Routledge Handbook of World-Systems Analysis

Salvatore J. Babones, Christopher Chase-Dunn

O’Connorian models of peripheral development—or how third world states resist world-systemic pressures by cloning the policies of states in the core

Publication details
https://www.routledgehandbooks.com/doi/10.4324/9780203863428.ch10_2
Samuel Cohn
Published online on: 24 May 2012

How to cite: Samuel Cohn. 24 May 2012, O’Connorian models of peripheral development—or how third world states resist world-systemic pressures by cloning the policies of states in the core from: Routledge Handbook of World-Systems Analysis Routledge
Accessed on: 13 Sep 2023
https://www.routledgehandbooks.com/doi/10.4324/9780203863428.ch10_2
10. Models of growth and stagnation
10.2

O’Connorian models of peripheral development—or how third world states resist world-systemic pressures by cloning the policies of states in the core

Samuel Cohn

The affinity between world-systems theory and James O’Connor

The great contribution of world-systems theory to development theory was breaking the assumption that there was one trajectory of development that characterized both core and peripheral nations. Modernization theory (McClelland 1966; Rostow 1960) treated economically developed and underdeveloped nations as if they were both manifestations of the same phenomenon—social evolution. Thus, the formulae for economic growth were the same for both countries—and involved principles such as rationalization, universalism and demographic transition.

World-Systems Theory in its pre- and post-Wallerstein forms, was a healthy antidote to such simplistic thinking. Frank (1967) and the Comisión Económica para América Latina y el Caribe (CEPAL) school (Prebisch 1950) rightly caused such thinking to be discarded by showing that the global south is poor because of what rich countries do to it. More specifically, market forces (in particular unequal terms of exchange), and foreign institutional actors (in particular, colonialists, multinational corporations, and international creditors) systematically restrict capital accumulation in the periphery.

As a result, the ability of the periphery and semiperiphery to develop is utterly dependent on the capacity of states within these disadvantaged regions to resist this systematic imperialism. As a result, world-systems theory has emphasized two central forms of resistance: hard bargaining with multinational firms and core governments (the prime focus of Celso Furtado [1983] and Peter Evans [1979]), and restriction of the international capital market through either import substitution (the CEPAL school) or through fully fledged state-led development (advocated in its fullest form by the students of the developmentalist states of East Asia [Amsden 1989; Wade 1990]). Both models argued that the state was critical to development in the semiperiphery and periphery—and that the role of the state was to buffer the nation from adverse market forces by either restricting the actions of predatory foreign corporations (thus correcting for sins of commission) or...
by using state investment to compensate for the failures of international capital markets (thus correcting for sins of omission).

This has become a not-uncommon claim in world-systems theory. The subsequent decade, with its preoccupation with globalization, has changed little of this intellectual framework. Globalizers argue that third world states have lost the capacity to hard bargain with foreign capital or to engage in state centered heavy industrialization (Sassen 1996; Yergin and Stanislaw 2002). If world-systems theorists were to follow this logic strictly, the next set of questions is whether the state can regain its capacity to resist, making Porto Alegre, Venezuela, and Bolivia critical cases.

All of these developments have been constructive. However, there has been some intellectual loss by the narrow focus on the ability of third world states to resist the forces of international capital. The absolute insistence on the non-parallelism of core and periphery has distracted from a lot of useful neomarxist, macrosocial theory development that would stem from the presupposition that core and peripheral governments use similar principles in promoting capitalism within their nations. Few serious world-systems theorists would really want to argue that state provision of education had no effect on economic growth in either the core or periphery. Few serious world-systems theorists would really want to argue that state funded population control programs were not important in promoting development. Comparable cases can be made for the provision of infrastructure, the funding of research and development or the Keynesian management of demand. Within the world-systems literature, this type of “garden variety” government program is generally treated with benign neglect.

This benign neglect would be fully justifiable under the assumption that peripheral states are undergoing fiscal crises, and that they can not afford to implement the “garden variety” programs of state-led stimulation of economic growth that characterize routine public administration in the core. The literature on the most recent Third World debt crisis made this argument, and made it compellingly well (Chossudovsky 1997; Potter 2000). Such neglect is less justifiable in the face of peripheral states that are fully financially solvent, or who under conditions of partial duress, can somehow fund a subset of the “garden variety” core development package.

