, as opposed to the perceived triumph of state intervention in national economic planning. This Keynesian approach inevitably had implications in the development, or the failure to develop, of some states as early development theories were primarily concerned with economic development. Most of the perceived “underdeveloped” nations were encountering a new age of political, social, cultural as well as economic development. Arguably then, in order for any new development orientated theory to survive it would be imperative to consider all aspects of development and not just the economic strand. The global economy today, like the post World War II scenario, is emerging from a recession. A timely reconsideration of the issues that were addressed then may provide paramount to re-interpreting the infrastructure that cements the global financial system.

Post WWII no serious or coherent theory existed which accounted for the effects of imperialism on the social structures and patterns of economic development on the “less developed” countries. And so the development camp evolved into two main schools of thought. The first camp wished to maintain the status quo with regard to development theory to this point, albeit with some minor adjustments. This camp became known as the “modernisation” or “diffusionist” school of thought\textsuperscript{11}. The other branch wished to redefine the concept through the historical framework advanced by the likes of Marx and was to develop into the dependency school – the school of thought to which this article refers.


Dependency Theory
Dependency is a branch of development theory which operates on the premise that there exists a core of wealthy “developed” states and a periphery of poorer “underdeveloped” states. In order to bolster economic growth in the “core”, resources are extracted from the periphery in order to sustain growth in the core. Work pivotal to the development of the theory includes Frank’s research on “underdevelopment” and Dos Santos’ “conditions of dependence” both of which can be adapted to a contemporary understanding of the world system via a modified approach to dependency, specifically, the rise of the multinational corporation and the increased focus on the processes of globalisation.

The basic hypothesis of the theory of dependency is that “development and underdevelopment are partial, interdependent, structures of one global system.” Dos Santos quite succinctly considers it as “a conditioning situation in which the economies of one group of countries are conditioned by the development and expansions of others.” A relationship of dependence exists therefore “when some countries expand through self impulsion, while others being in a dependent position, can only expand as a reflection of the expansion of the dominant countries which may have positive or negative effects on their immediate development. “The relations of dependence to which these countries are subjected conform to a type of international and internal structure which leads them to underdevelopment or more precisely to a dependent structure that deepens and aggravates the fundamental problems of their peoples.”

12 Literature on dependency sometimes uses centre or metropole instead of “core” and satellite instead of “periphery”.


16 Ibid.

17 Ibid.
As the comment from O’Brien illustrates, references to underdevelopment abound in dependency literature. Underdevelopment is the result of dependence. Dependency theory sees underdevelopment purely as the result of unequal power relationships between core and peripheral economies.\textsuperscript{18} This is increasingly evident today and is referred to later in the article. Underdevelopment is viewed as a consequence of imperialism, in contrast to Marxist theories which explained why imperialism occurs.\textsuperscript{19} Developing countries, under this definition, are not poorer or less developed because they are behind in scientific discoveries, rather, as can be illustrated by applying Dos Santos’ definition, it is as a by product of being coercively integrated into a system, (usually the European economic system) purely for the exploitation of natural resources and labour market as opposed to any pioneering advances in industry and technology.\textsuperscript{20} The pressure to conform to European economic methodology and by extension the American system, may not have been the most efficient method of garnering growth in these countries where infrastructure, human capital and other structures in the economic market were considerably different to those of most European nations. The examples of Latin America and Sub Saharan Africa, used at the time to illustrate dependency, serve to prove Dos Santos’ hypothesis in the manner in which the economies developed, suggesting that development was conditioned by the requirements of the core\textsuperscript{21}. As dependence becomes more ingrained, underdevelopment further develops – fulfilling Frank\textsuperscript{22}.

\textsuperscript{18} Valenzuela and Valenzuela, Modernization and Dependency: Alternative perspectives in the study of Latin American underdevelopment. (1978) 10(4) Comparative Politics 535

\textsuperscript{19} Roxborough, Theories of Underdevelopment (Macmillan 1979) 43. Also, Bodenheimer, 1970. The ideology of developmentalism: American political science’s paradigm surrogate for Latin American studies. (1970) 15 Berkley Journal of Sociology 95 – in this article he suggests that dependency is the obverse side of imperialism.

