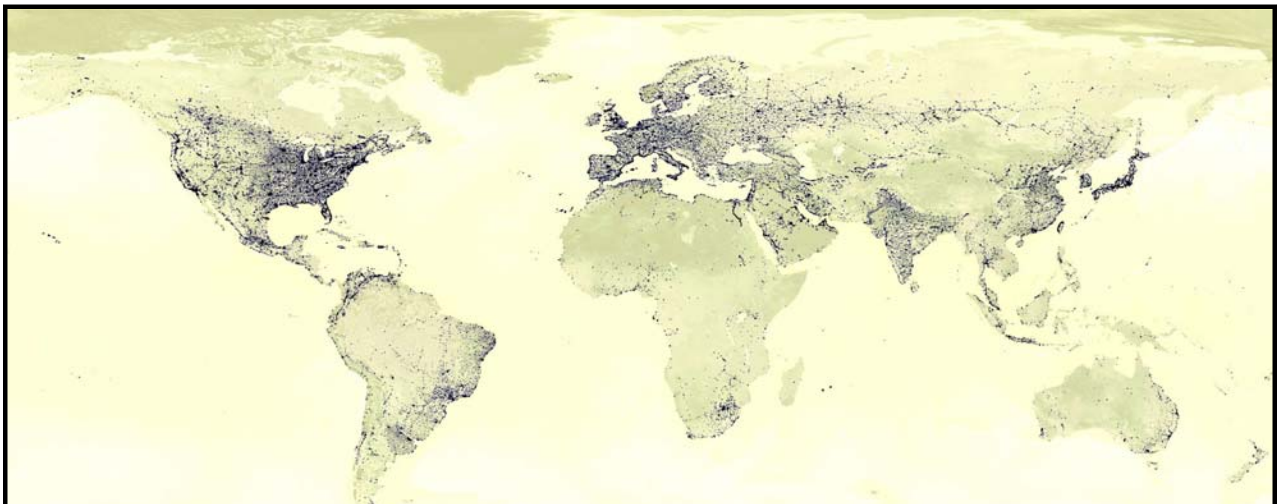
Imperialism & the Globalisation of Production



The Earth at Night— Reverse image of satellite photos*

"Instead of the conservative motto, 'a fair day's wage for a fair day's work!' […] the revolutionary watchword, 'abolition of the wages system!"*

PhD thesis

John Smith, University of Sheffield, July 2010

*Karl Marx, 1865, *Value, Price and Profit*

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Chapter 5	11560	1352
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Conclusion	4110	1326
Total	95370	18692

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Glossary

ADB	Asian Development Bank
BLS	Bureau of Labor Statistics
EAP	Economically Active Population
EOI	Export-oriented industrialisation
EU	European Union
EWGLF	Export-Weighted Global Labour Force
FDI	Foreign Direct Investment
FT	Financial Times
GDP	Gross Domestic Product
GDI	Gross Domestic Income
GNI	Gross National Income
GNP	Gross National Product
HIPC	Heavily-Indebted Poor Country
ICP	International Comparison Program
IFI	International Financial Institution (IMF, World Bank etc)
ILO	International Labour Organisation
IMF	International Monetary Fund
IOM	International Organization for Migration
IT	Information Technology
M&A	Mergers and Acquisitions
MDG	Millennium Development Goal
MVA	Manufacturing Value Added
NBER	National Bureau for Economic Research
NIE	Newly Industrialising Economy
NPV	Net Present Value
NTAE	Non-Traditional Agricultural Exports
NTFP	Non-Timber Forest Products
OECD	Organisation for Economic Co-Operation and Development
PPP	Purchasing Power Parity
TWD	Third World debt
UN	United Nations
UNCTAD or Unctad	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCO	United Nations Educational Scientific and Cultural Organisation
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organisation
WDI	World Development Indicators (World Bank)
WEO	***World Economic Outlook***

Acknowledgements

I have received many different kinds of help and support from many people, more than can be acknowledged here. This note of appreciation is to those who have directly assisted in the writing of this thesis. First, to the Economic and Social Research Council, whose scholarship paid for three of the five years of full-time study, and to the ESRC's anonymous reviewers who selected my thesis proposal. The Politics Department of the University of Sheffield, its academic staff and its administrative staff, deserves a very special collective acknowledgement. So fortuitously located on my doorstep, it has provided an excellent, democratic and friendly environment, one that I would recommend to any prospective PhD student. Postgraduate Secretary Sarah Cooke deserves special thanks for her friendliness and efficiency. I owe a huge and unpayable debt to my PhD supervisor Professor John M Hobson, for his continuous, support, patience, and impartiality; all the time encouraging me to work out how to make my argument. Special thanks to Lucia Pradella: in addition to contributing ideas and insights that are appropriately acknowledged in the text, her comments on a late draft of this thesis identified many places where clarification or conceptual development was needed.

The second type of direct assistance was rendered by those who have directly influenced the theoretical development concepts. Their intellectual contribution is duly and appropriately acknowledged in the thesis through quotes and references, but there is one person, Dr Andy Higginbottom, whose contribution requires special mention. I first met Andy when we found ourselves studying the same undergraduate course at the University of Bristol in 1975. We have kept in touch since, especially over the last decade. Andy has made a major contribution to the theoretical developments of concepts presented in chapter 1, and it is incumbent upon me to specify his contribution.

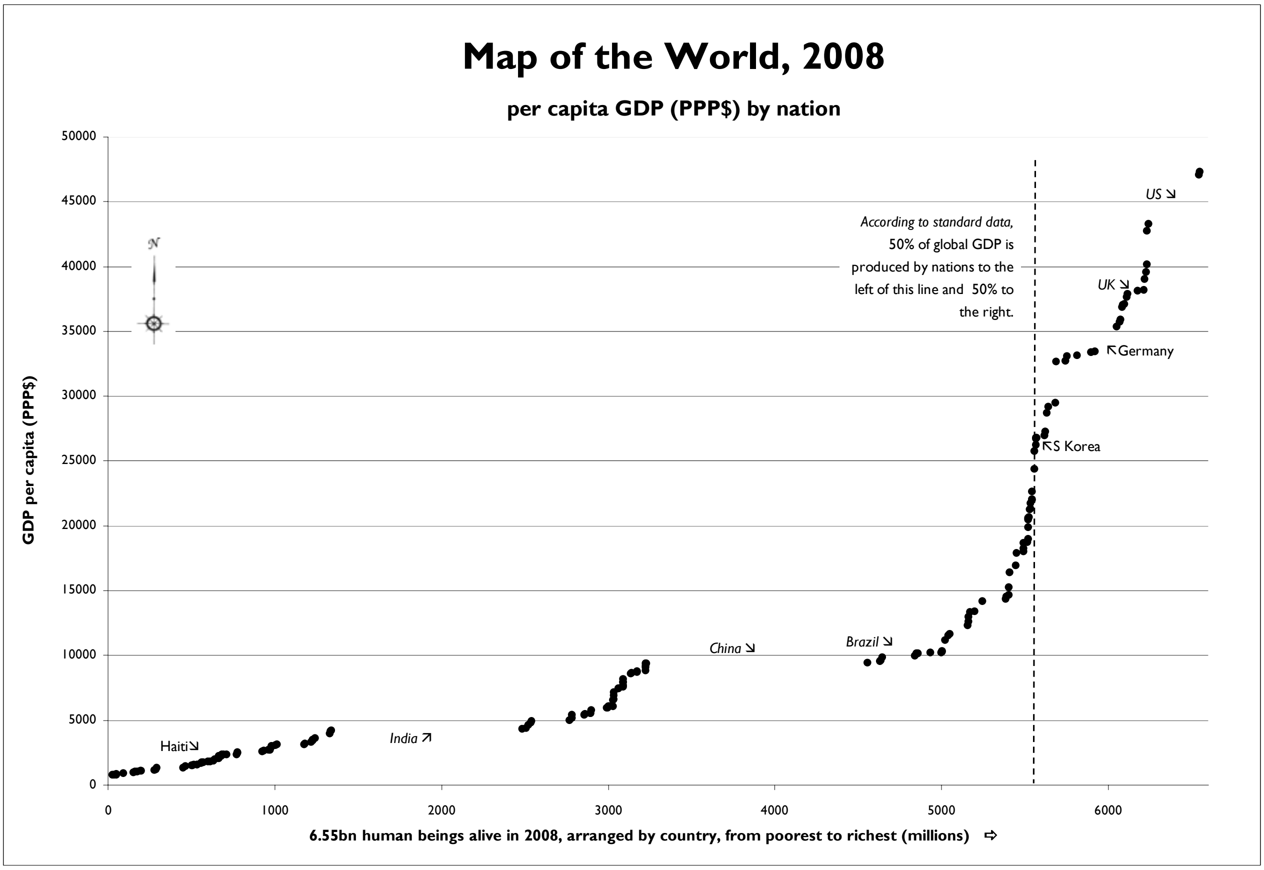
We both had similar a starting point – identification with anti-imperialist struggles; a perception that 'globalisation' hugely increases the opportunities of the UK, US etc. banks and TNCs to reap profits from low-wage southern labour; and the same overall theoretical conception, involving a recognition that the capitalist social relation analysed by Marx in *Capital* had undergone a profound evolution, that what's needed is not a theory of capitalism but a theory of its imperialist form, and that in order to achieve this we must, as Andy has put it, learn to read Marx's *Capital* through the lens of Lenin's *Imperialism*.

In addition to these crucial insights, and to his generous support and encouragement, Andy has also put me in touch with many of the theoretical resources that have been woven into this thesis, the most significant being Evald Ilyenkov's great work, published in Moscow in 1960, *The Dialectic of the Abstract and the Concrete in Marx's Capital,* whose extraordinarily lucid insights into Marx's dialectical methodology and epistemology have deeply influenced the design and research methodology of this thesis.

The core ideas and arguments presented in chapter 1 concerning the relationship between capitalism and national oppression, the reasons why concepts developed by Marx in Capital cannot be immediately applied to analysis of the contemporary imperialist world economy, the theory of super-exploitation, and the outline of a proposal for a 'new synthesis' (Andy's term again) of Marx's theory of value and Lenin's theory of imperialism were originated by Andy, as indicated by quotes from his papers and private correspondence. Their formulation and creative development, as presented in chapter 1, is my own work, as is their implementation in guiding the research project conducted in the remaining six chapters.

Finally, this thesis is dedicated to the people of revolutionary Cuba, whose extraordinary internationalism, capacity to resist in the face of seemingly impossible odds, and astounding achievements in human development have been a great source of pride, inspiration and reason to hope. Without these, the most vital ingredients of all, this thesis would never have been written.

John Smith, July 2010



Source: International Monetary Fund, World Economic Outlook Database, April 2007
http://www.imf.org/external/pubs/ft/weo/2007/01/data/index.aspx

Key to 'Map of the World'

179 nations are arranged left to right in order of their average GDP/capita; from Yemen, the poorest in 2008, to Norway, the richest nation shown, to the right of the USA. The x-axis therefore represents cumulative population. Each diamond represents a nation; the gap between them is proportional to the size of their population, so the first wide gap represents the population of India, the second of China.

Half of the world's product (measured in PPP$) is produced in 146 nations to the left of the vertical meridian line. These nations are home to 5.6 billion humans, 85% of the world population. The other half of global GDP is produced by 33 nations to the right of the meridian. These contain 1bn people, or 15% of the world population.

10% of the world's people live in 44 nations occupying a transitional zone between \$11,000 and \$33,000 GDP per capita, and half of these lie between \$11,000 and \$15,000. The steepest part of the graph, between \$15,000 and \$30,000, is occupied by 32 mainly small nations (S Korea is the largest) with just 5.2% of the global population. They resemble a thin pontoon bridge strung across a deep chasm.

♦Perfect equality between nations would show all of them lying along a horizontal line.

♦The graphic depicts inequality between nations, but excludes inequality within nations.

Abstract

Far from overcoming the North-South divide, neoliberal globalisation has greatly amplified the exploitative and parasitic—and therefore imperialist—character of relations between Triad nations and the global South.

The severest and therefore most appropriate test of this thesis is to identify neoliberal globalisation's newest, most transformational feature and ask whether it is leading to the erosion or to the reinforcement of the North-South divide. This, so argues this thesis, is *the globalisation of production processes*, a qualitatively new stage in the global development of the capital/labour relation, manifested in a 'global shift' of industrial production to low-wage nations.

Analysis reveals that the principal force driving this transformation are the efforts of northern-based TNCs to cut costs and increase profits by substituting higher-wage domestic labour with low-wage southern labour, in consequence becoming ever more dependent on the proceeds of this super-exploitation, only a small portion of which appears in financial flow data.

This thesis gives centre stage to the emerging, rapidly growing southern component of the global working class, to the conditions of its social existence, to the manner of its insertion into the global economy, and to patterns and trends in southern wages. Its central argument: the contribution of southern living labour to global wealth is massively understated, including in currently-influential Marxist literature on 'global capitalism' and 'new imperialism'.

This thesis grounds its argument by analysing what GDP and trade data reveals about the globalisation of production; it then asks what this data conceals, developing a critique of the neoclassical assumptions which profoundly vitiate what is universally, and erroneously, regarded as objective raw material. It concludes that GDP measures not what a nation produces but what it captures; that just as GDP obscures the exploitation of labour by capital, so it obscures the exploitation of southern labour by northern capital.

Chapter 1— Globalisation and 'New' Imperialism

> "we have yet to see a systematic theory of imperialism designed for a world in which all international relations are internal to capitalism and governed by capitalist imperatives. That, at least in part, is because a world of more or less universal capitalism [...] is a very recent development." [1] - Ellen Meiksins Wood

This thesis attempts to address a gap in theory that is wide enough to swallow the world: the absence of a "systematic theory of imperialism designed… for a world of more-or-less universal capitalism." This is, of course, far too large a gap to be filled by one thesis. The first task is to identify a dimension or feature that is specific enough to be addressed in the context of a PhD thesis yet is central to the total system. The first section of this chapter explains how this task was achieved.

Section two introduces some key concepts concerning the nature of exploitation and how its elephantine presence is veiled by capitalist production's private character and by the fetishistic, illusory and delusionary world of the market-place.

The final section develops the theoretical framework guiding this thesis by reviewing and making connections with four areas of theoretical literature on capitalism and imperialism: with Karl Marx's *Capital*, V.I. Lenin's *Imperialism*, with dependency theory, and with contemporary theories of 'global capitalism' and 'new imperialism'.

The chapter concludes with a guide to the remainder of the thesis.

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1 Ellen Meiksins Wood, [2003] 2005, *Empire of Capital*. London, Verso (p127).

1.1 Neoliberal globalisation and the persistence of the North-South divide

This introductory section performs five tasks. First, it provides a preliminary definition of some key terms and concepts that will be further developed in the rest of this chapter and in the thesis itself. Second, it outlines the broader theoretical conception that has led to this thesis and guided its design. Third, it identifies the particular processes and systems of interaction that provide this thesis with its field of research. Fourth, it precisely states the arguments and claims that define this thesis. Fifth, it explicates the research strategy devised to develop these arguments and validate these claims.

This thesis arose out of concern at the failure, not only of the social science mainstream, but even of the Marxist mainstream (as we shall see in our review of some of its most influential thinkers) to acknowledge the primacy, and for many even the existence, of the continued domination of world politics by the exploitative, oppressive, antagonistic, inhuman, in a word *imperialist* North-South divide. It seeks to emphasise, in contrast to most mainstream liberal and Marxist approaches, the deep continuity between today's world and capitalism's past centuries of conquest and plunder.

The North-South divide—between 'developed', high GDP per capita, high carbon footprint regions and the rest—is clearly visible from outer space. At night, Europe, North America and Japan, with 14% of the world's population, emit far more light than the rest of the world, as shown in the satellite photograph on the title page.[2] Prefacing this chapter, 'Map of the World, 2008', provides another striking image of a world cloven in two. It shows that, in 2008, 90% of humanity lived in nations where average annual per capita GDP in PPP$ was either below $11,000 or above $33,000;[3] half of those in between lie between $11,000 and $15,000.[4] Reviewing similar evidence, Anthony Payne reports that "[t]he message that is revealed is stark in the extreme and provides the most compelling evidence of the continued command of the contemporary global economy exercised by its 'core' members". [5]

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2 Downloaded from http://www.atimes.com/atimes/images/earth_night.jpg (accessed 12 June, 2009).

3 Purchasing power parity (PPP) exchange rates are hypothetical exchange rates that equalise the prices of goods and services between economies, allowing wages, per capita income etc in different countries to be compared. See chapter 5 for an investigation into this important and contentious subject.

4 In 2008, this transitional zone, providing mid-tones to an otherwise high-contrast picture, included 10 countries with a population above 20 million GDP per capita. In ascending order of population, and followed by their individual per capita GDP (PPP$), they are: Romania ($11513), Mexico ($12292), Malaysia ($13377), South Africa ($14149), Russia ($14368), Argentina ($18018), Saudi Arabia ($18737), Korea ($26958), Spain ($29444), Italy ($32718). Source: International Monetary Fund, World Economic Outlook Database, April 2007.

5 Anthony Payne, 2005, *Global Politics of Unequal Development.* London: Palgrave Macmillan (p60).

Core concepts

'North-South' may be a difficult term to use because of its high level of abstraction from the world's infinite complexity, yet, as the two world maps reveal, this abstraction is highly concrete and real. The North-South divide is evolving and mutating, is intensely contested and in deep crisis—but it is still very much with us. As a descriptive shorthand 'North-South' possesses two great strengths: it emphasises the geographical, territorial nature of the global political, social and economic divide—a great jagged global circumcision that roughly follows the tropic of cancer;[6] and it suggests continuity between the current world order and recent centuries of colonialism and imperialism.

Payne reports that in 2000 the average citizen of Latin America commanded 1/13 of the income of the average citizen of the 'core' nations, for South Asians the ratio was 1/24 and, for the average African, 1/60. Yet Payne warned against "the idea that a simple bifurcated few of the world—as in developed/developing, core/periphery, North/South—is capable of capturing the many nuances, the many complicated dynamics of actual events and situations [...] none of these pairs of terms travelled well the into the new contours of the globalising era".[7] However, to explain what he sees Payne is obliged to invoke another binary term that suffers from the same dangers as 'North/South—he refers instead to 'rich' countries and 'poor' countries.

'North-South' and other such binary terms do imply one abstraction too far: they take no account of the fact that nations at all points of the compass are themselves divided into social classes. Not visible in either the satellite photograph or 'Map of the World, 2008' is the equally grotesque inequality that exists within nations. Within its borders, each country exhibits an income inequality curve that is similar to the one between nations depicted in our map of the world,[8] and while debate rages over whether international inequality is increasing, there is no doubt that intra-national inequality has rapidly deepened during recent decades.[9] Instead of conceiving of North-South in abstraction from social class, *the task is to develop a class analysis of the North-South divide.* Such a class analysis prompts a widening of attention from an exclusive focus on the distribution of *income* to the distribution of *wealth*, whose skewness both between and within nations is even more pronounced than it is with income distribution.[10] This was confirmed by a pioneering survey of world household wealth

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6 Australia and New Zealand, two minor imperialist powers in the southern hemisphere, are the main exception to this. Nations in Central and Eastern Europe and Central Asia that are attempting to make a transition from socialism to capitalism do not conform to the overriding division between imperialist and oppressed nations. They cannot easily be resolved into the binary categories 'North' and 'South', and are omitted from this picture.