Empirically, both regimes really exist, making the existence of effective routine state development policy a contingent rather than absolute circumstance. Christian Suter’s work (1992) on long-term waves of international debt crisis documents compellingly that at least since 1800, the periphery has oscillated between periods of ample state financial resources and periods of acute fiscal crisis. There are regular waves of debt crises that produce sustained budgetary crises in third world nations. However, in each period, there are individual nations that avoid the worst of the financial strictures that affect the rest of the periphery (such as Taiwan in the 1980s and 1990s). There is also the flush period before the debt crisis (such as the 1970s in the most recent case), when non-core states have substantial resources to spend on development (or on other goals).

For world-systems theory to be able to meaningfully address this issue, a theoretical structure is required that

1. Grounds capitalist development in materialist class-based dynamics—a key strength of world-systems theory.
2. Addresses the precise mechanisms by which routine state expenditures produce capital accumulation.
3. Incorporates fiscal crisis as a fundamental mediating variable in any link between state policy and development.

The obvious theorist of choice for this problem is James O’Connor.
The James O’Connor model

James O’Connor’s 1973 *Fiscal Crisis of the State* laid out a general model of the role of the state in capital accumulation. The argument was very simple.

1. States produce economic growth by constructing physical infrastructure that capitalists would never construct themselves.
2. States produce economic growth by investing in human capital that capitalists would never finance themselves.
3. States legitimize capitalism by providing welfare.
4. States maintain aggregate demand via Military Keynesianism.
5. Limits on the ability to collect taxes produce a fiscal crisis that inhibits the state’s ability to perform (1) through (4).
6. Monopoly capital expropriates most of the benefits of state spending, since government programs disproportionately favor large corporations.
7. Monopoly capital effectively avoids taxation due to its influence on the tax code.
8. The tax burden thus effectively falls on petty capital and on individuals.
9. Once petty capital and individuals become fully class conscious regarding this process, they will mobilize against the state by refusing to pay taxes.
10. This will produce a fiscal crisis of the state—which will inhibit state capacity to provide the programs required for the reproduction of capitalism. Capitalism will fall not from catastrophic collapse but from slow decay.

Contemporary readers will note the eerie and unsettling resemblance between this model and the current Tea Party mobilizations in the United States.

For the purposes of development theory, what matters is items (1) through (4), the specification of the routine “garden variety” government programs that generate development. O’Connor is all about building roads, building airports, building schools, supporting science, and running pension programs. There is little that O’Connor advocates that would actually be in opposition to the World Bank’s 2002 report on the appropriate role of the government in responsible pro-capitalist development—or to Joseph Stiglitz’s heterodox prescription for state led economic growth in *Making Globalization Work* (2006).

When this theory is applied to peripheral states, what is remarkable is the absence of the following argument:

0. States directly invest in strategic industries that will improve the long term international competitiveness of the economy.

O’Connor is completely confident that monopoly capital will provide whatever investments are needed to fund any industry that would be intrinsically viable. Argument 0 is a key position of Celso Furtado, Peter Evans, and the developmental state theorists, but not of O’Connor. O’Connor’s implicit dismissal of interventionist state investment and proactive industrial policy is probably too extreme. It would be hard to dismiss the substantial empirical success rate of interventionist states, notably in Europe and in East Asia (Chang 2007; Haggard 2004).

However, O’Connor’s formulation has an important advantage over “active state investment” models. Infrastructure provision is easier to execute than is developmental statism. The most recent wave of sociological scholarship on the state and development has emphasized unsuccessful activist states, where local class structures and absence of endogenous bureaucratic capacity have
undercut governmental attempts to promote development (Chibber 2006; Lange and Rueschemeyer 2005). Capture of the state apparatus by the local bourgeoisie can be enough to undercut technocratic government planning. Unsuccessful developmentalist governments can turn into a neoliberal’s stereotype of the rent-seeking state. Dani Rodrik (2007) argues that developmentalist states have to make strategic choices. Because seemingly similar countries can often have dissimilar problems, it is easy for governments acting in good faith to “guess wrong.” The structural impediments to developmentalism identified by Chibber and Lange and Rueschemeyer, and the tactical impediments to developmentalism identified by Rodrik help explain why highly successful developmentalist states such as Singapore exist, but are relatively rare.

