CRISIS: IN THE THIRD WORLD

Andre Gunder Frank

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Preface

This book, as well as its companion volume, *Crisis: In the World Economy* (abbreviated as WE), examines the development of the new economic and political crisis in the world. According to my dictionary, a crisis is a decisive turning point, filled with danger and anxiety, possibly meaning life or death for a diseased person, social system, or historical process. The outcome need not necessarily be death, but could be new life, if—in our case—the economic, social, and political body is able to adapt and to undergo a regenerative transformation during its time of crisis.

Both books are part of a global study of the contemporary development of a deep and widespead economic, social, and political crisis in the world, which seems to be centered on a new crisis of overaccumulation of capital in the capitalist West, and on the consequent transformation of its relations with the socialist East and the underdeveloped South. This book examines the position of the Third World South in the global crisis, and the more general companion volume (WE) traces the crisis's development in the West, East, and South. Each book can be read separately, if the importance of the interrelations in the global economic system, whose initiating force remains in the West, is kept in mind. Although the problems dealt with in both books are very serious, it has been my intention to employ an analysis and to write in a language that any interested reader can understand.

Crisis: In the Third World distinguishes between the principal kinds of Third World economies and the different modifications of their participation in the world economy under the impact of the crisis. These are principally the intermediate development in the seven major semiperipheral economies of Brazil, Mexico, Argentina, India, Iran, Israel, and South Africa (which are examined individually in Chapter 1); the economies in which agricultural export, especially through agribusiness, is important (Chapter 2); and the economies promoting other exports of manufactures, oil, and minerals, as well as the expendable regions with very few exports (Chapter 3). The analysis then turns to some features and processes that are more or less common to all of these Third World countries despite their differences: the increase in foreign debt (Chapter 4) and its burden, paid through the greater exploitation of the local population; the increasing superexploitation of many members of the labor force in the Third World (Chapter 5); political economic repression (extensively documented in Chapter 6), which is necessary to sustain this exploitation and superexploitation; the transformation of the state (Chapter 7) as one of the principal instruments of the adoption of the Third World and its population to its new world roles, as well

as the militarization of society and other emerging forms of institutionalization; and, finally, the growing arms economy and military conflict in the Third World (Chapter 8). A concluding Chapter 9 (similar to the conclusion in WE) summarizes the above argument in the context of the development of the crisis also in the West and East and poses some questions about socialism and nationalism in a single world system, which only the future can answer.

The research for this book (as well as for WE) and the preparation of the material took several years. Therefore, one, two and sometimes three years lapsed between writing and/or revising different parts of this book. Chapter 1 was written in 1977 and 1978, but because its country surveys are time-bound, they have been updated to the beginning of 1980. The data on Third World exports, debt, and military activities were updated in 1980 (often with a two-year or more lag in the data available from official sources) although the bulk of these chapters was originally written in 1976 and 1977. The analyses of the structural evolution of the economy, society, and states of the Third World have been left substantially as they were written in 1976 to 1978. Only minor amendments in the presentation of new facts were made, since most of the argument can stand on the earlier material. Thus, most of the empirical material in this book refers to the mid 1970s, but new data have been added where possible if recent events have warranted updating. In short, this book examines some of the major economic transformations that the Third World is undergoing both today and possibly in the future under the impact of the world economic crisis. The book tries not only to document and analyze the political processes and institutions involved, but to take account of the differential social costs and benefits of these transformations as well.

Crisis: In the World Economy (WE) examines the development of the effects of, and the responses to, the world economic and political crisis in the industrial capitalist countries of the West, including "Western" Japan in the "socialist" countries of the East, and in the Third World capitalist underdeveloped countries of the South. The book begins (WE: Chapter 1) with a review of the expansive boom years of the two decades following World War II. WE: Chapter 2 traces the cyclical development of the new crisis of capital accumulation in the industrial capitalist West since 1967. WE: Chapter 3 reviews and in part tries to preview the corresponding political economic responses of capital, labor, and the state in recent and coming years. This chapter places particular emphasis on the policies of economic austerity and the deliberate creation of unemployment by social democratic governments, as well as on the growth of political repression and the apparently (accelerating) political and ideological shift to the right nearly everywhere in the West. In the presentation of this development in WE: Chapter 2 and 3, I have chosen to alternate successively between the recording of a particular historical event, such as the recession of 1970, and the analysis of a particular major problem, such as the recession of 1970, and the analysis of a particular major problem, such as unemployment. Each problem is discussed

