**Modernity and the embedding of economic expansion**

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**Abstract**: The nationally-embedded and relatively broad-based economies characteristic of advanced industrial countries are usually seen as the incarnation of a modern economy. These economies are largely internally-oriented and are based, to a relatively great extent, on production and services centred on local and national needs. They are generally assumed to have emerged from processes of development that began in the sixteenth century and that, in the nineteenth century, accelerated with the expansion of industrial production and the growth of global trade. This article challenges that assumption. It argues that today’s modern economies represent, not the culmination of long-term processes, but a recurring phenomenon within capitalism. It argues that, in the history of capitalism, there have been phases of nationally-embedded and global free market capitalism -- periods when capital is relatively more, and relatively less, free from national state regulation. Today’s nationally-embedded economies represent, not a further point along a unilinear developmental trajectory, but a return to features of the moral economies that characterised European and non-European societies before the nineteenth century.

**Keywords**: capitalism, class compromise, embedded economies, modernity, neo-liberalism, shock therapy

The nationally-embedded and relatively broad-based economies characteristic of advanced industrial countries are usually seen as the incarnation of a modern economy. These economies are largely internally-oriented and are based, to a relatively great extent, on production and services centred on local and national needs. They are generally assumed to have emerged from processes of development that began in the sixteenth century and that, in the nineteenth century, accelerated with the expansion of industrial production and the growth of global trade. However, this article challenges that assumption. It argues that today’s modern economies represent, not the culmination of long-term processes, but a recurring phenomenon within capitalism. It argues that, in the history of capitalism, there have been phases of nationally-embedded and global free market capitalism -- periods when capital is relatively more, and relatively less, free from national state regulation. Today’s nationally-embedded economies represent, not a further point along a unilinear developmental trajectory, but a return to features of the moral economies that characterised European and non-European societies before the nineteenth century.

The sections that follow examine different phases of nationally-embedded and global free market capitalism: the ‘dis-embedding’ of markets that accelerated capitalist globalization beginning at the end of the eighteenth century, the ‘re-embedding’ of capital in the course of the world wars at the beginning of the twentieth century, and processes working to, once again, dis-embed economic expansion in today’s advanced industrial countries.

At the end of the eighteenth century a campaign was launched to free capital from restrictions imposed by local communities. It worked to reconfigure the structure of political power by means of a broad-based, far-reaching, and all-encompassing ideological assault on what was depicted, and rapidly came to be seen, as the ‘old order’. Throughout the nineteenth century, European economies grew through the expansion and integration of external markets while home markets remained underdeveloped. This dualism was evident everywhere in Europe (**Section I**). Even in the most protectionist and interventionist states, external markets were developed in lieu of internal ones. Capital was largely invested either abroad or in home production that was chiefly for export. However, the collapse of the nineteenth century system and the conclusion of a ‘compromise’ between capital and labour, led to the re-embedding of European economies after 1945 (**Section II**). Welfare reforms partially de-commodified labour, and by means of market and industry regulation, investment and production were made to serve the expansion and integration of national markets. Now, however, a campaign to promote the dispersal of capital investment and production to foreign locations--the current ‘globalization’ campaign--is seeking to reverse the post-World War II compromise and to dis-embed national markets, once again (**Section III**).

**I. The Dis-embedding of Capitalism in the NIneteenth Century**

Perhaps the most crucial chapter in modern history for understanding the accelerating globalisation of capital today is the dismantling of eighteenth century Europe's systems of national welfare and regulated markets, and the social conflicts that emerged as a result. The context of these events was the attack on the regulations of the ‘Absolutist’ (i.e., interventionist) state.

‘Absolutism’ was attacked by its opponents for its over regulation. However, the aim of much of this regulation was to provision the local community and ensure fair practice, to protect the local population against monopoly and speculation, and against shortages and high prices. In England, official regulations prevented middlemen merchants from bypassing or cornering the market, and ensured quality control, a ‘just price’, and an adequate domestic supply of goods; and market courts enforced them (Lie 1993: 282). Those in England who demanded ‘freedom of trade’ during the eighteenth century were actually demanding freedom from the requirement to trade inside open markets, by means of open transactions, and according to the rules and regulations which ensured fair practices and prices (Lie 1993: 283).

In Europe, governments in the eighteenth century regulated local markets with the aim, among other things, of provisioning the local community and ensuring the well being of the general population. In France, the government required that grain or other necessities be made available for sale to the poor before it was offered up for sale to outsiders. In Britain, marketing, licensing and forestalling legislation set maximum prices on staple foods such as meat and grain. Magistrates (with the aid of local juries) were charged with surveying corn stocks in barns and granaries, ordering quantities to be sent to market, and attending the market to ensure that the poor were provided with corn at a favorable price. The government also controlled employment and settlement.

