whole? If, as argued, theorizing demands the identification of such a theme, then theoretical work is the work of uncovering how that theme animates the more concrete relations and structures. Such work does involve a kind of abstract determination, since (1) insofar as concrete phenomena take their meaning from their relation to the integrating theme, they are determined by that relation, and (2) the theme must be understood abstractly before it can be concretely applied.

The various radical theories of accumulation all refer us back to the classical-Marxian theme of capital as self-expanding value. That they do so is not arbitrary. I think Marx had it in mind to argue that the self-expansion of value is deeply rooted in the logic of economic relations, once the economy has been set loose (or, in Karl Polanyi's phrase, "disembedded") from its determination as part of the family or the state. While the matter of embeddedness or disembeddedness may appear complex historically, economic theory cuts through this complexity by assuming a disembedded economy as its subject matter. By disembedded, the theory does not mean disconnected or independent. Rather, it means that the economy is not immediately the subject of family or state; its logic is not a political or familial logic. It is only by assuming that the economy is disembedded in this sense that economic theory becomes possible.

It is, then, not surprising that the theories of accumulation are economic theories of an economic process. Norton's critique is essentially a critique of the possibility or meaningfulness of economic theory rather than a call for an alternative. His critique questions the project of identifying the fault lines that distinguish the moments of the social order considered as a whole. Identifying those fault lines can lead us to economic theory understood as a part of a larger social theory.

Having said this much, I would emphasize that the pursuit of an economic theory need not imply that understanding the economy requires no reference to anything not strictly economic. When economists do economic theory they need make no claims about the autonomy of their subject matter. Demand depends on personal life, which is not determined by the economy. The economy consists of a system of property rights, whose meaning is only partly "economic." Acceptance or denial of links of this sort does not separate the theories Norton favors from those he criticizes. The relevant distinction has to do instead with theorizing itself. Without the distinction between essence and appearance considered above, without the effort to think abstractly and therefore to organize our thinking and categories of thought, and finally, without identifying the fault lines and thus the distinct moments of the whole, how could we begin to understand the economy and its place in the system of social relations as a whole?

6 POWER AND CLASS: THE CONTRIBUTION OF RADICAL APPROACHES TO DEBT AND DEVELOPMENT

David F. Ruccio

> The individual capitalist who sends his money abroad and receives 10 per cent interest for it, whereas by keeping it at home he could employ a mass of surplus people, deserves from the standpoint of capitalism to be crowned king of the bourgeoisie.
>
> –Marx, *Capital*, Vol. 1

THE CRISES OF DEBT AND DEVELOPMENT

The total external debt of the developing countries at the end of 1990 was estimated at $1,246 billion, an amount equivalent to 123 percent of their total exports of goods and services.[1] Debt service (amortization plus interest payments) alone consumed 17.3 percent of their export earnings. Of the long-term guaranteed component of these debts ($949 billion), some 45 percent was owed to international private banks and other private creditors located in the advanced industrial nations of the West.

The increased importance of external borrowing during the decade of the 1970s reflected in these figures was more than matched by a decline in the quantitative

---

I wish to acknowledge the comments and suggestions of Robert Devlin, Manuel Pastor, the members of the University of Notre Dame Economic Development Workshop, and the editors of this volume. Earlier versions of parts of this paper were presented at the annual meetings of the Association for Economic and Social Analysis (1985), the Eastern Economic Association (1986), and the Union for Radical Political Economics (1987).

significance of foreign direct investment in the total capital movements to developing countries. In 1960, for all developing countries, net direct foreign investment represented 47.9 percent of annual net long-term capital flows (World Bank 1980). The 1970 figure declined somewhat to 34.2 percent but by 1977 it had fallen to 19.3 percent. Official lending suffered a similar relative decline during the same period. The share lost by those two items was taken over by debt-creating flows of capital on commercial terms, especially private bank lending.

Recent controversial debt repayment schemes, in turn, have focused attention on the sharp decline in economic growth rates and in most, if not all, indicators of standards of living in the developing countries. The abrupt end of relatively high "golden age" growth rates in the Third World—from 5.2 percent in the 1960s and 5.4 percent in the 1970s, to 3.2 percent in the first half of the 1980s (World Bank 1988)—has been accompanied by widespread environmental destruction, growing poverty, and deteriorating conditions in health, nutrition, and education (Bell and Reich 1988; Cornia et al. 1988).

Faced with such information, few would deny that the international economic relations of developing countries have changed dramatically in the past decade, or that the external debt situation of those countries—in Africa, Asia, and especially Latin America—reached crisis proportions during the same period. However, it is not enough to cite shocking statistics on levels of external debt or income inequality—or, on the other hand, to report on successful cases of economic stabilization and structural adjustment—as if the facts could speak for themselves (cf. Bacha and Diaz Alejandro 1982, 14). Rather, all economic "facts" are theoretical, in the sense that they only exist and make sense within theoretical frameworks. Different economic theories produce different sets of facts, and each, in turn, understands its facts—and those of other frameworks—differently, depending on the concepts used to produce and interpret them.

External debt is one case in point. The analysis of external debt and the recent debt crisis has been dominated by work within the "orthodox" or neoclassical/Keynesian tradition. Even the data collected, as I show below, are beholden to the categories that make up this particular analytical framework. The orthodox tradition tends to view international flows of capital and commodities in terms of individual decision-making and, in the aggregate, in terms of the ability of these flows to satisfy national development requirements. External debt is aggregated together with other foreign capital flows and analyzed as a means to finance the so-called "foreign-exchange" and "savings" gaps, enhancing allocative efficiency. Alongside this orthodox tradition, an alternative "radical" analysis has emerged focusing on unequal power relations among and within the various nations in the international economy. International economic relations, radicals argue, create and reproduce relations of dependency between developed and developing nations. External debt, in particular, is seen to involve a form of "debt-peonage" between developing nations and their creditors, especially private banks, in the developed nations.

Of course, such different perspectives on external debt, as well as on the other international aid, trade, and investment activities among nations, have provoked an extended debate about the role of developing countries in the world economy. Does international financial intermediation involve capital flows that directly or indirecly benefit individuals in both the advanced industrial nations and the less-developed Third World? Or do international loans to developing nations trap them in an exploitative web of financial commitments that distort their short-term development prospects and undermine the possibility of development in the long run?

A parallel debate concerns alternative "solutions" to the debt crisis. Some economists, especially the orthodox ones who dominate the discussion, debate the relative merits of domestic stabilization and adjustment policies, increased foreign aid and bank lending, and the resumption of world economic growth as means to the end of alleviating the developing countries' heavy burden of external debt-service payments. The radical response is that such measures are inadequate, that the burden in any case falls disproportionately on the debtor countries (and on the poorer sectors within those countries), and that debt cancellation and other fundamental changes in the world economy are necessary for development to occur in the Third World.

This essay both critically analyzes and participates in this debate concerning the nature and effects of international economic relations. External debt is a way of focusing on, and entering into, the larger debate concerning economic development. My critical review of orthodox and radical approaches to debt and development leads, in turn, to an extension of the radical analysis of external debt. While radical political economists have been remarkably successful in challenging many of the theoretical presumptions and policy prescriptions of neoclassical and Keynesian economists, they have been less successful in elaborating an alternative approach. In particular, they have missed the opportunity to develop and extend the radical insights that can be gained by placing class at the center of the analysis. To begin the process of filling this gap, I present a class analysis of external debt, one which focuses on exactly those class aspects of the "debt crisis" that have been downplayed or left out by existing treatments. The specific implications of this class-theoretic approach to external debt are suggestive of some of the remaining problems and issues which the radical literature on economic development needs to address.

ALTERNATIVE APPROACHES TO DEBT AND DEVELOPMENT

The two basic approaches to external debt can be roughly grouped under the convenient shorthand terms "orthodox" and "radical." A brief discussion of the main elements of the orthodox approach helps to highlight the particular contributions of a radical approach to debt and development.

The Orthodox Approach. It is typically argued that borrowing from foreign sources by Third World countries is one component of a larger transfer of resources from developed to less-developed nations. The purpose of foreign credit, together

with private investment and (multilateral and bilateral) aid, is to finance the aggregate foreign capital requirement of developing countries. This requirement may take the form of a "savings gap" and/or a "foreign-exchange gap" (Chenery and Strout 1966). In the former case, the supply of domestic savings from all sources falls short of the demand for savings for investment purposes. An inflow of foreign capital can serve to bridge this domestic savings gap. The latter, foreign-exchange gap is understood as the outcome of a shortage of foreign funds to finance the external balance of the national economy: a shortfall of foreign-exchange earnings (from exports of goods and services, etc.) with respect to foreign-exchange requirements (for imports, etc.). In both cases, foreign capital is understood to overcome "bottlenecks" that arise in the course of development, thereby contributing to further development.

The fact that foreign capital (whether as direct and portfolio investment, government aid, or loans) enters into the credit column of official national balance of payments statements lends support to the idea that such foreign capital represents a resource transfer to and, therefore, a form of "national investment" for developing countries. This is certainly the case, according to the orthodox perspective, when capital inflows and outflows are kept within certain "limitations" (no balance of payments crisis arises) and repayment (debt service) is not "excessive." In addition, international economic relations are understood to be structured in such a way that this flow of capital from developed to less-developed nations occurs more or less automatically. Orthodox economists start from the premise that "in the normal course of world development, capital should flow from advanced countries, where it is abundant and its return is relatively low, to developing countries, where capital is scarce and its return high" (Cline 1983, 9). Apart from the existence of market imperfections, developing nations should be able to attract the foreign capital necessary to promote economic growth through the normal functioning of the institutions of international financial intermediation.