\textsuperscript{20} Dos Santos, The crisis of development theory and the problem of dependence in Latin America, in Bernstein, (ed) Underdevelopment and Development (Harmondsworth: Penguin 1973)

\textsuperscript{21} It is interesting to look at the pathway of development thinking in Africa. In the period post 1973, there were two distinct camps in African development thinking. On the dependency side you had the Organisation of African Unity (OCU) and the Economic Commission of Africa (ECA). On the neo-liberal side you had the World Bank and other financial institutions. In the late 1990s however, there has been something of a convergence of thinking in development policy in Africa. The bank adopted the Comprehensive Development Framework (CDF) that appeared to recognise that donor led development was not necessarily effective. On the other side, through perhaps pragmatism, African leaders began to espouse the benefits of neo-liberalism as evidenced in the New Partnership for Africa’s Development (NEPAD). For more on this, refer to Owusu, Pragmatism and the gradual shift from dependency to neoliberalism: The World Bank, African leaders and development policy in Africa, (2003) 31 (10) World Development 1655.
Problems and Criticisms of Dependency
Dependency from its very inception has engendered much criticism. This is attributed to a number of contentious issues within the theory, which serve to dilute the strength of the paradigm as an effective assessment of the current global system. Recognition of the problems of the theory and a synthesis of the criticisms is necessary if the concept is to be adapted to the 21st century. This section, in considering the problems of the concept, also discusses how the problems can be, if not resolved, then alleviated through adapting the theory in accordance with the processes of globalisation.

i. Emergence of the theory
Criticisms of dependency came from both the “right” and the more Marxian inclined “left”. Leys’ suggests that the criticism from the right generally failed to make an effort to understand the Marxist theories which inspired many of dependency’s key concepts. The main camp of opposition has therefore tended to be criticism from the “left” and has highlighted a number of weaknesses with the theory, which these commentators believe explain the failure of the theory to strive in mainstream economic circles. As has been discussed above, how the theory originated perhaps as a result of the political climate at that time, and that there was the requirement for a theory to emerge which contradicted Rostovian policy and incorporated the historical aspect of individual nations, allowed for

This convergence represents an impasse. The World Bank could not explain how the neo liberal policies were not developing Africa and the African leaders realised that securing investment etc was going to be more difficult if issues such as former exploitation was going to continue to dominate development policies. Whereas the convergence is an interesting development, it is still very much grounded in the statist approach and seems to miss some of the key points of dependency. For instance, the World Bank could not explain the external issues under neoliberalism, and the African leaders could not explain the internal problems. The fact that these are all part of the one system, and that the underdevelopment of internal systems is interrelated with the exogenous issues is not explored.


23 Leys, The Rise and Fall of Development Theory, (James Currey Ltd, London 1996)14. Frank, on the other hand, took his evaluation of the critics on the right a step further believing that they “lack...perspective, the competence of the interest...to examine the argument on its own ground and still less...to carry it forward on higher ground,” whilst also claiming that they “lack[ed] the means to meet the argument”. For more on this, please refer to Frank, Dependence is dead, long live dependence and the class struggle: An answer to critics. (1974) 1 (1) Latin American Perspectives 87; 91-92
its existence. But, whereas the global climate enabled dependency’s conception, it has be argued that the same global political climate prevented its long-term survival\textsuperscript{24}.

In the previous section, the role of the Bretton Woods system of financial regulation was briefly mentioned. A considerable amount of the literature on dependency was produced when Bretton Woods was the financial system used to regulate the global markets. As such therefore, it had a huge impact on the inception, application, evolution and desuetude of development theory\textsuperscript{25}. The collapse of Bretton Woods had many repercussions, one of the most significant being the curtailment of national government’s power to direct economic progress.\textsuperscript{26} It seems that with the dissolution of national borders in the economic climate, capitalism had overcome one of the last remaining structures limiting its already notable success and facilitating the rise of a new dominant actor. The impact of the now deregulated economies has had the effect of opening the global economy still further, and the limitations of the national governments has perhaps ensured dependence becoming more embedded for many nations. So, given that dependency emerged due to the transformation of the global system as well as the Cold War, can there remain room for dependency in today’s global climate? The global system is constantly evolving. There may still be room for the theory but, in order to relate to the current evolution of the global system, dependency needs to evolve accordingly. This evolution can be achieved by moving the theory, like the global system, beyond nation-state relations as illustrated below.

Given the economic crisis that has befallen the global economy in recent times it could be argued that once again we are in a unique situation which may facilitate the re-emergence of the theory and indeed strengthen it by learning from past mistakes. What has been unique with this particular fiscal crisis, is that it has been previously considered “developed” countries which have been more

\textsuperscript{24} See Leys, The Rise and Fall of Development Theory, (James Currey Ltd, London 1996) 25 where he states that 1950s and 1960s represented a special intermission in the history of the worldwide expansion of capital in which “dependency theory” could be born, but, outside of which it could not survive.


adversely affected than even “lesser developed” regions. Critics may argue once more, that when the liquidity crisis recedes – there will be no grounds for which the theory to survive. The current financial situation has shaken pre-existing beliefs in relation to capitalism and effective governance. This crisis, in highlighting the weaknesses of the old system, enables a reassessment of the global economy and the systems that support it. Arguably, a reformulated dependency could provide some of the answers as to why perceived “strong” states are still affected by these types of shocks.

ii. Contrast to Modernisation

The fact that the paradigm emerged purely as a mirror image of modernisation has encouraged criticism on the basis that it is not necessarily capable of standing on its own. A number of issues emerge from this including whether or not modernisation and dependency are the opposites of the one theory or whether they are two unique concepts. Also of note is whether or not dependency can be effective if it exists only to contradict modernisation theories.