In contrast, it is not difficult to improve ports, pave roads, hire rural nurses, or open more high schools. Infrastructure provision generally provides some benefit, unless the country has become so developed that the public good in question is now in surfeit. Most developing nations are nowhere near the point where surfeit can be an issue. O’Connorian models provide a slow safe model for relatively incrementalist growth, while the more traditional world-system models suggest formulas for high risk but relatively spectacular growth. Naturally, some of the most successful developing nations, such as those in East Asia, use both strategies. However, when only one strategy can be implemented, the cumulative gains from steady incremental progress can be significant.

Empirical support

What empirical support is there for the O’Connorian model? For most world-systems theorists, the aspect of O’Connor that has received the least attention, and thus the empirical material with which they are likely to be the least familiar, is the argument about the importance of infrastructure. Therefore, the review of the data puts a disproportionate emphasis on that component of the model.

Very few sociologists of any theoretical persuasion have written extensively on physical infrastructure provision. The significant exception is John Kasarda (Irwin and Kasarda 1991; Kasarda and Sullivan 2006). Kasarda essentially correlates employment growth with the volume of air traffic in and out of metropoli. In theory, this ought to be a completely artifactual correlation, since there is an obvious relation between volume of economic activity and the volume of air traffic that is caused by that economic activity. What makes Kasarda’s findings important, and what rescues them from spuriousness, is the use of the hub system by American and foreign airlines. Airlines do not fly point to point between all centers of economic activity; air traffic is channeled to strategic central airports, where both cargo and passengers change flights in order to get to their final destination. Therefore, cities with hub airports receive volumes of air traffic far in excess of that volume needed to support their own locally generated arrivals and departures. It is this excess traffic that is correlated with job growth and GNP growth in the future. Excess traffic is implicitly a measure of infrastructure. In order to have a hub airport, a city has to invest in substantial runway space, passenger terminal space, and cargo terminal space to support the transshipment function. By the standards of physical infrastructure projects, airports are relatively expensive, since they tend to require large amounts of contiguous urban or suburban space, most of which has to be obtained at a premium price. Those cities that have made such an investment have tended to prosper.

Intuitive support for Kasarda’s argument comes from the rise of Atlanta at the expense of New Orleans. In the nineteenth century, both cities were equally important centers of southern commerce and service. Neither city has a locational advantage, such as Pittsburgh or Houston, that puts them near stocks of physical raw material used in manufacture. While some of Atlanta’s
early advantages came from its status as a rail junction, its gigantic take-off in the late twentieth century was centered around the construction and dramatic expansion of Hartsfield Airport, with Delta Airlines using Atlanta as its main hub. New Orleans’ airport development was desultory, and the city is not associated with any major airline.

Work by the Marxist geographer, Doreen Massey (1974), provides further support for Kasarda’s argument. Late twentieth-century Britain was marked by a movement of employment away from traditional manufacturing centers in northern England (such as Tyneside, Liverpool, Manchester, and Birmingham) and lower Scotland (such as Clydeside) to southeastern Britain in the area around London. This could not be accounted for by any objective economic advantage of the London area—such as access to population or labor, access to raw materials, transportation costs relevant to continental export, or access to an educated labor pool. The key factor was proximity to Heathrow Airport. In the postwar era, there was substantial multinational penetration of the British industrial structure, with American firms buying up a large percentage of important UK employers. The American executives wanted easy physical access to their offices and production facilities and did not want to travel extensively once they arrived in Britain from the United States. They tended, therefore, to relocate offices and production centers to facilities within easy commuting distance of Heathrow Airport in west London. This created a substantial secondary wave of British-owned firms relocating to southeastern England in order to be able to service and work with these key American owned companies—with the end result being the dramatic de-industrialization of northern England.

Cohn (2010) provides further support for Kasarda, on a case in which publically funded airports were correlated with growth—without a transition from local to multinational ownership being required to produce the effect. Cohn contrasts the growth rates of paired sets of nearly identical Brazilian states—with one member of the pair but not the other receiving a significant airport expansion. He combines this with contrasting growth rates in states with airport expansions before and after the year of the actual expansion. Both types of contrasts show dramatically higher growth rates in the states which have received an airport expansion. What is particularly noteworthy is how rapidly the improvement in regional GDP occurs. Most development projects involve a substantial lag between project completion and the ultimate amelioration of growth rates. Airport improvements seem to take effect almost immediately. The GDP jumps the very year the terminal is completed, and the favorable contrasts between airport-expanding states and their non-airport-expanding peers are marked in the immediate years after the completion of the project. Commercial agriculture and tourism seem to be particularly responsive to enlargements of airport capacity. In some rural northeastern locations, the expansion of a nearby airport led to the rapid construction of refrigerated warehouses next to the airport, followed by the conversion of nearby farms into internationally oriented fruit and vegetable agribusinesses oriented towards sending perishable products to American and Asian markets. Airports near attractive beaches were often accompanied by the quick construction of new hotels and coastal resorts along with the creation of “vacation packages” in encourage Brazilian tourists to visit the new leisure complex.