in connection with the period during which it first arose, even though it may have already existed or become more serious later, as in the case of unemployment both during and after the recession of 1973–1975. After analyzing such a problem, I go on to record what happened during the next historical period of the crisis's development, before turning again to the analysis of another problem that is particularly associated with the later period and so on throughout the book. WE: Chapter 4 examines the accelerating integration of the socialist economies of the Soviet Union, Eastern Europe, China, Korea, and Vietnam in the capitalist international division of labor in part as a response to the crisis of the capitalist system, which affects these economies and societies as well. WE: Chapter 5 examines the demands by spokesmen for the Third World for a "new international economic order" (NIEO) and considers the somewhat unfavorable prospects for its realization. A sixth and summary chapter reviews and previews the entire development of the crisis in the West, East and South. Though substantially written earlier, the text of WE is updated through the end of 1979 and the concluding chapter takes account of some development in early 1980. Thus, *Crisis: In the World Economy* offers a review of some of the important contemporary economic, social, and political developments that the new world crisis is generating in all three parts of the world—the West, East, and South.

Both books are the outgrowth of my work on the history—including the present as history, to borrow the felicitous phrase of Paul Sweezy (1953)—of capital accumulation on a world scale (as Samir Amin [1970] calls it) and of dependent accumulation in the so-called Third World. Already in 1965 I wrote in the preface to my *Capitalism and Underdevelopment in Latin America* that there is ' the need . . . for the development of a theory and analysis adequate to encompass the structure and development of the capitalist system on an integrated world scale and to explain its contradictory development which generates at once economic development and underdevelopment" (Frank 1967: xv). My own attempt to contribute to this theory and analysis did not begin until 1970 in Chile, when I started to write the book now published as *World Accumulation 1492–1789* (Frank 1978a). The coup in Chile and other considerations interrupted this historical account of world accumulation at the beginning of the industrial revolution. At the same time, my conviction grew that the capitalist world had entered another major crisis of capital accumulation. I had expressed this opinion publicly in 1972 (see Frank 1977c, Chapter 1). This conviction also persuaded me that the analysis of current events is now increasingly urgent. I therefore decided to embark on a study of the two centuries since the industrial revolution in order to write a second volume to complement the one mentioned above by beginning at the end, that is, today, and working backward. This work on "today" began in 1973, and it has continued on the contemporary and just-past events ever since. However, I became so engaged in, and absorbed by, the contemporary crisis, that most of the

historical work came to be relegated to some time in the future, although I did brush up on part of the historical study of the underdeveloped countries within the world economy until the present, which was published under the title *Dependent Accumulation and Underdevelopment* (Frank 1978b).

Thus, my intention to analyze two centuries of world capital accumulation, became, under the increasing influence of the new world economic and political crisis, a study spanning some two decades past, present, and future of that crisis itself. However, although I tried to analyze the crisis in the world or at least in the capitalist world, process of capital accumulation as a whole *in theory*, in practice my study seemed increasingly to dwell on the industrial West, the socialist East, and the underdeveloped South each taken individually, albeit in relation to each other. In the case of the "socialist" countries, I did not try to study the internal structures of their societies as much as their economic relations with the West and South and the political implications of these relations, particularly for the Third World. My study of the effects of the world economic crisis on the South and the corresponding modifications of the economic participation and political response of the Third World became so extensive (though by no means complete) that it is now published separately as this book. To a significant extent, this separate treatment of the Third World thus violates in practice the fundamental theoretical guideline of this study, which is to analyze the world economic or at least capitalist system as a whole. Of course, the recent developments in the Third World and its parts are herein analyzed as part of a historical process in the world as a whole; but often these developments are presented separately as though they were analyzed in and of themselves. This procedure constitutes an important practical and theoretical limitation, which I believe it is my duty to stress.