7 Payne, 2005, p61.

8 Cuba, the survival of whose egalitarian project has defied all predictions, is the extreme outlier.

9 See Chapters 4 and 5 for further discussion of this.

10 'Wealth' can be defined in two contradictory ways, on the one hand as a mass of use-values, objects of individual or social utility, all of them the product of living labour in combination with nature; on the other as a

published by researchers at the UN University, who found "that only $2161 was needed in order to belong to the top half of the world wealth distribution", whereas $500,000 was necessary to be in the top 1%—37 million adults who between them possess 40 times more wealth than the bottom 50% of the human population.[11]

The N-S skewness in wealth distribution is rendered even more extreme by the fact that the south's national bourgeoisies have converted much of their wealth into hard currency and expatriated it to the imperialist centres (or to offshore centres licenced by them), far beyond the reach of their government's taxation and protected by the G-7 states and the IFIs they control (and, ultimately, by their military forces). Thus Capgemini reported that "[i]n 2003, Asian and Middle Eastern HNWIs ['High Net Worth Individuals' – those with $1m or more in investible assets] allocated over half their assets offshore, while the overwhelming majority of Latin American HNWIs placed their financial assets in offshore tax havens [...] from where they are then invested in North American, European and Asian money markets."[12] Thus the concept behind the terms 'oppressed and oppressor nations' used in this thesis recognises that, while the end of colonialism and the attainment of formal sovereignty has emancipated the national bourgeoisies, the great majority—whom the advance of capitalism has left with nothing but their labour power to sell, in a word the *peoples* of these countries—still await their emancipation.

The extreme disparity of economic and social development between and within nations and continents contained in the concept of the North-South divide is neither natural or nor divine; it is the product of capitalist development, and has deepened as capitalism has developed. Fidel Castro, expressing the amazement felt by many at the extent to which this simple and indisputable fact is disregarded, asked "Where did injustice come from? Where did inequality comes from? Where did poverty come from? Where did underdevelopment come from? [...] Where did neocolonialism and

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mass of exchange-values expressed in a sum of money. The first is the universal definition of wealth, the second its bourgeois, fetishised (per)version. Not only are these two definitions antithetical as regards the content of 'wealth', their boundaries are different: 'wealth', defined as a mass of use values, does not include *financial assets* (which represent not so much 'wealth' as claims upon it), and it does include use-values that cannot be commodified and counted as financial assets (and are therefore regarded by the bourgeois as 'worthless'). These antagonistic definitions of 'wealth' reflect a real contradiction inherent in the value relation that defines societies based on commodity production. The result of the supremacy of exchange value over use-value is that the universal definition of wealth is obliterated and 'wealth' becomes synonymous with its representation in money. In this thesis, whenever the term 'wealth' is used by the author it must be understood in both of its contradictory senses.

11 James B Davies, Susanna Sandstrom, Anthony Shorrocks, & Edward N. Wolff, 2006, *The World Distribution of Household Wealth*. World Institute for Development Economics Research of the United Nations University. Helsinki: UNU-WIDER (p12).

Davies et al's principal findings concerning the distribution of this wealth between nations and regions: *"the 24 high income OECD countries, on a PPP basis [have] a share of world household wealth of 63.7%, much larger than this group's 14.8% share of world population and significantly more than its 53.6% share of world GDP [...] the variation [between nations] of net worth per capita is much greater than GDP per capita, disposable income per capita, and consumption per capita."* Ibid., p17.

12 CapGemini (Merrill Lynch/Cap Gemini Ernst & Young), 2004, *World Wealth Report* (p13). (http://www.capgemini.com/news/2004/0615wwreport2004.shtm, accessed 18/03/2006)

imperialism come from, if not from capitalism? It would seem that the creators of heaven and earth are to be blamed for poverty, that the social system has nothing to do with it, that capitalism has nothing to do with it. It is incredible!" [13]

Piracy, plunder and colonial conquest played a crucial role in the rise of capitalism, which, though it first took root in England and other European states, was as much the product of Europe's global marauding as it was of its domestic evolution. This was pointed out by Karl Marx in a famous passage in *Capital*: "the veiled slavery of the wage labourers in Europe needed the unqualified slavery of the New World as its pedestal [...] The discovery of gold and silver in America, the extirpation, enslavement and entombment in mines of the indigenous population of that continent, the beginnings of the conquest and plunder of India, and the conversion of Africa into a preserve for the commercial hunting of blackskins, are all things which characterise the dawn of the era of capitalist production [...] The treasures captured outside of Europe by undisguised looting, enslavement and murder flowed back to the mother-country and were turned into capital there." [14]

As capitalism began, so it has continued. Throughout their two centuries of global dominance, the handful of capitalist great powers have been unceasingly predatory and imperialistic towards the emerging nations of global South. This short list of 'core' nations, Fred Halliday reminds us, has "remained the same for a century and a half, with the single addition of Japan".[15] These nations are sometimes referred to in this thesis as the 'Triad'—North America, western Europe and Japan, all found on one side of the chasm depicted in the 'Map of the World, 2008' at the beginning of this chapter. Twice they have plunged the world into global war, in large part to resolve their rival claims over subject nations. Since World War II, and especially during the era of neoliberal globalisation inaugurated by the 'Volcker shock' in October 1979, North American, European and Japanese imperialists have modified the forms of their economic and political domination of southern nations and devised new ways to plunder their human and natural wealth. The first major change came with the dismantling of the colonial empires and the attainment of formal sovereignty by the subject nations following World War II, advances made possible by the multitudes who joined hard-fought struggles for national liberation; and by the imperialists' greatest fear, the increasing propensity of these movements to take a revolutionary socialist path. The new relationship of forces obliged

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13 Fidel Castro, 1991, 'Speech Welcoming Nelson Mandela to Havana,' in *How Far We Slaves Have Come*, New York: Pathfinder (p54).

14 All this was necessary, Marx continues, *"to unleash the 'eternal natural laws' of the capitalist mode of production, to complete the process of separation between the workers and the conditions of their labour, to transform, at one pole, the social means of production and subsistence into capital, and at the opposite pole, the mass of the population into wage labourers, into the free 'labouring poor', that artificial product of modern history."* Karl Marx, [1867] 1976, Capital, Volume 1. London: Penguin pp915-925.

15 He adds, *"Yet [...] [there is] a continued failure of social scientists or anyone else to provide a convincing explanation of why it is so."* Fred Halliday, 2001, 'For an international sociology', in: Hobden, Stephen and Hobson, John M, (eds.) Historical sociology of international relations. 244-264. Cambridge: Cambridge University Press (p255).

imperialist powers to reorganise their relations with emerging capitalist elites within the subject nations, allowing their protégés to hold the reins of power while never letting go themselves.

This new arrangement served one purpose very effectively—it threw a veil over the imperialistic, exploitative character of relations between North and South. Even so, this hardly disappeared. If we consider only those channels of N-S exploitation that show up in financial flow data—in particular, repatriated profits from FDI and interest payments on external debt—their combined total of around half a trillion dollars per annum is equivalent to some 10% of the combined GDP, or to around 15,000 tonnes of gold transferred each year from the poorest to the richest nations, twice the total quantity of physical gold extracted from the Africa and the Americas in the three and a half centuries following Columbus' landing in the Bahamas.[16]

This thesis argues that 'neoliberal globalisation' entails a major expansion and qualitative deepening of North-South, imperialist exploitation. What's new about this latest stage in the evolution of imperialist capitalism is that now the relations between dominant and subject nations, in Ellen Wood's words, "are internal to capitalism and governed by capitalist imperatives." [17] The principal regulator of economic relations between imperialist and oppressed nations is no longer military force but market forces, representing a new stage in capitalism's sublation of the pre-existing, inherited forms of domination, a new stage in the development of the law of value itself. [18]

In the vernacular meaning of the word, 'globalisation' denotes the dismantling of obstacles imposed by states, cartels and organised labour to the free flow of capital and commodities between nations. A more rigorous and concrete definition requires analysis of the key processes unleashed by these changes, two in particular: global production outsourcing and what some call 'financialisation'—the increase in the contribution of the 'Fire Services' (Finance, Insurance and Real Estate) and the corresponding diminution of the contribution of industrial production to corporate profits and GDP in the imperialist economies, [19] greatly reinforcing the supremacy of the owners of financial wealth and of the financial markets through which they exercise their dominion.

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16 Pierre Vilar, 1991 [1960], *A History of Gold and Money,* 1450 to1920, London: Verso, (p351). Calculation based on the price of gold at $1000 per troy ounce, close to its actual price at the time of writing... though, if this thesis is correct, it is set to climb and climb.

17 Ellen Meiksins Wood, [2003] 2005, *Empire of Capital*. London, Verso (p127).

18 "*The classic theories of imperialism belong to age when capitalism, while well advanced in parts of the world, was very far from a truly global economic system. Capitalist imperial power certainly did embrace much of the world but it did so less by the universality of its economic imperatives and by the same colour as the force that had always determined relations between colonial masters and subject territories.*" Wood, 2005, p125.

19 The financial crisis is also a financialisation crisis. For a classic account of 'financialisation', see Greta R. Krippner, 2005, 'The Financialization of the American economy', *Socio-Economic Review,* 3: 173–208. For an analysis of its history since then, including the run-up to and the outbreak of the financial crisis, see Robert Brenner, 2009. *What is Good for Goldman Sachs is Good for America – Origins of the Current Crisis.* (http://www.sscnet.ucla.edu/issr/cstch/papers/BrennerCrisisTodayOctober2009.pdf, accessed 18/11/2009).

Still more of its nature and inevitable demise can be learned by studying the crises of the 1970s that it came out of and that it responded to, crowned by 1979, not only the year of the 'Volker Shock' and the accession of Ronald Reagan and Margaret Thatcher but also the year of revolutions—in that year, popular insurrections overthrew pro-imperialist regimes in Iran, Grenada and Nicaragua. Once all this is analysed, 'neoliberal globalisation' can be seen as the economic front of a global economic, political and military counter-offensive, under the general command of US state officials, aimed at neutering the power of organised labour at home, crushing revolutions and countering radicalism in southern nations, and containing inter-imperialist rivalry by opening up the global South to super-exploitation by Triad-based TNCs.

'Globalisation' and 'neoliberal globalisation' have very different meanings. A concrete universal definition of 'globalisation' is the extension and intensification of economic, political, social and cultural interaction between peoples across borders of all kinds, and is synonymous with the progressive evolution of human society. The objective necessity for a qualitative leap in this age-old trend became ever-more evident throughout the twentieth century, with the accumulation of complex problems and crises that are aggravated by the antagonistic national divisions inherent to capitalism and that can only be resolved at a global level. The question posed in the 1970s by stagflation and deepening labour struggles in the Triad nations and burgeoning revolutions in the South was *which class would lead this process?* In whose image and in whose interests would barriers to global integration be broken down? There was nothing predestined about the outcome: an 'imperialist globalisation', in the words of Jayati Ghosh.[20] The failure of organised labour and its leaderships in the imperialist countries to mobilise opposition to their governments' installation of dictators from Iran to Chile; the war in Vietnam; the terrorist contra war against Nicaragua; their alliances with Israel and apartheid South Africa—to name just a few instances from a lengthy litany—handed the initiative back to the most anti-labour and most imperialist factions of capital, vindicating words of José Martí that are well-known in Cuba: 'a people which cannot come to the defence of another will never be able to defend themselves.'

The resultant, *neoliberal globalisation*, is a travesty of globalisation.[21]

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20 Jayati Ghosh, 2004, 'Imperialist Globalisation and the Political Economy of South Asia', in *The Politics of Empire–Globalisation in Crisis.* Alan Freeman and Boris Kagarlitsky (eds.), 97-116. London: Pluto Press.

21 *"The 'problem of immigration' is, in reality, the fact that the conditions faced by workers from other countries provide living proof that—in human terms—the 'unified world' of globalization is a sham."* Alain Badiou, 2008, ' The Communist Hypothesis' in New Left Review 49 :29-42 (p38)

Theoretical development of concepts: Neoliberal globalisation—a new stage in capitalism's imperialist development

This thesis attaches great significance to the fact that capital, commodities, factory owners and even factories themselves can freely pass through the borders separating North and South, but the right of passage is denied to the human beings who made those commodities, built those factories and produced that capital. Far from being 'anti-globalisation', the theoretical perspective illuminating this thesis condemns capitalism for being the principal obstacle standing in the way of an authentic globalisation, of *a world without borders.*

Far from signifying that the age of imperialism is receding into history, the transformations carried out in the past three decades under the banner of 'neoliberal globalisation' mark this as the period of the emergence of imperialist capitalism's fully-evolved form. Just as Karl Marx could not have written *Capital* before its mature, fully-evolved form had come into existence (with the rise of industrial capitalism in England), so it is unreasonable to expect to find, in the writings of Lenin and others writing at the time of its birth, a ready-made theory of imperialism that is able to explain its fully-evolved modern form. This accords with a basic axiom of materialist dialectics: there cannot be a concrete concept of a system of interaction which is not itself fully concrete and developed.[22]

Imperialist domination and plunder was a necessary condition of the rise of capitalism in England, but it has taken the whole course of capitalist development for the imperialist division of the world to become internalised, to become a property of the capital relation, i.e.of the relation between the 'total social capital' and the workers of all nations.[23] As Ellen Wood points out, "a world of more or less universal capitalism [...] is a very recent development".[24]

Later in this chapter we will see how far Wood gets with this important insight. For present purposes, its most important implication is that the interaction between the imperialist nations and the global South is no longer between capitalism and pre-capitalist economies; it is now internal to the capital relation, which has become, to a qualitatively greater extent than before, a global relation between imperialist capital and southern labour.

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22 Evald Ilyenkov explains that, for Marx, a concrete concept of a phenomenon requires that it has *"matured to the degree that it was necessary and possible to study it in terms of concepts expressing the concrete substance of all its manifestations."* Evald Ilyenkov, 1960, The Dialectic of the Abstract and the Concrete in Marx's Capital. Moscow: Progress Publishers (p97).

23 The 'total social capital' signifies the entire mass of accumulated wealth that, by consuming living labour, is brought to life and turned into self-expanding value, *i.e.* capital. The capitalists of the world are its personification and its active agents.

24 Wood, [2003] 2006 p127. William Robinson also recognises that *"globalization [is] the near culmination of a centuries-long process of the spread of capitalist production around the world and its displacement of all precapitalist relations"*. William Robinson, 2004, A Theory of Global Capitalism. Baltimore: Johns Hopkins University Press (p6).

The most significant transformation wrought by neoliberal globalisation is the tremendous expansion of the southern proletariat, whose living labour contributes most of the value unequally shared between 'lead firms' and outsourced producers in the value-chains that connect low-wage economies to Western consumers. This is the principal form taken by the 'global labour arbitrage'-driven globalisation of production processes, in which cheap and flexible living labour in low-wage countries replaces relatively expensive living labour in the imperialist countries. It signifies a *new, qualitative stage in the globalisation of the capital/labour relation*, one result of which is the greatly-enhanced dependency of northern capitalists on the super-exploitation of southern living labour. Another result is the transmogrification of the global working class: it took just 2½ decades for the industrial workers of the global South to numerically surpass their sisters and brothers in the 'industrialised' countries to now constitute some 80% of the world total. Neoliberal globalisation has hurled the workers of the dominant nations and the workers of the global South together, in competition with each other and yet bound together in mutual interdependence, connected by globalised production processes, their labour power exploited by the same banks and TNCs. But this new, qualitative stage in the evolution of the capital/labour relation possesses a very specific quality: by globalising in the manner that it has, in the world that is as it is, *the capital/labour relation has internalised the pre-existing imperialist division of the world that was the condition of its emergence and development,* and which now lives on in the form of the racial and national hierarchy that makes up the so-called 'global labour market'.[25]

As a result, this latest stage of capitalist development has been leading not to convergence with the 'advanced' countries and the supersession of the North-South divide but to *global apartheid*, in which the southern nations have become labour reserves for super-exploitation by northern capitalists. The suppression of the free international movement of labour is the linchpin of a vast system of racism, national oppression, cultural humiliation, militarism and state violence that imperialism imposes on the proletarianised peoples of the world. It is a weapon of class warfare, wielded in order both to enforce the highest possible overall rate of economic exploitation and to wage political counterrevolution—to divide and rule, to impede the emergence of the international working class as an independent political force fighting to establish its own supremacy.

This is imperialism on an entirely capitalist basis, in an advanced stage of its development, in which capitalism and its law of value has fully sublated the old colonial division of the world, which has discarded all that is inimical to it, and preserved and made its own all that is useful to its continued

25 *"National oppression is manifest not only by dispossession, it is reproduced within the capital labour relationship as super-exploitation, that is to say intense work, long hours and the payment of a wage below the value of labour power [i.e.] the minimum social standards achieved at that time in the heartlands of capital."* Andy Higginbottom, 2008, Rent, Mining and British Imperialism, unpublished draft (p11).

dominion. The task is therefore to analyse the mass of empirical data relating to this transformation, subjecting facts to the criticism of concepts and concepts to the criticism of facts, in order to learn how, in its imperialist stage of development, the essential nature of capitalism has itself undergone a qualitative evolution. In other words, the task is to develop a theory of the imperialist form of the value relation.

The crux of 'neoliberal globalisation', as codified in the infamous 'Washington Consensus' and by the IMF's 'structural adjustment' programmes, has been the transformation of relations between developed capitalist countries and the global South, and, in particular, an enormous expansion of the possibilities for northern capitalists to increase their 'access', in the IMF's words, to the 'global pool' of low-wage workers coralled in southern nations.[26] The Triad states have a common interest in this, and have acted in concert to force southern nations down this path. The result of three decades of development under the aegis of 'export-oriented industrialisation' is that the workers and small producers in the global South have not only grown numerically but have become an ever-more important source of the surplus value that sustains profits, prosperity and social peace in the imperialist countries. This suggests that the widely used notions of 'core' and 'periphery' have become misleading—super-exploitation of low-wage workers in the global South is now of 'core' importance to capitalists in the imperialist countries.