Despite the fact that, at the time of the theory’s original inception, critics suggested that a theory which emerged solely as a means to criticise an existing theory could not be effective, it may be that what the current market system requires is a viable alternative to address some of the issues which have been highlighted by the on-going liquidity crisis.

iii. Cores and Peripheries

A recurrent problem in the literature is the failure to replace the core – periphery metaphor with “concrete typologies of centres and peripheries”. This ambiguity is a trend that manifests itself at number of stages in dependency literature. Some aspects are never explained which Booth for

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30 Leys, Underdevelopment and Dependency: Critical Notes (1977) 7 (1) Journal of Contemporary Asia 92
example acknowledges where he considers that Frank’s formulations “sensitise us to certain features of economic changes, and, at the same time, anaesthetise us to its other features”31. It could be case however, that this ambiguity will be advantageous in attempts to reformulate dependency. Due to the fact that there are no concrete typologies of “core” and “periphery”, any modifications to the theory, in attempting to address this issue could overcome the “impasse” associated with the concept.

The failure to provide concrete typologies of core and periphery, together with the fact that the theory was concerned primarily with nation – state relations were insurmountable problems for critics, but ones for which there are solutions which incorporates the processes of globalisation. If the typology for “core” was replaced with global capital (such as that generated by Multi National Corporations) and the “periphery” becomes nation states (and even to an extent federal states such as the European Union), the potential for this theory to evolve can be realised. Not only this, the application of the theory becomes almost universal, as those countries which rely on MNCs to contribute to their economy (to differing extents) can be said then, under this widened interpretation of the theory, to be dependent32. It would also explain how even previously considered “core” “developed” regions have been affected. The next section of this article addresses the drivers of this new wave of dependency – the transnational capitalist class. It is the MNCs which are the agents of the TCCs. Ultimately then, by this reasoning, states are dependent on the Transnational Capitalist Class for economic prosperity and national performance in the markets. Aside from the theoretical application of the theory, the events over the last number of years, arising from the ubiquitous financial crisis, has provided the situation whereby the practicalities of the theory can be realised.


32 Differing extents is an ambiguous term to use here. In incorporating Frank’s underdevelopment of development, the idea is explored in greater detail below. Those states that were previously cores (under the old terminology) and are now peripheral – are ‘less’ peripheral than states which were previously dependent. The rationale for this comes from the idea that the previously ‘core’ states have a stronger internal infrastructure (regulations etc) – previous cores – are now even more underdeveloped and their old limited autonomy has now become even more comprised. For more see below.
iv. The role of the Nation State

As the prospect of capital accumulation has reached new potential, one has to gauge whether society has become so enamoured with profit that equality among nations has diminished in importance.\(^{33}\) This has contributed to the fact that the theory is no longer fashionable. If the world is going to accept inequality as the norm, any theory attempting to resolve this situation is not going to be inherently successful. For instance, as Mann has remarked “[g]lobal imbalances have continued, indeed deepened, far longer than both researchers and pundits would have thought”.\(^{34}\) However, despite the fact that society today is more inclined to subscribe to neo–liberal structural adjustment type policy, dependency does still represent an alternative unit of analysis for the economic situation – and indeed may be instrumental in describing small open economies, the manner in which growth indicators are assessed, how financial crisis is interpreted and perhaps inspire a broader thought process on how future crisis may be alleviated if not averted\(^{35}\). For the most part, dependency appears concerned with the nation-state approach. In an increasingly globalised world, where borders are becoming less distinct, and the nations are becoming less important than those entities that can cross borders (MNCs), there must be another way to approach the issue. Other than Barkin’s internationalisation of capital, however, suggestions are relatively few and far between.\(^{36}\) Even today, terms such as co-, path- and inter- dependency all prevail in the literature – once again, these for the most part are grounded in the national approach as opposed to thinking of other entities such as the MNC and the

\(^{33}\) Look for example at the shifts from “high consumption society” to redistribution of growth to plans to meet basic needs and then to structural adjustment. For more info, please refer to Chenery, Ahluwalia Montek, Bell, Duloy, and Jolly, *Redistribution with Growth – Policies to improve income distribution in developing countries in the context of economic growth*. (Oxford University Press 1974). Also, Dollar and Svensson, 2000. What explains the success or failures of structural adjustment programmes. (2000) 10 (466) The Economic Journal 894

\(^{34}\) Mann, Breaking up is hard to do: Global co-dependency, collective action and the challenges of global adjustment. (2005) 6(1) CESifo Forum 16

\(^{35}\) Mann suggests that, like the global system in general – focus is very much on national inequality. Collective imbalance is limited – this is further evidence that thought patterns have not transcended beyond the nation state. This highlights the need for a re-education of the requirements of our global system and particularly for legislators, regulators and policy makers.