Since the parts of the world system are presented separately in each of these books, it is perhaps appropriate to stress here how much of what goes on in each part of the world should be regarded as the various parts of a single process. The overaccumulation crisis of world capitalism manifests itself for capital through a decline in the rate of profit. Like the previous crises through which capitalism passed in the past two centuries, this one can only be resolved through far-reaching and basic modifications in the international capitalist division of labor. For capital this exigency presents itself as the need to reduce costs of production in order to raise profits again. Therefore, capital tries to administer several remedial economic measures simultaneously to the world economic body. Some of these are the austerity policies, rationalization of production processes, and reorganization of work processes in the industrialized West. Others involve the accelerated incorporation of the East through increased trade, but even more significantly by producing in the socialist countries with technically qualified but cheap labor for the capitalist world market. Other economic measures include the "runaway" transfer of some manufacturing industries to the Third World and the increased superexploitation of many parts of the labor force in the South, which

are directly and indirectly engaged in the production of manufactures and primary goods as well as services for the world market of capital. All these are complementary and mutually reinforcing measures to confront the same crisis of capital. The corresponding political policies of increasingly conservative social democratic governments and authoritarian tendencies in the West, of uneasy détente and negotiated collaboration between the West and the East, and of military and other authoritarian states and more acute armed conflict in the Third World are the necessary political instruments and manifestations of the aforementioned economic crisis responses by capital and its states. The social, political, and ideological response of labor and other sectors of society to this challenge by capital to restructure capitalism will determine whether, how, and to what extent capitalism will overcome its present crisis and go on to another later period of expansion.

If labor and the population at large are not willing to accept and bear the costs of the new capitalist order that capital is trying to impose on the world, and if these people successfully rebel against this order, then this crisis of capitalism would be its undoing and a really new noncapitalist order would emerge from the crisis. The reading of reality in the pages that follow suggests that, though the measure of social conflict within and between some states is likely to increase, the prospects of such a change are not very large for the forseeable future. (They are perhaps best in the "socialist" countries of Eastern Europe, which are least examined in these books.) For this reason also, without fundamental political change within the participating countries, the "new" international economic order that some Third World spokesmen demand among nation states is at best likely to turn out to be the same old order in some new emperor's clothes. Their design and measure, however, may well be the result of strategic and military disputes between the East and West that unfortunately remain unexamined in this book except partially insofar as they are carried over into the South.

Some readers may think that the superexploitation and repression in the Third World during the present crisis contradicts the thesis of the "development and underdevelopment" (Frank 1966, 1969), according to which underdeveloped satellite economies fare less badly during a crisis in the center. But on the one hand that thesis was not meant to suggest that every part of the periphery develops more during a crisis in the center, and some semiperipheries are shown (Chapter 1) to experience a new development—or underdevelopment—today. On the other hand, Chapters 7 and 8 and WE: Chapter 5 suggest that other parts of the periphery may still come to fare less badly during the present crisis, if this economic crisis or its political and military manifestations get so serious as to lead to a substantial breakdown of the international division of labor.

The scope, method, and sources of this study may seem to some readers like an unholy mixture of a superficially worldwide sweep with very selective local detail, of scientific (at least pretendedly so) objectivity with (certainly intentional) political engagement, and of standard official statistics with a

wide variety of stray newspaper clippings. In part these combinations may be explained, if perhaps not justified, by my work substantially as a "loner" in physical isolation from a library that could offer permanent access to standard reference and research materials and maybe in intellectual isolation from the pressing or fashionable concerns of some institutions and currents of thought. I have sometimes tried to break through this isolation through occasional quick flights to talk with, and collect documentary material from, people at the UN Economic Commission for Europe (UNECE) and UNCTAD in Geneva, the OECD in Paris, the EEC Common Market Commission in Brussels and other institutions (whose abbreviations, like all others used here, are listed under Abbreviations at the end of the book), and to engage in longer political discussions with friends and comrades around the world from Bombay to Belgrade, Lisbon to London, Mexico to Montreal, and Tokyo to Tananarive, as well as the many who passed through Frankfurt and stopped to visit.