Developing a more concrete concept of 'super-exploitation' is a central task permeating this entire thesis. An outline definition is presented in the next section of this chapter. For present purposes, exploitation can be simply defined. If the working day comprises two parts, necessary labour-time (the time a worker takes to create value equal to what he/she consumes) and surplus labour-time (the time spent producing *surplus value* for the capitalist), the *rate of exploitation* is the ratio between them, and *super-exploitation* signifies a higher rate of exploitation than the prevailing average domestic rate of exploitation within the imperialist economies. This thesis argues that international wage differentials provide a distorted reflection of *international differences in the rate of exploitation*; and that northern capitalists, in ways to be explored, can increase their profits by relocating production to nations where the rate of exploitation is higher than average, *i.e.* where living labour can be *super-exploited*. This whole thesis, therefore, can be considered an attempt to answer two related questions: what do we *concretely* mean by super-exploitation?, what do we *concretely* mean by imperialism? Concrete concepts of these actually existing social relations cannot be obtained

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26 *"The global pool of labor can be accessed by advanced economies through imports and immigration"*— International Monetary Fund (IMF), 2007, World Economic Outlook 2007—Spillovers and Cycles in the Global Economy. International Monetary Fund, Washington, D.C (p180).

exclusively through deduction from theoretical principles or by induction from analysis of data. To answer these questions, it is necessary to carry out both processes together.[27]

The central argument of this thesis highlights the increased dependence of northern capitalists on the proceeds of super-exploitation of low-wage workers in the global South, as captured in the term 'global labour arbitrage', which denotes the substitution of relatively highly paid domestic labour by low-wage southern labour.[28] This can take the form of shifting production processes to low-wage countries or importing migrant labour from low-wage countries and super-exploiting them at home,[29] with the former, in the words of the IMF, being "the more important and faster-expanding channel, in large part because immigration remains very restricted in many countries". [30]

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27 *"The old opposition of deduction and induction is rationally sublated in materialist dialectics. Deduction ceases to be a means of formal derivation of definitions contained a priori in the concept, becoming a means of actual development of knowledge of facts in their movement, in their internal interaction. This deduction organically includes an empirical moment: it proceeds through a rigorous analysis of empirical facts, that is, through induction. […] Here they are realised simultaneously, as mutually assuming opposites, resulting in a new and higher form of logical development precisely through their reciprocal action. This higher form, an organic combination analysis of facts with analysis of concepts, is exactly the method of ascent from the abstract to the concrete of which Marx speaks. That is the only logical form of the development of knowledge which corresponds to the objective nature of the thing. The point is that no other method can reproduce the objective concreteness in thought as reality that emerged and developed historically. One cannot do it in any other way."* Ilyenkov, 1960, p162

28 'Global labour arbitrage' is a term and a concept used by some economists, most notably Stephen Roach of Morgan Stanley to denote the increasing propensity of northern firms to replace relatively highly-paid workers at home for low-wage labour abroad in order to cut production costs and boost profits. 'Arbitrage' means profiteering from price differences arising from imperfections in markets. The more imperfect the market, the bigger the price differences and the bigger the potential profits... and there's no market more imperfect than the global labour market. This is elaborated in chapter 2.

29 Here, 'super-exploitation' signifies subjection to a higher rate of exploitation than that endured by the working indigenous class in the imperialist countries; a quality common to migrant workers and those working for migrant TNCs.

30 IMF 2007, p180

The connection between outsourcing and immigration was recognised by Karl Marx in 1867, and given prominent place in an address written he wrote on behalf of the General Council of the International Workingmens Association to its Lausanne congress: "a study of the struggle waged by the English working class reveals that, in order to oppose their workers, the employers either bring in workers from abroad or else transfer manufacture to countries where there is a cheap labour force. Given this state of affairs, if the working class wishes to continue its struggle with some chance of success, the national organisations must become international." [31] Here Marx catches a glimpse of a dynamic which that was only to become dominant and world-transforming in our own times, and the quotation shows how clearly Marx perceived its nature and its significance for the proletarian movement. Nevertheless, as we shall see when we revisit these themes later in this chapter, Marx excluded this aspect of concrete reality from his analysis of 'capital in general' in the three published volumes of *Capital*, and it has been largely neglected ever since. This thesis focuses on outsourcing, or what Marx called the 'transfer [of] manufacture to countries where there is a cheap labour force'; labour migration, the other dimension of 'global labour arbitrage', is further considered (in chapters 2&3) only in its broad relation to this.

More than a century after the Lausanne congress, the arrival of IT and much faster transportation of commodities around the world has provided a necessary condition for the full potential of outsourcing to be unleashed, but these technological advances have only made it *possible* for northern capitalists to increase their 'access' to low-wage workers, what made it *necessary* for them to do so was, in the final analysis, the relation of class forces within the imperialist nations. Had the savage cost-cutting that was required to reverse the declining rate of profit in the imperialist countries been exacted exclusively against their 'own' workers, it would have provoked a mammoth social and political crisis and the destruction of the 'social contract' that has bound workers in the imperialist countries into an alliance with their rulers against the peoples of the rest of the world.

The complex and contradictory effects of 'global labour arbitrage' on the working class in the imperialist nations are not systematically analysed in this thesis, which focuses its attention on labour in the global South. Two important dimensions highlighting these complex effects are briefly examined in the next chapter. First, because it is an alternative to a direct assault on domestic real wages, massive outsourcing exerts an attenuating effect on class politics within the imperialist nations, resulting in particular from the cheapening, and therefore increased affordability, of consumer goods, and from the positive effect of outsourcing on capitalists' profits—partially

31 Karl Marx, 1867, *On The Lausanne Congress.* (http://www.marxists.org/archive/marx/iwma/documents/1867/lausanne-call.htm - downloaded 17/01/2010)

compensating them for the expensive concessions underpinning the 'social contract', including funding access to health, education and basic social security. Second, outsourcing places workers in the imperialist nations and in the global South into more and more direct competition with each other, while at the same time increasing their mutual interdependence within globalised production networks.

The growing interdependence of workers on a global scale, workers' increased literacy and access to culture, the massive incorporation of women into wage labour, the greatly increased presence of workers from oppressed nations in the imperialists' domestic workforces, are among the changes which objectively strengthen the working class and improve its prospects of prevailing in the coming historic confrontations heralded by the global banking crisis. The working class in the imperialist nations is part of the international working class, *and as part of this international class* it possesses revolutionary agency. The nationalist 'British jobs for British workers' solutions promoted by social-democratic leaders, and the similar nationalist and protectionist perspectives advanced by labour leaders in France, the USA etc, have less and less credibility, serving only to paralyse the working class movement, legitimise xenophobia and fuel the rise of fascism. If US or British workers don't want to compete with Mexican or Chinese workers, they must make common cause with them.

Thesis scope and research strategy

David Harvey noted that "it is both a virtue and difficulty in Marx that everything relates to everything else. It is impossible to work on one 'empty box' without simultaneously working on all other aspects of the theory".[32] While there is a great deal of truth in this statement, it is formulated in a way that is unhelpful to the design of a research methodology aimed at investigating any one particular aspect of social reality. Much more exact would be to say that a theoretical conception of the total system is a necessary precondition for investigation of any of its particular dimensions or manifestations, and that the results of any such investigation feed back into a richer and more concrete theoretical conception of the total system. Furthermore, this holds not just for research consciously oriented by Marxist dialectics, but for *all* research. No matter how much the positivist social scientist is convinced that she or he begins with an empty page and an open mind, the initial understanding of the phenomenon under investigation, the methodological approach adopted for researching into this phenomenon, even the selection of this phenomenon out of all others in the first place, is always guided by the theoretical conceptions consciously or subconsciously already formed

32 David Harvey, [1982] 2006a, *The Limits to Capital*. London: Verso (pxxix).

in the mind of the researcher.[33] What distinguishes Marxism from other approaches is that this necessary relation between the part and the whole is conscious and explicit.

Evald Ilyenkov provides much more helpful advice, with his observation that "the given concrete object [in this case, neoliberal globalisation, is] […] a very complicated mass of interconnected processes of development mutually interacting and altering the forms of their manifestation. The whole difficulty lies in […] singling out from the empirically given picture of the total historical process the cardinal points of the development of this particular […] concrete system of interaction."[34] These 'cardinal points' are those which are essential rather than contingent to the phenomenon under investigation. Since the theoretical conception of the whole that informs this research project identifies neoliberal globalisation to be a new, higher phase of capitalism's imperialist development, the task is to eliminate contingencies and secondary features and to select what is essential to this phenomenon. This, so argues this thesis, *is the drive by capitals in imperialist nations to massively expand their super-exploitation of living labour in oppressed nations.*

Identifying and bringing into sharp focus those aspects of a phenomenon that are essential to its nature is an intrinsic part of any scientific investigation. In the selection of one or other aspect for special attention, another criterion applies. What makes one or other aspect into the focus of an investigation also depends on where existing conceptions fail to capture the concrete reality. Since the deficiency of existing conceptions is so profound as to include the almost universal denial of the importance or even the very existence of imperialism, and in particular of North-South exploitation, it is here, at the heart of the matter, rather than at some apparently more manageable and limited detail of it, that I have felt impelled to begin.

The 'difficulty' encountered in 'singling out the cardinal points of development' referred to by Ilyenkov can be surmounted, he advises, through a theoretically-informed search of empirical facts and processes. As Engels said of Marx's theory, "communism is not a doctrine but a *movement*; it proceeds not from principles but from *facts*".[35] As a result of this search of empirical reality, neoliberal globalisation's 'cardinal points of development' are identified to be the globalisation of production processes, driven by northern capitalists' compulsion to expand their 'access' to southern

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33 Evald Ilyenkov explains this with great clarity: *"each new inductive definition of the fact is formed […] in the light of some ready-made concept at some time learnt from society, in the light of some conceptual system or other. He who believes that he expresses facts 'without any bias whatsoever', without any 'preconceived ideas', is not actually free from them. On the contrary, he often proves to be slave to the most banal and absurd ideas… A genuinely unprejudiced person does not express facts without any preconceived ideas' whatsoever, he does it with the aid of consciously assimilated correct concepts."* Ilyenkov, 1960, p160.

34 Ibid., p216.

35 Frederick Engels, 1847, *The Communists and Karl Heinzen,* MECW Volume 6. Moscow: Progress Publishers, (p291).

living labour, and manifested in a major expansion of the South's industrial proletariat producing manufactured goods for export to Triad countries.[36]

This thesis therefore focuses its attention on this new stage of the globalisation of the capital/labour relation. The overall aim of this thesis is to contribute some of the groundwork for a theory of the imperialist form of the capital relation, *i.e.* one which includes within its concept the violation of the equality among proletarians and the divergence in the rate of exploitation between nations.

Such a theory would overcome the historically inevitable disjunction between Marx's theory of value as presented in *Capital* and the Leninist theory of imperialism; historically inevitable because, as stated above, only with the globalisation of production does the relation between imperialist and oppressed nations become internal to the realm of the law of value.

It is stressed that this thesis does not pretend to fill this enormous theoretical gap—such a task will require the collaborative efforts of many researchers and there are many possible starting points that converge on this goal. A major part of this project will be to carefully and rigorously derive the imperialist form of the value relation from theoretical principles, introducing the successive concrete determinations that connect the pure form of the capital relation unfolded by Marx within an idealised unitary capitalist economy with its actual expression within a world economy characterised by the division between oppressed and oppressor nations.

The much more limited objective of this thesis is to show the systemically important effects of the global shift of production to low-wage nations. It does this first through analysis of empirical data on wages, employment, GDP etc, and then by subjecting this 'empirical data' itself to analysis, arguing that GDP does not measure how much wealth a nation produces, but how much it captures. It concludes that this data, PPP-adjusted or not, offers not a window on the world but a distorting lens that results in a trail of paradoxes and anomalies. These are singled out for particular attention, providing a grounding for a critique of the neoclassical assumptions underlying 'GDP' and for a conception to be formed of what the world looks like free of this distortion.

Through this qualitative analysis of empirical data, this thesis aims to validate, recalibrate and operationalise Marxist concepts of value, exploitation and imperialism, to show their utility in the development of a value theory of the global political economy within which these paradoxes and anomalies would cease to be paradoxical and anomalous. This approach is entirely consistent with Marxist methodology, which, as Engels stressed in the quotation cited above, 'proceeds not from principles but from facts'. Indeed, without identifying the unresolved facts about the imperialist

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36 See Figure 3.5 on p141.

world order that are crying out for explanation, the development of Marxist value theory will remain where it is now: ungrounded, directionless and inconclusive.[37]

♦ ♦ ♦

To summarise, this thesis makes two related claims:

Despite the mainstream convergence hypothesis and neo-Marxist theories of transnationalised, deterritorialised, capitalism, the North-South divide is not only still with us, it is ever more central to global politics and global economics, and is being reproduced in new ways and forms by the processes unleashed by neoliberal globalisation.

The vast numerical expansion of the southern workforce during the globalisation era, and their much greater integration into global markets and global production processes, reflects a similarly-proportioned increase in the importance of surplus value extracted from their super-exploitation to profits, prosperity and social peace in the imperialist nations. This reality is largely obscured by GDP and trade statistics which, this thesis argues, are not objective raw data but are projections of core premises of neoclassical economic theory, and which produce a greatly distorted picture in which both the exploitation of labour by capital and of the global South by the imperialist North are rendered invisible.

The remainder of this chapter develops in two ways the conceptual framework so far outlined. First, the concepts of neoliberal globalisation and the persistence of the North-South divide are developed by an exploration of the meaning of exploitation, and of its specifically capitalist form, and an inquiry into how it is that such a defining characteristic of the relation between peoples, classes and nations could be imagined out of existence. Second, the theoretical conception of imperialist capitalism outlined in this introduction is deepened through a goal-oriented review of four areas of theoretical literature. These are, Marx's *Capital*, Lenin's theory of imperialism, dependency theory and its 'orthodox' Marxist critics, and the theories of 'new imperialism' propounded by currently influential neo-Marxist scholars.

It concludes with a guide to the contents of subsequent chapters and an outline of how the central argument will be developed.

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37 In this regard, it is striking the degree to which the debates on 'new imperialism' animating a great deal of current Marxist scholarship are disconnected from the debates on value theory.

1.2 Making exploitation invisible

How is exploitation rendered invisible, at least in the eyes of the economists? In other words, what it is about capitalism which allows it to pretend that, unlike all previous forms of class society, it is not based on exploitation?

Before capital seized control over the production process, merchant profits could only arise from imperfections in the market, as the result of unequal exchanges between producers, merchants and consumers. In other words, profit could only arise through violation of the principle of exchange of equivalent values. In *Capital*, Marx explained how capitalist profit, different from merchant profits, doesn't require the existence of any such imperfections, it does not require the sale of any commodity above all below its value. As David Harvey explained in *'Limits to Capital'*: "the market system [...] contains a contradiction, for on the one hand it presupposes freedom, equality and individuality while on the other hand profit presupposes inequality". He continues: "the industrial form of capitalism, which rests on wage labour and the production of surplus value [...] resolves the contradictions of exchange. But it does so by displacing them. New contradictions of a different sort arise".[38]

The displacement Harvey speaks of is from the (public) sphere of circulation to the (private) sphere of production. Evald Ilyenkov explains how Marx analysed this new phenomenon: the only condition on which surplus-value is possible without violating the law of value is "to find, within the sphere of circulation, in the market, a commodity, whose use-value possesses the peculiar property of being a source of value [...] It is in the *empirics* that the economic reality is found which transforms the movement of the commodity-money market into production and accumulation of surplus-value. Labour-power is the only commodity which, at one and the same time, is included in the sphere of application of the law of value [i.e. it is sold at its value] and, without any violation of this law, makes surplus-value". [39]

Thus, by seizing the production process from the producers, and universalising wage labour, capitalism has created a system where profits arise even if commodities sell at their value. Capitalist profit is no longer predicated upon unequal exchanges arising from imperfect markets. This is the circumstance which allows capitalism's ideologues to convince themselves that there is no such thing as exploitation, to ignore the reality that the contradiction has been displaced from the marketplace

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38 Harvey, 2006a [1982], p33.

39 Ilyenkov, 1960, p275

to the production process, that it may have disappeared from view but it still exists. In the mind of the capitalist, profit is the product of his success in exploiting market opportunities and efficiently employing labour and other factors of production:[40] "[i]t is only the semblance of the relations of production which is reflected in the brain of the capitalist [...] The category of surplus labour-time does not exist at all for him, since it is included in the normal working day, which he thinks he has paid for in the day's wages." [41]

By investing his wealth in means of production and living labour, he turns it into capital, *self-expanding value*. As we have seen, the source of this mysterious quality is buried in the production process, in the division of the working day between necessary and surplus labour-time. Its owner is oblivious of this and thinks his capital "has acquired the occult ability to add value to itself. It [...] lays golden eggs". [42] However, our entrepreneur's business acumen only serves to determine his *share* in total profits, and this share is *entirely different from the value generated by living labour in his employment*. Capitals in non-productive sectors (e.g. those which circulate titles to values but create no new ones – banking, finance *etc*.) by definition produce no value at all (they should be seen not as production activities but as forms of social consumption), yet this is no impediment to their ability to claim their share of surplus value.

It is of great significance that the entire process of production takes place in private, and this private character is just as true of modern capitalist industry as it is of petty commodity production. In the former, living labour has itself become a commodity, and when at work its useful property, that it creates value, is itself the private property of the capitalist, alongside his land, buildings *etc*, all surrounded by a high fence.

Meanwhile, the market-place joins civil society and 'politics' to constitute the public sphere, where freedom and equality reign. On this basis the republic is founded, and the political equality of all its citizens proclaimed. Decolonisation and the attainment of formal sovereignty by the newly-emancipated nations has allowed this cloak of invisibility concealing the exploitative labour/capital relation to be extended to cover the exploitative North-South relation. This allows the political dimension to be disconnected and excluded from the concept of 'inequality', which henceforth becomes defined as economic inequality, something which is outside of the realm of 'politics', and this very depoliticisation makes it the natural realm of those who disavow political affiliation: aid agencies and churches. Add the media to the circus, and we have the greatest show on earth, whose

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40 I refer to the owners of capital as 'he', reflecting the overwhelming concentration of wealth and power in male hands and the more general oppression of women intrinsic to capitalism. Otherwise, I use 's/he'.

41 Karl Marx, [1867] 1976, pp690-1

42 Ibid., p255

most spectacular trick is to make the exploitative, imperialist character of relations between Triad nations and the global South—so naked, so visible—vanish into thin air.

Exploitation and super-exploitation

The 'new contradictions of a different sort' referred to by Harvey pertain to the wage labour/capital relation, in which workers create more value than they receive in the form of wages. "Here we [...] see not only how capital produces, but how capital is itself produced. The secret of profit-making [is] laid bare." [43] They refer, in other words, *to the capitalist exploitation of labour power.* 'Exploitation', of course, has existed and exists in many different forms; its universal definition is, to paraphrase the book of Genesis, when one part of society earns its bread by the sweat of another's brows. Implied in this definition is the division of society into social classes, and to different forms of class society correspond different modes of exploitation. 'Exploitation' emphasises the economic aspect of the class relation, which is always accompanied by coercive force, cultural oppression and spiritual alienation. Its capitalist form is distinguished, however, by the economic necessity which compels workers to sell their labour power, the result of the capitalists' ownership of the means of production, and enables the separation of individual capitalists from the direct exercise of coercive power. In this thesis, 'exploitation' is used in its specific capitalist sense.