This orthodox approach insists, finally, that international capital flows not only directly promote the development of Third World countries but also indirectly promote growth and development throughout the world. Overcoming the foreign capital bottlenecks of developing countries increases international trade and thereby promotes growth and efficiency of the world economy. Thus, it is said, the availability of foreign credits for developing countries during the 1970s, especially after the first "oil shock," averted a world recession even deeper than that which in fact occurred.

To summarize briefly, the orthodox approach views foreign loans and other foreign capital flows as (*a*) mutually beneficial to both developed and less-developed nations within the world economy and (*b*) a product of the more or less normal functioning of contemporary international economic relations.

This orthodox approach to foreign debt is, of course, linked to a more general theory of development that emerged in the early 1950s.[2] The aim of development, according to this approach, is to transform the small "modern sector" of developing countries into an "engine of growth." Orthodox development economists support

the transfer of capital and technology through direct investment, aid, and credit from developed nations to this modern sector (with the goal in some cases of transforming the traditional sector itself). Growth then ensues, at least partly in response to this transfer, allowing the developing nations to pay back their benefactors, both directly and indirectly, especially through the acceleration of world trade. There have been differences, to be sure, concerning whether these capital flows would have to be concentrated and short-lived or a long-term necessity but, in either case, self-sustaining growth is said to be the result. Obstacles to this untrammeled flow of capital on either side—for example, through nationalizations or a decline in aid-giving—are understood to curtail world economic growth.

Certainly there has never been a consensus among orthodox economists on the myriad issues associated with international capital flows.[3] And the emergence of the debt crisis in the 1980s, especially in the aftermath of the Mexican difficulties in 1982, only served to exacerbate these differences, especially regarding the origins of the debt crisis and proposed solutions. With respect to the origins of the crisis, debate continues over whether recent problems of repayment can be attributed to debtor countries living "beyond their means" (for example, in using foreign loans to augment consumption instead of investment), to policy "errors" (such as maintaining overvalued exchange-rates for too long), or to externally-induced terms of trade, recession, and oil-price shocks.[4] Proposed policy measures, especially considering the role of International Monetary Fund (IMF) "conditionality" in many recent refinancing and rescheduling agreements, have produced even more diversity among proponents of the orthodox approach.[5] However, notwithstanding these specific differences, the orthodox approach to external debt remains committed to the view that loans and other foreign capital flows represent a positive resource transfer from capital-rich to capital-poor countries and, as such, a source of mutually beneficial economic growth.

The Radical Approach. Both of these points are contested by radicals. According to this alternative approach, external debt takes its place alongside other flows of capital from advanced industrial, "core" nations to less-developed, "peripheral" nations as a source of dependency of the latter on the former. Through these international capital flows, power is exercised by the core over the periphery. The result of these unequal power relations is that a surplus is extracted by the developed nations from the less-developed nations; development in the core on the basis of this surplus transfer, then, results in either underdevelopment or dependent and distorted development in the periphery.

This radical approach became prominent in the late 1960s and early 1970s as a critique of foreign aid and foreign direct private investment in the Third World. Such aid and investment were seen as mechanisms whereby development in the Third World was shaped and guided to benefit development elsewhere, in the nations where the aid and investment originated (see, e.g., Richards 1977). Multinational corporate investment also resulted in profit repatriations and thus in the "foreign

exploitation" of the periphery by the core. Supranational lending agencies (especially the World Bank and the IMF) were seen as partners in this exploitation (Payer 1974; 1982). Finally, the "unequal exchange" of commodities and the decline of the external terms of trade of peripheral countries were additional mechanisms for the exercise of power over and the "exploitation" of Third World countries.[6]

During the late 1970s and early 1980s, with the relative decline of both the aid and investment components of total foreign capital flows to developing countries, external debt assumed, in the radical framework, the role of previous mechanisms as the primary means of foreign exploitation of the periphery by the core.[7] In the new situation, interest payments to private creditors in the dollar and Eurodollar markets take the place of profit repatriations in transfering a surplus from the periphery to the core and creating a form of "debt-peonage" (see DeWitt and Petras 1979; cf. Hawley 1979). And, in the case where countries fall behind on repayment of the debt, the conditions established by the IMF or by private bank creditors themselves are such that the "poor" are eventually forced to shoulder the debt burden. Whereas in the orthodox view external debt is a mechanism for increasing international wealth through resource transfers from developed to developing nations, for radicals it is a means by which core countries extract wealth from peripheral countries and, ultimately, from the "super-exploited" poor within the periphery.

This radical approach to external debt is, like its orthodox opposite, rooted in a more general theory of development and international economic relations. According to the radical framework, capitalist international economic relations are ruled by unequal power relations among and between countries within the world economy; indeed, capitalism itself is defined as a "deeply unequal system of domination of one class by another, of one nation by the ruling class of another" (Bagchi 1982, 39). In this view, then, global economic relations are structured such that international flows of resources have differential effects on the nations involved. Where proponents of the orthodox approach see mutual benefit as the result of international economic relations, radicals see the exploitation of one group of nations by another. This exploitation, in turn, serves as the basis for complementarily opposite effects: development and social stability in the core, and underdevelopment (and/or dependent development) and instability in the periphery. These effects serve, finally, to reproduce conditions for these unequal power relations, as a low-wage, "extraverted" structure of accumulation and a high-wage, "autocentric" structure of accumulation emerge in the periphery and core, respectively (Amin 1974; 1988; cf. Ruccio and Simon 1987). The result is that the free flow of capital and commodities in international markets, instead of leading to global economic growth as in the orthodox approach, serves to drive a deeper wedge between developed and underdeveloped, core and periphery nations. External debt represents merely the most recent form of this foreign exploitation of the periphery (see, e.g., MacEwan 1985).[8]

We have, then, two diametrically opposite approaches to external debt based, in turn, on different theories of development in general. According to the orthodox

approach, foreign loans represent one means for developing countries to close their savings and/or foreign-exchange gaps, a tool which, if "responsibly" used, serves to enhance development throughout the world economy. This view of external debt ultimately assumes that capitalist international economic relations provide an appropriate environment within which individual rational decision-making—individual choice—operates to secure growth and development for all nations. Developing countries benefit directly from the freedom of individuals to buy/sell commodities and borrow/loan capital in international markets, but ultimately all nations are beneficiaries of this free international flow of capital and commodities.[9]

The radical story is, of course, quite different. External debt instead ties developing countries into an unequally structured world economy and in the end leads to a net capital outflow. This exploitative transfer of surplus in the form of interest payments enhances development in the advanced industrial countries but worsens the possibility for development in the Third World. Therefore, external debt, along with foreign aid, foreign direct private investment, and unequal commodity exchange, is a product of unequal power relations and a mechanism through which unequal power is exercised to produce an unequal international distribution of the gains from the world accumulation of wealth.

Debates within the Radical Approach. Radical political economists have succeeded in challenging many of the most cherished propositions of orthodox economists. Their approach, to borrow Evans's (1985, 149) phrase, is "no longer an upstart challenger from the periphery." In fact, the thesis that the metropolis is the "prime mover" behind poverty and underdevelopment in the periphery is no longer the sole province of dependency theorists; Taylor (1988, 20), for one, has argued that "at root, the poor growth performance of the developing countries is caused by the economic slump of the industrialized world" (see also Singh 1986). There is, however, much debate among radicals about the appropriate framework for their alternative analysis of international relations and Third World development.[10]

The debate has surfaced most recently in the radical attempt to analyze the emergence of the so-called newly industrializing countries (Brazil, South Korea, etc.) during the past decade (Chakravarty 1987). Alternative radical analyses have used these various country experiences as examples of either "dependent development" (Landsberg 1979; Hart-Landsberg 1984) or of the possibility of successful capitalist development in the Third World (Barone 1983; 1984). Warren (1973; 1980), in fact, provoked considerable consternation when he argued that imperialism had created the conditions, not for underdevelopment, but for successful capitalist development in the Third World.

This debate, however, has existed within the radical approach almost from the beginning. Much discussion has focused on the relationship between power and class, with critics maintaining that class has been subordinated to power in radical analyses of development and international economic relations. Jenkins, for example, takes Warren to task on the grounds that "the specific class structures and modes of

surplus appropriation which have permitted rapid capital accumulation in certain Third World countries (particularly the newly industrializing countries) are not analyzed" (1984, 38). This critique echoes points raised in the earlier "modes of production controversy," which emerged from Laclau's (1971) critique of Frank's version of dependency theory.[11] According to Laclau, early dependency theorists such as Frank focused on unequal power relations within homogeneous capitalist markets and failed to analyze the combination of capitalist and non-capitalist modes of production present in Third World settings. This criticism has led some (e.g., the various contributions to Wolpe 1980; Taylor 1979) to reformulate the radical development approach on the basis of the "articulation of modes of production" or other versions (e.g., that of "peripheral modes of production") in which the mode of production played a central role in the analysis of world capitalist development.[12] This work was successful in bringing classes back into analytical focus within the radical approach. However, it ended up overemphasizing the external relations of dominance of the capitalist mode of production over other, non-capitalist modes of production. As a result, modes of production theorists downplayed the dynamics and complexity of the class processes within the various modes of production.