TCC as mentioned earlier in the article and in the next section. Any reformulation of the theory will need to reconsider this transnational aspect of the global market system and by extension, dependency with the view to incorporating globalisation processes into any changes to the paradigm.

In the previous sub section, the role of the MNC and the TCC was briefly mentioned. In relation to cementing the core-peripheral typologies to capital (core) and regions (periphery), the realignment of the actors helps resolve the preponderance of the literature on the nation-state. Dos Santos’ original conditions of dependence remain sound and, it may simply be that redefining the principal (or as sometimes referred in the literature, dominant) actors, not only can the core-periphery issue be overcome but also the reliance on nation-state exchanges. The existence of a Transnational Capitalist Class has engendered much academic discussion in recent times. To this debate another layer can be added – this idea that the Transnational Capitalist Class can be intertwined with dependency theory in order to create not only an update of the theory but also an alternative means of assessment for the global economy. The borderless nature of the TCC is such that there is no real loyalty to a people state or culture. Instead, capital accumulation and the drive to increase accumulations are the purpose of the class.

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38 Dos Santos, The crisis of development theory and the problem of dependence in Latin America, in Bernstein, (ed) Underdevelopment and Development (Harmondsworth: Penguin 1973)

This class is now the predominant “core”, and, as such, in assimilating Dos Santos’ definition, countries dependent on this core can only expand or develop, insofar as capital via “core” allows them to\(^{40}\). There is some recognition in the existing literature that there are entities, aside from nation-states, that may become key players in the global system. Some of the work by Dos Santos has been paramount to gaining an understanding of early perceptions of the MNC within the economy (and dependent structures). By addressing this in the next section, it can be linked in with the evolution of the MNC to the TCC – the implications of which are discussed below.

**Dependency and the Multi- National Corporation**

It is fundamental in neo classical economic thought that investment from MNCs promotes growth in the region of investment by providing external capital which, either substitutes for, or supplements local capital\(^{41}\). With modernisation, foreign direct investment is considered to stimulate growth through the introduction of new technology into underdeveloped countries\(^{42}\).

Within dependency, on the other hand, foreign direct investment, via the multinational corporation, is viewed as the anathema of capitalist accumulation\(^{43}\). Baran and Sweezy suggest that MNCs are not concerned with the internal structure of a country aside from its potential for capital accumulation\(^{44}\).

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\(^{40}\) This in turn impacts upon social and economic development which Jackman and Müller expand on in the next section. For example, economic dependence on capital from the “core” means that governments fear losing said capital (arguably political dependence) by legislating on issues which may be of benefit to their people (social dependence), but place additional requirements on capital which could alienate said capital from a nation state and result in capital flight. For more on this see: Müller, The Multinational Corporation and the underdevelopment of the third world. In, Wilber, (ed), *The political economy of development and underdevelopment*. (Random House, New York 1973). 124 – 151. Jackman, Dependence on foreign investment and economic growth in the third world. (1982) 34(2) World Politics, 175 – 196.


\(^{42}\) Ibid.

\(^{43}\) Sunkel argued that the key to dependency is “the penetration of the underdeveloped countries by the most powerful economic agent in the developed countries – the MNC.” O’Brien, A Critique of Latin American theories of dependence in, Oxaal, Barnett, and Booth, (eds) *Beyond the Sociology of Development*. (Routledge and Kegan Paul, London 1975)

Müller also addresses how the MNC, viewed through the lens of dependence can, and does exploit the national economy in its endeavour to accumulate profit\textsuperscript{45}. This view is also perpetuated by other dependency theorists, who believe that investments by MNCs actually inhibit growth, since they are more than offset by excessive amounts of capitalist repatriation to the industrial core\textsuperscript{46}. Economic dependency thereby contributes to the underdevelopment of the periphery.\textsuperscript{47} At the same time, the external orientation of the periphery’s economics encouraged by foreign investment is said to generate internal distortions and contradictions that retard growth.\textsuperscript{48}

Politically, according to Jackman, this has two main implications.\textsuperscript{49} Firstly, it undermines the autonomy of the periphery. Through their investment of capital into the region, it becomes apparent that MNCs and international lending agencies become increasingly major, if not dominant forces in economic policy making, a position they maintain by means of an implicit threat of withdrawal from, and consequent loss of capital by, the host country in the periphery. Secondly, it leads to the development of new class relations. What this then achieves is the acceleration of social inequality in the periphery; new groups emerge that are linked to the core, whilst the remainder of the periphery becomes increasingly marginal both in economic and political terms.\textsuperscript{50} This reflects the relationship of political, social and economic dependency as described by Frank\textsuperscript{51}. Müller asserts, that unless economic growth brings alleviation to those suffering most, such growth is a contribution not to


\textsuperscript{48} Ibid.