Marx termed that part of the working day spent replacing the value of the wage *necessary labour-time*, the rest of the working day is *surplus labour-time*. Value generated by workers while performing surplus labour is *surplus value*, part of which is consumed in non-production activities (e.g. security, administration) while the remainder is the source of capitalist profit and income from property in all their forms. The *rate of exploitation* simply expresses the ratio between these two parts of the working day. [44]

In *Capital*, Marx analysed in detail two ways in which capitalists could increase the rate of exploitation. Increasing the length of the working day, (with wages, *i.e.* necessary labour-time, remaining constant) increases the ratio of surplus labour to necessary labour *i.e.* the rate of exploitation. Alternatively, the rate of exploitation can be increased by keeping the working day the same and reducing necessary labour time—not by cutting workers' consumption levels but by increasing the productivity of workers *in industries producing workers' consumption goods,* thereby cheapening them and reducing the costs of reproduction of labour power. These productivity

43 Marx, [1867] 1976, p280

44 The rate of profit, by contrast, is the ratio between surplus labour and total capital invested in living labour, raw materials and means of production.

advances generally achieved through the introduction of labour-saving technology.[45] He called the first an increase in *absolute surplus value* and the second an increase in *relative surplus value*.[46] In his discussion of 'countervailing factors' inhibiting the tendential fall in the rate of profit in *Capital* Vol. 3, Marx made brief reference to a third way to increase surplus value—reducing necessary labour time *by depressing workers' consumption levels*;[47] according to Marx "one of the most important factors in stemming the tendency for the rate of profit to fall," yet he excluded this from his analysis: "[t]he distinction between rates of surplus value in different countries and hence between different national levels of exploitation of labour are completely outside the scope of our present investigation. The object [...] is simply to present the way in which a general rate of profit is arrived at within one particular country." [48] Referring to this key passage, Andrew Higginbottom explains that "Marx discusses three distinct ways that capital can increase surplus value, but he names only two of these as absolute surplus value and relative surplus value. The third mechanism, reducing wages below the value of labour power, Marx consigns to the sphere of the competition and outside his analysis," [49] hence the intentionally provocative title of his paper, *The Third Form of Surplus Value Increase.*[50]

Furthermore, making another abstraction necessary for his purpose of developing a theory of capital in general, Marx excluded national differences in the rate of exploitation (and therefore the possibility that the value of labour power may be forced down in one country and not in another):

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45 It is important to emphasise that what matters is the productivity of workers *in industries producing workers' consumption goods.* When a capitalist increases the productivity of his own workers, through introducing labour-saving technology, if the wage and the length of the working day stays the same, so does the rate of exploitation. Increasing the productivity of his own workers does not increase the amount of value or surplus value they create, indeed this will decline to the extent that living labour is replaced by machinery; it does, however, affect the share of the *economy-wide* surplus value their capitalist employer succeeds in capturing.

46 *"I call that surplus value which is produced by the lengthening of the working day, absolute surplus value. In contrast to this, I call that surplus value which arises from the curtailment of necessary labour-time, and from the corresponding alteration of the lengths of the two components of the working day, relative surplus value."* Marx, [1867] 1976, p432 (emphasis in the original). In Capital, Marx only considered the curtailment of necessary labour time achieved through increasing the productivity of workers producing consumption goods. He deferred consideration of another way to reduce necessary labour time—through forcing down the real wage, either directly or indirectly, through moving production where the cost of labour is more to their liking .

47 In Capital and elsewhere, Marx considers other factors affecting the rate of exploitation, the *intensity* of labour, with one hour of more intense labour counting as a multiple of one hour of less intense labour; and *complex* or *qualified* labour (which have higher costs of production, raising necessary labour time, but this is countered by their objectification of a greater amount of value for each hour they work). Further complicating matters, capitalists can increase the rate of profit without affecting the production process or rate of exploitation at all—one way is to shorten the time it takes to turn money into commodities and back again, accelerating the 'turn-over time' of capital. Information Technology is particularly potent because it acts on both the production (C-C') and non-production (M-C; C'-M') phases of the circuit of capital (M-C-C'-M')—where 'M' is money and 'C' is commodities.

48 Marx, [1894] 1991, p242

49 Andy Higginbottom, 2009, *The Third Form of Surplus Value Increase*, paper to Historical Materialism conference, 2009.

50 It could be argued that reducing necessary labour time by depressing real wages is merely one way to increase absolute surplus value, and therefore doesn't merit the designation of the 'third form of surplus value increase'. To which an inititial reply would be that this is not a semantic question. Super-exploitation and national differences in the rate of exploitation are of cardinal importance to the world imperialist economy. They were excluded from Marx's analysis yet must be included in ours if we are to use Marx's theory of value to understand the contemporary world.

"[t]he distinction between rates of surplus value in different countries and hence between different national levels of exploitation of labour are completely outside the scope of our present investigation. The object of this Part ["The transformation of profit into average profit"] is simply to present the way in which a general rate of profit is arrived at within one particular country." [51] As a result of these two abstractions, *Capital* itself no longer immediately connects with the capitalism of today, capitalism in an advanced stage of its imperialist development, facing its greatest ever crisis.

The most important finding of the empirical research into the imperialist reality conducted in this thesis is that 'global wage arbitrage' is the principal driving force of the globalisation of production. It is clear at first glance that raising surplus value through expanding the exploitation of southern low-wage labour (the driving force of 'global labour arbitrage') cannot be reduced to the two forms of surplus value extraction analysed in *Capital*—absolute and relative surplus value. It contains something new, or at least something that is not present in the concept—namely, (international) differences in the value of labour power, in the rate of exploitation. This corresponding neither to absolute surplus value (the length of the working day is not the main attractor) nor relative surplus value (necessary labour is not reduced through through the application of new technology, indeed, outsourcing is an alternative to new technology). Instead, it corresponds most directly to "reduction of wages below their value" mentioned by Marx, recognised by Marx as a 'most important factor' yet excluded, as we have seen, from his theory of value developed in the three published volumes of *Capital*.

The most important finding from the empirical research conducted for this thesis is that this *third form of surplus value is the driver of the global shift of production to low-wage nations*.

Analysis also reveals that the outsourcing of workers' consumption goods has had significant and cumulative effects on the real wage in imperialist countries, therefore affecting the rate of exploitation in those countries. In other words, this third form of surplus value significantly enters into the determination of the value of labour power within the imperialist countries, producing an effect that is similar to that generated by technological advances in industries producing workers goods—*falling prices*.

Despite omitting differential rates of exploitation between nations from his analysis of 'capital in general', Marx was well aware of the existence of this phenomenon: "[a]s far as capital invested in colonies, etc. is concerned [...] the reason why this can yield higher rates of profit is that the profit

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51 Marx, *Capital* Vol. 3 p242

rate is higher there on account of the lower degree of development, and so too is the exploitation of labour, through the use of slaves, coolies, etc. Now there is no reason why the higher rates of profit that capital invested in certain branches yields in this way [...] should not enter into the equalization of the general rate of profit and hence raise this in due proportion". [52]

To summarise and conclude this theoretical development of concepts: increasing relative surplus value is generally held by Marxists to be the pre-eminent driver of advanced capitalism. A modification of this view has long been required; comprehension of the global outsourcing phenomenon now demands it. In the era of neoliberal globalisation, it turns out, the rate of profit in the imperialist countries is sustained by not one but *three* ways to increase surplus value: increasing relative surplus value through the application of new technology in the classic manner intensively studied by Marx in *Capital*; increasing absolute surplus value by extending the working day, a major feature of capitalist exploitation in today's global South; and 'global labour arbitrage', the expanded super-exploitation of southern labour power made possible by the depression of its value to a fraction of that obtaining in the imperialist countries.

The trajectory of capitalist accumulation and crisis is determined by the complex interaction of all three elements. Of these three, 'global labour arbitrage' stands out as really new and specific to neoliberal globalisation.

What is the economists' theoretical justification for excluding exploitation?

In his attempt to refute Marx's concept of value without seriously engaging with it, Paul Samuelson made this concession: "if you take away all living labor, you take away all product", but denied there's any "cogent sense in which at each stage surplus or profit springs out of the direct labor alone and not out of the needed raw materials".[53]

He stressed the point: "living labor, *yes*. But it is a bad pun to confuse this with 'live labor' in the sense of direct labor, to the neglect of labor 'previously' performed and embodied in raw materials and in equipment—i.e., 'dead' or indirect labor." As Anwar Shaikh points out, such a "conception puts a thing (capital) and a human capacity (labour power) on equal footing, both as so-called factors

52 Marx, *Capital* Vol. III, p345. He completes the last sentence with "*...unless monopolies stand in the way", i.e.* unless this surplus profit is captured by capitalist monopolies and not shared, through competition, with other capitals.

53 Paul A. Samuelson, 1974, 'Insight and Detour in the Theory of Exploitation: a Reply to Baumol', in *Journal of Economic Literature* 12:1 62-70 (p65)

of production."[54] It is interesting to contrast Samuelson's statement with Marx: "By turning his money into commodities which serve as the building materials of a new product, and as factors in the *labour*-process, by incorporating living labour into their lifeless substance, the capitalist simultaneously transforms value, i.e., past labour in its objectified and lifeless form, into capital, value which can perform its own valorisation process".[55]

Samuelson argues that the criteria for the validity of Marx's definition of value and surplus value is whether or not it assists in predicting the effects on output of changes in inputs. To apply these Marxist concepts would require, he notes, a 'dual accounting system': labour values would have to be calculated as well as input and output prices.[56] He rejects this as an unnecessary complication, and on these grounds discards the law of value as an 'irrelevant Platonic abstraction'. The result? His 'input-output' theory *only* considers inputs and outputs, and excludes what takes place in between. This is justified on two grounds: expediency; and on the view that living labour, whose specific and unique characteristic is its capacity to create exchangeable use values, plays the same role in value production as sacks of raw materials and other 'factors of production'.

The concept of 'total factor productivity' (TFP), constructed upon these suspect foundations overthrows in its very descriptor the dangerous Marxist/classical view that only one 'factor', living labour, *produces*. However, it turns out that changes in labour and capital taken separately can only account for part of the change in output. The TFP coefficient is the residual, the unexplained effect. Since Robert Solow worked out how to combine the aggregate production function with TFP calculations based on price indices,[57] legions of economists have sought to incorporate various definitions of TFP into dynamic growth models, achieving little in the way of clarity or consensus. Reviewing the profusion of rival theories, Richard Lipsey & Kenneth Carlaw commented "it is something close to a scandal that a measurement that is so much relied on for so many purposes seems to be so poorly understood", concluding that "TFP is as much a measure of our ignorance as it is a measure of anything positive."[58]

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54 Anwar M. Shaikh, 1986, 'Exploitation', Entry in *The New Palgrave: A Dictionary of Economic Theory and Doctrine.* John Eatwell, Murray Milgate, and Peter Newman (eds.). London: Macmillan.

55 Karl Marx, [1867] 1976, p302

56 Samuelson's arguments strikingly confirm the Ben Fine's observation that *"[i]n the academic world, mainstream economics has [...] never been prepared to confront the labour theory of value on any terms other than as labour embodied in an equilibrium framework."* (Ben Fine, 2003, 'A retrospective on the value debate', in Value and the World Economy Today. Edited by Richard Westra and Alan Zuege. Basingstoke, Palgrave McMillan p20). In other words, Samuelson entirely ignores Marx's concepts of socially-necessary labour-time and abstract labour, concepts that capture really-existing mediations that make nonsense of attempts to read value-creation directly from the duration of a given concrete labour.

57 Robert M. Solow 1957. 'Technical Change and the Aggregate Production Function', in *Review of Economics and Statistics.* 39(August), 312-320.

58 Richard G. Lipsey and Kenneth Carlaw. 2001. *What does total factor productivity measure?* Study Paper Version 02. Vancouver: Simon Fraser (p54).

Marx's concept of value is a unity of the two opposing poles of use-value and exchange-value which are present in the social form we call a 'commodity'. To these two contradictory dimensions of value there corresponds two diametrically opposed definitions of productivity: one, according to the quantity and quality of useful objects produced by this labour; the second, according to the prices achieved by these useful objects when they are marketed and sold. At the heart of the problems of the dominant economic doctrine is its inability to resolve these contradictory definitions of productivity (a theme revisited in chapter 5). *Use-value* is by nature incommensurable. There is no common yard-stick which can measure and compare the utility of a glass of water and the utility of a computer.

Technological change produces improvements in the utility (quality) of use-values; these improved use-values themselves become inputs, precursors. Technological change therefore exerts a significant influence on TFP; attempts to model TFP therefore requires that these qualitative changes be factored into the equation. Furthermore, consistency demands that improvements in the quality of the outputs also be accounted for, alongside their price and quantity. TFP theory thus ends up trying to combine two antithetical definitions of productivity in a single measure. As Charles Hulten dryly notes, "output per unit input, or total factor productivity, is not a deeply theoretical concept." [59] We could go further: TFP is a deeply dubious concept. It is based on arbitrary assumptions, in which data is forced to fit contrived criteria (in this case, the imputation of 'productivity' to capital). This is evident in the makeshift methodology which, according to Timothy Sargent and Edgar Rodriguez, is "usually at the heart of how TFP is actually measured by economists and statistical agencies". They explain: "TFP growth is calculated as a residual by subtracting the contribution of growth in the capital–labour ratio from labour productivity growth. To do this, one requires an estimate of the marginal productivity of capital. Under perfect competition and constant returns to scale, this parameter is equal to capital's share in output." [60] In other words, according to the ruling economic doctrine, how much capital *contributes* to value-added (the 'productivity of capital') is measured by how much it *captures.*

With the emergence of the industrial working class as a social and political force, capitalism more than anything needed not a science, but a falsifying ideology which would obscure the relations of exploitation which are its essence. The whole point of all modern economic science is to make exploitation – and its connection with capitalist profits – disappear from our imagination. The problem is that exploitation may be vanquished from economic theory and invisible in the statistics,

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59 Charles Hulten, 2000. 'Total Factor Productivity – a Short Biography', in *New Directions in Productivity Analysis*, Charles R. Hulten, Edwin R. Dean, and Michael J. Harper, eds., p4. Chicago: National Bureau of Economic Research / University of Chicago Press.

60 Timothy C. Sargent and Edgar R. Rodriguez. 2001. *Labour or Total Factor Productivity: Do We Need to Choose?* Department of Finance Working Paper 2001-04. Ottawa: Canadian Department of Finance.

but in every other respect it is a glaring social fact. Thus Martin Wolf's attempt to flick his fingers and make exploitation go away jars with everything else that we know: "[i]t is right to say that transnational companies exploit their Chinese workers in the hope of making profits. It is equally right to say that Chinese workers are exploiting transnationals in the (almost universally fulfilled) hope of obtaining higher pay, better training and more opportunities…" [61] Especially when we put this against facts reported by the ICFTU in 2005 that "the people who provide everything from T-shirts to DVD players to the world's consumers often have 60-70 hour working weeks, live in dormitories with eight to 16 people in each room, earn less than the minimum wages that go as low as $44 per month, and have unemployment as the only prospect if they should get injured in the factories".[62]

The GDP illusion

The invisibility and indeed the unthinkability of North-South exploitation was epitomised in a Financial Times editorial which stated that 'the richest fifth of the world's population generates – and enjoys – 85 percent of world output. The poorest fifth produces – and struggles to survive on – just 1.4%.' [63] The FT editors can't countenance the notion that part of the 85% of world output enjoyed by the 'richest fifth' is produced by the other four-fifths. They exclude this possibility by means of two tautological falsities. The first: each quintile 'enjoys' only what it 'generates', ignoring the hundreds of billions of dollars in debt-servicing, profit repatriation and 'unrecorded flows' that are annually siphoned off by northern TNCs and finance capitalists. The second: *the conflation of value with price,* the cornerstone of mainstream marginalist economics, and the foundation of GDP's claim to be the measure of 'domestic product'.

A central argument of this thesis is that standard GDP and trade data, universally and unquestioningly used by social scientists and practical economists, obscures as much as it reveals about the real relations between 'developing' and 'developed' economies.

GDP and trade data are universally seen as objective raw data whose accuracy may be questioned on technical grounds but whose measurements have the same scientific validity as those of other

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61 Martin Wolf, 2005, *Why Globalization Works*. New Haven and London, Yale University Press, 2005, (p230).

62 Andrew Taylor, 2005, 'China set to become sweat shop of world, report warns' in *Financial Times*, December 8 2005.

63 Editorial, Financial Times, 2 June 1994. Twelve years on, these ratios have hardly moved: in 2006, the richest fifth (allegedly) contributed 84% of world output while the contribution of the poorest fifth fell below 1.2% (source: IMF WEO database April 2006). 'Map of the World, 2008' indicates that the actual division cuts not at 20:80 but at 16:84. Note: the Financial Times editorial makes no correction for the purchasing power anomaly, discussed in some detail in chapter 5, wherein a low-wage nation's GDP measured in dollars at market exchange rates appears to be smaller than it is. Expressing such comparisons in PPP dollars became the norm after the mid-1990s.

empirical processes such as ocean currents or human longevity. This thesis argues that, to the contrary, GDP and trade data are artifices conjured from the fundamental premises and precepts of mainstream marginalist economic theory. These walk through the door every time we uncritically report GDP and trade data, each time implicitly accepting that 'Gross Domestic Product' does indeed measure the wealth produced by a nation and that world trade statistics do serve as a more-or-less accurate measure of the exchange of wealth between nations.

But if GDP is a true measure of a nation's product then the residents of Bermuda, which in 2006 boasted the world's highest per capita GDP, are the most productive members of humanity.[64] This tax haven, a 'British overseas territory', leapt above Luxemburg to take the top spot because hedge funds needed a new home following the destruction of the World Trade Centre on September 11th 2001. Thus Bermuda owes its official status as the 'world's most productive nation' to the extraordinary productivity of its expatriate community of hedge-fund traders and offshore bankers. On the other hand, in nearby Dominican Republic 154,000 workers toil for a pittance in 57 export processing zones, producing shoes and clothing mainly for the North American market.[65] Its per capita GDP in 2006 stood at PPP$5,549, just 8% of Bermuda's,[66] and it languished at 98th position in the league table of per capita GDP. Yet, which of these islands nations contributes the most to global wealth?

GDP is frequently criticised for what it leaves out of its calculation of 'domestic product'—so-called 'externalities', e.g. pollution, the depletion of non-renewable resources, the destruction of traditional societies; and for where it draws the 'production boundary', excluding all those productive activities that take place outside of the commodity economy, especially household labour. Yet 'GDP' has never been systematically criticised for what it claims to measure, not even by Marxist and other heterodox critics of the mainstream. Part of the answer lies in the fact that marginalist and Marxist value theory coincides at one point: while Marxist value theory reveals that the individual prices received for the sale of commodities systematically diverge from the values created in their

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64 Bermuda's per capita GDP (in PPP$) in 2006 stood at $69,900, 60% greater than that of the USA, according to the CIA factbook (http://www.indexmundi.com/g/r.aspx?c=bd&v=67).

65 Jean-Pierre Singa Boyenge, 2007, *ILO database on export processing zones (Revised).* Sectoral Activities Programme Working Paper WP.251. (http://www.ilo.org/public/english/dialogue/sector/themes/epz/epz-db.pdf, accessed 23/09/2009).

In 2001, *"95% of these were exported to the United States."* Robert C. Shelburne, 2004, 'Trade and Inequality: The Role of Vertical Specialization and Outsourcing', *Global Economy Journal*, 4:2, (p23).

66 World Economic Outlook Database. Without the PPP adjustment, the Dominican Republic's per capita GDP *is around 3% of Bermuda's.*

production, at the aggregate level all these individual divergences cancel out.[67] In the aggregate, total value is equal to total price.

The problem facing those using GDP and trade data to understand global processes is this: the nation and the national economy less than ever serve as approximations for the aggregate level. Marx himself did not make this basic methodological error. As Lucia Pradella has argued, in *Capital* "[t]he concept of 'total social capital'… refers to the capital in all branches of a 'given society' (not of the nation) and its 'field of action' is not limited by national boundaries". [68] A key argument of this thesis is that the both the process of value-production and the transformation of these values into the prices of final goods now takes place, to a qualitatively greater extent than before neoliberal globalisation, at an international level. To the extent that it does, this thesis argues, GDP moves even further away from being an objective, more-or-less accurate measure of a nation's product and instead becomes a veil concealing the extent and even the existence of North-South exploitation.

To assess the validity of GDP's claim to be an objective measure of a nation's wealth production, we must examine the premises on which it stakes this claim.