Another major debate within the radical approach was initiated by Brenner's (1977) critique of the emerging "world-systems" theory associated with the work of Wallerstein (1974; 1980; Hopkins and Wallerstein et al. 1982), Frank, and other radical development theorists. Brenner took issue with the world-systems theorists' definition of capitalism as a system of power exercised through exchange relations and involving production oriented toward profit in the market. Their definition led, in turn, to a type of analysis in which the emergence of a capitalist class structure was determined by market relations. According to Brenner, market opportunities could not determine class, as in the Wallerstein-Frank view. Rather, he argued, the origins of capitalist market relations had to be sought in the prior emergence of a specifically capitalist class structure.[13]

Gourevitch (1978) echoed Brenner's theme in observing that, according to the world-systems theorists, international market forces rely upon and accentuate inequality. Unequal power relations confine weak peripheral states to a subservient role, perpetuating their weakness. In this sense, Wallerstein and the other world-systems theorists reduce the various socio-economic (including class) structures within the world economy to unequal world market opportunities (Skocpol 1977).

More recently, Lipietz (1987) has criticized radical approaches that start with or presume a hierarchically structured world system, thereby emphasizing an unchanging structure of core-periphery relations. Because such approaches pay scant attention to the "concrete conditions of capital accumulation in the centre or on the periphery" (1987, 2), they have missed important changes, in center-periphery relations and within the periphery itself, over the course of the last century, and especially in the last twenty years.

Lipietz's observation strikes to the heart of the dilemma posed for radical

development thought by the newly industrializing countries and other "unexpected" events in the Third World.[14] It coincides with the critical comments of others like Gunnarsson (1985) and Willoughby (1986), who argue that the various forms of capitalism recently emerging in the Third World require a framework of analysis different from existing radical approaches—one more sensitive to the *variety* of political and economic processes which integrate the different Third World social formations into the world capitalist system.

In response to this requirement, Evans has called for a "dependency approach but without the dependency label" (1985, 157). Others (such as Becker et al. 1987) have proposed a "postimperialist" framework of analysis. In general, they argue that radical development theory needs to be modified and extended by focusing on the class aspects of relations within and between the Third World and the advanced capitalist countries. This suggestion deserves to be taken seriously and, in the next section, I sketch the outlines of a specifically class-theoretic approach to development issues, focusing on the concrete problem of external debt.

A CLASS ANALYSIS OF EXTERNAL DEBT

A class analysis obviously requires clarity on the meaning of the term "class." Not surprisingly, Marx's writings are the most important example of class analysis for the radical tradition in development economics, but there are, of course, different possible readings of Marx's contributions. Richards (1986), for example, recognizes at least two interpretations of Marx's concept of class: one focusing on property endowments in a context of individual choice, and another defining class as a process of appropriation of surplus labor. Here, I adopt the latter approach.[15]

Class Processes. The heart of Marx's approach to class was the distinction between necessary labor (labor necessary to reproduce the social existence of the direct producers) and surplus labor (labor performed above and beyond necessary labor). According to the present interpretation, Marx built on this distinction, defining the class process as the particular social process in which surplus labor is appropriated from the direct producers, the performers of that surplus labor.[16] This process of surplus labor appropriation is, in turn, complexly determined by the other economic, political, and cultural processes that make up social life. The various modes of surplus labor appropriation or class processes designated by Marx (primitive communal, feudal, slave, capitalist, etc.) are then produced by differing configurations of such non-class social processes. Each particular class process is understood to exist only as an effect of its own uniquely constituted social context.

The capitalist class process, in particular, is defined as the appropriation of surplus labor in the form of surplus value.[17] The source of this surplus value is, as discussed at length in *Capital* 1, the extraction of labor from labor power. Assuming that the commodity labor power is purchased at its value (the value of the commodities necessary to reproduce the social existence of the sellers of labor power), capitalists

gain income only if the labor performed in the course of production creates new value greater than the value of labor power. This extra value, Marx's surplus value, is realized in the sale of the commodities and appropriated by the capitalist. Thus, the process of performing and appropriating surplus labor in the form of surplus value defines two class positions: creators of surplus value ("productive laborers," in Marx's terms) and initial appropriators of that surplus value (what Marx called the "functioning" or "industrial" capitalists). This process of performance and appropriation of surplus value can be called the capitalist *fundamental* class process.

It is also possible to extend the analysis of class to consider the distribution of surplus labor. In the case of capitalism, once surplus value is appropriated, it is distributed to finance some of those social processes necessary for the reproduction of the capitalist fundamental class process. For example, portions of the appropriated surplus value may be distributed to such individuals as merchants, money-lenders, stock owners, and state officials, all of whom participate in processes that secure some of the "conditions of existence" of the original appropriation of surplus value. The surplus value may be distributed directly by the industrial capitalist, as in the case of interest payments to money-lenders, or indirectly, the case where merchants realize part of the surplus value through the differential between wholesale and retail prices. Whatever the mechanism, this process of distributing and receiving distributed surplus value, as distinct from the process of performing surplus labor and appropriating surplus value, can be called the capitalist *subsumed* class process (see Resnick and Wolff 1987 and this volume, ch. 1).

Finally, individuals may earn income or receive revenue in activities entirely separate from fundamental and subsumed class processes. Such flows of value, which represent neither the sale of productive labor-power, the direct appropriation of surplus value, nor the initial distribution of surplus value, are termed *non-class* payments.

To illustrate, consider a typical industrial capitalist enterprise, that is, one in which means of production (with value c) and labor power (of value v) are combined to produce capitalist commodities.[18] Surplus value (SV), once appropriated from productive laborers, is distributed in the form of subsumed class payments (ΣSC). One of the particular conditions of existence of this enterprise, especially in the context of domestic and international competition, may be the accumulation of additional means of production (Δc) and labor power (Δv). Thus, one of the specific subsumed class distributions will be outlays for this accumulation of "productive capital." Therefore, the class revenues and expenditures of the industrial capitalist enterprise may be written as

$$SV = \Sigma SC = \Delta c + \Delta v + \Sigma \overline{SC} \quad (1)$$

where $\Sigma \overline{SC}$ represents all other subsumed class distributions of appropriated surplus value beyond those devoted to capital accumulation.

In general, the class structure of capitalism includes the fundamental class

positions of productive laborer and industrial capitalist, but also numerous other subsumed class positions. Individual human beings may occupy one or more of these fundamental and subsumed class positions during the course of a day, a year, or a lifetime. Thus, the class analysis of a particular capitalist society must be capable of distinguishing positions in fundamental and subsumed class processes, as well as non-class processes, in order to comprehend their constitutive effects. And since each of these processes and positions is conceived to interact with and "overdetermine" all of the others, the goal of a class analysis is to construct an understanding of just this complex interaction.

The remainder of this section elaborates these basic concepts in application to the specific development problems associated with external debt. The case of loans to industrial capitalists is the first step in the presentation; other borrowers are then considered.

The Industrial Capitalist. We begin with the analysis of financial or interest-bearing capital in *Capital*. According to Marx, lender/borrower relations involve an unequal exchange of value in the form of money, M-M′. In the particular case of finance capital highlighted by Marx (1976, 566–652), an initial sum of money (M) is lent to an industrial capitalist who is obliged to repay a larger sum (M′) in the form of amortization and interest payments. The original loan is itself a non-class revenue to the industrial capitalist, but it alters the restrictions imposed by the strict equality between surplus value and subsumed class payments assumed in equation (1). The subsequent flow of interest to the creditor represents a transfer of currently extracted surplus value, funds lost to the industrial capitalist in return for the use of the money as capital. As receivers and payers of interest respectively, financial and industrial capitalists occupy what we have termed above subsumed class positions: a portion of surplus value is distributed by the industrial capitalist to the money-lender to secure access to credit, one of the conditions of existence of the extraction of surplus value. Therefore, following Marx's reconceptualization of the "Trinity Formula" (1981, 953–70), the flow of interest payments from industrial to financial capitalists involves not a fundamental class process of extracting surplus value but a subsumed class process of distributing a portion of surplus value already appropriated from productive laborers.

A class analysis of the interest payments on loans to an industrial capitalist in another country makes use of these distinctions. The unequal exchange of value in the form of money between, say, Citicorp and an Argentine industrial firm establishes an international lender/ borrower relation in which surplus value is first extracted from Argentine productive laborers and then distributed as subsumed class revenue to the U.S. bank. Therefore, the foreign profits, P_f, of the U.S. (or German, British, etc.) lending agency represent subsumed class interest revenue, SCR, in return for providing an economic condition of existence of the exploitation of Argentine (or Mexican, Brazilian, etc.) workers; that is

$$P_f = SCR \quad (2)$$

Such flows of subsumed class revenue may be received by any of several sorts of lending institutions: private bank consortia, state-owned bilateral lending agencies such as central banks, and multilateral lending agencies like the World Bank. As long as the loan is made to an industrial capitalist for use in securing one or another of the conditions of existence of the extraction of surplus value, the interest payments represent a subsumed class revenue to the lending institution.

