(land, capital) is devoted to the export sector, and less and less is available to promote self-sufficiency in food.

iii) Hegemonic Crisis

Perhaps the greatest problem, however, is that it is difficult to represent the interests of those groups who benefit from peripheral Fordism as coinciding with the 'interests of the people as a whole' for any length of time. As we saw in the previous chapter, 'overall socio-political regulation' can rapidly degenerate into a 'chaos of social relations'.

On the one hand, authoritarian structures are required to sustain very high rates of exploitation in the export sectors – rates of exploitation which vary considerably from near-slavery in the agricultural export sector, to bloody Taylorization in the sweat shops of the textile industry, to quasi-Fordist norms in heavy industry. On the other hand, the rise of the urban middle classes and of independent trade unionism in the factories leads to a demand for democratization, particularly as authoritarian management of the economy increases the likelihood of political and financial scandals. Either the demand for democratization is repressed, and repression destabilizes the regime (Korea, Poland), or it explodes in uncontrollable fashion, particularly when the rejection of the dictatorship becomes identified with a rejection of 'inhuman' modernization (Iran). Alternatively, the demand for democratization can be met to some extent. But in that case it remains precarious and opens the floodgates to working-class demands, and thus destroys the competitiveness of export-substitution (Portugal).

Chaos of social relations, which both democracies and dictatorships find difficult to manage, is probably the major obstacle to the transition of which the apologists of capitalist development dream: an economic sequence of 'primitive Taylorization ... peripheral Fordism ... autonomous Fordism ...' leading quite naturally to the sequence 'dictatorship ... liberalization ... (social-) democratization'. This sequence may be conceivable in a country where peripheral Fordism itself is based upon an earlier agrarian reform, or where social polarization is not too great (and this is one of South

Korea's advantages). But many middle-income countries have 'exclusionary' regimes of accumulation,[17] with the old oligarchy, the internal bourgeoisie and the new middle classes at one extreme, and the proletarian masses at the other (and they are 'proletarian' in the etymological sense of the word: their only contribution to the wealth of the nation is the production of an immense reserve army of children who are available for wage-labour as and when required).

Careful! The term 'exclusionary' may give rise to confusion. It is *purely descriptive*, and refers to the multiple effects of multiple causes: the degeneration of relations between town and countryside in the articulation of modes of production, the reduction of wages – in either absolute or relative terms – in accordance with the logic of 'primitive Taylorization', and so on. On the other hand, the transition to peripheral Fordism usually leads, in absolute and often in relative terms, to increased purchasing power for wage-earners and workers who are caught up in its logic (but not necessarily for women workers in textile industries, and definitely not for agricultural wage-earners).

Thus, the 'first wave of Asian NICS' which emerged in the seventies did not have 'exclusionary' regimes of accumulation, whereas the 'second wave' (Malaysia, etc.) may well do so. In all the second-wave countries, home consumption is rising more slowly than GDP. Whereas between 1975 and 1980 real wages rose by 73 per cent in South Korea faster than productivity) and by 32 per cent in Hong Kong, they fell by 20 per cent and 30 per cent in Thailand and the Philippines respectively.[18]

There is a further point of comparison. In the mid-seventies in South Korea, the central group representing 60 per cent of the population appropriated 50 per cent of all revenue; the poorest 20 per cent appropriated 5 per cent, and the richest 20 per cent appropriated 45 per cent. At that time, Taiwan was much more egalitarian, with the central group appropriating 52 per cent, and the richest 20 per cent, 39 per cent. But even in the early seventies, Brazil was far more exclusionary: 32 per cent for the central group, 66 per cent for the richest 20 per cent ... and 2 per cent for the poorest 20 per cent. And matters are getting worse: between 1960 and 1980, the share of the richest 1 per cent rose from

12 to 17 per cent; that of the richest 5 per cent rose from 28 to 38 per cent, and that of the poorest 50 per cent fell from 18 to 13 per cent.[19] In the 'centre' of Brazil (the Southeast), however, urban working-class households are beginning to buy consumer durables[20] (but not cars, which are reserved for the middle strata). Working-class households earning the equivalent of double the minimum wage represent a particularly dynamic market for consumer durables.[21]

The situation in Brazil is all the more serious in that the polarization of the national state along an inverted North–South axis in accordance with the 'old' international division of labour implies a certain *complementarity* between very low wages in the Northeast, middle-class standards of living and the employment of workers in the Southeast. To produce the alcohol needed to run four cars, the family of an agricultural labourer earning the equivalent of $1.25 a day had to be deprived of its two hectares of land. This means that it is impossible to satisfy the democratic aspirations of the population as a whole without threatening the obvious privileges enjoyed by the middle classes, and even certain of the interests of the urban working class: with the risk of splitting the democratic front in two and reverting to dictatorship.[22] The country's size and its federal nature make it obviously easier to manage the 'chaos of social relations' within democratic forms. But in the medium term, the possibility to sustain the existence of 'a Switzerland surrounded by Biafras' (to use a Brazilian image) seems to go against the universalist principles of democratic political forms. Witness the growing instability of Indian democracy; the centrifugal forces at work within it may well take on an ethnic or religious coloration, but they are based upon one of the most exclusive regimes of accumulation imaginable.

