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# Periphery Capitalism – Without Question Mark

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**This article is a rejoinder to Professor Marion Mushkat's contribution "Pheriperic Capitalism?" which was published in INTERECONOMICS, No. 5, May 1975.**

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Professor Marion Mushkat has recently put some question mark behind the concept of peripheric capitalism, or rather periphery capitalism. He particularly argued that internal causes of underdevelopment have been widely neglected in that concept – in contrast to external forces contributing to underdevelopment. Further on he argued that the causal interrelation between colonialism and underdevelopment is not as tight as assumed by the concept or theory of periphery capitalism.

His references to empirical reality, supposedly substantiating his arguments, become less convincing and lose plausibility once it becomes evident that Professor Mushkat did not link his arguments to the main focus of a theory of periphery capitalism. This focus lies in an analysis of the specificities of periphery social formations with all emphasis on the *internal* configuration of this type of social formation in contradistinction to metropolitan capitalist formations. Once these specificities are analysed, it is hardly doubtful that the concrete configuration of periphery social formations, and periphery capitalism, has been, to a large extent and in the last instance, determined by the specific, asymmetrically structured interaction between metropolises and peripheries. The following remarks refer to some crucial dimensions of the theory of periphery capitalism.

## Characteristics of Metropolitan Capitalism

Compared with metropolitan capitalism, *periphery capitalism* distinguishes itself by a specific accumulation structure, i.e. an accumulation model of its own. If one reduces the differences to the most essential traits these can be characterized in the following way:

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The development of *metropolitan* capitalism (especially in the case of England) is, secularly observed, characterized by a combination of the following factors:

- ☐ by an increase of productivity in the agricultural sector preceding and accompanying the actual industrial revolution;
- ☐ by the development of a consumer goods sector for the production of mass consumer goods;
- ☐ by the formation of a sector for the production of production goods.

While initially the production of mass consumer goods had the largest share in industrial manufacturing (clothing, food and home furnishing industries) there existed, in all metropolitan processes of industrialization after a few decades, a cyclically disturbed equilibrium between the production goods and the consumer goods industries which, against the background of the rise in agricultural productivity and the rise in real wages (conditioned by the growing scarcity of labor), gave the impetus for a self-determining developmental dynamics. Although this dynamics imposed itself through cyclical as well as structural crises leaving its stamp upon metropolitan capitalism, these do not alter the secular trend of the three factors mentioned and especially the fact that the combination of a capital and production industry with an industrial production of mass consumer goods, simultaneously accompanied by an increase in agricultural productivity, laid the basis for an expanding reproduction of metropolitan capitalism.

## The Stages of Periphery Capitalism

The accumulation process in the *peripheries*, on the other hand, is although capitalist in nature, as a whole structured in a fundamentally different way than in metropolitan capitalism. If one, in this context, disregards the phase of predatory colo-

nialism, economic development in the majority of colonial nations up to the fifties of this century, with few exceptions (such as the larger Latin American economies), has been characterized by a combination of export oriented production (export of unprocessed agricultural products and raw materials) with import activities (import of finished goods, especially of consumer goods for a diversified luxury consumption). The result is that only the export oriented sectors experienced measurable increases in productivity; the largest part of the agricultural sector and thus of peripheral economies in general is excluded from them. The accumulation model which characterizes periphery capitalism at this stage is based upon the classic international division of labor between the producers of raw materials and the producers of finished goods; its ideal-typical expression is the traditional *enclave economy* for the production of export oriented primary goods.

In the second phase beginning in the larger Latin American economies around 1930 and repeating itself in African and Asian societies with large internal markets after World War II, at the latest in the middle of the fifties, a first phase of partial industrialization sets in. Traditionally imported consumer goods are replaced by native production on the spot. This industrialization strategy can, however, the longer it is pursued, only be maintained at the price of growing imports of production goods, intermediate goods and locally unavailable raw materials from capitalist metropolises. Moreover, this type of industrialization does not weaken the traditional agricultural sector, but strengthens it, since the financial funds necessary for industrialization can only be obtained from agricultural and mineral exports. The usually antagonistic conflict between agro-oligarchy and industrial bourgeoisie, which characterizes the European development, fails to appear — or is inhibited by the reproduction scheme just mentioned.

In a still later phase, a few peripheral societies (e.g. Brazil, India) even experience the partial construction of a domestic capital and production goods industry. This, however, is, as a rule, characterized by an orientation towards production goods for export oriented production or towards production goods for the manufacture of durable consumer goods designed to satisfy the demand of higher income groups. This latter phase presupposes massive investments of foreign capital and technology supplied by multinational corporations.