In the case where borrowed money capital is used for commodity purchases of means of production and labor power, that is, where productive capital is accumulated, if all other subsumed class distributions of surplus value are constant, then the upper bound on the amount of interest payable is the extra surplus value (ΔSV) extracted in production. Therefore, the rate of interest paid to the lender (i) cannot be greater than the rate of self-expansion of value based on this new debt (ΔD):

$$i \leq \Delta SV/\Delta D \qquad (3)$$

Any deviation of i from $\Delta SV/\Delta D$ implies an increase or decrease in the other subsumed class distributions of surplus value: for example, a lower interest rate on concessional borrowing will allow other subsumed class payments to increase. Alternatively, a rise in the rate of interest on variable-rate loans requires a decrease in other subsumed class payments, which include the enterprise's retained earnings. Therefore, even in the case where private external borrowing leads to increased extraction of surplus value, the industrial capitalist enterprise may not be able to make the subsumed class payments necessary to secure the other conditions of existence of extracting surplus value from Third World workers.

We can explore the further effects of such foreign borrowing on domestic capital accumulation in the following manner.[19] Assuming the industrial capitalist borrower uses foreign loans to expand capital accumulation, equation (1) is rewritten to include, on the left-hand side, the newly created debt (ΔD) and, on the right-hand side, the subsumed class distribution of interest payments on total debt (iD) such that:

$$SV + \Delta D = \Delta c + \Delta v + iD + \Sigma\overline{SC} \qquad (1')$$

It can be shown (see Appendix) that a decision to increase the role of foreign debt in financing productive capital outlays can positively affect the long-run rate of capital accumulation if the interest rate is less than the net rate of return (net of other subsumed class distributions $\Sigma\overline{SC}$) on productive capital. It is also clear that, everything else held constant, an increased interest rate will lower the rate of accumulation.

Balance of Payments. This initial instance of external borrowing to finance productive capital accumulation requires, in addition, a reconceptualization of the traditional balance of payments statements. Based on the analysis above, the interest payment component of "services" on the current account includes subsumed class flows of value from Third World industrial capitalist enterprises to foreign creditors. This point has many important implications, three of which are noted here. First, debt service payments, because they do not involve the direct extraction of surplus

value, should not be seen as a form of "foreign exploitation." Rather, international money-lending secures a condition of existence of the exploitation of Third World productive laborers by *domestic* (Third World) capitalists; a portion of the surplus value extracted from those workers is, in turn, distributed to *foreign* creditors for securing this particular condition of existence. Thus we should distinguish the "cost" to the "nation," based on the flow of interest payments out of the country, from the "cost" imposed by the extraction of surplus value. The different social tensions and conflicts set in motion by these two costs will have fundamentally different implications for such diverse phenomena as the process of democratization and the success of policies designed to solve the debt crisis (see Ruccio, Resnick and Wolff 1991).

Second, since these foreign interest payments are predicated on prior extraction of surplus value from Third World workers, a surplus in the remainder of the current and capital accounts will not, in general, solve the payments imbalance from such interest payments. Only in the case where merchandise exports realize surplus value pumped out of the direct producers (and/or new borrowing directly finances debt service payments) can entries on the credit side of the balance of payments ledger be said to "solve" a balance of payments problem created by debt service payments.[20] External debt servicing is obviously not independent of net export performance; foreign interest payments must, in the end, be made in the form of foreign currency earnings.[21] However, an exclusive focus on net export performance and, hence, on *non-class* balance of payments entries means that the performance, appropriation, and distribution of surplus value—and therefore the *class* nature and effects of the debt service—are hidden from view. To "forget about" these class aspects of debt servicing is to miss the struggles generated by attempts to increase the extraction of surplus value and/or modify its distribution among different subsumed classes. Such struggles may undermine the best laid plans to service the debt.

Finally, even though debt service payments do not in themselves represent foreign exploitation, the rise in subsumed class interest payments may create the conditions for an eventual rise in the exploitation of domestic workers by foreigners. For example, domestic and/or international decision-makers may react to a balance of payments "crisis" by requiring additional external payments entries on the credit side. As stressed by the orthodox approach surveyed above, foreign capital inflows in the form of foreign direct private investment represent such a credit entry. Therefore, attempts to solve an imbalance of external payments may take the form of policies to promote foreign direct investment, thereby increasing the extraction of surplus value by foreign citizens (as in the case of Mexico, which relaxed restrictions on foreign investment as part of the "adjustment" policy package).

Other Borrowers. The preceding analysis focused only on private industrial capitalists' borrowing of external funds, for the purpose of expanding the accumulation of productive capital. However, the current external debt of most developing countries has arisen with the participation of borrowers other than industrial capitalist enterprises and for purposes other than the accumulation of productive capital.

There are at least three other major categories of borrowers that must be considered in analyzing the class structure of external debt: state-owned industrial enterprises, government administration (government agencies and enterprises other than industrial capitalist enterprises), and private non-industrial enterprises (including commercial banks and other financial enterprises, merchant companies, etc.). Each of these other borrowers must be analyzed in turn to determine the class nature of the revenue flows from interest payments to foreign lending institutions.

Following the logic of the analysis above, loans to state industrial capitalist enterprises generate subsumed class interest payments to foreign creditors in a way analogous to that of loans to private industrial capitalist enterprises. The provision of money capital in the form of loans provides a condition of existence of the extraction of surplus value, now from state employees, and generates a direct distribution of surplus value—a subsumed class flow of revenue—to the lending institution. Certainly, other conditions of existence of the exploitation of productive laborers differ in this case, for example, state ownership of the means of production, but the "unequal exchange" of value in the form of money with state industrial capitalist enterprises continues to generate foreign interest payments that represent subsumed class revenue. Again, the international lender/borrower relation involves a foreign distribution of surplus value and not foreign exploitation.

So far in our analysis, the foreign profits of lending agencies have been classified as a subsumed class income because those lenders occupy a class position subsumed to the capitalist fundamental class process in another country. More generally, though, the class nature of interest payments, foreign or domestic, depends on the class position of the *borrower* of money. This is, of course, largely irrelevant to the lender, for whom a successful loan is simply one which performs; the apparent irrelevance of the identity of the borrower is precisely why money-lending appears to be an independent form of capital. However, from a class-analytic standpoint, interest is a subsumed class distribution of surplus value only when the borrower occupies the position of industrial capitalist, either in state or private enterprise. Foreign profits on loans to government agencies and private non-industrial enterprises have a different class content, since in these cases neither the extraction of surplus value nor its direct distribution as subsumed class revenue takes place. Because the borrowed funds are not deployed by the borrower to secure a condition of existence of the extraction of surplus value, then, whether these funds are later lent to industrial capitalists or deployed for some other purpose, the lending agency occupies a non-class position and the interest received represents a non-class flow of revenue from borrower to lender. When neither the extraction nor the initial distribution of surplus value is involved, the foreign profits of the lending institution must be categorized as non-class flows of revenue (*NCR*); the expanded foreign profit equation for the creditor is then

$$P_f = SCR + NCR \tag{4}$$

An international lender/borrower relation continues to exist and interest payments across national boundaries continue to form part of the debits on the current account, but the class nature of those debt service payments depends on the class status of the borrower; the existence of external debt does not by itself indicate the class-structural form of that debt.

Typically, then, interest payments on the external debt of a capitalist developing country will involve both subsumed class and non-class flows of value to foreign lenders. Similarly, the non-merchandise "service" export revenue of the country in which the lending agency is located includes both subsumed class and non-class revenues. Therefore, typical balance of payments data need to be further reconceptualized to distinguish these different flows of value. In particular, the non-class division of external debt and debt service payments into "official" and "private" accounts can be reinterpreted by means of this distinction between subsumed class (ΣSC) and non-class (ΣNC) payments. Figure 1 represents a first approximation to this end: official debtors are broken down into state industrial capitalist enterprises (K^s) and other government agencies (G), while private debtors include non-industrial (B) and industrial capitalist (K^p) enterprises.

Borrower		Class Nature of Interest Payments	
Official	G	ΣNC	
	K^s		ΣSC
Private	B	ΣNC	
	K^p		ΣSC

Figure 1: Class Structure of External Debt and Debt Service

It is worth stressing that the non-class nature of certain debt service payments does not imply that these flows are any less important for the general course of development of the country concerned or, in particular, for the reproduction over time of the capitalist fundamental class process. It is, in fact, the task of class analysis not only to distinguish the fundamental, subsumed, and non-class aspects of social reality but also to analyze their complex mutual interactions. For example, the non-class status of interest paid on government agency borrowing (G) leaves open the question of the uses of the borrowed funds, any of which may have various important effects on the class (and non-class) processes of the country in question. The government, among other possibilities, may lend the borrowed money or sell foreign exchange to industrial capitalists, or create infrastructure (roads, dams, etc.) that positively affects the

extraction of surplus value. These government money-lending, money-dealing, and infrastructure-building activities may secure conditions of existence of the capitalist fundamental class process and, therefore, create the basis for a governmental claim on appropriated surplus value. These subsumed class payments to the government may take the form of interest payments, fees on sales of foreign exchange, or taxes on industrial capitalist income. Thus, even when governmental interest payments to foreign creditors represent non-class payments, the source of revenue for those payments may be a subsumed class position established by government expenditures financed by foreign borrowing.