Despite its claim to be a measure of 'product', GDP aggregates price data, *i.e.* the results of transactions in the market-place. Yet nothing is produced in marketplaces, the world of the exchange of money and titles of ownership; production takes place elsewhere, behind high walls, on private property, in production processes. All that price data tells us about the production process is the price of what goes in and the price of what comes out. The difference between the two is what the economists call 'value-added'. This is the essential concept within GDP, defined as the aggregate of the 'value-added' produced by every firm within a national economy. We must therefore give special attention to 'value-added', and to the neoclassical concept of the 'firm' wherein this value is supposedly added.

The economists' dogmatic insistence that value is determined in the marketplace and has no independent, even transitory, existence from price excludes *a priori* the possibility that values created in production processes typically diverge from the prices the commodities are eventually sold for. The marginalist counter-revolution of the 19th century replaced a complexity (the transformation of values into prices) with an absurdity (that no such transformation takes place because value and price are the same thing), a counter-revolution made permanent by the post-World War II 'neoclassical

67 *"[T]he distinction between value and price of production […] disappears whenever we are concerned with the value of labour's total annual product, i.e. the value of the product of the total social capital."* Karl Marx, [1894] 1991, Capital, Volume III. London: Penguin (p971).

68 Lucia Pradella, 2008, *Imperialism and capitalist development in Marx's Capital.* IIPPE Procida Workshop paper, p6.

synthesis'.[69] The economists' 'production function', in its many variants, mathematically expresses this unconditional identity: inputs multiplied by their factoral productivity are placed on one side of an 'equals' sign, 'output' on the other. Anything still unexplained can be lumped together and called 'total factor productivity' and inserted into the equation in order to ensure identity.

Standard WB/IMF data on GDP, trade etc. are compiled by adding up the 'value-added' contributed by each firm in a nation's economy. They are therefore projections of the fallacy that assumes an identity between price and value, the basis of the notion that a firm's 'value-added' not only measures the outcome of transactions in markets but the outcome of production process.

The marginalist doctrine asserts that the worker's wage, like any other input is (given efficient markets) necessarily equal to his/her 'marginal product', a theorem that harmonises perfectly with the capitalist's belief that he has paid in full for the worker's labour. From the perspective of the capitalist, the only sense in which 'exploitation' exists is when the owners of one or other 'factor of production' wield some form of monopoly power, violating the equality between owners of capital that is presupposed by free markets. This occurs, for example, when a trade union forces an employer to increase wages above the workers' marginal product, in which case the workers are exploiting their employer—or, if he is able to pass on these higher costs to consumers, they're exploiting the rest of society.[70]

Three elements of the GDP illusion

There are three distinct ways in which a nation's reported GDP data may diverge from its actual contribution to global value, each of them suggested both by our investigations of the empirical world and by Marx's value theory. Here we list and briefly describe each aspect of the 'GDP illusion'; a deeper discussion of them concludes the final chapter.

Productive and non-productive labour.

This is the distortion highlighted by the Bermuda/Dominican Republic comparison. The productive links of the value chain are being increasingly relocated to oppressed nations, where they suffer declining terms of trade, while what Kaplinsky calls the 'primary economic rents' [71] are captured by capitals engaged in non-production activities (marketing, branding etc) controlled by monopoly rent-

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69 Mark Blaug comments, *"The publication of the Arrow-Debreu paper of 1954, proving the existence of general equilibrium, and Samuelson's announcement of 'the neoclassical synthesis' in the third edition of his Economics: An Introduction (1955) marks the true birth of what has ever since been called 'neoclassical economics'."* (Blaug, 2001, p161)

70 Martin Rama, 2003, *Globalisation and Workers in Developing Countries*. World Bank Policy Research Working Paper 2958. Washington, World Bank (p13).

71 Kaplinsky, 2001, p123

seekers, which are among the fastest-growing contributors to the GDP of the imperialist nations. As a result, the relation between the imperialist nations and the global South is not only increasingly predatory, it is also increasingly parasitic.

International differences in technology and organic composition.

Several related effects are combined under this heading. A central proposition of Marx's theory is that the competition-driven equalisation of the rate of profit between branches of production with different capital/labour ratios (in Marxist terms, different 'organic compositions of capital') results in the transfer or redistribution of value generated in labour-intensive branches to capital-intensive branches. Similar transfers also take place *within* branches, between technologically more advanced and/or efficient capitals and less advanced/efficient capitals, but in this case they result in differential profits—super-profits for the more advanced capital, below-average profits for the less advanced capitals, as they are forced to accept lower prices. [72]

It is indubitable that, in the age of globalised production, national borders are no barrier to either variety of value redistribution. Neither is there any doubt about the direction of these transfers, given the enormous concentration of technology and fixed capital in the imperialist nations.

International differences in the rate of exploitation.

The first two aspects of the GDP illusion take place irrespective of the uniformity or lack of it in the rate of exploitation, and are merely the international counterparts of similar value-flows that take place between capitals within a national economy.

Now that the object of our analysis is not capital in general but its imperialist form, the existence of systematic and substantial international differences in the rate of exploitation must be placed at the very centre of our analysis.

1.3 Marxist theories of imperialism and 'new imperialism'

This section locates the object of our inquiry in the historical development of capitalism, doing so through a critical review of four areas of the literature on capitalism and imperialism. It begins by considering the globalisation of production processes from the perspective of Marx's value theory of capitalism and the disjunction between this and Lenin's theory of imperialism. It then visits the 'dependency' debate of the 1960s and 1970s and the 'New International Division of Labour'

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72 *"a manufacturer who makes use of a new discovery before this has become general sells more cheaply than his competitors and yet still sells above the individual value of his commodity, valorising the specifically higher productivity of the labour he employs as surplus labour. He thus realises a surplus profit."* Marx, [1894] 1991, p345.

literature of the 1980s. It concludes with a review of some currently-influential neo-Marxist texts on late capitalism and so-called 'new imperialism'.

Marx, Lenin and the globalisation of capitalist production

It follows, from the argument so far summarised, that *new, unanticipated facts*—''global labour arbitrage' and the global shift in production, and the enormously increased weight of the southern proletariat in the global economy—provide new criteria of the validity of theories of globalisation in general and Marxist theory of imperialism in particular. The result of this test, in Ellen Wood's words, is that "we have yet to see a systematic theory of imperialism designed for a world in which all international relations are internal to capitalism and governed by capitalist imperatives." [73]

There are many reasons for the absence of such a 'systematic theory': the disastrous effects of Stalinism on Marxist theory and revolutionary outcomes; the influence of bourgeois nationalism on radical intellectuals in oppressed nations; the pressure of social-chauvinism and Eurocentrism in the imperialist nations—all these have taken their pernicious toll. Wood points to an even deeper reason, hitting an important nail on the head: *'a world of more or less universal capitalism [...] is a very recent development'*.

As argued in 'scope of thesis', a *theory* (in materialist dialectics, a system of concepts reproducing concrete reality in thought) of the imperialist form of the capital relation is only now, with the emergence of *its fully-developed form*, becoming possible. This by no means signifies that existing theories have become redundant, but instead that they must be tested against new facts and reformulated in the light of them.

Marx's *Capital* begins with an exposition of how the *value relation*—the social relation that arises from the production and exchange of commodities—becomes the *capital relation* when living labour itself becomes a commodity. He gives a detailed account of its evolution within an idealised, unitary economy, in which both capital and labour are free to move. According to Wood, "Marx [...] proceeded on the premise that capitalism was still a fairly local phemomenon [...] he was primarily interested in exploring the most mature existing capitalism, industrial Britain; and he explicated the systemic logic of capitalism by examining it as a self-enclosed system, abstracted from the surrounding, largely noncapitalist, world." [74] However, Marx's 'primary interest' in discovering the nature of capitalism involved an extremely thorough investigation of colonialism, pre-capitalist

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73 Wood, 2005 p127. William Robinson also recognises that *"globalization [is] the near culmination of a centuries-long process of the spread of capitalist production around the world and its displacement of all precapitalist relations"*. (Robinson, 2004 p6).

74 Ibid. p125

societies and the world market. A closer look at Wood's formulation can help explain precisely how the theoretical conception guiding and being tested by this thesis connects with Marx's theory. As formulated, Wood's statement could convey the false notion that Marx's object of analysis was English capitalism, abstracted from its connections with the rest of the world. In the preface to the first edition, Marx says "what I [...] examine in this work is the capitalist mode of production, and the relations of production and forms of intercourse that correspond to it. Until now their *locus classicus* has been England. This is the reason why England is used as the main illustration of the theoretical developments I make." [75] Thus, as Pradella explains, "*Capital* does not present [...] the analysis of a specific historical stage, i.e. of English capitalism at the middle of the 19th century, but of the general laws of its development." [76] Yet "[f]rom the 1840s on, Marx analysed the world market and the international aspects of capitalism. In accordance with the Hegelian dialectic, he considers capitalist society as a totality and his analysis starts from the whole rather than from its parts." [77]

Beginning with the total system, Marx's next step was not to abstract England from the rest of the world, but to abstract from *all* contingencies, including those that caused England to be the site of capital's most advanced development, in order to comprehend the essential nature of this historically new system of interaction, the *capitalist social relation*. Wood's imprecision on this point serves her aim, which is not to connect her quest for a theory of imperialism to Marx's theory of capitalism, but to show the distance between Marx and his 'major successors', 'Lenin and Mao', who "had a different starting point. They were mainly interested [...] with conditions that, on the whole, were not capitalist." [78]

In *Capital* Marx set out to theoretically comprehend capital in general, whereas the task before us is to theoretically comprehend its current, imperialist, stage of development. In pursuit of his aim, Marx assumed equality between capitals and between workers, an equality predicated on their autonomy and free mobility, and proceeded to demonstrate how the ensuing competition between capitalists creates an average rate of profit across the different branches of the economy, while competition between workers equalises wages. To develop a concrete concept of the contemporary

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75 Marx, [1867] 1976, p90.

76 Pradella, 2008, p6. She adds, *"later interpretations consider this abstraction as an isolation of England from the world market… But the meaning of this abstraction is very different: Marx […] doesn't distinguish between home and foreign markets and assumes that capitalist production is everywhere established and has possessed itself of every branch of industry."* Ibid. pp7-8.

77 Ibid, 2008, p2. She supports her opinion with Marx's statement in volume 1 of Capital that *"In order to examine the object of our investigation in its integrity, free from all disturbing subsidiary circumstances, we must treat the whole world of trade as one nation, and assume that capitalist production is established everywhere and has taken possession of every branch of industry"*. Marx, [1867] 1976, p727fn.

78 Wood, 2005, p125.

global economy it is necessary to 'ascend from the abstract to the concrete', to use Ilyenkov's terminology, by radically reconstructing a fundamental premise of Marx's analysis. This is necessary because neoliberal globalisation has greatly relaxed restrictions on the mobility of capital across national borders, *but there has been no such relaxation in the free movement of labour*: on the contrary imperialist governments are responding to increasing migration pressure by militarising their borders and criminalising migrant workers.

As a result, the condition of equality between workers assumed by Marx is profoundly violated, *giving rise on a world scale to a new, mutant, imperialist form of the capital relation.* The result is that we cannot simply apply the theoretical concepts developed by Marx in *Capital* to the contemporary global economy, these concepts themselves must be critically developed to take account of capitalism's imperialist development. Andy Higginbottom explained the task in these terms:

"Marx's assumptions of capitalism in a single country in *Capital Vol 3* and within that country the equality of capitals as aliquot parts of total social capital *do not hold*. That is, value is systematically produced in one part of the world, and realised in another; surplus value is produced in one part of the world and realised as profits elsewhere. It is clear that this now comprises a whole series of contradictions, including for example the currency in which price is expressed; the question of monopoly and the movement of capital. That is to say the transformation problem rather than being a narrow, technical problem to be forever 'solved', or 're-solved', has grown in complexity and [remains] a massive unsolved problem. The issue is to *restate the transformation problem in the context of imperialism*." [79]

To remove a possible objection to his argument, it is important to clarify that 'single country' means a single country in the abstract, not England in the 19th century. The point is that, in *Capital,* Marx abstracted from the existence of different national economies in order to develop a concrete concept of the capital relation in general, whereas our task now is to analyse an imperialist world order characterised riven both by divisions between imperialist nations and between imperialist nations and oppressed nations. In other words, the level of abstraction at which *Capital* is written is unsuitable for present purposes; its fundamental concepts need to be extended and modified to account for the actual imperialist evolution of the capital relation.

The violation of equality between proletarians, invalidating a central premise of *Capital*, derives from inequality between nations, not included in *Capital* either. It was, however, a central preoccupation

[79] Andy Higginbottom, 2007, *General Notes 1*, (private correspondence). The transformation problem, the central problem of the value theory of capitalism: *how values created in production processes are transformed into prices through the competitive equalisation of profits between capitals.* This subject is considered in chapter 7, section 2.

of Lenin, who defined this latest stage of capitalism in extremely sharp and political terms: "the division of nations into oppressor and oppressed forms the essence of imperialism."[80] Here, Lenin was not so much stating a theory as recognising a new fact not anticipated by theory—and in so doing, revealing himself to be the very opposite of the dogmatist dogmatist his opponents depict him to be.

Lenin's *'Imperialism, the Highest Stage of Capitalism'*, written in 1916, in the middle of World War I, is better understood as a continuation of Marx and Engels' *Communist Manifesto* than of Marx's *Capital.* It was written as a guide to action, a 'concrete analysis of a concrete situation', an attempt to lay bare the reasons why the leaderships of the mass socialist parties in the imperialist countries capitulated on the eve of world war, to show that the war itself was no aberration or accident but the normal and inevitable result of capitalism's internal contradictions. Lenin's theory did what was then possible: it recognised the beginning of a new stage of capitalism's development and it identified those essential characteristics of capitalism's imperialist stage which were evident at its birth, in particular the concentration of wealth and the rise of finance capital, its oppression of and predation on weak nations, its pronounced militarist tendency. Lenin could not have included a conception of how value is produced in globalised production processes because this was only incipient, to emerge in a later phase of its development.

These circumstance have resulted in an inevitable disconnection, persisting right to this day, between Lenin's theory of imperialism and Marxist value theory, explaining why there's no 'systematic theory',[81] as called for by Ellen Wood. But this 'systematic theory' can only be achieved by making new connections with and between Marx's theory of capital and Lenin's theory of imperialism; by doing what is only now possible: to overcome the disjunction between these two theories, to achieve a new synthesis of Marxist value theory and Leninist theory of imperialism.[82]

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80 Lenin, 1915 p407. Many have forgotten this definition of imperialism and have instead been preoccupied with another of Lenin's definitions: 'imperialism, the monopoly stage of capitalism'. Anwar Shaikh comments that '*ever since the publication of Lenin's Imperialism it has become a Marxist commonplace to assert that capitalism has entered its monopoly stage [...] [here] the laws of price formation must be abandoned [...] The focus shifts instead to the domestic and international rivalries of giant monopolies, to their political interaction with various capitalist states [...] in other words, to imperialism as an aspect of monopoly capitalism. The law of value, like competitive capitalism itself, fades into history.*" Anwar Shaikh, 1980, 'The Laws of International Exchange' in Edward J. Nell (ed.) *Growth, Profits and Property: Essays in the Revival of Political Economy,* 204-235. Cambridge: Cambridge University Press. (p208).

81 Pradella comments, *"It's important to underline that the works of Marx which [Lenin] resumed in order to write 'Imperialism' ['the Highest Stage of Capitalism'] are not the 'economic' works like Capital, but his 'political' works and letters - in particular those on the International, on Ireland and on the English working movement (and the corruption of its political leaders). These works were essential, for Lenin, in order to define the connection between the struggles of metropolitan workers and the national liberation of the oppressed peoples against imperialism as a worldwide system of exploitation."* Pradella, 2008, p20.

82 *"How do we read Capital through the lens of Imperialism? … In economics [Lenin] proceeded inductively, he massed material evidencing the contemporary transformation into imperialism, rather than deductively from the categories of Capital… the main theoretical interrogation along with the data collection was against the concept of imperialism as a policy."* Andy Higginbottom, 2007, General Notes 1, (private correspondence).

Despite the remarkable persistence to the present day of the key features of imperialism identified by Lenin (e.g. since his time, there have been no new recruits to the select club of imperialist nations),[83] it is striking how keen currently-fashionable theories of 'new imperialism' are to take their distance. Sam Ashman notes, in her editorial introduction to a symposium on David Harvey's *'The New Imperialism',* the "general agreement that the classical theorists of imperialism, whose accounts are now nearly 100 years old, may be important reference points but they are not an adequate guide to the contemporary world." [84]

Ashman is right about the consensus, but is the consensus right? A contrary view is that Lenin's 'nearly 100 years old' writings are no more out of date than are Marx's nearly 150 years old writings. US communist leader Jack Barnes gives reasons for believing that Lenin's writings may be a more useful guide to today's imperialist reality than those of today's 'new imperialism' theorists: "Lenin's 'theoretical' contribution to 'economics' is one no bourgeois economist will admit to and that petty-bourgeois radicals recoil from. Lenin's main point, more true today than when he wrote it 85 years ago, is that this monopoly stage of capitalism is one in which state-organised violence, imperialist wars, national rebellions, civil wars, and proletarian revolutions are just as much an inevitable, lawful consequence of that mode of production as business cycles, inflation, and depressions."[85]

Ellen Wood's reason for joining the consensus is her claim that Lenin believed imperialism "depends for its survival not only on the existence of [...] non-capitalist formations but on essentially precapitalist instruments of 'extra-economic' force, military and geopolitical coercion, and on traditional interstate rivalries, colonial wars and territorial domination." [86] This misrepresents Lenin, who emphasised that the capitalist rulers of the great powers became imperialist—that is, expansionary and predatory towards the rest of the world—as a necessary response to domestic over-accumulation of capital and rising class struggle, both of which motivated predatory overseas expansion. The fact that imperialist finance capital emerged into a world dominated by pre-capitalist forms was a circumstance, not a predicate of Lenin's theory. David Harvey noted this in *Limits of Capital*, saying that "Luxemburg and Lenin [...] see imperialism as the external expression, dominant

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83 South Korea is one of a very few relatively small countries (in the past century!) to show signs of making the transition from 'emerging' to 'advanced'. Taiwan is the other notable candidate for 'developed' status.There is not the space here for a detailed examination. In any case, history will give its verdict—but only when a full cycle has been completed. The 1997 'Asian contagion' dealt a hammer-blow to South Korea's emergence as an independent finance capital, auguring ill for its fate in the developing global depression.

84 Sam Ashman, 2006, 'Symposium on David Harvey's The New Imperialism: Editorial Introduction', in *Historical Materialism* 14:4, 3-7 (p3).