Naturally, airports are not the only form of publicly provided infrastructure that produces economic growth. Nineteenth-century governments constructed railways, and substantially stimulated industrialization by doing so (Dobbin 1997; Hawke 1970; Reed 1969). Fogel’s (1964) famous contrarian position that econometrically railroads contributed nothing to US economic growth is based on the argument that the United States already had a fully functional set of canals; canal construction is as O’Connorian as rail construction. Dobbin’s argument that Victorian states milked railway companies as cash cows does not gainsay the fact that the state was key to getting these railways constructed—even if their treatment of the companies afterwards was somewhat rough.
The largest body of systematic evidence on the role of infrastructure in economic growth comes from the work of development economists. Fedderke et al (2006) did a long time-series analysis of economic growth in South Africa to show the independent positive effects on GDP of railway lines, volume of rolling stock, telephone lines, paved roads, electricity provision, and air passenger volume. Since reverse causation is a serious potential problem in such an analysis, they carefully rule this out by contrasting forward effects of external shocks in both variables. Even in this constrained test, all six infrastructure variables perform well.

Pereira (2000) did a similar time-series for the United States. His analytical categories are odd, but the findings are basically positive. His dependent variable—private sector productivity—was related to aggregate public investment, energy and transportation systems (aggregated together for some reason), sewage and water supply systems, public buildings (a category that is dominated by schools and public hospitals), and a none-of-the-above infrastructure category.

Aschauer (2000), in a cross-national sample of less developed nations, found that private investment, secondary school enrolment, and public investment had virtually identical positive effects on growth. World-systems theorists can raise reasonable questions about the interpretations of his findings. In countries such as South Korea, some developmentalist state policies, such as state-run enterprise, would have undoubtedly found its way into the public investment measure. Likewise, we know from Bornschier and Chase-Dunn (1985) to differentiate between the short-term and long-term effects of private investment, at least in the case of foreign direct investment. That said, in less developed nations which are not developmentalist states—which is most of them, public investment data would be dominated by infrastructure investments such as those discussed by O’Connor. An effect of public investment as least as large as that of private investment merits serious attention.

Esfahani and Ramirez (2003) find large effects on GDP growth within a large cross-sectional sample of countries of all income levels for increases in telephone availability and power generating capacity. Mitra et al (2002), in an analysis of physical infrastructure and social infrastructure combined found that an index of roads, electricity, railroads, postal services, education and health and banking correlated with differences in technical efficiency of manufacturing establishments in Indian states. Cohn (2010) shows positive employment effects in Brazil for water, sewage, airport, and road projects. Easterly and Serven (2003) document a dramatic difference in infrastructure provision between East Asia and Latin America. They argue that this difference explains about 30 percent of the productivity gap between these regions. Telephone lines, power generation, and roads all contribute equally to this gap. Shioji (2001) estimates the effect of infrastructure growth and education on GDP growth in the United States and Japan and argues that the effect of infrastructure improvements were substantially greater than those of education. Sanchez-Robles (1998) finds that measuring actual infrastructure constructed produces higher GDP effects than measuring expenditure on infrastructure; her methodology may implicitly correct for the corruption (and lost funds) that can be associated with infrastructure products, thus showing that actual service delivery of public goods makes a difference.

Fernald (1999) suggests a reasonable limit to the effectiveness of infrastructure. At some point, wealthy nations get “enough” of a certain type of infrastructure, after which further productivity gains are less likely to occur. He documents that the building of the US Interstate Highway system brought dramatic increases in productivity, but that road building after the completion of the highway system produced substantially smaller increases.

There is a small contrarian body of economists who argue that public spending on infrastructure is ineffective (Holz-Eakin 1994; Hulten and Schwab 2000). They present equations with low coefficients for the infrastructure variable that either have a huge number of region and time dummies, or include private investment as a control. Any variable can be shrunk to insignificance.
by the inclusion of enough time and space dummies. Including private investment as a “control” ignores the fact that state investment in infrastructure provides favorable conditions for investors, which increases their willingness to provide capital.