All three stages of periphery capitalism are characterized by the following traits:

☐ the non-existence or only stagnative development of a production goods sector which would

provide the equipment for the production of mass consumer goods;

☐ the non-existence or only stagnative development of the production of mass consumer goods;

☐ a relatively stagnant productivity in the non-export oriented agricultural sector;

☐ and finally, resulting from the preceding traits: the lack of coordination between the production of production goods and the production of mass consumer goods, with incorporation of the agricultural sector as the producer of food and raw materials, the consumer of agricultural production goods and of industrial consumer goods and, like the industrial sector, as a source of accumulation. Because of its double role of producing for the domestic market and for the export market as the indispensable source of foreign exchange revenue for (previously) consumer goods and (today above all) capital goods, the agricultural sector suffers from a two-fold burden.

### Externally Determined Production

In a way, the above mentioned traits signify the non-events in the economic cycles of peripheral societies; they are the reverse side of the overdeveloped, outwardly oriented and *externally determined production activities* of the peripheries:

☐ At the time of the classic international division of labour the *export enclaves* of the peripheries are fully integrated into the metropolitan economy and dependent upon its reproduction dynamics both positively (growth incentives during a boom phase) and negatively (stagnation phase). The non-enclave sector of the peripheries is degraded to a supplier of cheap labor and of the means of subsistence for it: it is, thus, in no way, as the theory of dualism asserts, severed from the export oriented activities of the enclave, but rather directed to the production needs of the enclave. The capitalist mode of production prevailing in the enclave becomes dominant already at this stage of the development of peripheral social formations, but still without leading to a thorough capitalization of all economic sectors. In this state of affairs lie the origins of the structural heterogeneity of peripheries.

☐ With the progress of *import substitution industrialization* the developed peripheries become dependent on further supplies of metropolitan production goods, of intermediate products and of locally unavailable raw materials as the irreplaceable foundation for the local industrial production of essentially non-durable consumer goods. While in the majority of cases this type of industrialization is successful in the strict sense (local products often completely replace the previously imported commodities) this success at the same

time reveals the fundamental defect of the peripheral economy: the non-existence of a domestic production goods sector and the lack of locally developed technologies as well as the orientation of consumption patterns of privileged classes towards metropolitan standards. To the extent that import substitution production is directed to given, i.e., upper-class and diversified demand, it does not develop those spin-off effects into the peripheral economy as a whole which would be necessary to build industrialization upon a mass basis.

□ For the reasons mentioned, this fundamental defect leads to an exhaustion of the dynamically self-developing import substitution industrialization in the so-called light phase. In some peripheral societies which have pursued such an import substitution strategy and arrived, at a higher level of development, at a structural impasse and which, moreover, possess at the same time a relatively large internal market for the consumer demands of high income groups (like Brazil) there has, since the middle of the fifties and the beginning sixties, under the influence of massive foreign investments, occurred a new stage of industrialization characterized by the formation of an industrial sector for the production of durable consumer goods for the upper-class and diversified demand of higher income groups. This new type of production activity is exclusively dominated by multinational corporations and has led, within a few years, to the "*internationalization of the internal market*" on the basis of metropolitan production apparatus and technology as well as the consumption patterns of the privileged classes which derive from the metropolises.

### Two-fold Non-coherence

For a long time, capitalist accumulation in the peripheries was, thus, conditioned by export; and, for the majority of the peripheries, export activities organized on an enclave basis remain the foundation of their economic existence. Where industrialization processes took place these have been, up to now, characterized in both of the decisive stages (import substitution and internationalization of the internal market) by their two-fold non-coherence:

□ *by the lack of complete, coherent economic circuits* (part of the reproduction process, particularly the capital goods industry, lies in the metropolises) and, in direct relation to this,

□ *by the bias of both stages of industrialization in favor of the demand of higher income groups and to the detriment of the production of mass consumer goods for large segments of the populace.*

Non-coherence does not mean that accumulation in periphery capitalism does not possess its own consistent logic deriving from the function of the peripheries for metropolitan capitalism. Rather, non-coherence implies that the accumulation model which characterizes periphery capitalism leads to the formation of a structurally heterogeneous social formation and constantly reproduces such a structural heterogeneity on an expanded basis.