In part my scope, method, and sources are, however, also the deliberate (and I hope justified) attempt of a single concerned person to confront some, though certainly not all, of the pressing issues of the day with the objective scientific *and* common-sense regard guided by conscious political concern. The examination in historical perspective of these contemporary events and processes, some of which are evident to the naked eye and others less so, is meant to be expository—and sometimes denunciatory—but not prescriptive. I am trying to "tell it as it is" and not as we might or might not like it to be. I am not trying to say—at least not in these pages—what we should, or would have to, do to change things so as to make them the way we want them to be. Of course, I am also partial; but my—or our—partiality should not blind us, as it unfortunately and often even deliberately does, to reality as it is.

For this reason also I have relied very heavily on the daily press for my sources of information (the list of abbreviations identifies over one hundred periodical publications and their respective abbreviations. Some of them I have cited only a few times in the text and others hundreds of times, like the *International Herald Tribune*, which is abbreviated IHT and is published in Paris by the *New York Times* and the *Washington Post*). This does not mean that I regard the press as entirely truthful or infallible. On the contrary, more often than not it has a political and ideological ax to grind; and I have tried to put that ax to good use. Thus, I have sought to rely on spokesmen of business, like *Fortune* (FOR), *Business Week* (BW), *The Financial Times* (FT), *The Economist* (ECO), and *Business International* (BI) or its various regional newsletters (BA, BE, BLA) and other sources, such as official government documents or declarations, as sources that are relatively "unimpeachable" spokesmen or reflections of business and government action or opinion. For instance, the extensive documentation of political repression for economic reasons, recorded in Chapter 6 for some thirty countries all around the Third World, is almost entirely provided—and deliberately selected—from the business, "bourgeois," and local press as well as from official government

documents or declarations, such as that which begins, "Now, therefore, I, Ferdinand E. Marcos, President of the Philippines . . . decree. . . ." On the other hand, though I have had much less access to documentation from the socialist countries themselves, the analysis of their willing and anxious participation in the capitalist international division of labor is based on the evidence supplied by responsible official and other sources and is accompanied by at least a selection of quotations to that effect by their most authorized spokesmen, such as Leonid Brezhnev and Hua Guofeng and others.

Similarly, the analysis—and, if you will, denunciation—in WE: Chapter 3 of the deliberate deflationary policy of austerity and unemployment in one Western country after another is not only documented by, but verily distilled from, the reports and declarations of the most authorized officials and political representatives and spokesmen of these Western governments, such as the Organisation for Economic Cooperation and Development (OECD), President Carter and his Cabinet members and Prime Ministers Callaghan and Thatcher of Britain, Schmidt of West Germany, and Barre of France, as well as news coverage and editorial opinion about their policies by the *New York Times* (NYT), the London *Financial Times* (FT), and many other organs of the press. When I have needed statistical series over a longer timespan, I have taken them from United Nations, OECD, U.S. government, and other similar official sources insofar as they were available to me (without direct access to a library); or sometimes, if necessary, and especially for data on the most recent times, I have again relied on the press for reports or summaries of such information provided by these agencies and others such as the European "Common Market" Economic Commission (EEC) in Brussels. I have mined these sources for statistical data and other information, but this book is not intended to be a compendium of such sources or to compete with them and other texts as a complete catalogue of statistical data, other information, and their exhaustive analysis about the world or any of its parts or processes. Moreover, the cutoff date for the use of current material necessarily varied from one book and chapter to another, although I have updated them as explained above.

Finally, I believe there is some further method in this madness of so laboriously—and it is that unless one can rely on an institutional clipping service—reading through, discarding the chaff and selecting the grain, of clipping, filing, evaluating, and using this information from the press. It shows that, despite all of the many indisputable limitations and failures of the press, it is possible to mine it for hidden golden information, if one is mad enough to work out—and systematically work through—a method to smelt and refine these bits and pieces of golden information out of masses of ore and to compare and cross-check them before combining them as in a jigsaw puzzle, until a picture emerges that more or less objectively reflects reality. In short, much of what is recorded in the following pages is the result of an often maddening but hopefully useful exercise in methodical newspaper reading.

For the historian—be it of the past or of the present, or for that matter of the future—reading "yesterday's newspaper," contrary to the old adage, need not be "out of date."