\textsuperscript{49} Ibid.

\textsuperscript{50} Ibid.

\textsuperscript{51} Frank, Dependence is dead, long live dependence and the class struggle: An answer to critics (1974) 1(1) Latin American Perspectives, 87, 91 – 92
development, but rather to the continued underdevelopment of the nation in question. Further, “just as MNCs are involved in the restructuring of the production section, so too they are a major force in restructuring the consumption sector.”

This, Müller believes, is a blatant contradiction as, he suggests, the new structure of consumption is in “serious imbalance with the inadequate consumption capacity generated by the very production sector which the MNCs have so pivotally helped to create” and, therefore, the MNCs themselves have negated any possibility for attaining new consumption goals by all but a small minority.

What these theorists have suggested is that MNCs play an important role in domestic economies and therefore, have a role to play within dependency. This was prophetic of such theorists as, since the demise of the theory in the 1970s, the importance of MNCs and moveable capital has encapsulated the shifts in the global system to a potential transnational economy. The analysis of Dos Santos, Müller and Frank on the MNC initiated the capacity for dependency to expand beyond the nation state. Today, the new core is centred round the MNC and the TCC which controls it – facilitating the globalisation of a rather hitherto national theoretical approach.

Stiglitz notes that globalisation has prompted the transformation of societies. Today, “territorial boundaries of states no longer coincide with the extent of the limits of political authority over economy and society.” This must be considered when addressing the implications of transnational capital on the nation state. Since the work of Marx on money capital, financial capital has


53 Ibid.

54 Ibid.


57 Global capital for instance, can be divided into two main areas, that of manufacturing/industrial capital and financial capital. Whereas manufacturing capital is specific to materials and energy, the next few paragraphs will be concerned primarily with financial capital. Finance capital was considered by Marx as “money capital” and also Hilferding. Hilferding, Le capital financier, (Paris Éditions du Minuit 1970). He considered it the product of the interaction between universal banks, large manufacturing corporations and a buoyant and
developed into a profitable yet risky enterprise to the point that today, “financial logistics dominate technology in a way that creates new policy problems and increases the risk of system stability.” As such, the nation state and relations with global actors have had to develop in order to encapsulate the change in the “new” economy and the risk–averse culture.

There has, as a result, been the emergence of a new class, which, like the capital that it peddles, is multinational in nature. Sklair describes this class as a Transnational Capitalist Class (TCC) which is based on the corporations and is more or less in control of the processes of globalisation. This article illustrates the manner in which transnational capital impacts upon, and beyond, the policies and legislation of the nation and supranational state. Any assessment, therefore, of the role of transnational capital needs to also consider the manner in which transnational capital is represented: i.e. through the global actors and institutions that operate at national and supranational levels. The Transnational Capitalist Class has been described as “that segment of the world bourgeoisie that represents transnational capital, the owners of the leading worldwide means of production as embodied in the transnational corporations and private financial institutions.” Sklair defines the class as the “identifiable actors working through institutions they own and or control” that drive globalisation.

dynamic industrial stock exchange and interaction structured by, for the circulation of, liquid fictitious capital. As described by Pineault, money capital was seen as a “meaningless form of capital, the perversion and objectification of production relations in their highest degree, the interest bearing form, the simple form of capital, in which it antecedes its own process of reproduction, is the capacity of money, or of a commodity, to expand its own value independently of reproduction...which is a mystification of capital in its most flagrant form.” Pineault, Finance Capital and the Institutional Foundations of Capitalist Finance: Theoretical Elements from Marx to Minsky. Working Paper, June 2001 – A selection of notes that were presented at the 34th annual meeting of the CEA Montreal, May 2001, Progressive Economics Forum Session #4 International Perspectives on Money and Capital.


60 Robinson, and Harris, Towards a Global Ruling Class? Globalisation and the Transnational Capitalist Class. (2000) 64 (1) Science and Society, 11

61 Sklair, The Transnational Capital Class. (Blackwell Publishing 2001). However, literature on the TCC, or at least an international capitalist class has been emerging since the 1960s. Most prolific in this field is the work of Stephen Hymer (Hymer, The Multinational Corporation: A Radical Approach. (Cambridge University Press 1979)) and GoldFrank (Goldfrank, 1977. Who rules the world? Class formation at the international level. (1977) Quarterly Journal of Ideology, 1(2):32 – 37). They discuss that the “capitalist class increasingly...see their
Globalisation can be described as the most recent (and ongoing) manifestation of capitalism. With the emergence of transnational forces and the TCC, it can be claimed that the nation – state approach to capitalism is out of date. Disillusionment with government seems to be a global phenomenon in recent decades – indeed more marked (and in some cases even violent) in the last number of months - and, if we consider the fact that borders of states are not as important – is it time to reconsider some of the assumptions of international political thought? As Strange acknowledges, states are no long masters of the markets. In many cases, it is the markets which are the masters of the states: “and the declining authority of states is reflected in a growing infusion of authority to other institutions and associations and to local and regional bodies and in a growing asymmetry between the larger states with structural power and the weaker ones without it.” This quote seems to suggest that far from removing inequalities, by looking at a more global system, the problems go beyond the surface. As a result of this, we still have the problems identified by dependency theory.