85 Jack Barnes , 2005a, 'Capitalism's long hot winter has begun', *New International*, 12:99-204 (p142).

86 Wood, 2003, p127

at a particular stage in capitalism's history and achieved under the aegis of finance capitalism, of the internal contradictions to which capitalism is systematically prone." [87] It follows that Wood's justification for a dismissal of Lenin is unsound. Her comments are more appropriately directed at Rosa Luxemburg, in whose opinion "capitalism is the first mode of economy... which is unable to exist by itself, which needs other economic systems as a medium and soil." [88]

In *'A Reply to Critics',* Wood suggests a less cavalier approach to Lenin's legacy and contemporary relevance: "Another approach I have encountered suggests that, although Lenin lived in different times, he foresaw the connections between then and now. According to that argument, he only claimed to be describing the beginning of a new development in capitalism, which would [...] never again exist without financial domination; and it was only in this sense that he described his own time as the 'highest' stage. What we are seeing today, then, would simply be Lenin's prediction come true. As an interpretation of Lenin, this may have much to recommend it." [89]

David Harvey's study of Marx's writings led him "to conclude that the classical theorists of imperialism had not completed Marx"s theoretical project." [90] Of course: it is unrealistic to expect them to have done so, since they were writing at the birth of capitalism's imperialist stage. Instead of seeking to connect with classical theorists, however, Harvey casts them aside, scolding them for 'bickering' and for not been smart enough to complete Marx's theoretical project. The classical theorists, says Harvey, "were desperately anxious [...] to construct a conceptual apparatus to confront the rapidly deteriorating national and international conditions [...]. The result was a body of theorising (or, in Lenin's case, pamphleteering) that was deeply marked by the conditions of the time. But I would go much further than Wood and argue that the theories they produced were not adequate to their time either, and that much of the bickering between the participants [...] reflects not only fundamentally different political positions over what was to be done, but also a theoretical failure to find a way to deal with the spatiotemporal dynamics that had long been constructing a global imperialist system..." [91]

'Spatiotemporal dynamics', the addition of the 'dialectic of time and space' to Marx's theory of capital (elaborated by Harvey in *'Limits to Capital')*, is the concept, according to Harvey, which completes Marx's theoretical project but which eluded Lenin and his contemporaries. We will

87 Harvey, [1982] 2006 p440

88 Rosa Luxemburg, [1913] 1971, *The Accumulation of Capital.* Trans. Agnes Schwartzchild. London: Routledge and Kegan Paul (p467).

89 Ellen Meiksins Wood, 2007, 'A Reply to Critics', in *Historical Materialism, 15.3, 143-170* (p165).

90 David Harvey, 2007, 'In What Ways Is the 'New Imperialism' Really New?', in *Historical Materialism*, 15, 3: 57-70 (p58).

91 Ibid, pp58-9

shortly see where Harvey has taken his theory; as for the 'bickering' between Lenin and other 'classical theorists', Jack Barnes offers a much more reliable verdict:

"Kautsky and other centrist leaders did not challenge the basic facts presented by Lenin about the growing domination of monopolies, of finance capital. Rather, they denied that these tendencies increased the violence of capitalism on a world scale and created conditions for its overthrow by the toilers led by a proletarian vanguard. In fact, the centrists said, these trends fostered the conditions for the development of a stable order, based on a convergence of interests of the largest capitalist powers, that would transcend contradictions and conflicts and could lay the basis, over time, for peace on earth." [92]

Dependency theory and its demise

The rise of Stalinism in the mid-1920s decapitated the communist movement, with the exception of tiny groups gathered around the Trotsky-led International Left Opposition. Further developments in the theory of imperialism and new recruits to the revolutionary movement awaited developments in the class struggle—these arrived in the form of the anti-colonial and anti-imperialist struggles that swept through Africa, Asia and Latin America following World War 2. This revolutionary wave inspired the emergence of a diverse and heterodox set of theoretical schemas, bracketed collectively as 'dependency theory', whose most influential texts deployed stripped-down concepts borrowed from Marx and Lenin to offer rival explanations for the persistence of the imperialist division of the world following the attainment of formal independence by the former colonies.[93] Theoreticians of 'new imperialism' have almost completely ignored this chaotic but extremely rich body of literature. Here we have space only for a brief reflection on the significance of 'dependency theory' to our investigation into the globalisation of production processes.

The direct relevance of the dependency debates to this thesis is limited by one fact: it rose and fell in the period prior to neoliberal globalisation and the globalisation of production that, it is argued here, is its key feature. Indeed, it is ironic that the rapid increase of exported-oriented industrial production in a series of southern nations was one of the main reasons why in Gary Howe's words, "dependency theory itself began to flounder",[94] since it appeared to refute the dependentistas' insistence that imperialist domination blocked industrial development in the South. Nevertheless, and

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[92] Barnes, 2005a, pp123-4 'Centrism' means vacillation between revolution and reform.

[93] Amongst the most prominent 'dependency' theorists of the 1960s and 1970s were Immanuel Wallerstein, Andre Gunder Frank, Arghiri Emmanuel, Samir Amin, Enrique Cardoso; their 'orthodox' Marxist critics included Charles Bettelheim, Ernest Mandel, Robert Brenner, Anwar Shaikh and John Weeks.

[94] Gary Nigel Howe 1981, 'Dependency Theory, Imperialism, and the Production of Surplus Value On a World Scale', in *Latin American Perspectives* 1981; 8; 82(p88).

significantly for this investigation, the debate sparked by dependency theory in the 1960s and 1970s was the first and last time that the theory of imperialism has engaged with Marxist value theory, one reason why it remains an important reference point for attempts three decades later to return to theories of imperialism and exploitation. The meeting-place was the debate on 'unequal exchange', the thesis that trade between rich and poor nations (North-South trade) systematically results in the transfer of value from poor to rich nations, whose most influential exponents were Fernando Henrique Cardoso, a social-democratic economist who became a neoliberal Brazilian President (succeeded in 2002 by Luis Inacio da Silva), Arghiri Emmanuel and Samir Amin.

Dependency theory's relevance to the thesis hinges upon its perception that the wide and growing differences in wages and living standards between workers in imperialist nations and neocolonial southern nations is reflected in a higher rate of exploitation of workers in the oppressed nations and a mitigation of the rate of exploitation in the imperialist countries; the 'dependent' nations losing and imperialist nations gaining because the former 'exchange more labour for less labour'.

With the increasing flow of N-S FDI yet to turn into a flood, international outsourcing yet to take off and the Third World debt yet to achieve its mountainous proportions, the dependency theorists' claims of systemic north-south exploitation crucially depended on making the theory of unequal exchange stand up, *i.e.* to successfully operationalise the law of value, by developing the theory of 'unequal exchange' into a theory of global capitalist production. Their failure to develop a rigorous critique of the economists' premises and to creatively apply Marxist value theory to new problems presented by the imperialist evolution of world capitalism resulted in their various theories of unequal exchange being built on sand, and made them an easy target for those who could and should have helped them: 'orthodox' Marxists based in Europe and North America. Both sides share the blame for the failure to found dependency theory on a conception of how value is produced in the conditions of the imperialist world economy, a failure that is reflected in the very term 'unequal exchange', which focuses attention on the global marketplace and away from the value-producing processes. An important exception to this characterisation of 'dependency theory' is represented by Ruy Mauro Marini, who argued that super-exploitation of workers in 'dependent economies' was a *"necessary condition of world capitalism, contradicting those who, like Fernando Enrique Cardoso, understand this to be an accidental development"*.[95]

Cardoso and Emmanuel's thesis in different ways argued that North-South wage differences resulted in prices of production which redistributed value from Third World exporters to western

95 Ruy Mauro Marini, 1973, *Dialéctica de Dependencia*, Ediciones Era, Mexico DF (p91 – translation by author). Once again, I am indebted to Andrew Higginbottom for pointing out to me the significance of Marini's work.

consumers. The implication, that higher wages in the North *cause* unequal exchange and increase exploitation of the South—and its corollary, that socialist revolution in the imperialist countries is indefinitely postponed—aroused resistance from 'orthodox' Marxists based in Europe and North America. Instead of analysing the significance of higher rates of exploitation in the oppressed nations, the dependentistas' 'orthodox' Marxist critics attempted to theoretically prove they weren't higher, indeed that workers in the imperialist nations were actually subject to a *higher* rate of exploitation than in the oppressed nations, since "the more the productive forces are developed, the more the proletarians are exploited". [96] These words by Charles Bettelheim have been echoed by Ernest Mandel, Robert Brenner, John Weeks, Anwar Shaikh and others, who restated in various ways the 'orthodox' view that higher productivity of workers in industrialised nations meant consumer goods were produced there much more efficiently, and thus higher levels of consumption were perfectly compatible with rates of exploitation as high or higher than in the oppressed nations. Subsequent transformations wrought by the globalisation of production processes have finessed this debate: now, the goods consumed by workers in the imperialist countries are increasingly produced *by workers in oppressed nations*.

The term 'dependency' was a euphemism, a concession made to the desire of the national bourgeoisie and 'modernising elites' for new-found political sovereignty to be consummated by the achievement of economic independence and equality with the former colonial powers.[97] This bourgeois-nationalist trend is strongly reflected in the unequal exchange literature, with both Cardoso and Emmanuel seeking a path of independent capitalist development that did not rest on low wages. The revolutionary socialist pole—those who agreed with Che Guevara that "the indigenous bourgeoisies have lost all capacity to oppose imperialism—if they ever had any [...] There are no other alternatives. Either a socialist revolution or a caricature of a revolution" [98]—was fragmented, riven with sectarianism, and deeply affected by the ideological influence of Stalinism (especially its Maoist varieties). Samir Amin, for example, was a self-declared Maoist, Immanuel Wallerstein looked to North Korea's Kim Jong-Il.[99] This is reflected in its almost complete disregard for the Cuban revolution and its leaders, cutting dependency theorists off from the most advanced debates going on anywhere at that time about the

96 Charles Bettelheim, 1972, 'Some Theoretical Comments by Charles Bettelheim', pp271-322in *Unequal Exchange, A Study in the Imperialism of Trade*, by Arghiri Emmanuel, London: NLB 1972 (p302).

97 The meaning of 'dependency' could be inverted, to denote the dependence of imperialist economies on extending and intensifying the exploitation of southern living labour.

98 Ernesto 'Che' Guevara, [1967b] 1987, 'Vietnam and the world struggle for freedom' *Che Guevara and the Cuban Revolution – Writings and Speeches of Ernesto Che Guevara.* Sydney, Pathfinder (pp351-2).

99 See Samir Amin, 1978, pp107-25; Immanuel Wallerstein,. 1979. *The Capitalist World-Economy: Essays*, pp109-112. Cambridge: Cambridge University Press.

law of value in the imperialist world economy.[100] This is all the more surprising, since Cuban revolutionaries, after all, had not just analysed 'dependency' but for decades have placed denunciation of unequal exchange at the centre of their struggle to unite the global South against imperialism, as in Fidel Castro's speech to the 1979 UN General Assembly on behalf of 95 member nations of the Non-Aligned Movement:

"The first fundamental objective in our struggle consists of reducing until we eliminate the unequal exchange that […] converts international trade into a very useful vehicle for the plundering of our wealth. Today, one hour of labour in the developed countries is exchanged for ten hours of labour in the underdeveloped countries. […] Unequal exchange is ruining our peoples. It must end!... The economic chasm between the developed countries and the countries seeking development is not narrowing but widening. It must be closed!" [101]

The factionalism of the 'revolutionary' pole within the dependency debate towards the Cuban revolution and its leaders (a retrograde tendency evident in today's 'new imperialism' literature) deprived it of the most advanced thinking available on the nature of imperialism, unequal exchange and the law of value.

The tailing of the national bourgeoisies in theory mirrored the actual course followed by the Moscow- and Beijing-oriented communist parties, namely of ceding leadership of the anticolonial struggles to bourgeois politicians, renouncing the struggle to bring revolutionary governments of workers and farmers to power in favour of becoming the junior partners in coalitions led by the supposedly progressive wing of the national bourgeoisie, a course which led to catastrophic defeats in scores of countries, most notably in Iran, 1953; Iraq, 1958; Indonesia, 1965.

Theories of 'new imperialism'

The demise of dependency theory and the general retreat of Marxism occurred, not by coincidence, at the beginning of the current neoliberal globalisation period. Also left by the wayside is a conception of a world that is divided between imperialist and exploited nations. Marxist theories of contemporary imperialism have either relegated this to a bit-part or expunged it entirely, preoccupied instead with financial globalisation (yielding many valuable contributions)[102] or with rival

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100 See the debate between see the debate between Che Guevara debate and Alberto Mora and other theoreticians influenced by Stalinism over the principles which should guide Cuba's socialist transformation, explored by Carlos Tablada in his 1987 study. *Che Guevara: economics and politics in the transition to socialism*.

101 Fidel Castro, [1979] 1993, 'Address to UN General Assembly' in *To Speak the Truth.* New York: Pathfinder (pp184-6)

102 See especially Robert Brenner, 2006, *The Economics of Global Turbulence.* London: Verso; Leo Panitch, 2005, 'Finance and American Empire', in *The Empire Reloaded-Socialist Register 2005*, 46-81. London:Merlin Press,

conceptions of deterritorialised 'global capitalism', where disagreements rage about whether a 'transnational capitalist state' has come into being but all nod in agreement to Ellen Wood's notion that the "relationship between imperial masters and colonial subjects" has been replaced by "a complex interaction between more-or-less sovereign states." [103]

William Robinson, a prominent exponent of the undiluted 'transnational capitalist state' thesis, exemplifies this approach: "global class formation involves the increasing division of the world into a global bourgeoisie and a global proletariat, even though global labour remains highly stratified along old and new social hierarchies that cut across national boundaries." [104] This is the only time, in his *Theory of Global Capitalism*, that Robinson alludes to the 'old' divisions, those that don't 'cut across national boundaries', namely the borders between the imperialist nations and the global South. Since, as he has stated more recently, what he calls the "particular spatial form of the uneven development of capitalism is being overcome by the globalisation of capital and markets and the gradual equalisation of accumulation conditions this involves", [105] we can ignore the North-South division because it is about to disappear altogether.

Ellen Wood's central thesis is much more promising: the old imperialism, characterised by "the interactions between capitalism and non-capitalism" has been, since WWII, superseded by a new, capitalist imperialism in which economic compulsion—the "internationalisation of capitalist imperatives"— has become the prime disciplining force.[106]

Despite this extremely important insight, Wood is unable to make further progress, for three reasons. First, though her "purpose is [...] to define the essence of capitalist imperialism", she decides not "to go into the intricacies of value theory".[107] Yet a theory of how the law of value expresses itself in the imperialist world economy must be the heart of a 'systematic theory of imperialism'. Her important insight is itself an extension of an elementary postulate of Marxist value theory—the separation of the producers from the means of production, itself achieved through extreme violence, allows capitalism to replace coercion with economic compulsion, providing the

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Gérard Duménil & Dominique Lévy, 2004, 'The economics of US imperialism at the turn of the 21st century', in *Review of International Political Economy* 11:4, 657–676, 2004.

103 Wood, 2003, p129

104 Robinson, 2004 p42

105 William Robinson, 2007, 'The Pitfalls of Realistic Analysis of Global Capitalism: a Critique of Ellen Meiksins Wood's 'Empire of Capital'', in *Historical Materialism*, 15, 3:71-93, p82n.

106 Wood, 2003, p126 In Wood's conception, coercion has not disappeared: just as the bourgeois state remains essential for the maintenance of the social order with nations, so *"the new imperialism depends more than ever on a system of multiple states to maintain global order"* (Wood, 2003:155).

107 Ibid, 2003, pp7, 3 William Robinson also recognises that *"globalization [is] the near culmination of a centuries-long process of the spread of capitalist production around the world and its displacement of all precapitalist relations"* (Robinson, 2004, p6)—except that not all precapitalist relations have been displaced, some have been internalised..

foundation for the formal separation of politics from economics. As she argues in *Empire of Capital* the 'globalisation of capitalist imperatives' has created a similar cleavage between global economics and politics, the quotidian regulation of imperialism now relying on 'market forces' rather than military force. She takes this from Marx's value theory, but leaves all the other 'intricacies' behind, with the result that the formal separation of economics and politics becomes a complete divorce, economic analysis of imperialism comes to a halt, and 'imperialism' is conceptualised not as a system of exploitation but as "a global system of multiple states and local sovereignties, structured in a complex relation of domination and subordination," this being "[t]he very essence of globalization." [108]

Second, she judges that the colonies' attainment of formal sovereignty means that: "[t]he new imperialism [...] [is] no longer [...] a relationship between imperial masters and colonial subjects but a complex interaction between more-or-less sovereign states." [109] The effect, if not the purpose, of 'more-or-less'—a rather loose term to include within a theoretical definition—is to throw a veil over the *continuation of imperialism*, and the fact that the territorial division of the world, initially wrought by colonial conquest, has survived and continues in new forms.

Third, she notes "one overriding indication that the global market is still far from integrated: the fact that wages, prices and conditions of labour are still so widely diverse throughout the world." [110] Despite the obvious relevance of this to profit, exploitation and other 'capitalist imperatives', she only considers the significance of global wage differences in their connection with state theory— "not the least important function of the nation state in globalisation is to [...] manage the movements of labour by means of strict border controls and stringent immigration policies, in the interests of capital" [111]—and leaves all the 'economic' implications of this to one side.

In contrast, Robert Brenner keeps his focus much more on the political economy of imperialism, though he disdains to use this term and prefers instead to talk of 'global capitalism'. In his influential writings on the end of the post-war boom (*The Boom and the Bubble* and *The Economics of Global Turbulence*) Brenner focuses on the chronic overcapacity depressing the industrial and general rate of profit in the USA and other advanced economies, and he provides a detailed commentary of the stages of development of this phenomenon, of how it has interacted with the growing power of financial markets and with government policy. Yet at no point does he include in his analysis the increasingly international operations of industrial firms in the USA, particularly in the low-wage nations to where they have outsourced much of their production, a trend reflected in Unctad data

108 Wood, 2003. p141

109 Ibid, p129

110 Ibid, 2003, p135-6

111 Ibid 2003, p137

that reveals that by 2002, 44% of US manufactured imports came from 'emerging economies', up from 21% in 1980 and 7% in 1965 (see Figure 6.2). The rise of southern manufacturing production over the past quarter-century only appears in Brenner's writings as merely one more factor contributing "to the further build-up of that redundant manufacturing productive power that was holding down profitability on a world scale." [112]

This phenomenon is more significant and more contradictory than Robert Brenner recognises. Far from depressing northern capitals' profits, the growth of southern manufacturing production has been driven by the efforts of these same northern capitalists *to arrest the decline in their rate of profit* by expanding their exploitation of low-wage labour. Or, as William Milberg and Deborah Schöller express it, the "shift in the sources of profits—from domestic product markets to foreign input markets [...] has contributed to the maintenance of profit rates and the increase in the profit share of national income in industrialized countries." [113]

Brenner is right to emphasise the pervasive overcapacity that has crushed the manufacturing rate of profit in the US and other 'advanced economies', an expression of a latent, creeping overproduction crisis, and it is true that the enormous growth of southern industry has greatly added to overcapacity in the global system. But the global shift of production signifies much more than a merely quantitative addition to global overcapacity, it adds a whole new dimension to it. The paradoxical result is that overcapacity in southern labour-intensive production processes, by forcing down the prices of consumer goods, intermediate inputs etc, has played a key role in helping the imperialist economies to contain and alleviate negative consequences of their own domestic overcapacity. Thus global outsourcing *displaced* the overproduction crisis, a crisis that is now set to return with a vengeance, since the bursting of the credit bubble, which was fuelled by 'global imbalances' resulting from the outsourcing boom, signifies that outsourcing has reached its limits and is undergoing a dialectical inversion, turning from being an ameliorating factor into an aggravant.

While overproduction of commodities and the falling rate of profit is central to Brenner's work (providing it strength and substance), in David Harvey's theory of 'new imperialism', the focus is shifted to the 'overaccumulation of capital'.[114] This pushes capitalists and capitalism into an ever-greater recourse to, and reliance upon, 'accumulation through dispossession'—diverse, non-

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112 Brenner, 2006, p290.

