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**EXTERNAL DEBT AND CLASS:
A MARXIAN ANALYSIS**

Discussion Paper #27

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EXTERNAL DEBT AND CLASS: A MARXIAN ANALYSIS

"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."

K. Marx¹

1 Introduction

The total external debt of the developing countries at the end of 1984 was estimated at \$812 billion, including short-term debt.² This amount was equivalent to 37.9% of their gross domestic product; debt service (amortization plus interest payments) alone consumed 21.1% of their export earnings. Of the long-term component of these debts (\$714.8), some 54.5% was owed to international private banks and other private creditors located in the advanced industrial nations of the West.

Controversial rescheduling agreements in recent years have demonstrated that several Latin American nations dominate this international debt scene, with the top four borrowers (Brazil, Mexico, Argentina, and Venezuela) located in the region.³ The debt servicing burden for the region as a whole (42.7% of export earnings in 1984) was also the highest in the world. In addition, certain Latin American borrowers have acquired a natural prominence in discussions in the United States of the external debt problem: The nine largest U.S. banks owned claims on just three borrowers (Brazil, Mexico, and Argentina) in mid-1982 totaling \$30.5 billion -- or 112.5% of those banks' total capital.⁴

¹"Results of the Immediate Process of Production," in Capital, vol. 1, pp. 1050-51.

²The basic sources for developing country debt are the International Monetary Fund, World Economic Outlook and International Financial Statistics; World Bank, World Debt Tables; and Organization for Economic Development, External Debt of Developing Countries. Unless otherwise noted, the estimates in this and the following paragraph come from the IMF's World Economic Outlook (1984).

³See Table 1 in the Appendix.

⁴Statement of Paul A. Volcker, Chairman of the Board of Governors of the Federal Reserve System, to the Committee on Banking, Finance, and Urban Affairs of the House of Representatives, February 2, 1983, p. 76.

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In the particular case of Argentina, external debt rose more than fivefold between 1975 and 1984, from \$7.9 billion to \$45 billion.⁵ The debt-service ratio before the most recent rescheduling under the Alfonsín government reached 58%. Roughly 80% of the total external debt was borrowed from private banks, although U.S. creditors accounted for only 30% of private bank lending to Argentina.

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 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% of annual net long-term capital flows. The 1970 figure had declined slightly to 34.2% but by 1977 it had fallen to 19.3%. The composition of capital movements to Latin America and, in particular, Argentina changed in a similar fashion: The ratio of net direct investment to net long-term capital for Latin America as a whole fell from 137.2% in 1960 to 20.9% in 1977; the corresponding figure for Argentina declined from 166.9% to 36.7%. Official lending suffered a similar relative decline across the board during the same period. The share lost by those two items was taken over, then, by debt-creating flows of capital on commercial terms, especially private bank lending.

Few would deny on the basis of such data that the international economic relations of developing countries have changed dramatically in the past decade and that the external debt situation of these countries, especially Latin America, reached crisis proportions during the same period. However, it is not enough to cite shocking statistics on current account deficits or levels of external debt, as if the facts could speak for themselves, revealing their significance through a neutral economic theory.⁶ Rather, all economic "facts" exist and acquire meaning only in and through a particular theory. And each theory will understand those "facts" differently, depending on the concepts used to produce and make statements about 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 tradition. Even the data collected, as we show below, are beholden to

⁵See Table 2 in the Appendix.

⁶Much the same point is made by Edmar Lisboa Bacha and Carlos F. Diaz Alejandro, "International Financial Intermediation: A Long and Tropical View," Essays in International Finance No. 127 (International Finance Section, Department of Economics, Princeton University, May 1982), p. 14.

the categories that make up this particular framework of analysis. This 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 in terms of its ability to finance the so-called "foreign-exchange" and "savings" gaps. Alongside this orthodox tradition, an alternative mode of analysis has emerged focusing on unequal power relations among the various nations that make up the international economy. International economic relations, according to this "radical" approach, 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, located in the developed nations.

Of course, such different perspectives on external debt, not to mention the other international trading and investment relations among nations, have served as the basis for an extended debate about the role of developing countries in the world economy. Does international financial intermediation involve capital flows that benefit both the advanced industrial nations of the West and the less-developed nations of the Third World, both directly and indirectly? Or do international loans from developed to developing nations trap the latter in an exploitative web of financial commitments that distort their short-term development prospects and undermine the prospects for development in the long run?

This essay participates in this debate concerning the effects of international economic relations. However, it marks a sharp departure from the two other approaches by elaborating a specifically Marxian theory of external debt. Instead of starting with individual choice or unequal power relations, Marxian theory makes class processes (the performance, appropriation, and distribution of surplus labor) central to its analysis of external debt. It focuses on exactly those class aspects of the "debt crisis" that have been left out by other accounts. Because of this different starting-point, the Marxian analysis of international lender/borrower relations understands the structure and implications of these relations in a manner quite different from both "orthodox" and "radical" accounts.

The first section of this essay is a relatively brief analysis of the basic differences among these three approaches to external debt. Each approach is analyzed and related, in turn, to a different theory of international development as a whole. A long second section elaborates in some detail the Marxian analysis of external debt. The class processes that are involved in typical international lender/borrower relations are picked out and analyzed in terms of the various non-class processes that shape them and are shaped by them.

Concrete examples of this alternative approach are elaborated on the basis of the Argentine experience during the period 1976-1983. A short concluding section presents some of the specific implications of this Marxian analysis of external debt.

2 Alternative Approaches to External Debt

There are three basic approaches to external debt that can be roughly grouped under the convenient shorthand terms orthodox, radical, and Marxian. The purpose of this section is to present briefly the main elements of each approach and to highlight the particular contribution of a specifically Marxian approach to external debt.

The Orthodox Approach

According to the orthodox approach, borrowing from foreign sources by Third World countries is understood to form 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."⁷ 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 to be 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 of goods and services, 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

⁷The classic reference is Hollis B. Chenery and Alan M. Strout, "Foreign Assistance and Economic Development," American Economic Review 56 (September 1966): 679-733.

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

[i]n 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.⁸

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; they also indirectly promote economic growth and development throughout the world economy. Overcoming the foreign capital bottlenecks of developing countries means, within this framework of analysis, that international trade and world economic growth are thereby simultaneously promoted. Thus, for example, the availability of foreign credits for developing countries during the 1970s, especially after the first "oil shock," it is argued, 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 the developed and less-developed nations that make up 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.⁹ The object of development, according to this approach, was to transform the small "modern sector"

⁸William R. Cline, International Debt and the Stability of the World Economy (Washington, D.C.: Institute for International Economics, 1983), p. 9.