future in the further growth of a world market” (Hymer) and the fact that the growth of multinational enterprise has spawned a new corporate elite. (GoldFrank)

62 Strange, The Retreat of the State: the Diffusion of Power in the World Economy. (Cambridge University Press 1996) xiii. In the last number of years we have seen political shifts in many countries affected by the global economic downturn – these shifts are ideological in nature in many case representing a marked change in the political parties in charge during the height of the global liquidity crisis. For example, in the US: 2008 Democrats are elected in with President Obama in charge http://www.guardian.co.uk/world/us-elections-2008 Sourced on the 06-03-2011. However, in 2010, the still stagnant economy in the US prompted the voters to protest at the polls with a Republican majority in the House of Representatives being elected http://www.bbc.co.uk/news/world-us-canada-11671935 Sourced on the 06-03-2011. In the UK, a Conservative – Liberal Democrat coalition has been put in charge, http://news.bbc.co.uk/2/hi/8667071.stm Sourced on the 06-03-2011, while in Ireland Fianna Fáil have lost power for the first time in ten years to a Fine Gael Labour coalition http://www.irishtimes.com/indepth/election2011/ Sourced on the 06-03-2011. And this is only where disgruntlement has been evidenced at the polls. 2011 rapidly became the year in which the Middle East has experienced political change through a variety of peaceful, and some not so peaceful demonstrations highlighted dissatisfaction with government: For Tunisia see Tunisia, the Revolution that started it all, International Affairs Review http://www.iar-gwu.org/node/257 Sourced on 06-03-2011. Then came Egypt, http://www.bbc.co.uk/news/world-middle-east-12324664 Sourced on the 06-03 – 2011. Also Libya, http://www.bbc.co.uk/news/world-middle-east-12548520(06-03-2011), Bahrain, http://www.bbc.co.uk/news/world-middle-east-12535681(06-03-2011), and Yemen, http://www.bbc.co.uk/news/world-middle-east-12353479(06-03-2011). 2012 the story has shifted to Syria – where at the time of writing violence is still ongoing.

63 Ibid.

64 Ibid.
As capital as evolved, so too has the quest for capital. Where once states competed for territory in order to assert their power, today it is replaced by competition for investment, market shares and natural resource territory\textsuperscript{65}. Bargaining power could be the new military power, in that the state with the most investment, would, theoretically be the most powerful state. The old alliances of national capital have mutated into a transnational bourgeoisie and that today, this class is the one with hegemonic capabilities\textsuperscript{66}. What then distinguishes the TCC from these local and national capitalists is the fact that it is involved in globalised production and manages “globalised circuits of accumulation that give it an objective class existence and identity…above any local territories and politics.”\textsuperscript{67}

Critics of the idea of a transnational approach to capital have argued that until the social relations between members of the capitalist class in different nation states are as important as social relations between members in the same states, there cannot be a transnational capitalist class.\textsuperscript{68} In response to this, Sklair argues that it is only specific relations that need to be considered such as those that a TCC has with national actors, agencies and institutions in separate countries, as well as actors, agencies and institutions that cannot sensibly be described as national.\textsuperscript{69}

Initiated by Dos Santos and Frank, dependency theory and the role of the MNC attracted some limited commentary in the 1970s. The last section identified how the rather statist emphasis of the theory perhaps added to its inability to expand. The last section, in broadening the scope of the theory by redefining the actors has facilitated a reassessment of Dos Santos, Frank and the MNC. In identifying the still further globalisation of the market system since the 1970s– to the point that the MNC is no longer a singular entity but rather the component of a class – the TCC, this section has precipitated the


\textsuperscript{66} Robinson, and Harris, Towards a Global Ruling Class? Globalisation and the Transnational Capitalist Class. (2000) 64 (1) Science and Society 11

\textsuperscript{67} Ibid.

\textsuperscript{68} Scott, \textit{Corporate Business and the Capitalist Classes}, (Oxford University Press Oxford 1997)

\textsuperscript{69} Sklair, \textit{The Transnational Capital Class}. (Blackwell Publishing 2001)
analysis of the financial crisis via dependency (albeit a modified dependency) below which not only rationalises the crisis but explains how it was inevitable.