113 William Milberg & Deborah Schöller, 2008, *Globalization, Offshoring and Economic Insecurity industrialized Countries.* Prepared for U.N. Department of Economic and Social Affairs (pp21-22). (http://www.un.org/esa/policy/wess/wess2008files/ws08backgroundpapers/milberg_mar08.pdf, accessed 27/09/2009).

114 'Overaccumulation' is conceptually very close to 'overproduction', but pertains to the entire circuit of capital, whereas 'overproduction' focuses on the value-producing phase of this circuit, *i.e.* the production process.

capitalist forms of plunder from confiscation of communal property to privatisation of welfare. Thus he argues that 'new imperialism' is characterised by "a shift in emphasis from accumulation through expanded reproduction to accumulation through dispossession", this now being "the primary contradiction to be confronted".[115] Yet the prime purpose and effect of 'accumulation through dispossession', he argues, is to create more and more wage-labourers available for exploitation by capital—*i.e.* for expanded reproduction, for accumulation through capitalist exploitation of wage labour. He gives no reasons why the *means* to this *end* should be elevated to become 'the primary contradiction', he merely asserts that this is so. The effect of this 'shift in emphasis' is to relegate capitalist exploitation of wage labour to a secondary status and to replace the class struggle with social movements.[116]

Harvey has helped increase awareness of the continuing and even increasing importance of old and new forms of 'accumulation by dispossession', but he doesn't recognise that imperialism's most significant 'shift in emphasis' is *in an entirely different direction*—towards the transformation of its own core processes of surplus value extraction through the globalisation of production processes, a system of interaction that is entirely internal to the realm of the capital relation.[117]

Limits to Capital, David Harvey's celebrated 1982 treatise, is a rich and rewarding work and a valuable resource, yet the only substantial thing he has to say about imperialism in the whole tome, an idea mentioned in passing and which receives no further attention or development, is this: "much of what passes for imperialism rests on the reality of exploitation of the peoples in one region by those in another.... the processes described allow the geographical production of surplus value to diverge from its geographical distribution ."[118]

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115 Harvey 2003 pp176-7. *Contra* Harvey, Imperialism's 'primary contradiction' is elsewhere—between the *globally* socialised relations of production and the private ownership of the means of production *in the hands of rival national finance capitals.* Only a revolution in property relations can resolve this contradiction.

116 As can be seen in the conclusions he drew at the end of his influential book 'The New Imperialism', where he foresaw *"a return to a more benevolent 'New Deal' imperialism, preferably arrived at through the sort of coalition of capitalist powers that Kautsky long ago envisaged [...] The construction of a new 'New Deal' led by the United States and Europe, both domestically and internationally, in the face of the overwhelming class forces and special interests ranged against it, is surely enough to fight for in the present conjuncture."* (Harvey, 2003, pp209-211).

Much closer to the real world was what he wrote in the conclusion to 'Limits to Capital': *"The world was saved from the terrors of the great depression not by some glorious 'new deal' or the magic touch of Keynesian economics in the treasuries of the world, but by the destruction and death of global war."* (Harvey, [1982] 2006, p444).

117 Shaikh et al. explain the crucial difference between surplus value extracted in capitalist production process and capitalist profits deriving from interaction between capital and e.g. petty-commodity producers:

"At the most abstract level of Marxist theory, aggregate profit is simply the monetary expression of aggregate surplus value. But it is often forgotten that profit can also arise from transfers between the circuit of capital and other spheres of social life. Marx calls this latter form of profit on alienation, which—unlike a profit on surplus value—is fundamentally dependent on some sort of unequal exchange. Its existence enables us to solve the famous puzzle of the difference between the sum of profits and sum of surplus values brought about by the transformation from values to prices of production." Anwar M. Shaikh & E. Ahmet Tonak, 1994, Measuring the Wealth of Nations. Cambridge University Press, (p35)

118 Harvey, [1982] 2006a, pp441-2

Apart from this single vague allusion to its possibility, *Limits to Capital* leaves out the dimension of imperialist exploitation. About the globalisation of production—which contemporaneous works cited here from Howe, Castro and others show was already quite evident at the time of its writing—it makes no mention.

In *The Condition of Postmodernity* (1990), a book full of insights and blind spots, Harvey makes perhaps his most substantial effort to theorise the rise of export-oriented industrialisation in the global South: "From the mid-1970s onwards… newly industrialising countries… began to make serious inroads into the markets for certain products (textiles, electronics, etc) in the advanced capitalist countries, and was soon joined by a host of other NICs (Hungary, India, Egypt) and those countries that had earlier pursued import substitution strategies (Brazil, Mexico) […] some of the power shifts since 1972 within the global political economy of advanced capitalism have been truly remarkable. United States dependence on foreign trade (historically always rather small - in the range of 4-5% of gross domestic product) doubled in the period 1973-80. Imports from developing countries increased almost tenfold."[119] Here, Harvey argues that the expansion of industry in low-wage countries signifies a 'power shift' away from the Triad to southern nations, without stopping to consider an altogether different conclusion: that the Triad-based TNCs are finding new ways to take advantage of southern nations' subject status, as is suggested by his reference to "the enhanced capacity of multinational capital to take Fordist mass production systems abroad, and there to exploit extremely vulnerable women's labour power under conditions of extremely low pay and negligible job security."[120]

The global shift of production processes to low-wage nations was driven by TNCs in order to buttress their competitiveness and profitability, and to great effect, yet Harvey presents this as evidence of *declining* imperialist competitiveness. According to Harvey, 'core' capital attempts to resolve its overaccumulation crisis through the 'spatial fix', the production of "new spaces within which capitalist production can proceed (through infrastructural investments, for example), the growth of trade and direct investments, and the exploration of new possibilities for the exploitation of labour power."[121] This is all very hazy. Instead of 'exploration of new possibilities for the exploitation of labour power', what about something much more straightforward like 'super-exploitation of low-wage labour'? In the end, Harvey's attempts to add a spatial dimension to Marxist theory of capitalism falls flat because it doesn't discuss the 'spatial' implications of immigration controls, of the deepening wage gradient between imperialist and semicolonial nations, of 'global wage arbitrage'.

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119 David Harvey, 1990, *The Condition of Postmodernity*. Oxford, Blackwell Publishing (p165).

120 Ibid, p153

121 Harvey, 1990, p183

In *'The New Imperialism'*, published in 2003, he devotes two pages to the globalisation of production processes. He begins by inserting it into his basic 'overaccumulation of capital' thesis: "Easily exploited low-wage workforces coupled with increasing ease of geographical mobility of production opened up new opportunities for the profitable employment of surplus capital. But in short order this exacerbated the problem of surplus capital production world-wide." [122]

His next step is to assume a formal separation between manufacturing and financial capital, allowing him to ascribe outsourcing/offshoring to the 'unleashed power' of finance capitalists asserting their domination over manufacturing capital; and he suggests this was detrimental to US national interests: "a battery of technological and organisational shifts [...] promoted the kind of geographical mobility of manufacturing capital that the increasingly hyper-mobile financial capital could feed upon. While the shift towards financial power brought great direct benefits to the United States, the effects upon its own industrial structure were nothing short of traumatic, if not catastrophic [...] Wave after wave of deindustrialisation hit industry after industry and region after region [...] the US was complicit in undermining its dominance in manufacturing by unleashing the powers of finance throughout the globe. The benefit, however, was ever cheaper goods from elsewhere to fuel the endless consumerism to which the US was committed" [123]

There's a lot here to unpack, but the two main problems with Harvey's argument is that, first, outsourcing was not so much driven by the awakening of 'finance' but by stagnation and decline in the rate of manufacturing profit and the efforts of the 'captains of industry' to find ways to counter this; and second, increased imports of cheap manufactured goods did more than fuel consumerism, it also directly supported the profitability and competitive position of US multinationals, and was actively promoted by them. Far from ending US 'dominance'—in other words, the ability of its corporations to capture the lion's share of surplus value—offshoring/outsourcing has opened up new ways for US, European and Japanese capitalists to extend their dominance over global manufacturing production.

Another influential theorist of 'new imperialism', Alex Callinicos, argues that "as a result particularly of the anti-colonial movements of the mid-twentieth century, the idea of imperialism has come to be identified primarily with what we could today call North/South relations. But for the original theorists, writing on the eve of, or during the First World War, 'imperialism' denoted primarily the way in which changes in the structure of capitalism had given rise to intensified economic and strategic rivalries among the great powers [...]. the theory of imperialism is a way of understanding

[122] Harvey, 2003, pp63-4

[123] See Ibid., pp64-5

capitalism in its heartlands—what is sometimes called the 'core' of the world system" .[124] In this passage, Callinicos attempts to establish a continuity between classical theories of imperialism and his theory of global political economy that relegates 'North/South relations' to a peripheral role. But does his characterisation of the 'original theorists' of imperialism correspond to the ideas of the foremost amongst them, Lenin, who concluded that the "division of nations into oppressor and oppressed forms the essence of imperialism"?, [125] or to Rosa Luxemburg, who gave such attention to Europe's depredations in Africa and elsewhere?

Callinicos argues that, for Lenin and other Marxist theoreticians of imperialism, capitalism was catapulted to the beginning of its imperialist stage of development by 'structural changes' 'in its heartlands'. He does not specify which structural changes he is referring to, but we can presume they include the enormous concentration of capital and the rise of monopolies, the emergence of finance capital) Yet, even if it is true that capitalism became imperialism as a result of its own internal contradictions—of the falling rate of profit at home, of the increasing need to make concessions to the proletariat home in order to co-opt and corrupt its privileged layers—this does not at all mean that the oppression and exploitation of southern nations was and would remain a secondary, peripheral aspect of capitalism's imperialist stage. Callinicos argues that because imperialism arose out of its own internal contradictions, to emphasise the importance of North/South exploitation is to unjustifiably move the focus of theory away what is happening within the 'heartlands'.

This argument is an example of what Ilyenkov calls 'pseudohistoricism': confusing the essential character of a phenomenon with the conditions that gave rise to it. As he argues, "isn't it natural to consider the history which created an object if one wants to form a historical conception of the object? [...] The result [...] is this: the history of a certain phenomenon is described in terms of facts pertaining to the history of quite different phenomena [...] an attempt to understand a phenomenon historically through tracing out all the processes and premises preceding its birth inevitably leads into bad infinity and for this reason, if not for any other, will not result in anything definite or concrete."[126] Ilyenkov's very next sentence, "[v]ery often (much more often than the empiricist believes) the genuine objective cause of a phenomenon appears on the surface of the historical process later than its own consequence", perfectly applies to modern global outsourcing: the desire to exploit cheap southern labour, as well as the South's natural resources, fuelled capitalism's imperialist impulses from the beginning; and exploitation of cheap wage labour in southern nations was first realised on a large scale by the resource extraction industries that played an important role in the

124 Alex Callinicos, 2009, *Imperialism and Global Political Economy*. Cambridge: Polity Press (p16).

125 Lenin, 1915 p407.

126 Ilyenkov, ibid, p213.

transition to imperialism. Only in the era of neoliberal globalisation, however, have capitalist firms in manufacturing industries and, increasingly, in services, been able to fully express their desires in this direction; only in the era of neoliberal globalisation does 'global labour arbitrage' become the defining characteristic of actually existing imperialism. There is therefore no contradiction between believing that capitalism entered its imperialist stage as a result of its internal contradictions and that these continue to drive its imperialistic impulses, and the view that imperialist exploitation of labour and nature in the global South is increasingly central and essential to it.

In the conception of imperialism advanced by Callinicos, imperialism is essentially about competition and rivalry between 'core' nations. Southern nations are primarily involved in this not as victims of imperialism but as newly emergent 'sub-imperialisms', a category in which he includes Vietnam, Greece, Turkey, India, Pakistan, Iran, Iraq, South Africa and, by extension, every oppressed nation that has a smaller and weaker neighbour.[127] In the alternative conception advanced here, the common interest of the rival imperialist powers in maintaining access to super-exploitable pools of low-wage labour in the global South has been a crucial factor in keeping inter-imperialist contradictions in check, hence their impressive united front against Vietnam, Palestine, Cuba, Iran, Afghanistan; on burning issues such as the Third World debt, agricultural subsidies, global trade reform; and, as we shall see in Copenhagen in December 2009, climate change.

1.4 Overview of thesis structure

'Outsourcing'—the relocation of production to low-wage countries, whether in-house or arms-length—has transformed the global economy and has enormously expanded the southern proletariat employed in producing inputs and consumer goods for northern markets. As a result, the profitability and prosperity of capitalist firms in Europe, North America and Japan have become increasingly dependent on the super-exploitation of low-wage labour in the global South. This reality is partially obscured in data on GDP and trade, which—in a similar way to world maps produced by the standard Mercator projection—diminish the real contribution of southern nations to global wealth and exaggerate the real contribution of the 'developed' countries.

To establish this thesis, the argument is arranged as follows.

127 Callinicos includes Vietnam in this list of 'sub-imperialist' nations because of its removal of the genocidal Pol Pot regime from power in neighbouring Cambodia in 1979, when it also shared its rice rations to avert a famine in that country.

The investigation begins with Chapter 2, which analyses the globalisation of production processes, discovering its proportions, its qualities, its dynamism, and identifying its driving force: the hunger of northern capitalists for low-wage labour corralled in southern nations.

At this point, the thesis could take several directions. It could continue the study of global production networks and value chains by studying particular sectors or regions. It could focus on the theoretical comprehension of a particular dimension of the phenomenon, for instance the in-house/arm's length relationship or how well export-oriented industrialisation serves development goals. This thesis has chosen an entirely different direction: to put southern labour where it belongs, at centre stage; to study its social conditions of existence and its recent development, to give these workers, farmers and small producers due recognition of their contribution to global wealth, a contribution which, this thesis argues, is not recognised in official GDP and trade data. This research path is guided by a conjecture suggested by the results of Chapter 2's analysis: that it is conditions in labour markets, more so than product and capital markets, that explain the exceptional dynamism of global outsourcing. This focus on southern living labour—making their contribution to global wealth and their place in history, rather than the exchange of things in markets, into the field of this enquiry—also satisfies the criteria of liberatory social science, which aims not to 'speak truth to power' but to make truth into a weapon of the powerless; of a social science of solidarity, since only by placing ourselves in the midst of their reality can we discover the real questions about the world that analysis and theory must answer.

Accordingly, Chapters 3 and 4 examine the economic and social reality of the southern workforce, examining the conditions that determine the terms on which southern workers can sell their labour (Chapter 3) and collecting evidence that casts doubt on the economists' view that global wage differentials reflect global productivity differentials and that social conditions play no part in this (Chapter 4). Chapter 4's survey of southern wage trends shows that biases in global wage data result in an underestimation of real wage differentials between 'developed' and 'emerging' economies, and is complimented by an analysis of the world-wide decline in labour's share of GDP during the era of neoliberal globalisation, a trend that is moving faster, and has been going on longer, in the so-called 'emerging nations' than in the 'developed countries'. This survey of global wages is completed by Chapter 5's examination of purchasing power parity, which establishes that biases in data on wages are further amplified by problematic methodologies employed in adjusting for the purchasing power anomaly. The second section of Chapter 5 then asks why the purchasing power anomaly exists in the first place, and discovers that at the heart of PPP are two recurring themes of this thesis: suppression of the free movement of labour and the relation between wage levels and productivity. Further analysis of this 'anomaly' widens the cracks in the dominant paradigm and sets the scene for the investigation of the GDP illusion in the final chapter (Chapter 7).

The task of the final chapter is to achieve a synthesis of the various strands of analysis, it is therefore preceded by Chapter 6, which resumes and completes the study of global outsourcing, analysing quantitative data on the 'global shift' of production and selecting for special attention the two forms of the outsourcing relationship—'in-house' (*i.e.* FDI) and the increasingly-favoured 'arm's length' relations with an independent supplier.

By the time we have reached the final chapter, the central argument of this thesis will have already been established, that *southern labour is peripheral no longer*, and that their exploitation by imperialist capital is a defining feature of the latest stage of capitalism's imperialist development, so-called 'neoliberal globalisation'.

The final chapter concludes by outlining some essential elements of a theoretical concept of the global labour/capital relation, grounded on the findings of its empirical research. This outline requires very considerable further elaboration, and the contribution of many people, before it can achieve the necessary goal, *a value theory of the imperialism form of the law of value*.

Finally, a note on data. A strong theme of this thesis is that every single type of data that is consulted and cited in this investigation is beset either by biases and distortions or fallacious interpretations, and usually both. Critical evaluation of the methodologies used to compile official data is a major theme of most of the chapters and plays an integral in the development of its argument. Thus chapter 2 considers why so many conclude from published data on FDI that the south is of peripheral importance when the data itself tells the opposite story; chapter 4 uncovers important biases and distortions in data on global wage trends, and also subjects the methodology used to compute labour's share of GDP to searching criticism; chapter 5 studies both the methodology and the theory of purchasing power parity; and, finally, in the biggest challenge to the proclaimed probity and objectivity of standard economic data, chapter 7 refutes the claims of GDP to be a measure of how much wealth is produced in a nation, arguing instead that it systematically and massively diminishes the real contribution of the global South to global wealth.

♦ ♦ ♦

Chapter 2—Offshoring, outsourcing and the 'global labour arbitrage'

This chapter takes a panoramic view of the globalisation of production processes, which this thesis identifies to be the newest and most transformative feature of so-called neoliberal globalisation. Its most important task is to identify the essential aspects of this phenomenon, to discover its driving force. In all of the literature on global outsourcing, global value chains, 'new imperialism' etc, none captures this essence more concretely and more precisely than what Stephen Roach and others have called 'global labour arbitrage'—the substitution, by northern-based capitals, of higher-wage domestic labour for low-wage labour in the 'global south' in order to "extract product from [...] low-wage workers in the developing world". [1]

This chapter is arranged as follows. The first section briefly introduces the historical and current dimensions of global outsourcing. The second section examines the antecedents of global outsourcing and the reasons for its dramatic acceleration from the mid-1970s. The third section begins investigation of the two forms of the outsourcing relationship (the other is 'arm's length' outsourcing) by analysing data on FDI, resulting in a challenge to widely-held beliefs about the relative importance of N-N and N-S direct investment flows. The fourth section looks at services outsourcing, a much newer phenomenon than production outsourcing, but one that is rapidly advancing and affecting new sectors and strata of the working class in the imperialist countries.

The fifth section establishes a fact of key importance to our concept of 'globalisation of production': among the commodities whose production is being globalised is one very special commodity—living labour. One particular consequence of this is given special attention. More and more of the consumption goods of workers in imperialist countries emanate from the fields and factories of the global South. The conditions of labour of the human beings who work in them, their wages, their rate of exploitation, now partly determines the value of labour power in the imperialist countries.

The last three sections focus on the force driving and shaping the globalisation process: 'global labour arbitrage'; first by clearly defining it and evaluating its usage in international business literature, then by considering what neo-Marxist literature on 'global capitalism' and 'new imperialism' has to say about it, and finally by relating 'global labour arbitrage' to other manifestations of the global capital-labour relationship.