⁹The general orthodox approach to development is analyzed and distinguished from the radical and Marxian approaches to development by Stephen Resnick, John Sinisi, and Richard Wolff, "Class Analysis of International Relations," pp. 87-123, in W. Ladd Hollist and F. LaMond Tullis, eds., An International Political Economy, International Political Economy Yearbook, vol. 1 (Boulder: Westview Press, 1985).

within developing countries into an "engine of growth." Orthodox development economists supported the transfer of capital and technology through direct investment, aid, and credit from developed nations to this modern sector (with the object in some cases of transforming the traditional sector itself). Growth would ensue, at least partly in response to this transfer, and allow 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 was seen to be the result. Obstacles to this untrammelled flow of capital on either side, for example through nationalizations or a decline in aid-giving, were 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.¹⁰ And the emergence of the "debt crisis" in the 1980s, especially in the aftermath of the Mexican difficulties in 1982, only served to exacerbate the differences, especially with respect to the origins of the debt crisis and proposed policy measures. With respect to the origins of the crisis, the debate continues concerning whether recent increases in external debt can be attributed to debtor countries living "beyond their means" (for example, in using foreign loans to augment consumption instead of investment) or to externally induced terms of trade, recession, and oil-price shocks.¹¹ Proposed policy measures, especially considering the role of International Monetary Fund (IMF) "conditionality" in many recent refinancing and rescheduling agreements, has produced even more diversity among proponents of the orthodox approach. However, notwithstanding these specific differences, the general orthodox approach to external debt remains centered on the notion that loans and other foreign capital flows represent a positive resource transfer from capital-rich to capital-poor countries and that economic growth throughout the world economy is the more or less natural consequence of this transfer.

¹⁰In fact, one long-standing critic of the benefits of foreign aid for developing country growth continues to plead his case. See P. T. Bauer, Reality and Rhetoric: Studies in the Economics of Development (Cambridge: Harvard University Press, 1984).

¹¹See, e.g., Albert Fishlow's critique of Cline's analysis of the external debt crisis: "Revisiting the Great Debt Crisis of 1982," in Kwan S. Kim and David F. Ruccio, eds., Debt and Development in Latin America (Notre Dame: University of Notre Dame Press, forthcoming).

The Radical Approach

An unorthodox, "radical" approach to external debt has emerged alongside the orthodox approach presented above. According to this alternative approach, external debt takes its place alongside other flows of capital from advanced industrial, "core" to less-developed, "peripheral" nations as a form 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/early-1970s as a critique of foreign aid and foreign direct private investment in the Third World. Both foreign aid and foreign 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. Multinational corporate investment, in addition, resulted in profit repatriations and, therefore, in the "foreign exploitation" of the periphery by the core. Supranational lending agencies (especially the World Bank and the International Monetary Fund) were seen as partners in this exploitation.¹² 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.

During the late 1970s and the early years of the present decade, with the relative decline of both aid and investment in 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. In the new situation, interest payments to the private creditors in the dollar and Eurodollar markets take the place of profit repatriations in transferring a surplus from the periphery to the core and creating a form

¹²See, e.g., the studies of both institutions by Cheryl Payer: The Debt Trap: The International Monetary Fund and the Third World (New York: Monthly Review Press, 1974) and The World Bank: A Critical Analysis (New York: Monthly Review Press, 1982).

of "debt-peonage."¹³ And, in the case where countries fall behind on repayment of the debt, the conditions established by the IMF (or by the private bank creditors themselves) are such that the "poor" are eventually forced to shoulder the debt burden.

Whereas external debt is a mechanism for increasing international wealth through resource transfers from developed to developing nations in the orthodox story, it becomes a means for extracting wealth from the peripheral countries and, ultimately, from the "super-exploited" poor within the periphery by core countries in the radical story.

This radical approach to external debt is, as its orthodox opposite, rooted in a more general theory of development and international economic relations. According to the radical framework, international economic relations are ruled by unequal power relations among and between the countries that operate within the world economy. International economic relations are conceived to be 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, the radicals see the exploitation of one set 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 the 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.¹⁴ The result is that the free flow of capital and commodities in international markets, instead of leading to world-wide economic growth as in the orthodox approach, serves to drive a deeper and deeper wedge between developed and underdeveloped, core and periphery nations. External debt represents merely the most

¹³See, e.g., R. Peter DeWitt and James F. Petras, "Political Economy of International Debt: The Dynamics of Financial Capital," pp. 191-215, in Jonathan David Aronson, ed., Debt and the Less Developed Countries (Boulder, CO: Westview Press, 1979).

¹⁴This model of "extraverted" and "autocentric" development runs throughout the work of Samir Amin; it is presented in summary form in his "Accumulation and Development: A Theoretical Model," Review of African Political Economy, no. 1 (1974), pp. 9-26.

recent form of this "foreign exploitation" of the periphery.¹⁵

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 and, if they are "responsibly" used, they serve to enhance development throughout the world economy. This view of external debt is ultimately linked to notions of capitalism and of capitalist international economic relations as providing the environment within which individual rational decision-making -- individual choice -- can secure economic growth and development for all nations in the world economy. Developing countries benefit directly from the freedom of individuals to buy/sell commodities and borrow/loan capital within international markets. All nations ultimately occupy an equal status in benefiting from this free international flow of capital and commodities.

The radical story is, of course, very different. External debt, according to this alternative approach, 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 worsens the possibility for development in the Third World and enhances development in the advanced industrial countries. Therefore, external debt is one of the mechanisms (alongside foreign aid, foreign direct private investment, and unequal commodity exchange) which derive from the existence of unequal power relations. These unequal power relations serve, on the radical view, as the essence of capitalism and international capitalist economic relations, much as a particular notion of human nature is the ultimate determinant of capitalism in the orthodox approach. The result of this unequal exercise of power is that the gains from the world accumulation of wealth are distributed unequally between the two blocks of nations that participate in the capitalist world economy.

A Marxian Alternative

The Marxian approach to external debt differs from both of these alternatives. First, it begins to construct its analysis of international flows of capital and commodities, and of capitalism in general, on the basis of a particular notion of class as the production, appropriation, and distribution of surplus labor. Marxian theory starts with this specific notion of class in contrast to individual choice or unequal power relations, as in the other two approaches. This class

¹⁵See, e.g., Arthur MacEwan, "The Current Crisis in Latin America," Monthly Review 36 (February 1985): 1-18.

aspect of social reality is either neglected (in the orthodox approach) or differently defined (as a form of political power, in the radical story) in non-Marxian theories.