As another example of the different class structural forms of debt, consider a government guarantee of the private debt of industrial capitalists. Such official guarantees are often important conditions for international borrowing by residents of developing countries. So long as the industrial capitalist borrowers meet their debt obligations, the interest payments remain subsumed class distributions of appropriated surplus value. Only in the event of a perceived failure by private borrowers to maintain debt service payments, when the government itself is forced to assume the servicing obligation,[22] do the interest payments become non-class flows of value. Such a government "bailout" thus implies that one claim on appropriated surplus value, that of foreign creditors, has been eliminated. Unless the debt service is financed by taxes on industrial capitalist firms, the debt burden will tend to fall on individuals occupying other class positions in the country. Other subsumed class claimants on distributions of surplus value (merchants, domestic money-lenders, corporate managers, etc.) may in turn support such a class transfer of the debt burden, a possibility suggestive of the complex tensions created by government guarantees.

A similar example involves the case of non-government enterprises such as commercial banks whose foreign interest payments on debt also represent non-class flows of value. Their borrowing activity in international money markets may be motivated by the opportunity to capture a differential between the foreign interest rate at which they borrow and the domestic rate at which they can lend. They may expand their lending to domestic industrial capitalist enterprises unable to participate directly in international money markets, thereby providing access to foreign exchange and/or lowering the domestic interest rate to industrial capitalist borrowers through an increase in the supply of loanable funds. Here, the domestic commercial bank creates a subsumed class claim on domestically appropriated surplus value as the means to finance its own international obligation to make non-class payments.

Class and Debt. The important point here is that "non-class debt" may have significant class effects. In the recent literature, the examples most discussed (though not in the terms elaborated here) concern the conditions for debt rescheduling (e.g., Feinberg and Ffrench-Davis 1988). Foreign recipients of non-class interest payments often form alliances with government officials, central bank officers and industrial capitalists within their own country, with international multilateral lending agencies, and with capitalists, officials, and other groups within the debtor country to demand that the government of the latter country enact an "adjustment" policy as the condition for receiving "bridging" loans and a new debt repayment schedule. Immediate policy goals often include raising domestic interest rates, decreasing the government deficit, lowering the exchange-rate (devaluation), forcing down real wages in order to lower inflation and promote exports, and encouraging foreign investment. The most common measures advocated involve some combination of restrictive fiscal and monetary policies. But such policies may have contradictory effects, undermining certain conditions of existence of industrial capitalist enterprises while making possible increased extraction of surplus value.

A typical policy package will include, for example, higher real interest rates and lower import tariffs (see Canitrot 1980 and Ffrench-Davis 1983). Such measures may force industrial capitalist enterprises to distribute an increased share of their surplus value in the form of subsumed class payments to domestic banks, even as heightened import competition undermines their domestic sales. The realized surplus value of domestic capitalists may decline as a result. The combined effects of these conditions thus threatens the continuation of the subsumed class payments needed to secure the various conditions of existence of those in the class position of industrial capitalist. In particular, less surplus value may be available in the form of retained earnings to distribute to managers of those enterprises for the purpose of accumulating capital. Ironically, then, policies enacted to maintain access to foreign credit lines—in the form of non-class debt to the government and financial enterprises—may threaten the very existence of the industrial capitalists. Nowhere is the contradictory situation of the state in a typical developing country more evident.

Of course, other factors can, in part, offset this threat to industrial capitalists. If the wages (and, in time, the value of labor power) of productive laborers can be lowered enough, then the additional surplus value extracted will enable industrial capitalists to continue their subsumed class distributions of surplus value, including interest payments to domestic and foreign creditors. Various policies of Third World governments appear to have had just this effect. For example, restrictions on forms of labor association have contributed to reduced absenteeism and weakened trade union bargaining power. In addition, absolute decreases in the employment of both government and industrial workers have lessened pressures for nominal wage increases. In this sense, it is the increased exploitation of domestic workers, and not stand-by credits from the IMF, loans from private banks, or agricultural exports, that has "financed" the foreign debt problem.

Thus, the non-class process of debt servicing produces a complex set of political and economic interactions that may lead to increased domestic exploitation and, with a rise in foreign investment, to foreign exploitation as well.[23] But there is another dimension of debt that deserves at least brief mention as a further demonstration of the class complexity of development problems in debtor countries.

Capital flight is frequently a major concern in attempting to manage a debt crisis. Cumby and Levich (1987), for example, used the World Bank method to estimate capital flight ranging from 24 percent of Brazil's total external borrowing (during the period 1976–84) to 66 percent for Argentina (during 1979–82) and 68 percent for Mexico (1976–84). Interpretation of these data requires an extension of the analysis to allow for the use of external funds for purposes other than capital accumulation by industrial capitalist enterprises, domestic lending by financial enterprises, and the purchase of equity in other domestic enterprises by both industrial and non-industrial firms. Consider once again the example of industrial capitalist enterprises. If capital outflows are directed into purchases of stocks and bonds of foreign industrial capitalist enterprises, Third World residents in effect use their own foreign borrowing to create or extend subsumed class claims on surplus value generated in other countries. In this case, foreign funds are used not to secure a condition of existence of any domestic fundamental class position; instead, the non-class revenues from external borrowing flow out of the country to secure a condition of existence of the extraction of surplus value by industrial capitalists in the United States and other countries. In return, the Third World investor receives a subsumed class distribution of surplus value appropriated elsewhere.[24] The original foreign lenders—in all likelihood the same financial institutions that facilitated the capital flight—now receive non-class interest payments from the developing country's industrial capitalist borrowers. Only in the case where debt is used to secure a condition of existence of the *fundamental* class position of the borrower do the interest payments themselves represent a subsumed class claim on surplus value extracted from Third World workers.[25]

We can extend our previous analysis of the effects of external debt on the domestic accumulation of capital by including, on the right-hand side of equation (1′), the foreign portfolio investments made by the industrial capitalist enterprise (ΔA) and, on the left-hand side, the subsumed class revenue derived from such investments (SCR):

$$SV + SCR + \Delta D = \Delta c + \Delta v + \Delta A + iD + \Sigma\overline{SC} \qquad (1'')$$

Again, it can be shown (see Appendix) that, all other variables held constant, an increase in the interest rate on outstanding debt will reduce the rate of domestic capital accumulation. An increase in the ratio of external debt to the firm's productive capital can increase the long-run rate of domestic capital accumulation, if the interest rate on foreign debt is less than the overall rate of return (net of other subsumed class distributions $\Sigma\overline{SC}$) on total assets. Finally, an increase in foreign portfolio investment may itself have a *positive* effect on long-run domestic accumulation of productive capital if the rate of return on such foreign assets exceeds the net rate of return (net of interest payments and other subsumed class distributions) on the portion of domestic capital owned free of debt ($c + v - D$). That is, domestic productive capital accumulation may actually *increase* as a result of foreign unproductive capital

accumulation if the rate of return to the latter is high enough and, of course, if the returns are repatriated. Otherwise, such capital flight will leave the domestic accumulation of capital unaffected or actually lower it.

An additional issue that arises here concerns the use of foreign subsumed class revenues to make expenditures, such as those sustaining capital accumulation, which reproduce a capitalist's domestic fundamental class position. Such a transfer of funds within the enterprise will lower the expenditures that secure the foreign subsumed class position of the capitalist and thus may jeopardize that position and the future receipt of subsumed class revenues.

It is also clearly possible for subsumed class revenues to be redirected to processes other than the accumulation of productive capital. The revenues from foreign portfolio investment may, for example, be distributed to internal managers, interest payments, dividends or taxes. However, if the rate of return on foreign investment is less than the "internal" rate of profit derived from exploitation of domestic productive laborers, increased foreign investment may lead to a decrease in domestic subsumed class payments.[26] Such a situation may generate alliances among various domestic classes to restrict the capital outflow. Alternatively, domestic industrial capitalists may seek to ally with other domestic classes to resist interest payments to foreign banks and to support a new government capable of rescheduling the existing debt burden.

CONCLUSIONS

The class analysis of external debt focuses on exactly those class processes left out of other accounts of international lender/borrower relations, both orthodox and radical. It provides a framework for analyzing interactions, since class processes are both shaped by and participate in shaping the other class and non-class processes of the various socially diverse Third World nations. Such an approach allows us to reconceptualize the problem of external debt by investigating the class and non-class processes operating, as it were, "behind" the official balance of payments statements.

As in the examples considered, domestic borrowers can use non-class revenues in the form of foreign loans to create or extend domestic and foreign fundamental, subsumed and non-class positions. For industrial capitalist enterprises, such non-class revenues allow them to evade the restrictions imposed by the originally assumed equality between fundamental and subsumed class revenues and the expenditures made to secure those revenues. The class nature of the interest payments to creditors varies, though, depending on the specific class position(s) of the borrowers. Thus, for example, interest payments to private banks in New York by Third World industrial capitalist enterprises may represent subsumed class distributions of surplus value or non-class expenditures, depending on whether the debt is used to secure the fundamental class position of capitalist appropriator of surplus value or a class

position subsumed to other industrial capitalists. A similar class-analytic study can be made of other borrowers.