It is a pleasure and an honor to be able to acknowledge gratefully the institutional and financial support of several organizations and the personal help and encouragement of friends associated with the same. When this work began in Chile, I was at the Centro de Estudios Socio-Economicos (CESO) of the University of Chile; several of my then colleagues and political compañeros have continued to encourage me although they are themselves now in exile all around the world. For the winter semester 1973–1974 I was at the Lateinamerikainstitut of the Freie Universität Berlin, where my interest in the crisis continued to grow. Between May 1974 and July 1975 I had the privilege of being a Visiting Research Fellow (Freier Wissenschaftlicher Mitarbeiter) at the Max-Planck-Institut in Starnberg, West Germany, although I was only physically present there until August 1975. The Institute's administrative and scientific councils and particularly its director, Professor Carl-Friedrich von Weizsäcker, extended continuing generous support to me and my research, including full financial support for a year, without asking for—or receiving—any tangible or visible return. The staff of the Institute library, like Ms. Mundorf and others, especially Ms. Karen Friedman and Ms. Ulla Enders, were of incalculable help in supplying me with research materials; particularly since they have tried to bridge the 450-kilometer distance that has physically separated me from the Institute since mid 1975. Folker Fröbel, Jürgen Heinrichs, and Otto Kreye, to whose project at the Institute I was formally attached, have extended me their completest personal friendship and scientific and practical help as well as their indispensable moral support, to work on "the crisis," even though in their own book (Fröbel et al., 1977) from which I have copied so much, they started out denying that there is any crisis at all.

From May 1975 to April 1978, while still formally a guest at the same Institute in Starnberg, I received generous full-time financial support for my research from the Deutsche Gesellschaft für Friedens-und Konfliktforschung (DGFK), for my proposed research project on "Capital Accumulation, Economic Crisis, Social Conflict and International Relations." At the DGFK I had the friendly support of the chairman of its Research Commission, Dr. Karlheinz Koppe; as well as that of other members like Dr. Dieter Senghaas and Mr. Kreye, who were burdened with reading my interminable "progress" reports. Dr. Humberta Wienholz, Mr. Norbert Ropers, and Ms. Ursula Semin-Panzer of the DGFK administrative staff good-naturedly put up with my frequent appeals to straighten something out for me (that I had usually twisted myself). I am most grateful to all of them for their support and confidence, as well as this long financial support, particularly since they were still extended when it already became apparent that I would not be able to fulfill all of the perhaps unrealistic promises that I had held out in my original research proposal. For the three months from May to

July 1978, I gratefully acknowledge the supplementary financial support of the Berghof-Stiftung and its scientific director, Dr. Senghaas, and board member, Dr. Heinrichs, which permitted me to complete the original draft of this study after I should already have finished it, and particularly to write the chapters on the economic and political crisis in the industrial West. For editorial help (to eliminate some of my many errors, confusions, and inconsistencies) and for typing I am particularly grateful to Ms. Yolanda Broyles, Ms. Barbara Wraight and Mr. Matthias Fienbork.

Since August 1978 as professor at the University of East Anglia in England, I have enjoyed the institutional support of my School of Development Studies (DEV) and the financial support of its Consolidated Research Fund. I have taken advantage of both to use the invaluable services of Ms. Jill Hodges and Ms. Leyla Strutt for the copy editing and reproduction, respectively, of individual chapters on these books as DEV discussion papers, of Ms. Jackie Spray and again Ms. Barbara Wraight for retyping them, and of Ms. Corinna Chute and most especially Ms. Sheila Pelizzon in managing the extremely laborious tasks of clipping, filing, and retrieving the innumerable press clippings and other current sources that I have drawn on to update these books in 1979 and 1980. At Holmes & Meier, I am grateful to my publisher, Max Holmes, for his extraordinary confidence in me and his interest in my project; to my editor, Nathan Laks, for his very intelligent and useful editing and general supervision of these books under the pressure of time; and to the copy editor, Carole Freddo, for the responsible but vast improvement once again of the style and readability of this book, which merits the thankfulness of both the author and the readers.

Last but certainly not least I am grateful for the personal, moral, and political support of my wife, Marta Fuentes, whom I superexploited to do bibliographies, clip newspapers (and then find them again) and varied other dirty work on this book, as well as in our home where I worked, and my sons Paulo and Miguel, whose personal and political appreciation of my "work on the crisis" have helped me maintain the hope, which may be an illusion, that there may be some sense to the work it has cost me and the very great sacrifices it has cost them. Though in one or another fit of temper I have now and then been tempted to blame one or another of the above named for some minor shortcoming in my work, deep down I realize and gladly acknowledge publicly that the major shortcomings in this book, of which I am overly aware, are my own or the results of my own crisis. And for the latter I can only offer the partial explanation—and plead for partial dispensation—that it is *the* crisis that engulfs us all.