Second, Marxian theory steadfastly refuses to essentialize its notion of class, to make it the most important or only determinant of social reality from which all other aspects are derived. Individual choice and unequal relations of power serve as just such essences of capitalism and capitalist international economic relations in the alternative approaches elaborated above. In fact, among the specific aims of this Marxian approach are (1) to clearly distinguish between the class and non-class processes that are conceived to make up social reality and (2) to analyze the particular ways in which the class processes are shaped and influenced by other economic, political, and cultural non-class processes, and vice versa.

Finally, the Marxian notion of development distinguishes this approach from the other two. Development is specifically not defined as the accumulation and distribution of wealth in the form of use-values -- whether equal, as in the orthodox story, or unequal, as in the radical story. Rather, development is defined in Marxian theory as the social changes produced by the interaction among and between the class and non-class processes that together make up social reality. International development, in particular, involves the continual interaction among and between the class and non-class processes that together make up "developed" nations, "developing" nations and the relations between those two groups of nations.

These three theoretical differences serve as the basis for three fundamentally different approaches to external debt. We turn, then, to our exposition of a specifically Marxian analysis of external debt.

3 A Marxian Approach to External Debt

In this section we elaborate a Marxian approach to external debt. To that end, the first task of this section is to present in summary form the main concepts of the interpretation of Marxian theory which serve as the basis for analyzing external debt.

Marxian Theory

Marxian theory can be distinguished from other social theories on the basis of two main elements. First, Marxian theory makes a particular notion of class central to its analysis of social reality. Second, the relationships between the various class and non-class processes of any particular society are understood in terms of a complex pattern of mutual effectivity or "overdetermination."

Marx defined the class process as the particular social process whereby surplus labor is appropriated from its direct producers, the performers of that surplus labor. These direct producers are conceived to perform both necessary labor (labor necessary to reproduce their social existence as direct producers) and surplus labor (labor performed above and beyond necessary labor). 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, slave, feudal, etc.) are the various results of different configurations of such non-class social processes. Each particular class process is conceived to exist only as an effect of such different configurations.

The capitalist class process, in particular, is defined as the appropriation of surplus labor in the form of surplus value.¹⁶ The source of this surplus value is, as Marx discussed at length in the first volume of Capital, 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 sellers of labor power), the labor performed in the course of producing capitalist commodities creates a quantity of 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 for doing nothing. This is Marx's particular definition of capitalist exploitation.

Thus, the process of performing and appropriating surplus labor in the form of surplus value defines two class positions: the creators of surplus value ("productive laborers" in Marx's terms) and the initial appropriators of that surplus value (what Marx called the "functioning" or "industrial capitalist"). This process of performing and appropriating surplus value can be called the capitalist fundamental class process.

This notion of the capitalist fundamental class process picks out only one social process from among the myriad social processes that together make up the social life of human beings. It is conceived to exist and form part of some social activities

¹⁶The feudal class process, in contrast, involves the appropriation of surplus labor in the form of feudal rent (in kind, in labor, or in money). The different class processes are defined, then, in terms of the different ways in which surplus labor is pumped out of the direct producers. This Marxian definition of class process is discussed in more detail by Stephen Resnick and Richard Wolff, "Classes in Marxian Theory," Review of Radical Political Economics 13 (Winter 1982): 3-22.

within capitalism only in so far as other social processes are in place. The effects of these other economic, political, and cultural processes are conceived to shape the capitalist fundamental class process in a precise way: They "overdetermine" it.¹⁷ The performance and appropriation of surplus labor is constituted (overdetermined) by economic processes such as the purchase and sale of commodities and legal tender; by political processes such as the adjudication of disputes concerning contracts and private property; and cultural processes such as religion and education. The list is endless. The point here is simply that the capitalist fundamental class process is overdetermined by (and, in turn, participates in the overdetermination of) the other, non-class processes that distinguish one capitalist society from another. One of the aims of a Marxian analysis is to distinguish clearly and specify the mutual constitution among the class and non-class processes that make up different capitalist societies.

An additional task of Marxian theory is to extend the analysis of class to consider the distribution of surplus labor. In the case of capitalism, once surplus value is appropriated by the industrial capitalist it is distributed to finance some of those social processes that overdetermine the capitalist fundamental class process. For example, the industrial capitalist may distribute portions of the appropriated surplus value to such individuals as merchants, money-lenders, stockowners, and state officials who participate in processes that secure the "conditions of existence" of the original appropriation of surplus value. This process of distributing and receiving surplus value, as against the process of performing and appropriating surplus value, can be called the capitalist subsumed class process.

Finally, individuals may earn income or receive revenue in activities that include neither fundamental nor subsumed class processes. Such flows of value, which do not represent the sale of productive labor power, the direct appropriation of surplus value, or the initial distribution of surplus value, are viewed as non-class payments.

To illustrate these concepts, consider a typical industrial capitalist enterprise, that is, an enterprise in which means of production (with a value of c) and labor power (whose value

¹⁷The concept of overdetermination was originally borrowed from Freud by Althusser as the basis for a non-deterministic interpretation of Marxian theory. It has been subsequently transformed and extended by Resnick and Wolff. See, e.g., Louis Althusser, "Contradiction and Overdetermination," For Marx (New York: Vintage, 1970) and Stephen Resnick and Richard Wolff, "Marxist Epistemology: The Critique of Economic Determinism," Social Text, no. 6 (Spring 1983), pp. 37-72.

is v) are combined to produce capitalist commodities. Surplus value (SV) is appropriated from productive laborers and distributed by the industrial capitalist in the form of subsumed class payments ($\sum SC$). One of the particular conditions of existence of this enterprise, especially in the context of competition with other enterprises, may be the accumulation of additional means of production (Δc) and labor power (Δv). Thus, one of the specific subsumed class distributions of value made by the industrial capitalist will be directed to this accumulation of "productive capital." Therefore, the class revenues and expenditures of the industrial capitalist enterprise may be written as

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

where $\sum \overline{SC}$ represents all subsumed class distributions of appropriated surplus value other than to the accumulation process.

In general, the class structure of capitalism is made up of the fundamental class positions of productive laborer and industrial capitalist, as well as numerous subsumed class positions. Individual human beings may occupy one or more of these fundamental class positions during the course of a day, a year, or a lifetime. The Marxian class analysis of a particular capitalist society must encompass the existence of and, therefore, occupation of positions in fundamental and subsumed class processes, as well as non-class processes. Each of these processes and positions is conceived to interact with and hence overdetermine all of the others. The goal of the Marxian analysis of any particular social event or institution is to construct an understanding of just this complex interaction.

The aim of the remainder of this section is to present the basic concepts of and to begin such a Marxian analysis of external debt. This Marxian theory is used, in turn, to analyze selected aspects of the particular case of external debt in Argentina during the period of the military governments, 1976-1983.

