conception of citizens' rights, defense of which was the state's task. Classical political economy, along with classical and neoclassical liberalism, conceived of individual rights in negative terms. Citizens enjoyed certain liberties from coercion, such as freedom to practice religion, trade, and economic enterprise, and these could not be violated by either the state or other individuals. Citizens did not, however, possess positive rights, that is, rights *to* something, such as employment, housing, education, and the like. This conception of rights emerged only with the development of modern liberalism, and has always been rejected by neoclassical thinkers. To the latter, freedom has always meant simply freedom from physical restrictions imposed by another person or by the state. The price of this negative freedom is inequality: because people have different aptitudes, endowments, and inheritances, some will prosper and others will not. Neoclassical thinkers, along with their classical forebears, have always insisted that it is not the state's task to redistribute resources to equalize society. They contend that, in fact, the least prosperous in society benefit more from this inequality—because it speeds up economic progress, which in turn benefits them—than they do from an egalitarian society that inhibits economic progress.

At any rate, classical political economy saw the capitalist system as a complex and delicate mechanism that could easily break down once the state started meddling with it. Left to itself, the free market was seen to be self-regulating: even when it appeared to have broken down, it was still functioning and would repair itself naturally. Hence the term *laissez-faire capitalism,* which refers precisely to a capitalism that is left alone. For example, in an economic depression there is a slowdown of economic activity and widespread unemployment. The economy appears to have stopped functioning. But classical political economy, and the neoclassical economics this tradition spawned in the late nineteenth century, see a silver lining to the gray cloud. With so many people unemployed, there are more people competing for fewer jobs, and so the people must offer to work for less than their competitors. Thus, labor prices drop, and employers respond by hiring more workers. More workers with more money to spend translates into increased demand for goods and services, which in turn causes producers to expand their activity, which compels them to hire more workers, and so forth.

Keynes had no problem with the market economy. He liked the machine, but judged it to be in need of improvement if it was to operate well. In particular, Keynes took issue with the conventional economic assumption that during a downturn, labor prices drop, causing employers to hire more workers and thereby mop up unemployment. The

Depression led Keynes to believe that high unemployment could persist indefinitely. He advocated the use of fiscal policy—government spending—to deal with recession. This was an instrument that virtually all governments were then loath to use. (Even Franklin D. Roosevelt's New Deal eschewed deficit spending, which Keynes favored.) By building roads and dams, for example, a government could create jobs, which in turn would create more demand for goods and services, which would cause factories to increase their output and then to take on more workers, and so on, in an upward spiral. Once good times returned, the government could prevent the economy from overheating by taking money back out of it. In short, Keynes's prescription for improving the capitalist economy was for governments to save in good times, spend in bad.

Keynes was not the first to advise governments to spend their way out of recessions. However, his innovation was to call on governments to *borrow,* if necessary, to pump money into the economy.[2] The loans would be repaid later from the earnings generated by a newly robust economy. Neoclassical theorists worried that such public spending would worsen inflation, as more money would chase fewer goods. But Keynes argued that this expansionary fiscal shock would not cause inflation, because increased investment would occur along with increased demand. It all heralded the advent of managed capitalism; this revolution in economic policymaking overthrew the doctrine of laissez-faire capitalism that the Depression had discredited.

In the late 1940s, governments in Western Europe and North America started taking Keynes's advice. By then, the Soviet Union had begun to consolidate its hold on Eastern Europe by establishing puppet regimes in the six countries it had liberated from Nazi rule (East Germany, Poland, Romania, Bulgaria, Hungary, and Czechoslovakia). This solidified the iron curtain that Winston Churchill said had fallen across Europe, dividing it in two. It was becoming obvious that the new Soviet bloc was not going to join the economic order prescribed at Bretton Woods. The dust was slowly settling in Western Europe, though, even if the future looked uncertain immediately after the war, especially with communist parties threatening to take power in Italy, France, and Greece. Capitalism firmly reestablished its hold on Western Europe only when the United States instituted the Marshall Plan, whereby it injected billions of dollars into the reconstruction of Western Europe's ravaged infrastructure. At the same time, liberal democratic parties, committed to a more equitable social order, came to power in Western Europe.

What emerged in the politics of Western Europe, and indeed in virtually all the developed capitalist countries, has come to be known as the

postwar Keynesian consensus. Not only did this innovation safeguard capitalism, but it also won the support of the Western world's working classes. Western governments made full employment a top priority, along with improved social benefits such as public education, housing, and healthcare. Postwar capitalism was to be both redistributive and managed. Western governments, through nationalization of declining or important private companies, regulation of the economy, public spending, and other means, involved themselves far more deeply in the management of their economies than ever before. In its new version, capitalism was to be not only more efficient, but indeed more humane. It was a recipe for social peace like none seen before: investors would grow richer—Keynes himself had grown rich on the stock market—but so too would workers, and poverty would become a thing of the past. Scholars proclaimed that correct economic management would prevent there ever being another worldwide depression, and that the high growth rates that followed in the 1950s were a permanent feature.[3] All of this was possible because the ingredient missing from earlier capitalism—an appropriate interventionist role by the state—was now in place.