A.G.F.
Frankfurt, 17 July 1978
Norwich, 6 March 1980

Contents

Chapter 1
Unequal Accumulation: Intermediate, Semiperipheral and Subimperialist Economies

Capitalist development and capital accumulation are always spatially unequal and temporally uneven. Each major crisis of accumulation forces major structural readjustments in the international division of labor. The major Third World economies, which differentiated themselves from others in the Third World in the interwar economic crisis and seem to be reacting in important new ways during the present crisis, are examined individually. Recent and prospective developments in the intermediate, semiperipheral, or subimperialist economies of Brazil, Mexico, Argentina, India, Iran, Israel, and South Africa are each examined in turn.

Saudi Arabia, Iran, Brazil and Mexico, as "major new powers," should be brought into the "inner circles" of international decision making on economic affairs.

Trilateral Commission (IHT 19 August 1976)

Unequal Accumulation in the Third World

Capital accumulation and capitalist development are and always have been spatially/sectorally unequal and temporally uneven. Moreover, it is one of our principal hypotheses that the qualitatively major differentiations or radical shifts in spatial/sectoral development tend to occur during, and are accelerated by, the periodic crises in the temporally uneven development. Our hypothesis is that the contemporary crisis of world capitalist capital accumulation will also be marked by noteworthy departures in unequal spatial/sectoral development. An important feature of this unequal development will likely be the further division of the world capitalist economy into old and new metropolitan centers of powers, differentiated intermediary

economies, colonial and neocolonial economies and client states, and economically expendable populations, regions, or whole countries.

The "major new powers" selected by the Trilateral Commission for inclusion in the inner circle of economically and politically intermediate powers are Saudi Arabia, Iran, Brazil, and Mexico. South Africa and Israel are potential candidates for inclusion, and India and Argentina are heavily potential candidates. In a different way, so is the Soviet Union (and perhaps some other socialist economies; see Chapter 4).

According to a Trilateral Commission paper:

> The so-called "Third World" has become at least three worlds—the oil-producing countries . . . the relatively well-off developing countries with other valuable resources or a growing industrial base (i.e. Brazil, Malaysia, Mexico, Zaire), and the "have-not" developing countries such as those in the Indian Subcontinent. . . (cited in FER 25 March 1977: 40).

The world capitalist economy has always been characterized by the unequal development of declining old and rising new leading economies or metropolitan centers, new developing and old underdeveloping intermediate economies, peripheral economies, and, for a long time, by various societies that were effectively outside the world economy. Leadership in world capitalist development passed from northern Italy in the fifteenth and sixteenth centuries (perhaps briefly via parts of the Iberian peninsula) to England in the eighteenth and nineteenth centuries and to the United States in the twentieth century. Leadership and power passed from the old center to the new one principally during periods of crisis to which the old center was unable to adjust. Thus Mediterranean Europe was replaced by Britain—which outcompeted Holland and then France for power—in the seventeeth-century crisis, and Britain, was, in turn, replaced by the United States, which won the competition with Germany in the crisis after 1873 and this century's long crisis between 1914 and 1945. First Britain and then the United States were able to adjust to, and eventually to profit from, the economic and political crisis that affected the capitalist system as a whole.

Capital accumulation and capitalist development have since their beginnings also included intermediate as well as "peripheral" economies. Wallerstein (1974) calls these formations "semiperipheral" and Marini (1974) has termed some of the contemporary ones "subimperialist."
These semiperipheral and/or subimperialist economic centers do more than occupy an intermediate place between the center and periphery of the capitalist international division of labor. According to both Wallerstein and Marini and his followers, these intermediate powers act as political intermediaries—in a role analogous to that played by the "middle classes" between capital and labor—in the unequal bargaining between the metropolitan center and its periphery. Wallerstein suggests this intermediary role is both useful and necessary if the metropolitan center is not to pay too high a political or military price for its effective domination of the periphery. The