Governments in Europe were also active in the provision of welfare. Traditionally assistance to the poor had been provided by monasteries and fraternities, town 'stocks', almshouses, and church collections. But beginning in the sixteenth century, and all over Western Europe, states increasingly coordinated or provided poor relief. The government of England in the sixteenth century began a campaign to eliminate poverty. In step with a Europe-wide movement, it pushed for legislation to set up new institutions for poor relief and established a system of hospitals to provide medical care for paupers. In 1536, the government pushed for legislation to set up new institutions for poor relief. In line with developments in other cities of Europe, a system of hospitals was established in London in the 1540s and 1550s to provide medical care for paupers. Legislation in 1572, 1598, and 1601 required churchwardens and overseers of the poor throughout England to raise parish rates and doles and local taxes and cash payments for those incapable of working; to set the able-bodied to work, and to apprentice poor children (Slack 1990). In the late seventeenth century, the right of the poor to relief in cases of extreme necessity ('indigency') became a legal entitlement. By 1700, England had a national welfare system (Slack 1990: 22). France also established a nation-wide welfare system in the eighteenth century (Lis and Soly 1979: 200-209). By 1770, Prussia had introduced measures establishing a cradle-to-grave welfare system that guaranteed every Prussian subject adequate food, sanitation, and police protection (see Dorwart 1971).

In the eighteenth century, the masses were often able to exercise economic power as consumers. In England, capitalists depended on the sale of cereals and meat to millions of consumers. The economies of Europe at that time were still based on local markets and face-to-face relations between seller and consumer. In England, there was a 'highly sensitive consumer-consciousness' among working people (Thompson 1991: 189) and a tradition of popular action to gain fair prices. Workers also acted to gain fair wages and to regulate their work time. During the eighteenth century as entrepreneurs, seeking to escape government regulations through long-distance trade, expanded production for export, competition for labour increased, and as it did, wages rose and labourers were able 'to take on less work and spend more time at leisure without endangering their traditional standard of living' (Gillis 1983: 41; see Eversley 1967: 220).

Thus, on the eve of the 'industrial revolution', governments in Europe were regulating markets on behalf of the local population. They controlled prices and wages, instituted protections for labour and, in some places, had put in place national welfare systems. The masses were able to exercise power both as labourers and consumers to gain fair wages and prices. For much of the eighteenth century, prices and population were relatively stable and living standards were rising. However, in the latter part of the eighteenth century, locally powerful groups, seeking to enlarge profits by expanding production for export, pressed increasingly for a reorganization of economic relations and freedom of market relationships from legal control.[[1]](#footnote-1) Governments ultimately bowed to their pressure and, having previously allowed changes in the institutions of property and the relationships of production, enclosures of land, and the concentration of capital and landownership, ended their limitations on exploitation for personal profit, protections for labour, including apprenticeship and wage regulations, and the provision of welfare. Europe began to industrialize with no commitment to social welfare and justice.

A key aspect of the transition from relatively nationally-embedded economies to relatively more dis-embedded ones was the half century of war and revolutionary ferment that included two world wars (the ‘Seven Years War’ from 1756-1763, which was simultaneously fought in North America, Europe, India, and the Caribbean, and the ‘Napoleonic Wars’), and a series of revolutions, including the French and ‘industrial’ revolutions.[[2]](#footnote-2) The Great War and the revolutionary currents that had unleashed and been released by it, revealed the dangers of a trained and compact mass army: many analogies were drawn between the mass army of soldiers created in the Great War and the mass industrial army of workers needed for industrial capitalist production. This was the context in which elites throughout the world undertook to mobilize labour for industrial production.

Maintaining the subordination of labour is always a key concern for elites, as evidenced by their great fear throughout history of slave revolts, and peasant uprisings. But the temptation to reorganize production along the lines of industrial capitalism presented elites with a somewhat different dilemma: how to mobilize, train, and educate labour for industrial production while, at the same time, maintaining its subordination to capital. Elites generally chose, everywhere, to very slowly and selectively introduce mechanisation and use methods of production that deskilled workers and kept labour, as a whole, fragmented and poorly paid. However, while restricting the rapid rise of powerful new classes, this raised an addition problem: if the standard of consumption of the mass of the local population remained the same or was reduced, where would consumers be found for the products of expanded production? The overall pattern that emerged, therefore, was an expansion based on production principally for export to foreign ruling groups or areas of ‘new’ settlement abroad,[[3]](#footnote-3) rather than on the growth and integration of local markets. This created the ‘dualistic’ economic expansion that came to characterise industrial capitalism, an expansion based, not on the development of mass purchasing power at home, but on its development among foreign groups and ruling bodies through loans and investment in infrastructure, railroads and armaments. A system of production and exchange of raw materials and manufactured goods developed into which elites of different countries were integrated with the help of British and other European financiers and firms. In sum: to both expand industrial production while, at the same time, maintaining the subordination of labour to capital, required the development of purchasing power and markets *outside the political unit.* This ‘dualistic’ development became the model for industrial expansion throughout the world.

Beginning in the eighteenth century, goods and services were produced principally for an expanding network of elites, ruling groups, and governments in other countries. Britain expanded its shipbuilding, boiler making, gun and ammunition industries, and built foreign railways, canals, and other public works, including banks, telegraphs, and other public services owned or dependent upon governments. Its exports of capital provided purchasing power among foreign governments and elites for these goods and services, and funded the development and transport of food and raw materials exports to Europe, thus creating additional foreign purchasing power and demand for British goods. At the centre of this circuit was the City of London, which like the advanced sector of a ‘dependent’ third world economy worked to build strong linkages between British export industries and foreign economies, rather than to integrate various parts of the domestic economy.

The creation and linking of export sectors in Europe and other regions underpinned a global economic expansion that enriched elites around the world, while leaving traditional social structures largely intact. Throughout the world, this system of production and exchange produced railroads, shipping companies, ports, electric power companies, tramways, telegraphs, and urban water supply companies. These activities – both in Europe and other regions -- created modern sectors, producing sometimes as much as half of the income of the local economy, and affecting only small segments of the indigenous population.