### Structural Heterogeneity

With regard to peripheral social formations structural heterogeneity refers to the hierarchically organized existence of several modes of production whose position is determined by the most dynamic capitalist sectors (formerly: enclave economy; later on: import substitution sector; in few cases: internationalized part of the internal market; or: a combination of all three). While in the metropolises, since the time of the industrial revolution, capitalist production has, step by step, penetrated all economic sectors, including agriculture, leading to an ever growing standardization of productivity levels, intensities of labor, of profit rates and wage levels, in periphery capitalism there has been no comparable homogenization of economy and society. Here, we find — on the basis of a hierarchized order and dependent upon the needs of the dominant capitalist production within the most dynamic poles of the peripheries — different modes of production with differing development levels of productive forces.

In contrast to the assumptions of modernization theories the structural heterogeneity of peripheral social formations does not represent a transitional phase from a traditional-feudal to a thoroughly capitalist society. Historical development runs in the opposite direction: the degree of structural heterogeneity increases. The cause for this deepening heterogeneity lies in the external determination of the most dynamic sectors, exemplified by the transfer of technology: the *results* of metropolitan technology are grafted onto the peripheries according to the needs of metropolitan capital. A technology originating in the reproduction necessities of metropolitan capitalism and transferred to the peripheries consequently unleashes further socio-economic deformations, since this technology does not organically result from an indigenously developing, autonomously determined mode of production.

### Role of Multinationals

Aside from the growing differences in productivity within individual economic sectors and be-

tween them, the *intensified penetration* of multinational corporations, observable in past years,

- ☐ into the agricultural and raw material sector;
- ☐ into the industrial production of durable consumer goods, where available (as well as into the production of luxury food);
- ☐ into the production and capital goods sector, where it exists;
- ☐ into the industrial production of labor-intensive finished goods (run-away industries)

increases the structural heterogeneity of peripheral social formations as a whole (and not only of the economy). Disregarding the still enclave-like organized raw material sector, one can observe the development of the agro-industry and the run-away industries as *new socio-geographical enclaves* whose products are reserved for the world market and especially the metropolises.

A further dimension of structural heterogeneity has developed in industrial production for the internal market, in which there is a clear *division of roles and functions* between international and national capital: in those cases that are interesting in terms of market (e.g. Brazil, Argentina, Mexico, Pakistan, etc.) *international capital* dominates the dynamic branches for the production of durable consumer goods; at the same time it occupies, where it exists, the production and capital goods sector, in which a part of the machinery required for this type of consumer goods sector is produced, rather than imported. In part, this occurs in collaboration with the local state apparatus in so-called joint ventures. This sector of an internationalized production aimed at the internal market is highly monopolized; production is based upon the introduction of modern, capital-intensive technology; goods for higher consumption groups are produced, and, by its above-average effect on income limited to a minority, this sector contributes to increasing the income gap in the peripheries. An essential result of the internationalization of the internal market can be seen in the growth of a *new middle class* (managers, executive personnel, skilled labor, etc.) and its sociological consolidation by a relatively high income and by the integration into consumption patterns oriented towards the metropolises.

### Dependent Position of Local Industry Groups

These production activities in this part of industry find their counterpart in the tertiary sector in which, accompanying the internationalization of the internal market, multinationally operating insurance companies, advertising firms, banks, etc., have obtained a footing.

The industrial production of non-durable goods (textiles, beverages, food, clothing, furniture) is, on the other hand, performed by local industry groups. Here one finds production for low income groups and for a market which has only limited growth rates and is, moreover, easily prone to business cycle fluctuations. Consequently, the actual increases in productivity occur in the former, i.e. the internationalized, and not in the latter sector. As a whole, the latter sector occupies a dependent position, if only because of its dependency on the local capital markets being, in turn, more and more dominated by international capital.

This production in the secondary sector is comparable to that agricultural production for the internal market in the primary sector which exhibits essentially less productivity than in the internationalized agro-industry sector and lies in the hands of the local land-oligarchy. A further parallel is to be seen also in the tertiary sector in the case of local public service organizations, banks and insurance companies which are equally overlapped by the internationalized public service corporations.

In many cases, the state apparatus assumes a special importance for the course of industrialization and economic growth. Its direct economic activities concentrate (often in conjunction with international capital) on the development of infrastructures which stimulate industrialization in the fields of energy, transport and communication but also on the promotion and, where necessary, take-over of industrial branches with low rates of return.

In correspondence with the division of the production apparatus into an *internationalized core* dominating the remainder of the economy and into *sectors of second and third degree*, there are *congruent income and demand structures*. The capital-intensive, highly productive industrial production of durable consumer goods permits an above-average remuneration to social strata that are all the same well-paid.