The Emergence of the Third World

This was the political and intellectual climate into which the third world was born at the end of World War II. The industrial world had polarized between capitalism and Soviet communism, while a new form of statist liberalism had taken hold in the capitalist West. The term "third world" originally denoted those countries that were neither advanced capitalist (the first world) nor communist (the second world). In practice, "third world" came to refer to all developing countries, including those that called themselves communist.

A number of features characterize third-world countries. First, by comparison with the advanced capitalist economies of Western Europe and North America, their per capita incomes are low. This poverty translates into shorter life expectancies, higher rates of infant mortality, and lower levels of educational attainment. Typically, a high proportion of the population is engaged in agriculture. The secondary, or manufacturing, sector occupies a relatively less important place in the economy than it does in the first world, and exports come mainly from the primary sector (the cultivation or extraction of natural resources, as in farming or mining). Such a characterization, of course, fails to capture the great variety within the world. Some rich countries, such as Canada,

are relatively underindustrialized, relying on primary exports for their wealth. Some poor countries have made remarkable strides in improving health and education. Yet as a rule, there is a correlation between national income and a country's ability to improve the social indicators of its citizenry. With the exception of the few countries endowed with an abundance of natural resources, there is also a correlation between industrialization and growing national income. There are factors other than economic that are common to third-world countries, including a tendency toward high population growth rates. However, perhaps the most important common thread is the political one: virtually every third-world country began its modern history as a colony of one of the former imperial powers of Europe or Asia (Britain, France, Belgium, Germany, Spain, Portugal, the Netherlands, and the Ottoman Empire).[4]

Most of Latin America threw off Spanish or Portuguese rule in the early nineteenth century. However, it was not until the twentieth century that the bulk of the third world in Asia, Africa, and the Caribbean would win its independence. As the Ottoman Empire crumbled in the late nineteenth and early twentieth centuries, giving way at its core to modern Turkey, some subject peoples constituted themselves as states, although the Arab territories in the Middle East were rapidly recolonized by Britain and France. The bold venture of Mustafa Kemal, who took on the name Atatürk (father of Turkey) in leading the creation of the independent republic of Turkey, inspired nationalist thinkers in the colonies of Africa and Asia.

The two world wars further altered the relationship between colonizer and colonized. Japanese conquests of European colonies early in World War II punctured any myths about white superiority, while soldiers recruited in the colonies to assist the Allied war effort felt they had earned their peoples the status of equals. Drained of military and police resources by the war, colonial regimes found it difficult to maintain or reimpose control over peoples who had grown tired of colonial rule. A number of colonies effectively obtained their independence during World War II when they were vacated by the Axis powers (Italy or Japan; Germany, the third Axis power, had already lost its overseas colonies in World War I). Occasionally, as in Indochina and Indonesia, former colonial masters tried to reverse this situation, but failed.

When in 1947 the British government granted the Indian subcontinent its independence, giving birth to modern India and Pakistan, the floodgates opened. Independence followed in short order for most of the other colonial territories of South and Southeast Asia. Africa came next. North of the Sahara, bloody struggles brought independence to Morocco

and Tunisia; south of the Sahara, Ghana ushered in the postcolonial era peacefully in 1957. The Portuguese held out for two more decades, and it was not until 1990 that South Africa gave up its hold on Namibia. But apart from these holdouts, and a few small colonies scattered around the globe, the curtain had been drawn on colonial rule within twenty years of India's declaration of independence.[5]

Thus, very much of the world had, in the early postwar period, shaken off the bonds of colonialism. Most of this new world was poor. The rulers of the newly independent countries therefore had two overriding priorities: development and independence.

In practice, the two were often seen to go together. The generation that had led the third world to independence usually equated development with industrialization. Although some nationalist leaders glorified rural utopias, as did India's Mahatma Gandhi, many more took the opposite view. Most of Africa and Asia was rural and poor, and blame for this state of affairs was placed squarely on imperialism. Third-world nationalists argued that by using the colonies as sources of raw materials and markets for finished goods, and by establishing intra-imperial free-trade blocs that prevented colonial administrations from using protective barriers to nurture industrial development, the imperial countries had actually impoverished the third world in order to enrich the first. Where shoots of industrialization had begun to sprout, as in precolonial India, the imperialists rolled them back by swamping the colonial markets with the cheap manufactures of their factories. Thus, claimed third-world nationalists, the first world's entry into the industrial age had been made possible by its appropriation of the third world's resources; independence would be illusory if the colonial economic structure was not overthrown along with the colonial masters. Looking to the first world, third-world leaders saw that industry was the key to modernity and wealth. The ability to produce finished goods, and not rely on the imports of their old masters, would signify the complete rupture of the ties that had bound third-world economies for so long.

Latin America seemed to point the way forward. Even though Latin American countries had become independent in the nineteenth century, the structure of the continent's economies remained largely colonial for much of the century, despite bursts of prosperity. South American agriculture had largely become dominated by big, typically inefficient plantations, and virtual serfdom continued in several countries. The colonial pattern of exporting primary goods in return for finished products deepened throughout the nineteenth century. British merchant houses took the place of those of the Spanish and Portuguese. What emerged to replace colonialism was an agrarian economy closely tied to Europe,