Everywhere, dominant group seeking to increase profits by expanding production confronted the problem of how to realize the value of a rising mountain of goods without a corresponding democratization of consumption at home. How this problem was resolved varied across different societies, according to the type of goods it produced for sale and the relative power of capital and labour. However, similar capabilities, as well as a common system-wide context tended to shape their interaction with labour in similar ways. It is generally the case that elites are interested in adopting the most up-to-date methods of multiplying their revenue, wealth, and power. The success of the British elite in this regard would have been expected to inspire elites elsewhere to emulate British economic, social, administrative, and intellectual trends. Elites (whether in colonies, former colonies, or states that had never been colonies) extended, consolidated and maintained their power and become wealthy, by importing capital and goods, developing mines and raw materials exports, and building railways and ports. They were generally cohesive, had much to gain, controlled immense resources, and were free to deploy them in a sustained pursuit of their aims.

**II. The Re-Embedding of Economies in Europe**

In Europe, as elsewhere, dualistic economic expansion made it possible for elites to increase production and profits without extensive redistribution and reform. However, as more countries began to pursue dualistic, externally-oriented economic expansion, opportunities to expand overseas quickly diminished, and the expansionist aims of European powers began increasingly to focus on Europe itself. When the European balance of power collapsed, a multilateral imperialist war *in Europe* forced governments and ruling elites to do precisely what a century of imperialist expansion *overseas* had enabled them to avoid: mobilize the masses.

In the eighteenth century, governments had relied on the social elite to pay for mercenary troops and to provide military leaders to fight professional wars. The impact of these wars on the social order had been relatively limited. However, participation of the lower classes in the wars fought by Napoleon's mass ‘citizen’ armies and in the mass armies mobilised to fight against them, as well as in areas of work and social life usually barred to them, worked to enhance the power of labour and to strengthen its market position (see Marwick 1980,: chapter 11, Andreski 1968: 33-38). It also compelled governments to ensure their loyalty by extending to them various rights. Thus, after the Napoleonic Wars, and despite the difficulty of raising and maintaining large mercenary forces, there was a return to old-style armies of paid professionals, mercenaries, and 'gentlemen' (Silver and Slater 1999:190). The new weapon introduced by Napoleon was used in 1870 by France and Germany, also with frightening consequences (the rising of the Paris commune), and then not again until 1914.[[4]](#footnote-4)

Many contemporary observers assumed that working-class participation in the war effort represented a victory of nationalism over Socialist solidarity.[[5]](#footnote-5) But this was decidedly not the case. Throughout the war, labour struggles continued unabated and, in many places, increased both in number and intensity. In 1917, millions of workers throughout Europe participated in massive strikes and demonstrations in solidarity with the Russian Revolution. In fact, the war proved to be a watershed in the development of socialism and of organized labour as a force in Europe. At the end of the war, left-wing parties and movements emerged throughout Europe,[[6]](#footnote-6) and trade union membership skyrocketed as unskilled and agricultural labour and women joined the ranks of organized labour for the first time.[[7]](#footnote-7)

By the end of World War I, labour's wartime mobilization and participation had increased its relative power within European societies. Throughout Europe, the mobilization of urban working classes and peasant masses to fight the war had produced stronger, larger, more united and better organized urban and rural labour movements. By 1920, Europe had 34 million trade unionists (Ogg 1930: 759). Skilled and unskilled workers, workers of different occupations, anarchists and socialists, Social Democrats and Communists, revolutionaries and reformists closed ranks (see Cronin 1982: 139, 121). Policies designed to block the rising ‘red tide’ by, among other things, actively aiding and abetting the re-armament and expansion of Germany as a bulwark against Bolshevism (Halperin 2004: chapter 7), led directly to World War II. It was the demand for labour and need for its cooperation for a second European war that compelled a political accommodation of working-class movements.

***Post-War Developments***

In 1914, aggressive imperialist threats on their frontiers forced European states, once again, to use what was then still the most powerful weapon of mass destruction: the *lévee en masse*. The mass mobilizations for World War I set in motion a social revolution that, between 1917 and 1939, swept through Europe. Efforts to prevent its further spread and escalation led directly to the Second World War. At its end, the region was wholly transformed. Previous regional conflagrations had been followed by restorations (e.g., the Napoleonic Wars, the revolutions of 1830 and 1848, and World War I); however, World War II, by shifting the balance of class power throughout Europe, made restoration impossible. Instead, the vastly increased organisational strength and power of working classes and peasant masses, and the decline of the aristocracy as a result of wartime changes, created the conditions for an historic class compromise and for the achievement in Western Europe both of a relatively more nationally embedded capitalism (i.e., a more balanced and internally oriented development) and of democracy.

The class compromise concluded in Western Europe after World War II was based on social democratic and Keynesian goals and policy instruments. It required that social democrats consent to private ownership of the means of production and that capitalists use the profits they realized from this to increase productive capacity and partly for distribution as gains to other groups (Przeworski 1979: 21-63). Wages rose with profits, so that labour shared in productivity gains, making higher mass consumption possible for new mass consumer goods industries. For the first time parties representing labour became legitimate participants in the political process. After 1945, socialists regularly participated in coalition governments in Austria, Switzerland, the Low Countries and the Nordic Countries. Labor and Socialist Parties formed governments and joined ruling coalitions in Britain and France. In Italy, the Christian Democrats brought the Independent Socialist Party into the government in 1963. In West Germany, socialists ruled in coalition with the Christian Democrats from 1966 to 1969, and formed the first Left government in the history of the Federal Republic in 1969.