The reverse side of this process can be seen in the politically dictated *decline of real wages* of the urban and rural proletariat being reflected in the relative stagnation of the market for non-durable goods. These social strata include the mass of the population (up to 90 p.c.), and although their share in the GNP is low anyhow, it has further decreased in the last two decades. Taking into account the perceptible inequality of income even among these social strata, the growing misery of the masses is nothing but the logical consequence of the given structure of production, income and demand; it is the inherent

consequence of the given reproduction dynamics of periphery capitalism.

### Structural Dependency

It should have become clear that structural heterogeneity is a historical outcome of the incorporation of the peripheries into a world market dominated by the capitalist metropolises — and that underdevelopment, in the long run, is a reflex of this process. By means of this incorporation the pre-colonial societies of Latin America, Asia and Africa became the peripheries, i.e., from a political, economic, social and cultural point of view, crippled appendices and outposts of metropolitan capitalism. But they were not only dependent; to an ever greater degree, they became *structurally dependent*: the structures which are typical to peripheral social formations took shape according to the products which were demanded and extorted by metropolitan capitalism — e.g., precious metals, agricultural products, raw materials, cheap labor but also fields of operation for capital, etc. — and restructured themselves with each newly imposed imperative from without. The fact that the metropolises not only succeeded in exacting this performance from the peripheries, with alternating success and failure, and *that the metropolises, even more, were able to guarantee the continuity of this performance by an extreme specialization and structural subordination of the peripheries to the needs of the metropolises clearly reveals the significance of the historical process by which Latin America, Asia and Africa were integrated into the capitalist world market.*

The structural dependency of the peripheries on the metropolises resulting from the asymmetrical process of penetration cannot be compared with the simple dependency of the metropolises on the peripheries for further deliveries of energy resources and raw materials. What in the first case is reflected in a special socio-economic structure, i.e. in periphery capitalism, is in the second reduced to a question of the price of use values; for it is just absurd to believe that the reproduction dynamics of the peripheries could structurally precipitate in metropolitan capitalism as this has occurred, continuously and cumulatively, in the other case since the early phases of colonialism.

### A New Accumulation Model

Conceiving the metropole-periphery relation in this way enables one to divest oneself of false static conceptions of the very often assumed merely stagnative effects of these relations on the peripheries. What is to be observed, indeed, are dynamizing as well as stagnative impulses. This may be illustrated by the present, previously mentioned example of run-away industries. The reset-

tlement of wage-intensive branches from the metropolises into many "suitable" peripheral areas results from the structural impasse of such branches operating in the metropolises with less than average productivity and being very labor-intensive, but requiring only untrained labor. If certain peripheral areas, on the basis of various criteria (factor endowment, investment climate, etc.) offer themselves as recipients of such branches, the result — according to all historical experience — will be the reorientation of a part of the local economy of the peripheries towards the production of these specific goods, not taking into account their compatibility with, or their capability for interlinking already existing production branches in the peripheries. The outcome will be new dynamic enclaves of the metropolises in the peripheries which immediately would disintegrate as soon as the interest of metropolitan capital would decline. This is a process which has historically repeated itself many times and which even today may be documented in the remnants of past boom phases (e.g. in Northern Chile, in the North-East of Brazil, and elsewhere).

Furthermore, in those cases, where the internationalization of the internal market has been pursued to a considerable extent (e.g. Brazil), it has led to dynamizing effects in the sense that a *new accumulation model* asserted itself against a self-exhausting strategy of import substitution industrialization through the integration of branches for the production of durable consumer goods. The dynamic effects of this new accumulation model show up in the high temporary rates of growth of the internationalized internal market; its stagnative effects, on the other hand, show up in the far less than average growth rates of the production for and the consumption of the mass of the population living in misery.

### Concluding Remark

It is hoped that the preceding remarks have elucidated some crucial dimensions of a theory of periphery capitalism. It might be added that this theory is not an abstract or purely formal model, but rather, to a large extent, the result of much empirical research as it has been pursued by social scientists in Latin America, Africa and Asia, and more recently also in Europe. It might be worthwhile to look at some of the empirical cases by which Professor Mushkat wanted to criticize the theory of periphery capitalism. While doing this it becomes quite clear that he argued against some kind of theory — but certainly not the most elaborated versions of a theory of periphery capitalism, including some of those which he is actually referring to in his footnotes (like Samir Amin's).