Distinguishing these various class-structural forms of debt is a necessary step in exploring the contradictory effects on class and non-class processes typically experienced by capitalist developing countries. For example, "adjustment" policies, those designed to correct the external imbalance created in part by previous external borrowing, come into focus as a source of new contradictions within industrial capitalist enterprises and the state. One response by Third World industrial capitalists has been to engage in new foreign borrowing and capital export to create or extend their foreign subsumed class positions.

Debt Crises. To take this analysis a step further, consider the conditions under which a debt crisis might arise. To begin with, a domestic borrower can increase expenditures through external indebtedness only on condition that, first, the money returns to its original owner after a definite time interval and, second, it returns as a sum greater than the original loan. Leaving aside, for simplicity's sake, repayment of the principal, the borrower can avoid constraints on other expenditures only if expectations prove correct and the loan is used to generate additional revenue at least equal to the interest payments due. A payments crisis would emerge, then, if actual revenues fell short of those expected. For a typical industrial capitalist borrower, servicing external debt requires that the additional domestically appropriated surplus value (ΔSV) and foreign subsumed class revenues (ΔSCR), free of all other claims, are not less than the subsumed class and non-class interest payments on outstanding debt (iD). Success thus depends on avoiding unexpected depletions of either surplus value appropriated at home or subsumed class payments from abroad. Should either circumstance occur, interest payments to foreign creditors would be threatened and a debt crisis would emerge.

There are, of course, numerous ways of attempting to overcome such a crisis, each with its own different class effects. Creditors might be induced to extend additional non-class revenues by creating new loans. The industrial capitalist borrowers might attempt to decrease other subsumed class and non-class payments, both inside and outside the enterprise. However, such cutbacks—a drop in the accumulation of productive capital, for example—would jeopardize their fundamental and subsumed class positions. Finally, borrowers might attempt to find other means of increasing their appropriation of surplus value and subsumed class income receipts. Any of these changes could alter the conditions of struggle over production and distribution of domestic surplus value. Thus, the debt crisis is likely to produce qualitative change in the form of fundamental and subsumed class struggles.

Class and Capitalist Development. This class-theoretic analysis of external debt is one example of an emerging "new direction" in the radical analysis of international capitalist development. At the general level of theory construction, it shares the aims of recent efforts to rethink the central role of concepts of power in radical political economy (e.g., Amariglio 1988; Norton 1988).

More specifically, reaffirming the centrality of class recasts a significant number of issues within radical development theory. Among its other effects is a different concept of development itself. Rather than defining development as the accumulation and distribution of wealth in the form of use-values—whether equal, as in orthodox theory, or unequal, as in existing radical accounts—development is reconceptualized in terms of class, as a matter of the differential effects produced by the various forms and types of class and non-class processes which jointly make up both "developed" and "developing" nations and the international relations among and between them. The accent of this alternative approach, then, is not on "more" or "less" development—whether measured by the amount of use-values produced (Richards 1986), the level of development of the productive forces (Warren 1980; Bardhan 1986), or an understanding of wealth as power (Chakravarty 1987)—but on the various class-specific forms of development. From the perspective of this approach, the analysis of development according to wealth is more appropriate for an approach based on Smith and Samuelson than for the tradition of radical development theory initiated by Lenin and Baran.

Still, the class-theoretic approach to debt outlined here is only a first step in rethinking some of the well-known arguments and conclusions of radical development thought. Brewer (1980) and Willoughby (1986), for example, have initiated the process of critically examining and, in some cases, rejecting the results of previous radical approaches to imperialism.

> Imperialism does not represent a special stage in the development of capitalism; uneven development does not always culminate in the breakdown of capitalist order; there is no necessity for the super-exploitation of the periphery by metropolitan capital; and consequently, it is possible for some Third World economies to develop sophisticated industrial capitalist structures. (Willoughby 1986, 80)

The political economy of the peasantry has been subject to similar critical scrutiny through a clarification of the class concepts that inform radical approaches to "peasant studies" (Deere 1986).

Finally, the collapse of existing socialist regimes in Eastern Europe and the ongoing turmoil of the Soviet Union and China have created a thoroughly spurious sense of the "correctness" of the orthodox approach celebrating capitalism. It is therefore even more urgent to criticize the effects of orthodox development theories and strategies; as a result, the issues raised by class-analytic approaches to the state (Thomas 1984; Bryan 1987) and socialism (Fagen et al. 1986; Ruccio 1987) will likely be at the forefront of radical debates over the next few years. At least one orthodox development economist has recognized the need to develop a "theory of class formation and class conflict" (Lewis 1984, 8). Radical political economists have the opportunity to respond to this need and, even more important, to elaborate a class-analytic framework that builds on and extends their own approach to development.

APPENDIX

To explore the effects of external debt on domestic capital accumulation, rewrite equation (1′) in the text as:

$$\Delta c + \Delta v = SV + \Delta D - iD - \Sigma\overline{SC}$$

The rate of productive capital accumulation can be obtained by dividing through by the flow of value $(c + v)$:

$$\frac{\Delta c + \Delta v}{c+v} = \frac{SV}{c+v} + \frac{\Delta D}{c+v} - \frac{iD}{c+v} - \frac{\Sigma\overline{SC}}{c+v} \qquad \text{(A-1)}$$

Assume a given long-run ratio of debt to productive capital, $\alpha = D/(c+v)$. Given α, $\Delta D = \alpha(\Delta c + \Delta v)$. Define $K^* = (\Delta c + \Delta v)/(c+v)$, $p' = SV/(c+v)$, and $\mu = \Sigma\overline{SC}/(c+v)$. Substituting these expressions into (A-1) yields

$$K^* = p' + \alpha K^* - \alpha i - \mu$$

which can be solved for K^*:

$$K^* = \frac{p' - \alpha i - \mu}{1 - \alpha} \qquad \text{(A-2)}$$

The sustainable long-run rate of capital accumulation (K^*) thus depends on the rate of surplus value appropriation (p'), the "gearing ratio" for debt (α), the rate of interest on foreign borrowing (i), and the ratio of other subsumed class distributions of surplus value to productive capital (μ). Assuming that p', i, and μ are determined independently of α, the results referred to in the text can be derived by partially differentiating (A-2) with respect to α and i:

$$\frac{\partial K^*}{\partial \alpha} = \frac{(-i + p' - \mu)}{(1-\alpha)^2} \gtrless 0 \text{ iff } i \lesseqgtr p' - \mu, \quad \alpha \neq 1$$

$$\frac{\partial K^*}{\partial i} = \frac{-\alpha}{(1-\alpha)} > 0, \quad 0 < \alpha < 1$$

To examine the additional effects of foreign portfolio investments, assume that the enterprise earns a rate of return r on its foreign portfolio investments A; then $SCR = rA$. Assume further a given long-run ratio of foreign portfolio investment to domestic productive capital, $\beta = A/(c+v)$. Substituting into equation (1″) in the text and solving for K^* yields:

$$K^* = \frac{p' + \beta r - \alpha i - \mu}{1 - \alpha + \beta} \qquad \text{(A-3)}$$

The sustainable long-run rate of capital accumulation thus depends additionally on

the given "foreign portfolio weight" (β) and the subsumed class rate of return on foreign portfolio investment (r). Again assuming that p', i, r, and μ are determined independently of the enterprise's choices for α and β, the results in the text follow from partial differentiation of (A-3) with respect to i, α, and β:

$$\frac{\partial K^*}{\partial i} = \frac{-\alpha}{(1 - \alpha + \beta)} < 0, \quad \alpha - \beta \neq 1$$

$$\frac{\partial K^*}{\partial \alpha} = \frac{-i(1+\beta) + p' + \beta r - \mu}{(1 - \alpha + \beta)^2} \gtrless 0 \text{ iff } i \lesseqgtr \frac{p' + \beta r - \mu}{1 + \beta}, \quad \alpha - \beta \neq 1$$

$$\text{where } \frac{p' + \beta r - \mu}{1 + \beta} = \frac{SV + SCR - \Sigma\overline{SC}}{c + v + A}$$

$$\frac{\partial K^*}{\partial \beta} = \frac{r(1-\alpha) - p' + \alpha i + \mu}{(1 - \alpha + \beta)^2} \gtrless 0 \text{ iff } r \gtrless \frac{p' - \alpha i - \mu}{1 - \alpha}, \quad \alpha - \beta \neq 1$$

$$\text{where } \frac{p' - \alpha i - \mu}{1 - \alpha} = \frac{SV - iD - \Sigma\overline{SC}}{c + v - D}$$

NOTES

1. The estimates in this paragraph come from the International Monetary Fund (1990); they apply to the total of developing countries and include short-term debt.

2. On orthodox development theory and its differences from radical approaches, see Resnick, Sinisi and Wolff (1985).

3. In fact, one longstanding critic of the benefits of foreign aid for developing country growth continues to plead his case; see Bauer (1984).

4. See, e.g., Fishlow's critique of Cline (1983) in Ruccio and Kim (1986).

5. This summary of the orthodox approach is not meant to imply that the differences among and between mainstream economists—in their explanations of the debt crisis and in their proposed solutions—are unimportant. The various strategies advocated by orthodox economists for overcoming the debt crisis, e.g., export promotion, currency devaluation, seizing foreign assets, and/or capping interest payments, would, if implemented, have radically different implications for the development of both advanced capitalist and Third World countries. The point here is that orthodox ecomomists are biased toward considering some kinds of development policies to the exclusion of others—toward which radical economists would be equally but differently biased—because of their framework of analysis.