Post-World War II development in Europe was characterized by sustained growth rather than short-lived windfalls, and by a more equitable distribution of income. No longer based on dualistic expansion, it was the outcome of the performance largely of the society itself rather than of foreign islands of capital.[[8]](#footnote-8) The benefits of this prosperity were very widely diffused. There is near unanimity that, in Britain, income after World War II was distributed more equally than in 1938. Before the First World War (1911-1913) the top 5% of the population owned 87% of personal wealth, the bottom ninety percent, 8%; in 1960, the figures were 75% and 17% (Hobsbawm 1968: 274). In contrast to pre-war economic policies, post-war policies were characterised by a more equitable distribution of income as well as rising income per head. Very large wage increases were conceded by many governments as one of their first acts following the war; and raising the level of employment was treated as a very high priority in the formulation of development strategies and plans, and in the laying down of investment criteria. Sustained investment, balanced growth, the elimination of monopoly, and the production of higher levels of welfare for the population produced broad-based development and unprecedented growth.

In Europe, the re-embedding of economies was achieved as a result of much violence and destruction – by means of revolution (in Russia) and wide-scale, massively destructive war (in all of Europe). In Australia, Canada, and New Zealand the landowning classes were circumscribed from the start, and so revenues were not used solely to enrich traditional landowning classes and their allies as they were in Europe and elsewhere. In the United States, where a strong landowning class developed in the south, a struggle between landowners and industrialists culminated in one of history’s bloodiest civil war and the victory of the industrial capitalist bourgeoisie. As a result, smallholder patterns of land ownership evolved there. In Japan, a massive and spectacularly successful land reform, imposed by the Allied powers after World War II, led to the transformation of its economy and society. The Japanese reform transformed its backward, feudal rural economy, brought about a transfer of political power, and increased the all-round productive capacity of the economy by the creation of substantial effective demand in agriculture and by the increased supply of domestic food and raw materials (Ladejinsky 1959). The same reforms were paid for by the United States and implemented in Taiwan and South Korea. These were the ‘first-world’ and ‘third-world’ countries which were able to participate fully in the historically unprecedented boom of the 1950s and 1960s. However, the changes that had effectively ‘nationalized’ capital and led to the expansion and integration of domestic markets in the ‘first’ and ‘second’ world countries were prevented from occurring elsewhere. Instead, elites and ruling groups in ‘first’ world and newly independent and ‘developing’ states closed ranks to eradicate socialism, contain democracy, and

consolidate dualistic structures in what became, as a result, a vast, global ‘third world’.

**III. Dis-embedding (de-nationalising) Capital: the end of the ‘First’ and**

**‘Second’ Worlds**

The existence of ‘three worlds’ of development following World War II was to represent but a brief interregnum. The adoption of social democratic policies after World War II effectively ended the dualism that once had characterised European economies and enabled them to expand in ways that became associated with ‘First World’ and ‘Second World’ development. However, once socialism had been destroyed in both the ‘third world’ and ‘second world’, Western states began a campaign to reverse their own post-World War II social settlements. In the 1970s, ‘first world’ countries began to roll back the restrictions on capital mobility and to eliminate regulatory agencies and social welfare programs that, after World War II, had produced the conditions of life associated with ‘first world’ development. At the end of the 1980s, the ‘second world’ (the Communist world) adopted similar measures.

With the return to pre-war policies, pre-war transnational spatialities began to re-emerge. Productive resources became concentrated, once again, in cities and sub-state regions, and global trade and technology flows and capital movements were restored to their former prominence. This is what we call ‘globalisation’. Though the features that comprise it are characterized as ‘new’, they are not new but only newly salient; they have not recently emerged, but only *re*-emerged with the adoption by governments of a variety of re-structuring initiatives designed to re-instate (in the ‘first’ and ‘second’ worlds) and deepen and extend (in the ‘third’ world) structures characteristic of pre-war economies..

***The end of the ‘First’ World***

The Keynesian-Fordist compromise that had developed in the US starting with the New Deal required far less of a concession by capital than did the Keynesian social democratic compromises forged in Europe. The US had enjoyed a higher level of domestic investment and faster growth than western European economies (Schonfield 1965: 5-6); and Keynesian policies also functioned as a welfare program for the mass production of armaments which, in the US, had begun in the 1860s and, thereafter, had become an increasingly important part of its economy. Most importantly, US industry had few competitors, so the higher wages conceded as part of its fordist compromise could be paid for by higher prices. By the 1960s, however, competition from Europe and Japan had begun to erode the advantage US industry had enjoyed and to narrow its profit margins (Coates 2000: 28-32). At the same time that international competition began to act as a constraint on pricing, labour militancy and political radicalism in the US as a result of mass conscription for the Viet Nam war, made reducing wages politically untenable.