The Industrial Capitalist

We can 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 in volume 3 of Capital, an initial sum of money (M) is lent to an industrial capitalist who is obliged to repay a sum of money (M') greater than the money originally

advanced, in the form of amortization and interest payments.¹⁸ The money-capital itself is a non-class revenue to the industrial capitalist, thereby allowing the capitalist to overcome the restrictions imposed by the strict equality between surplus value and subsumed class payments illustrated in equation (1). The flow of interest payments to the creditor represents a transfer of previously extracted surplus-value in return for the use of the money as capital (to make commodity purchases of means of production and labor-power) during a specified period of time. The 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 one of the conditions of existence of the extraction of surplus value. Therefore, following Marx's reconceptualization of the so-called "Trinity Formula," the flow of interest payments from the industrial capitalist to the finance capitalist involves not a fundamental class process of extracting surplus value but a subsumed class process of the initial distribution of a portion of surplus value appropriated from productive laborers.¹⁹

A class analysis of the interest payments generated by lending money to an industrial capitalist in another country should present no further difficulties. The unequal exchange of value in the form of money between, say, Citicorp and an Argentine industrial capitalist 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 US bank. Therefore, the foreign profits, P_f , of the US (or German, English, etc.) lending agency represent subsumed class interest revenue, SCR, in return for providing an economic condition of existence of the exploitation of Argentine workers, or

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

Such flows of subsumed class revenue will also be generated by loans from a large variety of 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 being made to an industrial capitalist to secure 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.

As far as the industrial capitalist borrower is concerned, the subsumed class interest payments to the lending agency

¹⁸See, e.g., Karl Marx, Capital, vol. 3 (New York: International Publishers, 1967), pp. 476-519 and passim.

¹⁹Marx, Capital, vol. 3, pp. 814-31.

represent one of the distributions of appropriated surplus value. In the case where the borrowed money capital is transformed into commodity purchases of means of production and labor-power, that is, that productive capital is accumulated, and all other subsumed class distributions of surplus value remain constant, the upper bound on the quantity of interest payments is the increased quantity of surplus value (ΔSV) extracted. Therefore, the rate of interest received by the lender (i) cannot be greater than the rate of self-expansion of the value of the debt (ΔD), or

$$(3) \quad i \leq \Delta SV / \Delta D.$$

Any deviation of i from $\Delta SV / \Delta D$ will cause an increase or decrease in the other subsumed class distributions of surplus value: A lower interest rate, for example, from concessional borrowing, will allow other subsumed class payments to increase. Alternatively, a rise in the rate of interest on variable-rate loans may lead to a decrease in other subsumed class payments, including the enterprise's retained earnings. Therefore, even in the case where private external borrowing leads to an 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 Argentine workers.

We can begin to explore the effects of such foreign borrowing on the domestic accumulation of capital in the following manner.²⁰ Under the present assumptions, the industrial capitalist borrower uses the foreign funds to expand the capital accumulation process. Therefore, equation (1) is expanded 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

$$(1') \quad SV + \Delta D = \Delta c + \Delta v + iD + \sum \overline{SC}.$$

The transformed equation (1') can be solved for capital accumulation as

$$(4) \quad \Delta c + \Delta v = SV + \Delta D - iD - \sum \overline{SC}.$$

²⁰Here we focus on the process of accumulating productive capital. However, such a focus should not be interpreted as meaning that the accumulation of capital is the only or most important process involved in reproducing the fundamental class position of the industrial capitalist. It is only one of the many conditions that may be financed by a subsumed class distribution of surplus value. Others include managerial supervision, access to the means of production, sales, and the adjudication of contract disputes. The singling out of the accumulation of capital is for illustrative purposes only.

The rate of productive capital accumulation can be obtained by dividing through by $c+v$:

$$(5) \quad \frac{\Delta c + \Delta v}{c+v} = \frac{SV}{c+v} + \frac{\Delta D}{c+v} - \frac{iD}{c+v} - \frac{\sum \bar{SC}}{c+v}.$$

Assume that a constant proportion of total capital ($c+v$) is held as debt. This ratio is $\alpha = D/(c+v)$. Since α is assumed constant, equation (5) can be simplified by noting that $\Delta D = \alpha(\Delta c + \Delta v)$. In addition, let $K^* = (\Delta c + \Delta v)/(c+v)$, $p' = SV/(c+v)$, and $\lambda = \sum \bar{SC}/(c+v)$. Substituting these expressions into (5) yields

$$(6) \quad K^* = p' + \alpha K^* - \alpha i - \lambda.$$

Finally, solving (6) for K^* yields the industrial capitalist's rate of accumulation on the basis of foreign borrowing:

$$(7) \quad K^* = \frac{p' - \alpha i - \lambda}{1 - \alpha}.$$

This equation shows that the rate of capital accumulation by the industrial capitalist enterprises is affected by the rate of appropriation of surplus value (p'), the "gearing" ratio (α), the rate of interest on foreign borrowing (i), and the rate of its subsumed class distributions of surplus value to secure the other conditions of existence of the fundamental class position (λ). In particular, a decision to increase foreign debt can positively affect the rate of capital accumulation if the interest rate is less than the difference between the value rate of profit and the other subsumed class demands on surplus value extracted from productive laborers. It is also obvious that, everything else held constant (including λ), an increase in subsumed class interest payments will lower the rate of accumulation.²¹

This initial instance of external borrowing by industrial capitalist enterprises for the purpose of accumulating productive capital requires, in addition, a reconceptualization of the traditional balance of payments statements. The interest payment component of "services" on the current account include, based on the analysis above, subsumed class flows of value from Argentine industrial capitalist enterprises to foreign creditors. This class-theoretic analysis of the balance of

²¹These two results can be seen by differentiating equation (7) partially with respect to α and i :

$$\partial K^*/\partial \alpha = (-i + p' - \lambda)/(1-\alpha)^2 \gtrless 0 \text{ iff } i \lessgtr p' - \lambda, \alpha \neq 1 \text{ and}$$

$$\partial K^*/\partial i = -\alpha/(1-\alpha) < 0, \alpha < 1.$$

payments 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, do not represent any form of "foreign exploitation." Rather, international money-lending secures a condition of existence of the domestic exploitation of Argentine workers; a portion of the surplus value extracted from Argentine workers is, in turn, distributed to foreign creditors for securing this particular condition of existence.

Second, since these interest payments are predicated on the prior extraction of surplus value from Argentine workers, a surplus in the remainder of the current and capital accounts will not, in general, solve the payments imbalance stemming from such interest payments. Only in the case where merchandise exports realize the surplus value pumped out of the direct producers and/or new borrowing occurs to make 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.²² Although both the original loan and subsequent interest payments appear in the balance of payments accounts (if and when the central bank or other authorities are properly notified), what passes in the interim -- and therefore the class structure and effects of the debt service -- is obliterated.