**Dependency as a tool for analysing the Financial Crisis**

From the birth of capitalism, there has always been dependency and, as an extension, there have always been dependent relationships. If dependency is viewed as a “useful analytical tool to understand our world,” the premise can help understand how the crisis emerged and what the implications are for the future\(^70\). Earlier parts of this article refer to Dos Santos’ conditioning situation which suggests that dependent/peripheral societies were shaped or conditioned by the activities in the core regions\(^71\). Intertwining Frank’s idea of social, political and economic dependence then, ideas of dependence being embedded into national infrastructure can be understood\(^72\).

The very idea of dependency means that when new forms of dependence arise (such as dependence on foreign capital) this “new” dependence is being imposed on countries and regions which were dependent to begin with (albeit a different form of dependence) further constraining the capacity to react freely to the new dependence and further embedding the underdevelopment of development. If all countries had started off as equals the point would be moot. Factoring in the all-important historical analysis of Marx, Frank etc, the fact that colonies were effectively coerced into a European style economic capitalist system put them at an early disadvantage. The capitalist system is orientated towards inequalities and some regions succeeding at the expense of others. Colonies then, were always (apart from the anomaly of the US) peripheral - dependent on the core for their own development.

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\(^71\) Dos Santos, The crisis of development theory and the problem of dependence in Latin America, in Bernstein, (ed) Underdevelopment and Development (Harmondsworth: Penguin 1973)

\(^72\) Frank, Dependence is dead, long live dependence and the class struggle: An answer to critics.(1974) 1 (1) Latin American Perspectives, 1(1): 87
The problem today is that we are at a crossroads with competing dependencies. The dominant actors in the global system had remained pretty much a constant until the last ten to fifteen years. New dependency and its main actors (MNCs & TCC) have been driving the restructuring of the financial and market system from an economic point of view. Old actors remain, but they are now competing with the new actors for dominance. As they are competing with each other, there now exists old cores which are on the periphery today and former peripheral regions which are even more peripheral than before. Not only does this have implications for the economic but it also influences political and social dependence. The idea of the interconnectedness of political economic and social was paramount in the work of Frank. In addition, Jackman reflected on the relationship between the three.

73 The basic parameters of dependency, at its most basic, can be explained using the following scenario which deploys a simple cost benefit analysis. A company wants to make a profit on a product (P). Two competing groups of equal training and competence wish to provide the Labour (L). For group one, there are additional requirements. Group 1 require that in exchange for Labour (L) a higher Wage (W) is paid in addition to other Benefits (B) i.e. \( L = W^n + B \). Group 2 however only want a wage which is less than the higher wage demanded by Group 1, i.e. \( L = W < W^n \). Unsurprisingly Group 2 receives the contract. As iterated at the start of this note, this scenario is simplistic and does not take into account, overheads, international labour obligations etc. However, if you expand this to a regional level using old cores (C) and old peripheries (P).

Scenario 2: A company wishes to accumulate profit by investing in a region (P). In exchange, the company will provide employment (L).

In the former Core country the cost of Labour (L) includes a higher Wage (\( W^n \)), with various Benefits (\( B^n \)) and compliance with national regulations (R) on issues such as financial reporting, health and safety etc. Therefore, the profit in the core country has to take these issues into consideration.

Cost (C).
\[
P = C - (W^n + B^n + R^n)
\]
For the former peripheral region, training may be required, and there is a more limited infrastructure. However, there are less benefits and regulations. So, for these regions the cost of Labour is \( W < W^n \), plus \( B < B^n \) plus limited regulations (vary depending on the region) \( R < R^n \). Also to be factored in here is the cost of training (T) and improving the infrastructure (I).

So, for the Peripheral region,
\[
P = C - (W < W^n + B < B^n + R < R^n + T + I)
\]
Therefore if,
\[
P = C - (W^n + B^n + R^n) < P = C - (W < W^n + B < B^n + R < R^n + T + I)
\]
the former Core will attract investment.

However if,
\[
P = C - (W^n + B^n + R^n) > P = C - (W < W^n + B < B^n + R < R^n + T + I)
\]
the former Periphery will attract investment.

This throws up a number of issues. Whereas the core may still attract investment – even with a stronger regulatory infrastructure and greater benefits to employees etc, they are aware that this capital can be withdrawn at any stage – or rather as soon as the peripheral region works out a cheaper investment. This will prevent regulatory advancement in the former core as they strive to compete. For the former peripheral region, their development was already underdeveloped. Should they attract investment, they are only doing so because there are fewer regulations to comply with, cheaper wage and less benefits to employees. This inhibits the prospect of law, regulatory or policy reform. Therefore, the economic dependence on the capital has an impact on political and social dependence. Legislation is not brought in if it could result in capital relocating elsewhere – political dependence. Benefits for employees, better regulations etc are limited in their introduction for the same reason – social dependence. This illustration is rather crude and fails to take in exogenous factors but helps illustrate the point. The new core has less loyalties than the old core. The former core consisted of nation states which had some loyalties to former colonies. This new core only has loyalties to capital and capital accumulation - this has a much more detrimental effect on the global economy and will expedite the underdevelopment of development.
suggesting that economic dependence meant that governments were afraid to of losing capital (political dependence) by legislating on issues that may be beneficial the people but acting to the detriment of capital (social dependence)\textsuperscript{74}.