The introduction of mass conscription for the Viet Nam war increased US domestic opposition to the Cold War and expanded and radicalised its Civil Rights movement. But the US government**,** desperate to prevail in its war in Viet Nam (1955-1975), raised a mass conscript army in the 1960s. In light of Europe’s experience in the world wars, the consequences for the US seem predictable. The war politicized and radicalised masses of people and unleashed powerful pressures to extend and expand civil rights. These pressures undermined the New Deal coalition on which the Keynesian-Fordist compromise with labour rested. This coalition had been forged, in part, on the basis of a North-South agreement to maintain the racial status quo. With the expansion of the Civil Rights movement, wealthy southerners fled the Democratic Party for the Republican Party and, by sowing fear and racism, succeeded in bringing a majority of white Southerners with them. Not only did the delicate balance of power within the new Deal coalition dissolve, but the unity of labour also fractured as rank-and-file members of unions in Northern cities resisted demands to integrate housing, schooling, and unions.

In 1968, a series of uprisings and demonstrations throughout the world marked the beginning of the end of the post-World War II order. In the US, civil rights riots and an escalation of anti-Viet Nam/Cold War protests appeared to be part of a *world revolution* that cut across the tripartite division of the world system at the time – across the west, the Communist bloc and the ‘third world’ (Wallerstein 2006: 84; see also Watts 2001; Arrighi et al. 1989; Harman 1988, Katsiaficas 1987). The impact of these events around the world, the spectacle of social revolutionary activism and of an aggressive counter-revolution in the US, made 1968 a turning point in the post-World War II order. In the US, the activities of anti-Cold War (Viet Nam) and civil rights movements upset the balance of power on which the post-World War II Keynesian compromise depended and began a shift in policies that de-regulated capital and began a broader process of dis-embedding the US economy. In the 1970s, governments in other first world countries introduced measures to eliminate restrictions on capital mobility and dismantle regulatory agencies and social welfare programs. Within a few years, a decisive shift in policy denationalised capital throughout the first world and laid the foundations for a rapid return to transnational capitalism – capitalist accumulation organized beyond the territorial boundaries of the nation state. Needing to borrow abroad to pay both for Viet Nam and for social programs to assuage growing domestic political volatility (the ‘Great Society’) the US, which by 1973 was the world’s largest debtor nation, abandoned the gold standard system and removed its capital controls. Germany also ended capital controls that year and at the end of the 1970s Japan and the United Kingdom ended theirs. The OECD countries and the European Community removed theirs beginning in the early‑to‑mid 1980s. These measures have been characterised as a necessity demanded by the emergence of ‘globalisation’; but government policies were designed, not to adjust to new circumstances but to *promote* them.

Caught in a profit squeeze by competition abroad and labour militancy at home, US capitalists pressed for a shift of policies that would enable them to escape the implications of the Keynesian/Fordist compromise in a ‘sealed-off domestic context’ (Van der Pijl 1998: 119). The lifting of capital controls in the 1970s launched a colossal wave of capital exports. Before this, US capital exports had been relatively small (British capital exports in the nineteenth century had amounted to 10% of GDP; at their peak, those of the US had been around 2% of GDP); and they had supported an overall system of welfare, income equality, and higher wages at home. The capital exports that began in the late 1970s were part of an overall shift involving downsizing work forces and resetting corporate activity ‘at ever lower levels of output and employment’ (Williams et al. 1989: 292). The bargaining power of labour was weakened by making the relationship between firms and workers more ‘flexible’, by subcontracting and outsourcing, plant closings and layoffs, concessionary bargaining and union‑busting, and the internationalization of production through direct foreign investment. By the early 1990s, the deregulation of industry and markets, abandonment of exchange controls, privatization of state assets and curtailment of welfare functions had resolved the crisis by producing growing inequality, rising poverty, and widespread homelessness.[[9]](#footnote-9)

***The End of the ‘Second World’***

By the end of the 1980s, a drastic, ‘shock therapy’ version of these policies was introduced in second world countries and quickly reinstated the dualistic and monopoly capitalist structures that had characterised their economies before the world wars.

In Russia, ‘shock therapy’ policies succeeded in produced an extremely polarized distribution of income, with extreme wealth for a small numbers of citizens, the majority of them former members of the communist party, at one pole, and a very low level of wages, at the other. The deindustrialisation, degeneration and decay produced by these policies have been so extreme as to amount to a virtual ‘demodernization’ of the country (Cohen 2000: 41). The economy is tightly controlled by crony capitalists and criminal syndicates, the export lobby and domestic security services. The Soviet Union had produced industrial goods and manufacturing tools for the developing world; but shock therapy policies swiftly converted Russia into an exporter of natural resources. 70% of total exports in capitalist Russia consists of raw commodities, and the country now imports higher value-added goods it had previously produced for itself (Cooper 2009: 9). Finally, market freedom has produced, not democracy, but an authoritarian super-presidency that recalls the Russian tsarist regime on the eve of the 1917 Revolution, along with elements of tsarist imperialism and the Greater Russia nationalism of the nineteenth century. These features of capitalist Russia are often held to be a legacy of communism; but all of them are characteristics found in capitalist systems throughout history.[[10]](#footnote-10)