Finally, even though debt service payments do not represent foreign exploitation,²³ the rise in subsumed class interest payments may create the conditions for an eventual rise in the exploitation 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. According to the orthodox approach surveyed in the previous section, foreign capital inflows in the form of foreign direct private investment represents such a credit entry. Therefore, attempts to solve an imbalance of external payments may take the form of policies that promote foreign direct investment and, therefore, lead to an increase in the extraction of surplus value by foreign citizens.

²²In the former case, the prior exploitation of Argentine workers must have taken place before the commodity is exported; the commodity export allows the industrial capitalist enterprise to realize the surplus value necessary to make the subsumed class payments of interest. In the case of new debts, the extraction of surplus value is merely postponed until a later date.

²³In fact, as noted in the introduction, external borrowing has grown in relative importance in the total amount of foreign capital flows to developing countries, including Argentina, largely at the expense of foreign private direct investment.

Other Borrowers

The immediately preceding analysis was concerned only with private industrial capitalist borrowers of external funds, and only for the purpose of expanding the accumulation of productive capital. However, the current external debt of most developing countries has involved the participation of borrowers other than industrial capitalist enterprises and has been directed into areas 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.) In the specific case of Argentina, net borrowing by all three of these groups increased substantially during the period 1976-1983.²⁴ 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 (for example, YPF, the Argentine state petroleum corporation) generate subsumed class interest payments to foreign creditors in the same sense that loans to private industrial capitalist enterprises generate such payments. 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 have changed, including ownership of the means of production by the state, 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.

Thusfar in our analysis, the foreign profits of lending agencies represent subsumed class income by virtue of their occupying a class position subsumed to the capitalist fundamental class process of extracting surplus labor in the form of surplus value. In general, the class nature of the interest payments (whether foreign or domestic) depends on the class position of the borrower of money. Money-lending, which does in fact

²⁴See Tables 3 and 4 in the Appendix.

involve the self-expansion of value in the form of interest payments in all cases, and therefore appears to be an independent form of capital, only attracts a subsumed class distribution of surplus value when the borrower occupies the position of industrial capitalist (whether in the state or in private enterprises). Foreign profits earned from the lending of money to government agencies and private enterprises other than industrial capitalist enterprises changes the class nature of the interest payments that make up those profits. In those cases, neither the extraction of surplus value nor its direct distribution as subsumed class revenue is conceived to take place. Because the money is not deployed by the borrower to secure a condition of existence of the extraction of surplus value, whether or not it is relent to industrial capitalists or deployed for some other purpose, the lending agency occupies a non-class position and the interest payments represent a non-class flow of revenue from borrower to lender. In these instances neither the extraction nor initial distribution of surplus value is involved and the foreign profits of the lending institution are augmented by the non-class flows of revenue, NCR, in the form of interest receipts. The expanded foreign profit equation for the creditor is

$$(8) \quad P_f = SCR + NCR.$$

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 has been changed. The fact that international money-lending generates interest payments on external debt does not by itself indicate the class structural form of that debt.

According to this class-theoretic approach, then, interest payments on the external debt of Argentina or any other developing country would most likely 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 revenue. Therefore, typical balance of payments data need to be further reconceptualized to include these two different flows of value. In particular, the non-Marxian division of external debt and debt service payments into "official" and "private" can be reinterpreted in terms of the Marxian distinction between subsumed class (ΣSC) and non-class (ΣNC) payments. Figure I represents a first approximation to this end. Official debtors are broken down into government, excluding state industrial capitalist enterprises (G), and state industrial capitalist enterprises (Ks), while private debtors would include non-industrial (B) and industrial capitalist (KP).

Table I
Class Structure of External Debt and Debt Service

| Borrower | | Interest Payments |
|----------|----|-------------------|
| Official | G | \approx NC |
| | Ks | \approx SC |
| Private | B | \approx NC |
| | Kp | \approx SC |

To be clear, the non-class nature of debt service payments from non-industrial capitalist borrowers is not meant to imply that their debt and their debt service payments are any less important for the course of development of the country concerned in general or, in particular, for the reproduction over time of the capitalist fundamental class process. In fact, the task of Marxian theory is not only to clearly distinguish the fundamental class, subsumed class, and non-class aspects of social reality but also to analyze their complex mutual effectivity. For example, external government borrowing (leaving aside for the moment borrowing by state industrial capitalist enterprises) does not involve the creation of debt by an industrial capitalist and, therefore, the interest owed to the foreign creditor represents a non-class claim on government revenue. However, the expenditure of those loans are conceived to have various important effects on the class (and non-class) processes of the country in question. The government, among other activities, may turn around and 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 a claim by the government itself 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 capitalists. Although the government may make expenditures that create a subsumed class position for itself on the basis of foreign borrowing, the interest payments it makes to the foreign creditors represent non-class payments.

As another example of the effectivity of the different class structural forms of debt, consider the private debt of industrial capitalists that is covered by a government guarantee. Such official guarantees are often important conditions for international borrowing by residents of developing countries. However, in the case of industrial capitalist

borrowers, the interest payments remain subsumed class distributions of appropriated surplus value. Only when, in the event of a perceived failure of the private borrowers to maintain debt service payments, the government itself is forced to assume the servicing obligation, do the interest payments become non-class flows of value. In that case, one claim on appropriated surplus value is eliminated and, unless the debt servicing is financed out of taxes on industrial capitalist enterprises, the debt burden will tend to fall on individuals occupying other class positions of the country. Other subsumed class claimants on distributions of surplus value (merchants, domestic money-lenders, internal management, etc.) may, in turn, support such a class transfer of the debt burden.

Similar examples could be elaborated for 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 their ability in capturing the differential between the foreign interest-rate at which they borrow and the domestic rate at which they can lend. They may expand their lending activities to domestic industrial capitalist enterprises not able to participate directly in the international money markets, thereby providing access to foreign exchange and/or lowering the domestic interest-rate to industrial capitalist borrowers through the increase in the supply of loanable funds. In this case, the domestic commercial bank creates a subsumed class claim on domestically appropriated surplus value and services its own international borrowing in the form of non-class payments.

Argentine External Debt

The important point here is that "non-class debt" may have significant class effects. In the contemporary literature, the most discussed (although not in the terms elaborated here) examples concern the conditions for debt rescheduling. Foreign recipients of non-class interest payments may form alliances with foreign elected officials, central bank officers, foreign industrial capitalists, international multilateral lending agencies, and other foreign residents to demand that the government of the borrowing country enact a "stabilization 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), and forcing down real wages with the aim of lowering inflation and promoting exports. The most common measures advocated involve some combination of restrictive fiscal and monetary policies. Such policies may have the contradictory effects of undermining certain conditions of existence of industrial capitalist enterprises and of increasing the extraction of surplus value.