Even in a relatively non-exclusionary country like South Korea, all is not well. It was before the great monetarist shock that the country experienced economic recession for the first time (−5.7 per cent), just after Iran and at the same time as Poland. Excessive wage increases had of course made South Korea less able to compete with the rest of Asia, and the second oil shock led to increased external constraints. The use of domestic credit to finance a considerable level of investment which would take a long time to show any return

resulted in a fearful inflation rate (though it was much lower than Latin America's). On top of that, there was a bad harvest.[23] But it was mainly the assassination of Park and hopes for democratization which sparked off the student and worker insurrections centred on Kwangju. Tanks were used to put down the insurrections, and the Chun dictatorship restored competitiveness by imposing savage wage cuts and devaluation. Paradoxically, South Korea was then placed in a better position to ride out the coming storm.

Rising Debts

A country which wishes to accumulate capital should not be automatically criticized for contracting debts. Credit means the prevalidation of values-in-process which, it is hoped, will complete the full cycle of valorization and realization. It is not unreasonable to buy machinery on credit, provided that you can use it and are likely to be able to sell the product. European and Japanese reconstruction was based upon credit, and that succeeded spectacularly. Under Reagan, the USA has broken all records for debts.[24] Its creditors think that that will work too.

It is when debts become cumulative that the problems begin. This is a sign that the society in question has not used its credit to invest in production that can be validated on the world market. It has either consumed the credit in non-productive ways or has invested in labour which will not be validated on the world market. The same considerations apply to direct investments, but then it is the foreign investor who takes the risk. The problem of rising debts has been carefully studied by a number of expert authors using such sources as the World Bank, the IMF, the Bank for International Settlements and the OECD, and I will not bore the reader by going through it all again.[25] A few comments are, however, required.

It must first be stressed that there are many different types of debt in the Third World. This is to a large extent a reflection of the great variety of concrete regimes of accumulation to be found within the field marked out by the various logics defined in Chapter 4. Some countries, like

India, have relatively few debts, whilst others, the more industrialized countries, have enormous debts.

But even within the latter group, debts are put to very different uses. We have already mentioned the Newly De-industrializing Countries like Chile and Argentina, where the military, acting on the advice of the Chicago Boys, forced domestic industry into a recession and the middle classes into a credit-based consumer society, and imported arms. Others (the real NICs) embarked upon the adventure of Fordist industrialization. Throughout the seventies, that model of industrialization usually produced a deficit. Increasing oil rents did have a serious effect, but the major deficit in the trade in manufactures with the centre was more important.[26] This initial trade deficit was not necessarily serious to the extent that some of the accumulation on credit has been reserved for export activities.

This brings us to our final criterion: the ratio of debt-servicing to exports. This brings out the difference between Brazil and South Korea. Because it was so exclusionary and therefore made the middle classes richer, the Brazilian regime generated a structural flow of imports by buying luxury goods or the means to produce them. The cost of financing Pharaonic projects also has to be taken into account.[27] The South Korean regime, which was ultimately able to ensure the population a similar, but more evenly distributed standard of living based upon local production, devoted much of the money it borrowed to developing its export capacity. Thus, its ratio of outstanding publicly guaranteed debts to GDP was twice that in Brazil (32 per cent, as against 16). Brazil's trade balance was also healthier. But that did not mean that its economic situation was any healthier, because the use Brazil made of its debts was not designed to finance repayments. Moreover, Brazil relied more heavily than South Korea upon short-term bank loans (which, as we shall see, are more expensive). The ratio of debt-servicing to exports was therefore much higher: between 1970 and 1980, it rose from 12.5 to 40 per cent, whereas in South Korea it fell from 19.5 to 13 per cent.

It has to be remembered that the fact that a given regime of accumulation is exclusionary does not in itself explain why it contracts debts. The notion of an 'exclusionary regime' is, I emphasize, purely descriptive. It is neither a

necessary (witness South Korea, or even Argentina) nor a sufficient condition. India has used the polarization of incomes to its own advantage by harnessing domestic savings to finance industrialization. In the period between 1960 and 1981, its investment rate rose from 17 to 32 per cent of GDP, but in 1981 the ratio of outstanding debts to GDP (11 per cent) and the ratio of debt-servicing to both GDP (0.6 per cent) and exports (8.5 per cent) fell. They are now amongst the lowest in the world.