Reforms aimed at instituting greater market freedom were introduced in nearly all eastern European countries beginning in the 1960s.Within a decade, these reforms had widened income differentials and produced a class stratification system that became in many ways similar to that of western capitalism (Parkin 1969: 255-74). Yugoslavia, which instituted market reforms earlier and far more radically than the other socialist countries (Landy 1961), also became the most politically volatile among them and the scene of the greatest communal violence. By the end of the 1970s, the economies of east European countries had begun to slow dramatically. To increase the efficiency of their economies, governments imported advanced technology from western countries and borrowed from western banks, governments, and international agencies in order to pay for it. But the slow growth of the world economy in the late 1970s and 1980s made it difficult to repay these loans, and the burden of debt contributed to severe economic crises in Poland, Romania and Yugoslavia, and to increasingly difficult conditions throughout eastern Europe (Tipton and Aldritch 1987: 248-52). In 1989, a wave of demonstrations swept through Eastern Europe. These were the prelude to relatively peaceful ‘revolutions’ which that year brought about a change of government in Poland, Czechoslovakia, the GDR, Romania, and Bulgaria. These revolutions were initiated by elements within eastern Europe’s increasingly de-proletarianized Communist Parties -- those elements that were best positioned to take advantage of marketization and capitalist forms of ownership and who therefore sought to accelerate the conversion of eastern European economies to market systems (See, e.g. Taborsky 1961: 32-37, von Lazar 1966, Tismeneanu 1989: 31, and Lipski 1989-1990: 19-21). The revolutions produced a further decline in living standards and societies became much more visibly stratified. Alongside the new entrepreneurial classes, armies of the unemployed emerged for the first time in the post-World War II order within eastern Europe. The transition rapidly led to massive increases of inequality within individual countries. In 1988, eastern Europe was the most equal region of the world. By 1993, inequality within eastern European countries had far surpassed that of western European and North American countries.

***The Deepening and Reproduction of Dualism in the ‘Third World’***

Many of the changes that scholars have been describing since the 1970s actually represent a return to pre-world war structures. To a large extent, this has been driven by neo-Liberal policies designed to restructure markets and integrate them into global commodity chains. Neo-liberal re-structuring measures have been promoted under different banners. They were introduced in first world countries at the end of the 1970s under the banner of ‘globalisation’; and later, when applied in more brutal fashion in eastern Europe and Russia, they were called ‘shock therapy’ or ‘fast-track’ transitions from socialist to capitalist market systems. They have been promoted more-or-less continually and under a variety of other banners as a means of deepening and extending dualistic economies in the rest of the world (the ‘third world') through ‘structural adjustment', ‘democratization’ and ‘civil society’ initiatives or regime change.

One of the most pervasive and durable beliefs of the post-war era is that economic growth in the countries of the third world will bring about the conditions of life that exist in the advanced countries of ‘the West’. In the 1970s and 1980s, the third world had made little progress towards this goal.[[11]](#footnote-11) However, by the end of the 1980s it appeared that levels of industrialization in the first and third worlds were converging. A number of scholars and practitioners at that time assumed that we would soon be seeing the end of the ‘third world’ as a political, economic, and ideological entity; [[12]](#footnote-12) and in the 1990s, an increasing number of scholars appeared to agree.[[13]](#footnote-13) The basis of their optimism was data on two indices of industrialization -- manufacturing as a proportion of per capita GDP, and ratio of non-rural to total population. These data showed that, according to the first indicator, the ‘third world’ had ‘not just caught up but *overtaken* the “first world” in degree of industrialization’; and that, with respect to the other, ‘it had further reduced the gap by one quarter’ (Arrighi et al. 2003: 15). These data are shown in **Table 1**, below.

**Table 1. Convergence of ‘First’ and ‘Third’ World Levels of Industrialisation:**

**two indices**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **% GDP in % Non-rural**  **manufacturing to total pop.**  **1980 1995 1980 1995** | | | | | |
| **First World**  **Third World** | 24.3  25.6 | 20.4  25.6 |  | 75.4  30.6 | 78.2  42.5 |

Source: *World Bank* 1999

However, despite converging levels of industrialisation, it now appears that the divide in income and wealth between the ‘first’ and ‘third’ worlds is, in fact, widening.[[14]](#footnote-14) It appears, then, that what countries of the third world have achieved since World War II is industrialisation without ‘development’ -- i.e., without the conditions of life that exist in the first world.

Third world countries were never forced, willing, or allowed to adopt the policies that produced broad-based, nationally embedded economic growth in the ‘first’ world and, consequently, remained dualistic after 1945. Since industrialisation produces different outcomes in nationally-integrated and dualistic economies, comparing levels of industrialisation is misleading. In dual economies, leading sectors remain largely alien to other sectors and so restrict the growth of the domestic economy. Consider, in this light, the comparative data on the rural sectors of today’s first and third world countries in **Table 2**, below.

**Table 2. Rural/Agrarian Sectors**

(% of total labour forces in agriculture, % of GDP from agriculture)

THIRD WORLDFIRST WORLD

**Eve of**

**1997[[15]](#footnote-15) 1997 World War I[[16]](#footnote-16)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | % of total  labour force | %  GDP |  | % of total  labour force | %  GDP | % of total  labour force | %  GDP |
| Ethiopia | 86 | 50 | Japan | 7 | 2 | 63 | 38 |
| Nepal | 83 | 40 | France | 5 | 2 | 43 | 35 |
| Kenya | 80 | 26 | Germany | 4 | 1 | 38 | 18 |
| China | 72 | 18 | US | 3 | 2 | 31 | 17 |
| India | 64 | 29 | UK | 2 | 2 | 12 | 8 |
| Indonesia | 55 | 20 |  |  |  |
| Pakistan | 52 | 26 |  |  |  |
| Philippines | 46 | 17 |  |  |  |
| Nigeria | 43 | 32 |  |  |  |
| Peru | 36 | 7 |  |  |  |
| Mexico | 28 | 5 |  |  |  |
| Brazil | 23 | 8 |  |  |  |

Taken together, the sectoral and comparative data presented in Tables 1 and 2 illustrate why industrialisation in the countries of the third world has not brought about the conditions of life found in the first world.