Argentina found itself in such a situation at least three times in the recent past: at the beginning (1976) and end (1982) of the period of military governments, and then under the new civilian government (1984). In all three cases the story was more or less the same. Debt service payments to foreign creditors were significantly behind schedule and/or temporarily suspended. The International Monetary Fund and the consortia of private bank lenders to Argentina were charged with the responsibility of working with the government in power in drawing up a "stabilization" program to create the conditions for resuming repayment. We focus here on the first case, the policies of the military government initiated in 1976.

Although there were other important considerations in formulating them, the policies enacted by President General Videla and Economics Minister Martinez de Hoz starting in 1976 (the so-called "Program for the Recovery, Correction and Expansion of the Economy") were aimed in part at satisfying external creditors; they were also similar to policies implemented elsewhere in the context of debt servicing problems.²⁵ The main policy measures of that "free market experiment" have been analyzed elsewhere.²⁶ They included the following:

- a decline in government expenditures, government personnel, and public investment, and the sale of certain government enterprises;
- a general lowering of tariff levels (immediately decreasing the maximum from 210% to 100%, with the objective of lowering all tariffs to 20% by 1984) and elimination of the agricultural export withholding tax;
- financial reform, including freeing interest rates and loosening restrictions on opening new financial institutions and on mergers and transformations (e.g., from a finance company to a commercial bank);
- a new, more liberal foreign investment code;

²⁵See, e.g., the essays by Malan (on Brazil) and Ffrench-Davis and Arellano (on Chile) in Ricardo Ffrench-Davis, ed., Relaciones Financieras Externas y Su Efecto en la Economía Latinoamericana (Mexico: Fondo de Cultura Económica, 1983).

²⁶See, e.g., Adolfo Canitrot, "Discipline as the Central Objective of Economic Policy: An Essay on the Economic Programme of the Argentine Government Since 1976," World Development 8 (1980): 913-28 and Adolfo Ferrer, "The Argentine Economy, 1976-1979," Journal of InterAmerican Studies and World Affairs 22 (May 1980): 131-62.

- a suspension of all unauthorized trade union activity;
- a series of pre-announced mini-devaluations (the "tablita").

The immediate result of these policies was a "stabilization" of the foreign sector, on the basis of a rise in agricultural exports and an increase in capital inflows (not so much from direct investment as from increased borrowing). However, industrial capitalists in domestic manufacturing faced a precipitous rise in real domestic interest rates (from -60% in 1976 to 13% in 1978 and 22% in 1980) and an equally sharp decline in import duties on manufactured goods. Thus, industrial capitalist enterprises were forced to distribute an increased share of their surplus value in the form of subsumed class interest payments to domestic banks. This left less available to secure other conditions of existence, including, as we demonstrated above, the accumulation of productive capital. In addition, the increase in manufactured imports (especially consumer goods) contributed to undermining sales of domestic industrial capitalist manufacturers. The quantity of their realized surplus value may have declined as a result. The combination of these conditions threatened the ability of non-agricultural industrial capitalist enterprises to distribute appropriated surplus value in the form of subsumed class payments to secure the various conditions of existence of their class position as industrial capitalists. In particular, less surplus value may have been available in the form of "retained earnings" to distribute to managers of those enterprises for the purpose of accumulating capital. In fact, both industrial employment and gross fixed capital formation declined, on average, throughout the period of the military governments. Ironically, then, policies that were enacted to maintain access to foreign credit lines -- in the form of "non-class debt" of the government and financial enterprises -- that provided important conditions of existence of industrial capitalist enterprises threatened the very existence of those enterprises. Nowhere is the contradictory situation of the Argentine state more evident.

Of course, there are other factors that could, in part, ameliorate the conditions impinging on the continued existence of Argentine industrial capitalists. If wages (and, in time, the value of labor power) of productive laborers could be lowered enough, then the additional surplus value would enable industrial capitalists to make the subsumed class distributions of surplus value, including interest payments to domestic and foreign creditors, necessary to secure some of their conditions of existence. Various policies of the military government, and other measures, appear to have had just this effect. Severe restrictions on all forms of labor association activity contributed to reduced absenteeism and weakened trade union bargaining power. In addition, the absolute decrease in both government employees and industrial workers, although not reflected in a corresponding rise in the official open unemploy-

ment rate, lessened pressure on nominal wage increases. The result is well known: Real wages in 1982 had declined some 25% with respect to 1975. In this sense, the increased exploitation of domestic workers, and not stand-by credit from the IMF, loans from private banks, or agricultural exports, "financed" the foreign debt problem.

Thus, in this case of Argentina, the non-class process of debt servicing set in motion a complex set of political and economic effects that may well have led to domestic exploitation and, with the increase in foreign investment during this period, to foreign exploitation as well. There are, however, two additional effects of the changes that took place during this period that deserve at least brief mention. Both of these effects concern the veritable explosion of new external borrowing that took place between 1976 and 1983. They demonstrate the class complexity of external debt for developing countries.

Depending on the calculations performed, Argentine external debt (long-term plus short-term) increased more than fivefold during the period, from \$7.9 billion in 1975 to \$42 billion at the end of 1983. A significant portion of this new borrowing was by the "private sector," including industrial capitalist and non-industrial capitalist enterprises.²⁷ Domestic financial enterprises, freed from previous restrictions on the range of their activities under the financial reforms of the military government, and industrial capitalists appear to have used at least part of these external borrowings for domestic stock purchases, mergers, takeovers, and other activities with respect to other domestic enterprises.²⁸ Although information on these "speculative" activities remains somewhat sketchy, it is clear that a relatively small number of domestic industrial and non-industrial capitalists with access to foreign credit were successful in creating new subsumed class positions (in the case of stock purchases of industrial capitalist enterprises) and fundamental class positions (in coming to occupy the position of the direct appropriator of surplus value within industrial

²⁷According to Schvarzer, ten private non-financial enterprises and thirteen private banks combined held 33% of total private debt in December 1980. See Jorge Schvarzer, "Argentina 1976-1981: El Endeudamiento Externo como Pivote de la Especulación Financiera," Economía de América Latina: El Desarrollo ante la Encrucijada Financiera (CIDE, Instituto de Estudios Económicos de América Latina), no. 10 (1983), pp. 53-78.

²⁸Data on changes in property ownership among the one hundred largest industrial enterprises between 1971 and 1981 is given by Jorge Schvarzer, "Cambios en el Liderazgo Industrial Argentino en el Período de Martínez de Hoz," Desarrollo Económico 23 (October-December 1983): 395-422.

capitalist enterprises) for themselves.