Attempts to resolve the financial crisis have/are being carried out via austerity policies from inter-federal and national points of view. So what we have then is new (almost global) core actors restructuring the economy but being regulated by old (national or federal) dominant actors. The freedom to respond to the new core is curtailed – limiting the effectiveness of responses to crisis and further recognising Frank’s development of underdevelopment and the underdevelopment of development\textsuperscript{75}. This transition period highlights how difficult it is, and how likely this crisis was to occur.

Conclusions

2007 marked the start of the most recent and arguably the most serious financial crisis. The financial contagion that followed highlighted how the perceived positive aspects of the financial system (capital crossing borders) have negative implications (the sheer scope and stretch of the crisis). This article suggests that, as well as issues pertaining to corruption, failure of accountability mechanisms etc, there is a wider problem which ensured that the financial crisis was not only inevitable but as much a systematic limitation than a product of capitalist greed.

\textsuperscript{74} This type of argument can be seen in some of the criticisms of Obamacare (\textit{The Patient Protection and Affordable Care Act} (PPACA). See also, \textit{National Federation of Independent Business v Sebelius}, 567 US\_ (2012)). Some of the arguments seem to be drawing on the likes of Hayek using the “competition” angle as a means of criticising it. Hayek was concerned about economic planning (and extension regulation) as it impacted on the state’s capacity to compete. He believed that one person or group of persons should not be in control as it would be akin to a dictator looking at future planning (thinking of Nazi Germany at the time). Of paramount importance according to Hayek was the importance of individual freedom followed by competition. At all costs, society wished to avoid collectivism. But in using this type of argument, not only are critics highlighting the “dependence” of states – but also the inequality of capitalism. Condemning the idea that everyone, regardless of underlying condition is entitled to healthcare – such criticisms illustrate how society accepts inequality as a norm and indeed the fear of becoming “less competitive” overrides compassion. Hayek, \textit{The Road to Serfdom} (Routlege, 2001 (2\textsuperscript{nd} edition) (1944)). In addition, whereas it might be the case that no one person, or group of persons should be in control, the fact is that the mutation of capitalism to the MNC and by extension to the TCC has meant that a collective group – with the sole aim of capital accumulation – have a dictatorship on the global economy. This economic wealth has implications on social and political dependence. A similar argument is put forward in response to Dodd Franks (\textit{Wall Street Reform and Consumer Protection Act} 2010 (Pub. L. 111-203, HR. 4173)) but in this instance, it is more that some institutions have more power than others.

\textsuperscript{75} Frank, \textit{The Development of Underdevelopment} (Monthly Review Press, New York 1966); Frank, \textit{The Underdevelopment of Development} (Bethany Books, Stockholm 1991)
Dependency exists. It has always existed since capitalism has existed. Dependency is a side-effect of capitalism, of the winner takes all nature of financial supremacy. The idea of dependency is that a peripheral entity is dependent on a “core” for economic and socio-political development. For the last few hundred years the actors were states – eg colonies and their colonial masters. In the last few decades however, a new actor has emerged; the MNC, and the class which oversees its activities; the TCC.

The face of dependency today has changed although the basic premise remains sound. Capital generated by entities with no loyalty to a class, culture or race is now the core. All states and regions are, to varying extents, dependent on this core for economic prosperity and socio-political sustainability and development. The problem is that old dependency is still in place – as well as the embedded underdevelopment arising from “old” dependence. This curtails the ability of the old core and further constrains the autonomy of the old periphery to answer/compete as an equal with the “new” core. With both new and old dependency still prevailing in the world system, the financial crisis of 2007-2010 was inevitable. Whereas the new core is able to advance and further augment its position by manipulating the processes of globalisation, the entities/national infrastructures that regulate, legislate on the activities of the core have become either curtailed in their effectiveness to regulate (old core) or further embedded in underdevelopment (old periphery). In addition, the conditions of underdevelopment have meant that the new periphery is limited – it is unable to catch up. So whereas the core can transcend national borders, the periphery currently cannot – limiting the effectiveness of regulation and making financial crisis and resultant instability inevitable.

In conclusion, with the core winning the survival of the fittest while the peripheral regions are competing amongst themselves in the race to the bottom, thereby widening the burden of inequality and developing underdevelopment, there can be but one winner: capital. Money v Humanity – an unequal fight.