Third world countries that have levels of industrialisation comparable to those of first world countries have achieved this by concentrating productive resources in cities and mobilising them for foreign trade rather than (as in the first world) for the expansion of the domestic market. Consequently, a large proportion of the workforce remains concentrated in low productivity agriculture. For those who are rural and poor, which in many third world countries is the majority of the population,[[17]](#footnote-17) conditions of life are not significantly different than when the industrial age began more than 200 years ago.

**Conclusions: Post-Keynesian accumulation strategies: Re-Integrating the Three Worlds**

Neo-Liberal policies represent a return to pre-Keynesian/Fordist policies. Neo-Liberalism sees itself as the heir to liberalism -- the dominant economic doctrine of the late nineteenth and the early twentieth century -- and its agenda is clearly of ‘nineteenth-century vintage’ (Chang 2003a: 3). It calls for the dismantling of state planning and of government regulation of economic activities. It portrays these policies as ‘new’, and as necessary to meet the challenges of a ‘new’ global world. This masks the fact that, under whatever banner they are introduced, neo-Liberal policies are designed to reconstruct key aspects of the pre-world war international political and economic order and, in particular, its the guarantee of international, as opposed to national, property rights (Lal 2003).

In the third world, neo-Liberal restructuring has been pursued through ‘structural adjustment' programmes, as well as though post-war and post-disaster reconstructions. When Milton Friedman coined the term ‘shock treatment’ or ‘shock therapy’ it was to describe, not only the free-market measures promoted in Russia and eastern Europe, but also the exploitation of a crisis for the same purpose. Like war and ethnic cleansing, crises such as Sri Lanka’s 2004 tsunami and Hurricane Katrina in the US provide a clear field for neo-Liberal restructuring by blocking residents displaced by these disasters from returning and rebuilding.

Neo-Liberal restructuring has also been pursued through ‘democratization’ and ‘civil society’ initiatives. Democratization initiatives have been promoted by business interests with the aim of restoring or creating institutional mechanisms that allow them access to policymaking (Conaghan *et al* 1990). The parliamentary institutions and electoral systems that are counted as successes of these initiatives do not, and are not designed to, facilitate citizen deliberation, participation, and engagement. The achievement of democracy in western Europe and other countries is associated with an increase in the power of working classes relative to that of other classes, a relatively more nationally embedded capitalism, the development of purchasing power among a mass domestic citizen workforce, the expansion and integration of domestic markets and policies designed to increase domestic investment, a more equitable distribution of income, and the resumption by states of the welfare and regulatory functions that they had relinquished at the end of the eighteenth century. But this is not what is being promoted by the democratization initiatives of western governments, NGOs, and international organizations. Nor do these changes feature prominently in the vast literature exploring ‘requisites’ or ‘pre-requisites’ of democracy’.

Nor do civil society initiatives provide the mass of the population with an independent, autonomous voice. Instead, they have promoted institutionalized forms of participation which have worked to strengthen a narrow range of foreign-oriented interests and contribute to the marginalisation or weakening of trade unions, farmers and fishermen’s associations, and ethnic, religious or caste associations.

The changes that occurred in a few areas of the world after the world wars represented a departure from historical patterns of capitalist expansion. These changes were not a natural outcome of industrialisation or rising GDP, but the result of state regulatory policies that made investment and production serve the expansion and integration of national markets. However, this was to be only a brief interregnum. With its end pre-war structures and patterns have quickly re-surfaced. As a result of policies that are restructuring national economic spaces, productive resources are, once again, being concentrated in and by world cities and mobilised for foreign trade. This has restored globalization to its former prominence, along with the transnational flows, networks, and organizations that have always characterised it.

After World War II, the resumption of European states of the welfare and regulatory functions that they had relinquished in the nineteenth century, and pursuit of policies designed to increase domestic investment, produced a more equitable distribution of income and expanded domestic markets. In these states, as well as in Japan and the Asian tigers, there was a relatively broad-based development and unprecedented growth and prosperity. Welfare reforms and market and industry regulation ensured that investment and production served the expansion and integration of *national* markets. However, in what we call the ‘*third world*’, the world wars and the great depression led to a retrenchment of existing structures through corporative arrangements and ‘national’ development projects that reproduced dualism and perpetuated the traditional order on a renewed basis. As a result, after World War II the developmental trajectories of what came to be known as ‘the advanced industrial countries’ and the ‘third world’ began, for the first time, to diverge. But in the 1970s, advanced countries began to roll back restrictions on capital mobility and to eliminate regulatory agencies and social welfare programs. The dominant trend of these changes, which are associated with what we call ‘globalisation’, is towards returning advanced industrial countries to the disembedded economic expansion that characterised them before the crisis of the world wars and the great depression. Consequently, astime goes on, the 1950s and 1960s may appear to have been a brief interlude in the disembedded economic expansion that has characterised industrialisation from the start.