6. See the review by de Janvry (1981, 50–55). The unequal exchange debate began with Emmanuel (1972); critics of Emmanuel include Bettelheim (in Emmanuel 1972, 271–322), de Janvry and Kramer (1979), Evans (1984), and Szentes (1985).

7. The notion that capital-importing countries are "exploited" by capital-exporting countries has been developed most recently by Roemer (1988, 105).

8. Elsewhere, MacEwan (1987) has analyzed the external debt crisis as part of a more general "crisis of imperial decline."

9. There are, however, neoclassical models in which countries may not always gain from

trade, as when "distortions" are present, e.g., if there are non-economic objectives or if "largeness" distorts product or factor markets; see Bhagwati and Srinivasan (1983).

10. Palma (1978) observes that radical development economists have been more successful in inverting the neoclassical paradigm—for example, in arguing that foreign trade, instead of promoting economic development, actually creates obstacles to development—than in formulating an alternative position.

11. Frank has elaborated his theory of dependency in numerous texts (1967; 1969; 1972; 1978; 1979; 1984). Another version of dependency theory, originally published in Spanish in 1971, was presented by Cardoso and Faletto (1979); Cardoso (1977), in fact, challenged the originality of Frank's approach.

12. See the surveys by Foster-Carter (1978) and Ruccio and Simon (1987, 142–56).

13. For a more extended discussion of Brenner's further criticisms, see Ruccio and Simon (1987, 137–42).

14. For a discussion of both the positive contributions and limitations of Lipietz's "regulation theory" approach, see Ruccio (1989).

15. Wright (1985) and Resnick and Wolff (1987) discuss the diverse interpretations of Marx's concept of class. Richards (1986) chooses to employ the property relations/individual choice approach to class; Ruccio (1988), in turn, has criticized that approach, associated with the "rational choice" school of radical economics.

16. Marx explicitly refers to class as a process in the *Grundrisse* (1973, 258): "Capital is not a simple relation, but a *process*, in whose various moments it is always capital." The stress here on class as a process is based on an interpretation of Marxian theory in which class refers to one particular social process aming the many that comprise social life.

17. The feudal class process, in contrast, involves appropriation of surplus labor in the form of feudal rent (in kind, in labor, or in money). Different class processes are defined by the different ways in which surplus labor is pumped out of the direct producers; see Resnick and Wolff (1987, ch. 3).

18. Here and throughout I will assume, with Marx in *Capital*, vol. 1, that commodities exchange at their values and that circulating capital alone (with yearly value $c + v$) is advanced in the production sphere. Consideration of the issues involved in transformation to prices of production, fixed capital, etc. would modify but not fundamentally change the thrust of the analysis. See Wolff, Callari and Roberts (1984) and Roberts (1987) for a treatment of value-theoretic issues in line with the approach taken here.

19. The choice here to focus on the process of accumulating productive capital should not be interpreted to mean that capital accumulation is the only or most important process involved in reproducing the fundamental class position of the industrial capitalist. It is only one of many conditions financed by subsumed class distributions of surplus value; others include managerial supervision, access to the means of production, sales, and the adjudication of contract disputes. The focus on capital accumulation is for illustrative purposes only.

20. In the former case, the prior exploitation of developing country workers must have occurred before the commodity is exported; export allows the enterprise to realize the surplus value necessary to make the subsumed class payment of interest. In the case of new debts, extraction of surplus value is merely postponed until a later date.

21. Thus, for example, changes in the external terms of trade will affect export earnings and, therefore, the foreign exchange available for debt service payments. Debt service may also depend on export earnings, as in the case where the borrower is also a producer of exports. In this case, the ability to realize the surplus value contained in the exported commodities, and not the hard currency earnings per se, is a necessary condition for making interest payments.

22. As, for example, in Chile during 1983–84; see Ffrench-Davis and de Gregorio (1985).

23. For a fuller discusion of the class effects of orthodox (neoclassical and structuralist) stabilization and adjustment policies, see Ruccio (1991).

24. Of course, such capital outflows may also be used to secure foreign *non-class* positions, by purchasing the bonds and securities of institutions other than industrial capitalists, e.g., foreign governments and financial enterprises.

25. Equation (3) would be rewritten as $i \leq (\Delta SV + \Delta SCR)/\Delta D$. In addition, the term iD in equation (1″) below now includes both subsumed class and non-class interest payments to foreign creditors.

26. Third World capitalists may engage in foreign investment even when the rate of return is less than the "internal" rate of profit, if there is uncertainty concerning future exchange rates or their control over domestic bank accounts, and foreign investments are considered more secure.

REFERENCES

Amariglio, J. 1988. "The Body, Economic Discourse, and Power: An Economist's Introduction to Foucault." *History of Political Economy* 20 (4): 583–613.

Amin, S. 1974. "Accumulation and Development: A Theoretical Model." *Review of African Political Economy*, no. 1: 9–26.

———. 1988. "*Accumulation on a World Scale*: Thirty Years Later." *Rethinking Marxism* 1 (Summer): 54–75.

Bacha, E. L., and Diaz Alejandro, C. F. 1982. "International Financial Intermediation: A Long and Tropical View." Essays in International Finance No. 127. International Finance Section, Department of Economics, Princeton University. May.

Bagchi, A. K. 1982. *The Political Economy of Underdevelopment*. Cambridge: Cambridge University Press.

Bardhan, P. 1986. "Marxist Ideas in Development Economics: An Evaluation." In *Analytical Marxism*, ed. J. Roemer, 64–77. Cambridge: Cambridge University and Paris: Edition de la Maison des Sciences de l'Homme.

Barone, C. 1983. "Dependency, Marxist Theory and Salvaging the Idea of Capitalism in South Korea." *Review of Radical Political Economics* 15 (Spring): 43–67.

———. 1984. "Reply to Martin Hart-Landsberg." *Review of Radical Political Economics* 16 (Summer-Fall): 195–97.

Bauer, P. T. 1984. *Reality and Rhetoric: Studies in the Economics of Development*. Cambridge: Harvard University Press.

Becker, D. G. et al. 1987. *Postimperialism: International Capitalism and Development in the Late Twentieth Century*. Boulder, CO: Lynne Rienner Publishers.

Bell, D. E., and Reich, M. R., eds. 1988. *Health, Nutrition, and Economic Crises: Approaches to Policy in the Third World*. Dover, MA: Auburn House Publishing Company.

Bhagwati, J. N., and Srinivasan, T. N. 1983. *Lectures on International Trade*. Cambridge: M.I.T. Press.

Brenner, R. 1977. "The Origins of Capitalist Development: A Critique of Neo-Smithian Marxism." *New Left Review*, no. 104 (July-August): 25–90.
Brewer, A. 1980. *Marxist Theories of Imperialism: A Critical Survey*. London: Routledge & Kegan Paul.
Bryan, R. 1987. "The State and the Internationalisation of Capital: An Approach to Analysis." *Journal of Contemporary Asia* 17 (3): 253–75.
Canitrot, A. 1980. "Discipline as the Central Economic Objective of Economic Policy: An Essay on the Economic Programme of the Argentine Government Since 1976." *World Development* 8 (11): 913–28.
Cardoso, F. H. 1977. "The Consumption of Dependency Theory in the United States." *Latin American Research Review* 12 (3): 7–24.
Cardoso, F. H., and Faletto, E. 1979. *Dependency and Development in Latin America*. Trans. M. M. Urquidi. Berkeley: University of California Press.
Chakravarty, S. 1987. "Marxist Economics and Contemporary Developing Economies." *Cambridge Journal of Economics* 11 (March): 3–22.
Chenery, H. B., and Strout, A. M. 1966. "Foreign Assistance and Economic Development." *American Economic Review* 56 (September): 679–733.
Cline, W. R. 1983. *International Debt and the Stability of the World Economy*. Washington, D.C.: Institute for International Economics.
Cornia, G. A.; Jolly, R.; and Stewart, F., eds. 1988. *Adjustment with a Human Face*. 2 vols. Oxford: Oxford University Press.
Cumby, R., and Levich, R. 1987. "On the Definition and Magnitude of Recent Capital Flight." In *Capital Flight and Third World Debt*, ed. D. R. Lessard and J. Williamson, 27–67. Washington, D.C.: Institute for International Economics.
Deere, C. D. 1986. "The Peasantry in Political Economy: Trends of the 1980s." Paper presented at session, "Peasant Studies: Obstacles to Theoretical Advances." Latin American Studies Association Meetings, 23–25 October, Boston, MA.
de Janvry, A. 1981. *The Agrarian Question and Reformism in Latin America*. Baltimore: Johns Hopkins University Press.
de Janvry, A., and Kramer, F. 1979. "The Limits of Unequal Exchange." *Review of Radical Poltical Economics* 11 (Winter): 3–15.
DeWitt, R. P., and Petras, J. F. 1979. "Political Economy of International Debt: The Dynamics of Financial Capital." In *Debt and the Less Developed Countries*, ed. J. D. Aronson, 191–215. Boulder, CO: Westview Press.
Emmanuel, A. 1972. *Unequal Exchange: A Study of the Imperialism of Trade*. New York: Monthly Review Press.
Evans, D. 1984. "A Critical Assessment of Some Neo-Marxian Trade Theories." *Journal of Development Studies* 20 (January): 202–26.
Evans, P. 1985. "After Democracy: Recent Studies of Class, State, and Industrialization." *Latin American Research Review* 20 (2): 149–60.
Fagen, R. R.; Deere, C. D.; and Coraggio, J. L., eds. 1986. *Transition and Development: Problems of Third World Socialism*. New York: Monthly Review Press.