A second major area of activity involved capital outflows. Schvarzer, among others, has estimated that net capital outflows from Argentina during the period 1976-1983 involved some 60% of the total external borrowings during the same period.²⁹ Our estimate is of a similarly significant, but somewhat lower, magnitude.³⁰ The interpretation of these data extends our previous analysis by allowing for the use of external funds for other than capital accumulation (on the part of industrial capitalist enterprises), domestic lending (by financial enterprises), and the purchase of equity in other domestic enterprises (by both industrial and non-industrial enterprises). Consider the example of Argentine industrial capitalist enterprises. Under the assumption that capital outflows were directed into purchases of stocks and bonds of foreign industrial capitalist enterprises, Argentine residents used their own foreign borrowings to create and/or extend subsumed class claims on surplus value appropriated in other countries. In this case, the foreign funds are not used to secure a condition of existence of the domestic fundamental class position of appropriator of surplus value. Instead, the non-class revenues in the form of loans are used to secure a condition of existence of the extraction of surplus value by industrial capitalists in other countries. In return, the Argentine foreign investor receives a subsumed class distribution of surplus value appropriated elsewhere.³¹ The foreign lender of those funds now receives non-class interest payments from the Argentine industrial capitalist borrower. Only in the case where the 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 extrac-

²⁹"Argentina 1976-1981," p. 66.

³⁰Apparent capital outflow is estimated by adding together the availability of foreign exchange (e.g., from foreign investment, external borrowing, and exports) and the uses of foreign exchange (e.g., for imports, service payments, and the accumulation of foreign exchange reserves). We estimate that during the period 1976-1981 the total capital outflow reached \$10.9 billion or 45% of total long-term borrowing during that period. See Table 5 in the Appendix.

³¹Of course, such capital outflows may also be used to purchase the bonds and securities of institutions other than industrial capitalists, e.g., foreign governments and financial enterprises. In such cases, Argentine industrial capitalists would use their own foreign borrowing to secure foreign non-class positions and revenues.

ted from Argentine workers.³²

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 Argentine industrial capitalist enterprise (ΔA) and, on the left hand side, the subsumed class revenue derived from such investments (SCR):

$$(1'') \quad SV + SCR + \Delta D = \Delta c + \Delta v + \Delta A + iD + \bar{z}\bar{S}C.$$

Assume that the enterprise earns a rate of return on its foreign portfolio investments of r . Then, $SCR = rA$. In addition, let $\beta = A/(c+v)$ be the constant weight of foreign portfolio investment to domestic productive capital. Solving for the rate of domestic productive capital accumulation as before, equation (7) becomes

$$(7') \quad K^* = \frac{p' + \beta r - \alpha i - \lambda}{1 - \alpha + \beta}.$$

Equation (7') illustrates the various effects upon the rate of domestic capital accumulation of the fundamental class value rate of profit (p'), the "foreign portfolio weight" (β), the subsumed class rate of return on foreign portfolio investment (r), the "debt-equity ratio" (α), the rate of interest (i), and the distributions of surplus value to secure other social processes that are conditions of existence of the enterprise's fundamental class position (λ).

Again, an increase in the interest rate on outstanding debt, all other variables being held constant, will have a negative impact on the rate of domestic capital accumulation (K^*). An increase in the ratio of external debt to the enterprise's productive capital will have a positive effect on domestic capital accumulation under the condition that the rate of interest (appropriately weighted) is less than the sum of the value profit rate and the return to foreign portfolio investment (also appropriately weighted) less the rate of subsumed class demands on surplus value. Finally, an increase in foreign portfolio investment may itself have a positive effect vis-à-vis the domestic accumulation of productive capital if the (weighted) rate of return to such investments is greater than the value rate of profit minus the sum of the (weighted) rate of interest and all other subsumed class

³²Equation (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 the foreign creditors.

payments out of appropriated surplus value.³³ That is, domestic productive capital accumulation may 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 industrial capitalist's use of foreign subsumed class revenues to make expenditures (say, for the accumulation of capital) to reproduce that 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, therefore, may jeopardize that position and the receipt of those subsumed class revenues.

It may also be noticed that subsumed class revenues may be redirected to processes other than the accumulation of productive capital. If we relax the previous assumption of a fixed rate of subsumed class payments (λ), the revenues from foreign portfolio investment may be distributed to internal managers, interest payments, dividends, or taxes. However, if the rate of return to foreign investment is less than the "internal" rate of profit (the rate at which surplus value is extracted from domestic productive laborers), increased foreign investment may lead to a decrease in domestic subsumed class payments. Such a situation may generate an alliance among various domestic classes to restrict the capital outflow. As an alternative, the domestic industrial capitalists may be successful in forming an alliance with other domestic classes to resist interest payments to foreign banks and to support a new government capable of rescheduling the existing debt burden.

One of the important results of the increase in foreign lending to Argentine industrial capitalists and others may have been to provide a condition of existence of the extraction of surplus value from productive laborers in the countries whence the lending originated. An additional result may have been that, to the extent that the increased extraction of

³³These three results can be seen by partially differentiating equation (7') with respect to i , α , and β :

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

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

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

surplus value from domestic productive laborers was successful, the burden of "financing" the fundamental, subsumed, and non-class flows of revenue associated with Argentine debt was shifted onto Argentine workers.

4 Conclusions

The Marxian analysis of external debt focuses on exactly those class processes within international lender/borrower relations that are left out of other accounts, both orthodox and radical. In addition, this class-theoretic framework seeks to analyze how those class processes are shaped by and participate in shaping the other class and non-class processes that are conceived to make up social reality. Such an approach allows us to reconceptualize the problem of external debt by investigating the class and non-class processes that operate, as it were, "behind" the official balance of payments statements.

In the particular case of Argentina, we saw how domestic borrowers could use non-class revenues in the form of foreign loans to create and/or extend domestic and foreign fundamental, subsumed, and non-class positions. For industrial capitalist enterprises, such non-class revenues allowed them to escape 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 was seen to depend, in turn, on the specific class position(s) of the borrowers. Thus, for example, interest payments by Argentine industrial capitalist enterprises represent subsumed class distributions of surplus value or non-class expenditures to private bankers in New York 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. The same kind of class-analytic specification can be conducted for all borrowers.

The various class-structural forms of debt were found to have contradictory effects on the class and non-class processes that make up Argentine society. In addition, "stabilization" policies, which were designed to correct the external imbalance created in part by previous external borrowing, created new contradictions within Argentine industrial capitalist enterprises and the state. One response by Argentine industrial capitalists was to engage in new foreign borrowing and to export capital to create and/or extend their foreign subsumed class positions.