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1. Textile manufacturers were opposed to regulations, taxes, and the welfare system; commercial banks wanted an end to restrictions on the free movement of capital. [↑](#footnote-ref-1)
2. This latter was not so much an ‘industrial revolution’ as it was a reorganization of production relationships and a sharp acceleration of the globalisation of capital. [↑](#footnote-ref-2)
3. Between 1830 and 1914 about 50 million Europeans, 30% of Europe's population in 1830, emigrated to the Americas. The Americas provided markets for European products *overseas, rather than locally*, thus enabling Europeans to expand production without dangerously impacting social relations at home. [↑](#footnote-ref-3)
4. See, for an overview of this issue, Howard 1961: 8-39. Russia conscripted large numbers of men for the Crimean War; but contrast an account of the forces raised for that war (Royle:1999: 91-92) with an account of the French mobilisation in 1870-1871 (Taithe 2001, esp. 6-13, 22-28, 38-47). [↑](#footnote-ref-4)
5. This is an assumption held by many of the historians and social scientists. For instance, Julius Braunthal asserts that 'the spirit of international solidarity [was] superseded by a spirit of national solidarity between the proletariat and the ruling classes' (1967: 355). Joseph Schumpeter saw 1914 as 'socialism at the crossroads' having 'not stood the test' (1950: 353). See, also, E.H. Carr 1945: 20-21. For additional works which concur in this view, see Doyle 1997: 317-319, and esp. p. 318, fn9). [↑](#footnote-ref-5)
6. Socialist parties came to power in Sweden (1920), Denmark (1924) and Norway (1927); the first Labor government took office in Britain at the end of 1923; the Left triumphed in France in 1924; in Belgium and Holland, socialists entered the cabinet for the first time in 1939. [↑](#footnote-ref-6)
7. Trade union membership doubled in Britain (from 4 to 8 million; Geary 1981: 151-55); in Italy, having doubled during the war, it nearly doubled again by 1920 (Maier 1975: 47; see Vandervelde 1925). [↑](#footnote-ref-7)
8. The dualistic, ‘dis-embedded’ economic expansion discussed throughout this paper involves both capital and trade mobility: the dispersal of capital investment and production, and production for international trade at the expense of the expansion of domestic markets. [↑](#footnote-ref-8)
9. One in every ten Americans was receiving federal food stamps. The infant mortality rate for African Americans in the 1990s was 17.7 deaths per 1,000 live births – as compared to Jamaica (17.2), Trinidad (16.3), and Cuba (16) (Bello 1994: 95-7). [↑](#footnote-ref-9)
10. In order to capture the diverse forms of democracy that have emerged along with ne0Liberal restructuring in recent decades, researchers have defined new sub-types: ‘authoritarian democracy,’ ‘neopatrimonial democracy,’ ‘military-dominated democracy’, ‘limited’, ‘oligarchical’, ‘controlled’, ‘restrictive’, ‘illiberal’, ‘guarded’, ‘protected’, and ‘tutelary’ democracy. [↑](#footnote-ref-10)
11. This, and the absence of consensus about the reasons for it, precipitated a ‘crisis’ in the field of development studies. See, e.g. Seers 1979, Caporaso 1980, Hirschman 1981, Sen 1981, Lal 1983, Streeten 1983, Arndt 1987, Toye 1987, Leeson 1988, Mouzelis 1988, Ranis and Schultz 1988. [↑](#footnote-ref-11)
12. This trend of thought probably began with Nigel Harris’s 1986 book, *The End of the Third World: Newly Industrializing Countries and the Decline of an Ideology.* [↑](#footnote-ref-12)
13. See, e.g. Arnold 1993, Hettne 1995, Hoogvelt 1997, Held *et al* 1999: 8, 177, 186-7; Burbach and Robinson 1999, Robinson and Harris 2000. The general argument was that a levelling of the conditions of life in the first and third worlds meant that the geographic breakdown of the world into north-south, core-periphery or First and Third worlds, while still significant’, was ‘diminishing in importance’ (Burbach and Robinson 1999: 27-8). [↑](#footnote-ref-13)
14. In September 1997 the United Nations Conference on Environment and Development reported that

    the total number of people in the world living in poverty has

    increased. Income inequality has increased among countries

    and also within them, unemployment has worsened in many

    countries, and the gap between the least developed countries

    and other countries has grown rapidly in recent years’ (United

    Nations General Assembly, A/RES/S-19/2, 19 September 1997;

    at [www.un.org/documents/ga/res/spec/aress19-](http://www.un.org/documents/ga/res/spec/aress19-)2.htm). [↑](#footnote-ref-14)
15. Data for 1997 for both first and third world: *United Nations Statistics*, 2000; World Bank, *World Development Indicators, 1998*, 1999. [↑](#footnote-ref-15)
16. These are the average of data for Japan (1912), France (1910), Germany (1910), UK (1911), source is Kuznets 1957: 73; and for the US: For the US data for % GDP in Agriculture is for 1904-1913 (Kuznets 1957: 73), for % labour force in agriculture it is 1900 (Dimitri *et al* 2006). [↑](#footnote-ref-16)
17. Rural poor as % of total population in today’s ‘third world’ countries, 1997: Nepal (88), Ethiopia (82), India (72), China (68), Kenya (67), Pakistan (63), Indonesia (59), Nigeria (56), Philippines (41), Peru (27), Mexico (26), Brazil (19). *United Nations Statistics*, 2000; World Bank, *World Development Indicators, 1998*, 1999. [↑](#footnote-ref-17)