A second point also needs to be made. Even though national political regimes are to some extent responsible for the debt strategies they adopt, they have no control over *the nature of the credits made available to them*. Credit creation is conditioned by the refusal (or inability) of the hegemonic powers to organize debt-recycling by creating a world credit-money which is both explicitly regulated and development-orientated. The relative decline in the mass of government loans as private banks take over the role of lending has had a serious effect as banks lend in the long or medium-term, but have to recycle and increase their short-term deposits.[28]

The banks tried to escape this difficulty by inventing the heresy of *variable loan rates*. The interest rate payable over the duration of the loan varies, depending on how much it costs the bank to refinance it on the international financial market. Previously, loans had been to dividends what share-cropping is to farming. It was accepted that, as bank capital was not involved in all the problems of valorizing capital, the banks would be content with a fixed income. Their income was fixed in advance, and was below the expected average rate of profit. It was accepted that the borrower would pocket the difference as a reward for his managerial skills. By introducing variable rates, plus a commission for 'risk countries', the banks make the borrower pay not only for the difficulties she has in valorizing capital, but also for the difficulties they have in procuring money once they have granted her the loan.

As a result, interest rates rose throughout the decade, and the period over which loans were granted became shorter and shorter.[29] An increasing proportion of new loans was used to pay interest on old debts and to renew the principal ('roll over'). In 1979, debt-servicing by non-OPEC developing countries (roughly equally divided between interest and principal) outstripped new long-term credits (Table 8). As they now had a definite trade deficit because of the second oil shock, they had to make up the shortfall by contracting short-term loans at the very time when interest rates, or the cost of loans, were rising very rapidly. By now, debts were feeding on debts, and the debt problem had become partly autonomous from the financing of peripheral Fordism.

Table 8 does reveal, however, that a *ray of hope* existed. The ratio of debt-service to exports did not rise constantly (as we have seen, it fell sharply in South Korea). The fluctuations reflected both the erratic repayment schedule and export successes, but the fact that the ratio fell in both 1976 and 1980 suggested that it might eventually stabilize and then decline. That would have been an indication of peripheral Fordism's success as an international regime. But that slender hope was soon to be dashed by the great monetarist shock.

A Pointless Catastrophe: The Monetarist Shock

Promoting the expansion of peripheral Fordism and sustained by its growth, central Fordism weathered its own

Table 8
Non-Oil Developing Countries: Ebb and Flow of Long-Term Debts

	1974	*1975*	*1976*	*1977*	*1978*	*1979*	*1980*	*1981*
Total new debt ($bn)	23.3	26.5	29.4	40.2	56	50.1	77.3	55.1
Interest and principal ($bn)	17.5	21.4	23.8	30.3	43.7	60.5	75.2	96.4
Debt service as % of exports of goods and services	11.2	13.5	12.8	13.8	17	18.3	18.2	20.8

Source: D. Llewellyn, 'Avoiding an International Banking Crisis', *National Westminster Bank Quarterly Review*, August 1982.

crisis, which had been latent since the end of the sixties and which became obvious with the catalysing effect of the first oil shock. It was able to do so by maintaining forms of monopolistic regulation. Despite de-industrialization, the sustained or even rising purchasing power of the mass of wage-earners, combined with the increase in jobs in the tertiary sector and indirect wages, prevented a cumulative fall in demand and production. At the same time, the international banking system 'monetized debts', mainly by recycling OPEC dollars, and offered credit against deposits of petrodollars. This made it possible to stave off the devalorization of crisis-stricken capitals and to finance new investment in the expectation that expanded intensive accumulation would resume on a world scale. We have already seen that the development of peripheral Fordism was based upon this assumption and that, as is normal in any regime of accumulation, it was to some extent a self-fulfilling prophecy.

From the Second Oil Shock to the Monetarist Shock

After six years of social-democratic crisis management and after the absorption of the first oil shock into world inflation, the purchasing power of oil exports in terms of manufactures from the centre was similar to what it had been at the end of the Korean war, when Fordism entered its phase of rapid growth. The political crisis provoked by the Iranian people's gut rejection of 'bloody Fordization' and Iraq's attempt to exploit the crisis by attacking Iran at the time when it was being torn apart by the Islamic revolution now led to tension on the oil market. OPEC took advantage of the situation to return the real level of oil rents to $34 per barrel. The old rent question reared its head again. Could the rise be absorbed, as in 1973? No, but it is not easy to understand why not. This time, everything was very different. It was as though the ruling classes no longer believed – or could no longer believe – in Keynesianism.

Future historians will discuss at length the chain of events which led from the second oil shock to the monetarist shock of 1981. Objective constraints were now greater than they