Feinberg, R. E., and Ffrench-Davis, R., eds. 1988. *Development and External Debt in Latin America: Bases for a New Consensus*. Notre Dame, IN: University of Notre Dame Press.
Ffrench-Davis, R., ed. 1983. *Relaciones Financieras Externas y su Efecto en la Economia Latinoamericana*. Mexico: Fondo de Cultura Económica.
Ffrench-Davis, R., and de Gregorio, J. 1985. "La renegociación de la deuda externa de Chile: Antecedentes y comentarios." *Colección estudios CIEPLAN*, no. 17 (September): 9–32.
Foster-Carter, A. 1978. "The Modes of Production Controversy." *New Left Review*, no. 107 (January/February): 47–77.
Frank, A. G. 1967. *Capitalism and Underdevelopment in Latin America*. New York: Monthly Review Press.
——. 1969. *Latin America: Underdevelopment or Revolution*. New York: Monthly Review Press.
——. 1972. *Lumpenbourgeoisie, Lumpendevelopment: Dependence, Class, and Politics in Latin America*. New York: Monthly Review Press.
——. 1978. *World Accumulation 1492-1978*. New York: Monthly Review Press.
——. 1979. *Dependent Accumulation and Underdevelopment*. New York: Monthly Review Press.
——. 1984. *Critique and Anti-Critique: Essays on Dependence and Reformism*. New York: Monthly Review Press.
Gourevitch, P. A. 1978. "The International System and Regime Formation: A Critical Review of Anderson and Wallerstein." *Comparative Politics* 10 (April): 419–38.
Gunnarsson, C. 1985. "Development Theory and Third World Industrialisation: A Comparison of Patterns of Industrialisation in 19th Century Europe and the Third World." *Journal of Contemporary Asia* 15 (2): 183–206.
Hart-Landsberg, M. 1984. "Capitalism and Third World Economic Development: A Critical Look at the South Korean 'Miracle.'" *Review of Radical Political Economics* 16 (Summer-Fall): 181–93.
Hawley, J. 1979. "The Internationalization of Capital: Banks, Eurocurrency, and the Instability of the World Monetary System." *Review of Radical Political Economics* 11 (Winter): 78–90.
Hopkins, T. K., and Wallerstein, I. et al. 1982. *World-Systems Analysis: Theory and Methodology*. Beverly Hills: Sage Publications.
International Monetary Fund. 1990. *World Economic Outlook*. Washington, D.C.: International Monetary Fund.
Jenkins, R. 1984. "Divisions Over the International Division of Labour." *Capital and Class*, no. 22 (Spring): 28–57.
Laclau, E. 1971. "Feudalism and Capitalism in Latin America." *New Left Review*, no. 67 (May/June): 19–38.
Landsberg, M. 1979. "Export-led Industrialization in the Third World: Manufacturing Imperialism." *Review of Radical Political Economics* 11 (Winter): 50–63.

Lewis, W. A. 1984. "The State of Development Theory." *American Economic Review* 74 (March): 1–10.

Lipietz, A. 1987. *Mirages and Miracles: The Crises of Global Fordism*. Trans. D. Macey. London: Verso.

MacEwan, A. 1985. "The Current Crisis in Latin America." *Monthly Review* 36 (February): 1–18.

———. 1987. "Imperial Decline and International Disorder: An Illustration from the Debt Crisis." In *The Imperiled Economy, Book 1: Macroeconomics from a Left Perspective*, ed. R. Cherry et al., 205–14. New York: Union for Radical Political Economics.

Marx, Karl. 1973. *Grundrisse*. Trans. M. Nicolaus. New York: Vintage Books.

———. 1977. *Capital*. Vol. 1. Trans. B. Fowkes. London: Vintage Books.

———. 1981. *Capital*. Vol. 3. Trans. D. Fernbach. London: Vintage Books.

Norton, B. 1988. "The Power Axis: Bowles, Gordon, and Weisskopf's Theory of Postwar U.S. Accumulation." *Rethinking Marxism* 1 (Fall): 6–43.

Palma, G. 1978. "Dependency Theory: A Formal Theory of Underdevelopment or a Methodology for the Analysis of Concrete Situations of Underdevelopment." *World Development* 6 (July-August): 881–924.

Payer, C. 1974. *The Debt Trap: The International Monetary Fund and the Third World*. New York: Monthly Review Press.

———. 1982. *The World Bank: A Critical Analysis*. New York: Monthly Review Press.

Resnick, S. A., and Wolff, R. D. 1987. *Knowledge and Class: A Marxian Critique of Political Economy*. Chicago: University of Chicago.

Resnick, S.; Sinisi, J.; and Wolff, R. 1985. "Class Analysis of International Economic Relations." In *An International Political Economy*, ed. W. L. Hollist and F. L. Tullis, 87–123. Boulder, CO: Westview Press.

Richards, A. 1986. *Development and Modes of Production in Marxian Economics: A Critical Evaluation*. Fundamentals of Pure and Applied Economics 12. New York: Harwood Academic Publishers.

Richards, L. 1977. "The Context of Foreign Aid: Modern Imperialism." *Review of Radical Political Economics* 9 (Winter): 43–75.

Roberts, B. 1987. "Marx After Steedman: Separating Marxism From 'Surplus Theory'." *Capital and Class*, no. 32 (Fall): 84–103.

Roemer, J. 1988. *Free to Lose: An Introduction to Marxist Economic Philosophy*. Cambridge: Harvard University Press.

Ruccio, D. F. 1987. "State, Class, and Transition in Nicaragua." *Latin American Perspectives* 15 (Spring): 50–91.

———. 1988. "The Merchant of Venice, or Marxism in the Mathematical Mode." *Rethinking Marxism* 1 (Winter): 36–68.

———. 1989. "Fordism on a World Scale: International Dimensions of Regulation." *Review of Radical Political Economics* 21 (4): 33–53

———. 1991. "When Failure Becomes Success: Class and the Debate Over Stabilization and Adjustment." *World Development* (forthcoming).

Ruccio, D. F., and Kim, K. S., eds. 1986. *Debt and Development in Latin America*. Notre Dame: University of Notre Dame Press.

Ruccio, D. F.; Resnick, S.; and Wolff, R. 1991. "Class Beyond the Nation-State." *Review of Radical Political Economics/Capital and Class* (forthcoming).

Ruccio, D. F., and Simon, L. H. 1987. "Radical Theories of Development: Dependency, the Modes of Production School, and Amin." In *The Political Economy of Development and Underdevelopment*, ed. C. K. Wilber, 121–73. New York: Random House.

Singh, A. 1986. "The Great Continental Divide: Asian and Latin American Countries in the World Economic Crisis." *Labour and Society* 11 (September): 415–32.

Skocpol, T. 1977. "Wallerstein's World Capitalism: A Theoretical and Historical Criticism." *American Journal of Sociology* 82 (March): 1075–89.

Szentes, T. 1985. *Theories of World Capitalist Economy: A Critical Survey of Conventional, Reformist and Radical Views*. Budapest: Akademai Kiado.

Taylor, J. G. 1979. *From Modernization to Modes of Production: A Critique of the Sociologies of Development and Underdevelopment*. London: Macmillan.

Taylor, L. 1988. "Macro Effects of Myriad Shocks: Developing Countries in the World Economy." In *Health, Nutrition, and Economic Crises: Approaches to Policy in the Third World*, ed. D. E. Bell and M. R. Reich, 17–37. Dover, MA: Auburn House Publishing.

Thomas, C. Y. 1984. *The Rise of the Authoritarian State in Peripheral Societies*. New York: Monthly Review Press.

Wallerstein, I. 1974. *The Modern World-System I: Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century*. New York: Academic Press.

———. 1980. *The Modern World-Sytem II: Mercantilism and the Consolidation of the European World-Economy, 1600–1750*. New York: Acadmic Press.

Warren, B. 1973. "Imperialism and Capitalist Industrialization." *New Left Review*, no. 81 (September/ October): 3–44.

———. 1980. *Imperialism: Pioneer of Capitalism*. Ed. J. Sender. London: Verso.

Willoughby, J. 1986. *Capitalist Imperialism, Crisis and the State*. Fundamentals of Pure and Applied Economics 7. New York: Harwood.

Wolff, R.; Callari, A.; and Roberts, B. 1984. "A Marxian Alternative to the Traditional 'Transformation Problem.'" *Review of Radical Political Economics* 16 (Summer/ Fall): 115–35.

Wolpe, H., ed. 1980. *The Articulation of Modes of Production: Essays from "Economy and Society."* London: Routledge & Kegan Paul.

World Bank. 1980. *World Tables*. 2d ed. Baltimore: Johns Hopkins University Press.

———. 1988. *World Development Report, 1988*. Washington, D.C.: World Bank.

Wright, E. O. 1985. *Classes*. London: Verso.