Here we can take this analysis one step further, to consider the conditions under which a "debt crisis" itself might arise. To begin with, the 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 of money greater

than that which was originally loaned. Leaving aside for simplicity's sake repayment of the principal, the borrower must be able to utilize the money-loan in a manner such that the additional revenue secured is at least equal to the interest payments due. A payments crisis would emerge, then, if actual revenues fall short of those expected. In the case of the Argentine industrial capitalist borrower of the previous section, servicing the external debt required that the additional domestically appropriated surplus value (ΔSV) and foreign subsumed class revenues (ΔSCR), free of all other claims, were not less than the subsumed class and non-class interest payments on the outstanding debt (iD). If, however, the total amount of surplus value appropriated in Argentina and/or the subsumed class payments by foreign industrial capitalists were lower than expected revenues from those sources, the interest payments to foreign creditors would be threatened. A "debt crisis" would emerge.

There are, of course, numerous ways of attempting to overcome such a crisis. 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 the fundamental and subsumed class positions occupied by the industrial capitalist borrowers. Finally, the borrowers might attempt to find other means of increasing their appropriation of surplus value and subsumed class income receipts. Any of these changes might create the conditions under which struggles over the amount of fundamental and subsumed class payments would emerge. Thus, the "debt crisis" might set in motion new fundamental and subsumed class struggles in Argentina.

Those are some of the likely conditions and effects of external debt and debt servicing in Argentina. Our aim, however, has not been to specify some necessary or inevitable outcome of the contradictory situation surrounding external debt. Rather, the purpose has been to demonstrate that the Marxian class-theoretic approach developed here is uniquely capable of analyzing the class structure of international lender/borrower relations and of serving as the theoretical basis for intervening to shape the class and non-class effects of the "debt crisis" in Argentina and other developing countries.

APPENDIX

Table 1
Developing Country External Debt, 1984
(billions of dollars)

| | |
|-------------|------|
| Brazil | 97.5 |
| Mexico | 93 |
| Argentina | 45 |
| Venezuela | 35 |
| Poland | 28 |
| Philippines | 27 |
| Chile | 20 |
| Yugoslavia | 20 |
| Nigeria | 17.5 |
| Peru | 13.5 |
| Colombia | 13 |
| Ecuador | 7.7 |
| Uruguay | 4.6 |
| Panama | 3.8 |
| Bolivia | 3.7 |

Source: Wall Street Journal (December 28, 1984)

Table 2
Argentine External Debt, 1970-1983
(billions of dollars)

| | | | | | | | |
|------|------|------|------|------|------|------|------|
| 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | | |
| 4.3 | 5.1 | 5.8 | 6.4 | 8.0 | 7.9 | | |
| 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 |
| 8.3 | 9.7 | 12.5 | 19.0 | 27.2 | 35.7 | 38.0 | 42.0 |

Sources: 1970-1977, World Bank, World Tables (1980); 1978-1982, Cline, International Debt; 1983, Organization for Economic Cooperation and Development (OECD), External Debt of Developing Countries (1984)

Table 3
Argentine Long-term Borrowing, by Sector
(millions of dollars)

| | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 |
|----------------------------|------|------|-------|-------|-------|-------|
| Official Sector | | | | | | |
| Loans Received | 1236 | 99 | 47 | 50 | 510 | 1022 |
| Amortization Payments | -172 | -210 | -914 | -43 | -36 | -47 |
| Commercial Banks | | | | | | |
| Loans Received | 41 | 66 | 124 | 236 | 89 | 171 |
| Amortization Payments | -- | -3 | -22 | -37 | -155 | -36 |
| Other Sectors ^a | | | | | | |
| Loans Received | 540 | 1047 | 3745 | 3157 | 4231 | 7993 |
| Amortization Payments | -543 | -575 | -1588 | -857 | -1229 | -886 |
| Interest Paid | -515 | -500 | -720 | -1175 | -2175 | -3435 |

^a includes public enterprises

Source: Economic Commission for Latin America (ECLA), Economic Survey of Latin America, 1981

Table 4
Argentine External Debt: Total, Private and Public
(millions of dollars)

| Year | Total | Private Sector | Public Sector | |
|------|---------|----------------|---------------|--------------------|
| | | | Total | Public Enterprises |
| 1972 | 5392.2 | 2346.3 | 3045.9 | -- |
| 1973 | 6366.4 | 2807.1 | 3559.3 | -- |
| 1974 | 8089.0 | 3409.6 | 4679.4 | -- |
| 1975 | 9149.1 | 3853.8 | 5295.3 | 2368.2 |
| 1976 | 9738.0 | 3090.5 | 6647.5 | 2472.1 |
| 1977 | 11761.2 | 3634.5 | 8126.7 | 3074.1 |
| 1978 | 12496.1 | 4139.1 | 8357.0 | 4379.0 |
| 1979 | 19034.7 | 9074.4 | 9960.3 | 5842.4 |
| 1980 | 27162.0 | 12703.0 | 14459.0 | 7997.8 |
| 1981 | 35671.0 | 15647.0 | 20024.0 | 10751.0 |

Source: Samuel Itzovich and Heber Camelo, La Empresa Publica en la Economia: La Experiencia Argentina (Santiago: United Nations, 1983)

Table 5
Argentina: Capital Outflow
(millions of dollars)

| Foreign Exchange | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | Total |
|------------------------------------|-------|-------|-------|-------|-------|-------|--------|
| A. Availability | 1751 | 1296 | 4291 | 3931 | 5771 | 11226 | 28266 |
| Foreign Investment ^a | -66 | 84 | 375 | 488 | 941 | 2040 | 3862 |
| Loans | 1817 | 1212 | 3916 | 3443 | 4830 | 9186 | 24404 |
| B. Uses | -1027 | -1279 | -3013 | -6183 | -4196 | -1703 | -17401 |
| Merchandise Balance | 1152 | 1851 | 2913 | 1784 | -1373 | 913 | 7240 |
| Service Balance | -30 | -15 | -446 | -1431 | -1894 | -1664 | -5480 |
| Amortization on Loans | -715 | -788 | -2524 | -937 | -1420 | -969 | -7353 |
| Interest on Loans | -515 | -500 | -720 | -1175 | -2175 | -3435 | -8520 |
| Variation in Reserves ^b | -919 | -1827 | -2236 | -4424 | 2666 | 3452 | -3288 |
| C. Capital Outflow ^c | 724 | 17 | 1278 | -2252 | 1575 | 9523 | 10865 |

^a direct plus portfolio

^b minus indicates increase

^c availability (A) plus use (B)

Source: Economic Commission for Latin America (ECLA), Economic Survey of Latin America, 1981