Overall, the body of evidence showing that state infrastructure raises development is sufficiently large to support O’Connor. Education, research and development, and Keynesian stimulus are not reviewed here; however, these claims, while not entirely undisputed, are not highly controversial.

**Conclusion: Keeping development alive in the face of fiscal crisis**

The other important feature of O’Connor’s model is the role of fiscal crisis. O’Connor’s model was designed to explain growth trajectories in the core. However, accumulation crises induced by states facing critical budget shortages are only recently affecting the growth of core nations. In contrast, this has been an enduring and fundamental feature of the periphery. The tax crises of the core have taken the form—as O’Connor predicted—of petty bourgeois anti-tax political movements. The tax crises of the periphery come from widespread tax avoidance, a very large informal sector, and relatively weak state capacity to enforce tax laws either through audit or through effective criminal sanctions. (For a review of third world tax issues, including problems of enforcement and compliance, see Ahmad and Stern [1989], Bird [1992] or Prest [1962].) The persistent debt crises in the periphery, which have been well documented by Suter (1992), are partially caused by the inability of many of those states to obtain financial resources from their own populations, notably from their own elites. The anti-tax voter of present-day Atlanta has an ancestor in the 1950s Rio de Janeiro grocer with two sets of books; American multinationals who pay very few taxes have ancestors in the tax-dodging Brazilian latifundistas and coroneis. The result was a series of debt problems in Brazil, just as the United States is becoming increasingly indebted.

The Brazilian experience also provides significant lessons on how to avoid the social damage associated with O’Connorian fiscal crises. Albert Fishlow (1990), the great Latin American economist who specialized in studying the Brazilian case, wrote a surprising essay on the role of the state in economic development. He was equally comfortable with a Marxist, heavily interventionist, dirigiste regime, and a neoliberal Washington Consensus mini-state. For him, the question was not how large the state was, but whether the government could pay its bills. As long as a government could maintain its financial sovereignty and not become dependent on predatory foreign creditors, it could manage its development policy any way it saw fit.

Fernando Henrique Cardoso (2009), world-systems theorist and former Finance Minister and President of Brazil, wrote an essay reflecting on the theoretical lessons of his experience in actually administering a semiperipheral economy. His essay absolutely echoes Fishlow’s sentiments. In his opinion, external debt is anathema because it compromises the capacity of the peripheral state to act. Cardoso has more faith than do many American “globalization” writers, on the capacity of third world states to autonomously reduce their exposure to foreign creditors. The Cardoso administration dramatically increased the administrative capacity of the Brazilian treasury to collect taxes—and obtained an immediate increase in overall tax revenues (Font 2003).

Cardoso also had a second tactic. He followed the precepts of the heterodox economic theorist, Luiz Carlos Bresser-Perreira (who became Cardoso’s finance minister). Bresser-Perreira (1992) argued that semiperipheral states could avoid the worst consequences of post-debt fiscal crisis if they redesigned their programs to be cheap. Traditional state-led industrialization with import substitution approaches were simply too capital intensive and expensive to be viable in a world of international dependency. However, many of the benefits of such regimes could be simulated simply by designing lower cost versions that offered high economic yields relative to their price.
This is exactly what Cardoso did. He sold off expensive, loss making government firms, notably in steel, energy, and telecommunications. However, he vastly increased his investment in research (notably agricultural research), and primary and secondary education, and vocational education. Furthermore, he went on an infrastructure binge, which included building new airports around the country, and pouring road, water, and sewerage money into the impoverished Brazilian northeast (Cohn 2010; Font 2003). The result was a resurgence of economic growth in what had previously been viewed as a stagnant economy—and the laying of the groundwork for Brazil to enter its status in the Lula regime as being a promising and rapidly growing member of BRIC.

The Cardoso-Bresser-Perreira formula of increasing tax collections while promoting cheap effective pro-growth government expenditure is an interesting response of a semiperipheral state to the financial constraints imposed on it by a global financial system. This approach may be useful to the core as well as the periphery and may represent a template for a new and effective strategy for economic nationalism. World-systems theorists have generally not paid very much attention to taxation and they certainly have not paid very much attention to routine government programs. However, these may be a key towards mediating the adverse effects of world-systemic financial dynamics and producing locally based balanced alternatives to neoliberal globalization. O’Connor may not only have been prophetic about the decline of late capitalism, but he may have implied solutions for how a humanistic late capitalism can be maintained in core and periphery alike.

References
Samuel Cohn