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1 Stephen Roach,, 2003, *Outsourcing, Protectionism, and the Global Labor Arbitrage*. Morgan Stanley Special Economic Study, pp5-6

2.1 The globalisation of production processes

Just as 140 years ago, when "the sphere of [...] the exchange of commodities provide[d] the 'free trader vulgaris' with his views, his concepts,"[2] so too are today's dominant conceptions of globalisation and imperialism trapped within this sphere—preoccupied with financialisation, prospects for access to the consumer society (the 'global' inequality' debate) etc, and either ignore or merely record in passing the transformations taking place in the processes of production of social wealth. They are trapped, in Anwar Shaikh's words, "by orthodox theory, whose analysis is located in the sphere of circulation."[3] However, despite the accelerated growth in foreign trade and the even more spectacular efflorescence of capital markets, neo-liberal globalisation's newest and most transformational feature is to be found neither in product markets nor financial markets, but in 'the hidden abode of production'.[4] Here we find what is really new about 'new imperialism'*: the globalisation of production processes.*

In 19th-century capitalism, the various stages in the processing of raw materials into final goods typically took place within a single factory. The 20th century saw the growth, within national borders, of more complex production networks and, especially since World War II, a big trend towards intra-national outsourcing of many so-called service tasks. For most of these two centuries international trade consisted of raw materials and final goods. Neoliberal globalisation, by extending the links in the chain of production and value-creation across national borders, has transformed this picture. William Milberg, who brings many illuminating insights to this study, noted in an ILO paper, "because of the globalization of production, industrialization today is different from the final goods, export-led process of just 20 years ago".[5] The big difference; in Milberg's view "the defining manifestation of globalized production", no less, is "the rise in intermediate goods in overall international trade, whether it is done within firms as a result of foreign direct investment or through arm's length subcontracting."[6]

International trade in intermediate inputs, indicating that different stages in the production of final goods are dispersed across different countries and continents, is unambiguous evidence of

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2 Karl Marx, [1867] 1976, Capital, Volume 1. London: Penguin (p280).

3 Anwar Shaikh, 1980, 'The Laws of International Exchange' in Edward J. Nell (ed.) *Growth, Profits and Property: Essays in the Revival of Political Economy,* 204-235. Cambridge: Cambridge University Press, (p232).

4 Marx, [1867] 1976, p279.

5 William Milberg, 2004a, *The changing structure of international trade linked to global production systems: what are the policy implications?* Working Paper No. 33, Policy Integration Department, World Commission on the Social Dimension of Globalization, International Labour Office: Geneva, 2004 (p38).

6 Ibid., p9

the globalisation of production processes.[7] But we need a definition that is broad enough to include the explosive growth in the South's exports of final goods destined for the mass consumer markets of Japan, Europe and North America. At first glance these southern exports is trade like any other—but they differ in two fundamental respects.

First, whereas conventional participation in international trade in manufactures is an extension of a firm's production for its domestic market, the South's export of final goods is qualitatively different, as is implicit in the very term commonly used to describe it— 'export-oriented industrialisation'. Here, industries and even entire branches of the economy are wholly oriented towards export markets, and are located far from final consumers in order to take to advantage of lower input costs—and in particular, the lower cost of labour.

Second, a characteristic feature of South-North trade in manufactured goods—which has experienced phenomenal growth since 1980 and which now comprises 80% of southern nations' merchandise exports—is that these production processes, though located in southern nations, are controlled and often owned by so-called 'lead firms' TNCs who are headquartered in the imperialist nations and who, in ways to be explored in this thesis, capture a major share of the profits generated in them.

These are two reasons why the stellar growth in South-North manufactured trade is much more than a quantitative process pertaining to the marketplace, where commodities are exchanged, but should instead be understood as a reflection of a qualitative change in their processes of production. This understanding will be deepened and made more rigorous in the course of this investigation. For the moment we are interested in the scale of this phenomenon, its qualitative significance to the modern global political economy. Concerning this, Milberg reports that "there is now massive evidence that global production sharing is being undertaken in a wide variety of sectors, including textiles and apparel, consumer electronics, transportation and machinery, light consumer goods industries such as toys and even services as diverse as sales and finance." [8]

Of the many investigations confirming this verdict, one of the most impressive and widely-cited was conducted by Kate Bronfenbrenner, Stephanie Luce and James Burke, who claim with some justification that "[o]ur research is the only empirical work that allows scholars and policymakers the information needed to understand these global trends."[9] Meticulously recording and

7 Milberg's definition is quite broad enough to encompass service outsourcing, since service tasks can also be 'intermediate goods'.

8 Milberg, 2004a, p13

9 Kate Bronfenbrenner & Stephanie Luce, 2004, *The Changing Nature of Corporate Global Restructuring: The Impact of Production Shifts on Jobs in the U.S., China and Around the Globe.* Washington, DC: US-China

corroborating every report of production outsourcing in local media and in "a variety of data sources and on-line databases", they have demonstrated that official data published by the USA's Bureau of Labour Services (BLS) reports only a small part of production and services outsourcing, attributing this woeful discrepancy with the facts to concealment by firms, either to protect 'commercial secrecy' or out of fear of public opprobrium, and to the reluctance of the BLS and its parent, the US government to diligently record this politically radioactive phenomenon.

Bronfenbrenner and Burke noted that "the US companies that are shutting down and moving to China and other countries tend to be large, profitable, well established companies, primarily subsidiaries of publicly-held, US-based multinationals,"[10] while Bronfenbrenner and Luce summarised the overall picture like this: "the outsourcing of production, both near shore and off shore, from the US and around the globe, crosses nearly every major industrial sector, from communications and IT, to high-end manufacturing of industrial machinery and electronics components, to low wage manufacturing in food processing and textiles."[11] These authors estimate that each year from 1992 to 2001 between 70,000 and 100,000 production jobs shifted from the US to Mexico and China, which at the turn of the millennium were the first and second-most important destinations for US outsourcers. Their research shows this to have sharply accelerated at the start of the new millennium: "the total number of jobs leaving the US for countries in Asia and Latin America increased from 204,000 in 2001 to as much as 406,000 in 2004."[12]

Epitomising this process was the 2004 decision by the iconic "'made in the USA' brand Levi Strauss—which in the 1960s operated 63 factories across the US—to close its last US factory and move production to Mexico and China, leaving 800 workers in San Antonio without jobs."[13]

The massive recourse to relocation of production processes to low-wage countries is at least as important to the competitive strategy of European and Japanese firms as it is to their rivals in the USA. William Milberg and Deborah Schöller report that almost 30% of inputs use in UK factories are imported and 23% of those used in German factories, compared to 17% in the case

Economic and Security Review Commission, p81. (http://www.news.cornell.edu/releases/Oct04/jobs.outsourcing.rpt.04.pdf, accessed 29 March 2008); Kate Bronfenbrenner & James Burke, 2002, 'Impact of US-China Trade Relations on Workers, Wages, and Employment: Pilot Study Report'. Supplement to *Report to Congress of the US-China Security Review Commission: The National Security Implications of the Economic Relationship Between the United States and China*. Washington, D.C.: US-China Security Review Commission.

10 Bronfenbrenner & Burke, 2002, pii.

11 Bronfenbrenner & Luce, 2004, p80.

12 Ibid., 2004 p56

13 Ibid., p35.

of the USA,[14] with rapidly-rising proportions of these emanating from low-wage nations. As Ari Van Assche, Chang Hong and Veerle Slootmaekers explain in a study of EU-Chinese trade, "Europe's importers and retailers [...] increasingly rely on cheap inputs and goods from Asia [...] EU companies are now also producing in low-cost countries, and not simply importing inputs." [15] Driving home their central point, that European businesses should regard China as more an opportunity than a threat, they add "the possibility of offshoring the more labor-intensive production and assembly activities to China provides an opportunity to our own companies to survive and grow in an increasingly competitive environment." [16]

As for third leg of the Triad, Richard Baldwin notes that "Japanese manufacturers reacted [to declining competitiveness] by offshoring labour-intensive production stages to nearby East Asian nations [...] Offshoring, [...] was a source of Japan's comparative advantage in US and EU markets." [17] An *Economist* article picked up on his central message, "Japanese electronics companies continue to flourish in American markets precisely because they have moved their assembly lines to China." [18]

2.2 *Antecedents of global outsourcing*

Considered as two forms of the same phenomenon, modern offshoring and outsourcing is the continuation of capital's eternal quest for new sources of cheaper, readily exploitable labour power; what's qualitatively new about its modern expression is that it is now global. As Gary Gereffi, pioneer of research into 'global commodity chains', reminds us, "[t]he geographic shift of industries is certainly not a new phenomenon. In the early 20th century in the United States, many industries [...] began to move to the US south in search of abundant natural resources and cheaper labour, frequently in 'right to work' states that made it difficult to establish labour

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14 William Milberg & Deborah Schöller, 2008, *Globalization, Offshoring and Economic Insecurity industrialized Countries.* Prepared for U.N. Department of Economic and Social Affairs (p25). (http://www.un.org/esa/policy/wess/wess2008files/ws08backgroundpapers/milberg_mar08.pdf, accessed 27/09/2009).

15 Ari Van Assche, Chang Hong & Veerle Slootmaekers, 2008, *China's International Competitiveness: Reassessing the Evidence* (pp15-16). (http://www.econ.kuleuven.ac.be/licos/DP/DP2008/DP205.pdf, accessed 14/09/2009).

16 Ibid., p16

17 Richard Baldwin, 2006, *Globalisation: the great unbundling(s)*, p22. (http://www.vnk.fi/hankkeet/talousneuvosto/tyo-kokoukset/globalisaatioselvitys-9-2006/artikkelit/Baldwin_06-09-20.pdf, accessed 13/06/2009).

18 The Economist, 2007, 'The great unbundling', in *The Economist*, Jan 18th 2007.

unions. The same forces behind the impetus to shift production to low-cost regions within the United States eventually led US manufacturers across national borders."[19]

Aviva Chomsky, in 'Linked Labor Histories', a multi-layered account of how the labour movements in New England and Colombia have been linked together over a century, makes a similar point: "most accounts place this phenomenon in the second half of the 20th century. I argue that the events of the late 20th century continue a pattern begun by the earliest industry in the country, the textile industry, a century earlier."[20] She calls this phenomenon "employers' 'capital flight' away from strong trade unions and towards cheap labour", although of course capital, in terms of its ownership, stayed where it is, what flew were its production processes.

Chomsky persuasively argues that "Capital flight was one of the main reasons the textile industry remained one of the least organised in the early to mid-20th-century, and it was one of the main reasons for the decline of unions in all industries at the end of the century." The relocation of textile mills from New England to North Carolina in the first decades of the 20th century was followed, in the 1930s, by a further relocation of production to Puerto Rico, which thereby became the true pioneer of international production outsourcing.

The era of global outsourcing of manufacturing production began in earnest in the 1960s and 1970s "with the exodus of production jobs in shoes, clothing, cheap electronics, and toys"[21] and played a key role in the emergence of commercial capital—retail giants like Tesco and Wal-Mart—whose predilection for outsourcing to low-wage countries helped them to break down producer control over prices in their domestic markets, ending the reign of the 'manufacturer's recommended retail price'. As US labour historian Nelson Lichtenstein has observed, "[f]or more than a century, from roughly 1880 to 1980, the manufacturing enterprise stood at the center of the U.S. economy's production/distribution nexus [...] Today, however the retailers stand at the apex of the world's supply chains."[22] Massive recourse by commercial capital, in the form of Wal-Mart, Tesco, Carrefour and others, to the outsourcing of production to low-wage economies was the crucial weapon enabling them to overthrow the power of the producer monopolies, redistribute their monopoly rents, and establish the supremacy of commercial

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19 Gary Gereffi, 2005, *The New Offshoring of Jobs and Global Development.* ILO Social Policy Lectures. Geneva: ILO Publications (p4).

20 Aviva Chomsky, 2008, *Linked Labor histories*. Durham: Duke University Press (p294).

21 Gereffi, 2005, p1.

22 Nelson Lichtenstein, 2007, *Supply-Chains, Workers' Chains and the New World of Retail Supremacy*. Labor 2007 4(1):17-31 (http://www.law.yale.edu/documents/pdf)/Lichtenstein_SupplyChains_WorkersChains.pdf)., pp3-4. He continues, '*Indeed, the very phrase 'supply chain' did not exist 20 years ago. Manufacturers had 'distribution channels,' wholesalers operated throughout a defined 'sales territory,' retailers had a network of jobbers and suppliers.'*

capital: "the dramatic growth in the power of the American retail sector began in the 1960s and 1970s when Sears, K-Mart and some U.S. apparel makers/distributors began to take advantage of the cheap labor and growing sophistication of the light manufacturers in the offshore Asian tigers, especially Hong Kong, Taiwan and South Korea." [23]

Gereffi spelled out what, several decades on, had become of this trend: "more than 80% of the 6000 factories in Wal Mart's worldwide network of suppliers are in China. In 2003, Wal-Mart spent $15bn on Chinese-made products; this total accounted for nearly one eighth of all Chinese exports to the United States [...] A typical export factory in southern China pays a salary of $40 per month, which is 40% less than the local minimum wage. Workers put in 18-hour days with poor workplace conditions, minimal training, and continual pressures to boost output." [24]

Unable any longer to dictate prices to its distributors, the shift in power towards commercial capital made possible by outsourcing increased pressure on the producer monopolies to axe agreements with their labour unions and seek instead to deunionise and 'flexibilise' their domestic labour force—and to follow the trail blazed by the retail giants and outsource their production processes to low-wage countries. Thus Kate Bronfenbrenner and Stephanie Luce detected "a systematic pattern of firm restructuring that is moving jobs from union to non-union facilities within the country, as well as to non-union facilities in other countries" [25]

From the early 1960s, while the emerging retail giants (a.k.a. 'global buyers') were pioneering the outsourcing of mass consumer goods, prominent IT (information technology) firms, in particular Cisco, Sun Microsystems and AT&T, were spearheading what was to become a Gadarene rush of outsourcing by high-tech industry. Whereas the Wal-Mart demarche was provoked by competition between commercial and industrial capital, these North American high-tech IT firms were spurred by intensifying competition with Japan's burgeoning IT industry to outsource labour-intensive production processes to Taiwan and South Korea—and they did so by making full use of their strong connections with the Pentagon and Capitol Hill.[26] This quickly became the paradigm for US high-tech industries, greatly propitiating their rapid growth. As Brookings scholars Ashok Deo Bardhan and Dwight Jaffee reported, "[l]ow-cost foreign

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23 Ibid., p5.

24 Gereffi, 2005 p19. He adds (ibid., p19), *"A second feature of the China story is the role of global intermediaries. About two-thirds of China's exports are shipped from factories wholly or jointly owned by foreign investors, mainly from Hong Kong, Taiwan (China), and Japan."*

25 Bronfenbrenner & Luce, 2004 p37-8.

26 For a detailed discussion of this, see Jeffrey Henderson, 1989, The globalisation of high-technology production: society, space and semi-conductors in the restructuring of the modern world. London: Routledge.

outsourcing [...] seems to be particularly intense in the case of high tech sectors. Indeed, one of the signal attributes of a manufactured high-tech product is the extensive nature of its value-chain, the number of intermediate products and services, and the global, fragmented, nature of the final output."[27]

What emerges from this is that the driving force behind the globalisation of production has been intense competition between rival fractions of capitalists, expressed both in sectoral conflict within imperialist states and in inter-imperialist rivalry with states strategically and operationally involved in advancing the efforts of private capital to boost profits and competitiveness through global outsourcing.

2.3 The global South—peripheral no longer

The relocation of production processes, and the global capital/labour relation that is developed by this, takes two basic forms: 'foreign direct investment' (FDI), when the production process is moved overseas but kept in-house, and arm's length outsourcing, when a firm outsources the production process to an independent supplier, yet retains effective control over the production process and continue to capture the greatest share of the proceeds. In this study, 'outsourcing' is used to denote both forms of cross-border relationships.

Tens of thousands of southern-owned factories in low-wage nations supplying northern industries with cheap inputs and retail giants like Tesco and Wal-Mart with cheap consumer goods don't count as FDI and are completely absent from FDI statistics. According to Unctad's definition, Tesco and Wal-Mart only count as TNCs to the extent that they operate retail outlets in other countries—Wal-Mart's 2.1 million-strong global workforce (up from 2,600 in 1971)[28] does not include any of the workers who produce the goods that fill its shelves. William Milberg observes that, "because foreign direct investment is measured so precisely and for so many countries, analysts tend to see globalization through a foreign direct investment lens. Like the proverbial drunk who searches for his lost keys under the streetlight only because that is where he can see best, economists have overemphasized the relevance of foreign direct investment." [29]

A 2004 report entitled *Trading Away Our Rights – Women Working in Global Supply Chains* gives a glimpse of the multitudes of workers in southern fields and factories, the majority young and

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27 Ashok Deo Bardhan & Dwight Jaffee, 2004, *On Intra-Firm Trade and Multinationals: Foreign Outsourcing and Offshoring in Manufacturing* (p1). (http://www.brookings.edu/pge/offshoring_Bardhan.pdf, accessed 13/06/2009).

28 'Wal-Mart nation', 'Lex column', *Financial Times*, June 5, 2009.

29 Milberg, 2004a, p9.

female, producing cut flowers, computers, car components and most of our clothes, who become invisible when the North-South nexus is viewed through the 'foreign direct investment lens': "[t]oday, supermarkets and clothing stores source the products that they sell from farms and factories worldwide. At the end of their supply chains, the majority of workers—picking or packing fruit, sewing garments, cutting flowers—are women [...]. [These] women workers are systematically being denied their fair share of the benefits brought by globalisation. Commonly hired on short-term contracts—or with no contract at all—women are working at high speed for low wages in unhealthy conditions. They are forced to put in long hours to earn enough to get by. Most have no sick leave or maternity leave, few are enrolled in health or unemployment schemes, and fewer still have savings for the future." [30]

These considerations have led Peter Dicken, author of 'Global Shift', to propose a fundamental change to the definition of 'transnational corporation'. According to the conventional definition, only those firms indulging in FDI qualify as 'transnational corporations', e.g. Unctad defines TNCs as "enterprises comprising parent enterprises and their foreign affiliates." [31] Dicken proposes that, instead of denoting a firm with wholly- or partly-owned subsidiaries in other countries, 'transnational corporation' should be redefined as "a firm that has the power to coordinate and control operations in more than one country, even if it does not own them." [32]

This broader definition of TNC is the one used throughout the study. One of the defects of much radical and Marxist scholarship concerning contemporary North-South economic interaction has been its inability to adequately account for arm's-length outsourcing and its increasingly anachronistic focus on FDI. There are many reasons for this shortcoming. One is a failure to correct a major weakness of the 'New International Division of Labour' (NIDL) thesis advanced by Fröbel and his comrades in 1977: its exclusive focus on direct investments by TNCs.[33] Another is, as we have seen in the introduction to this thesis, an unseemly desire by prominent radical and neo-Marxist analysts to distance themselves from Leninist or 'dependency' theories of imperialism.

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30 Oxfam, 2004, *Trading Away Our Rights – Women Working in Global Supply Chains.* Oxford: Oxfam International p4. Oxfam conclude, 'Instead of supporting long-term development, trade is reinforcing insecurity and vulnerability for millions of women workers.'

31 Unctad, 2004, World Investment Report 2004—The Shift Towards Services. Geneva, Unctad (p345).
Transnational corporations are also sometimes known as 'multinational corporations' (MNCs). TNC is used here in preference to MNC for this reason: '*It is true that large corporations are now established within various countries, but they are more 'transnational' than actual 'multinational' corporations, in the sense that they are still tightly connected to one specific country in terms of ownership and management.*' Duménil & Lévy, 2004, p661

32 Peter Dicken, 2007, *Global shift – mapping the changing contours of the world economy* (fifth edition). London: Sage Publications Ltd (p6).

33 F Fröbel, J Heinrichs, and O Kreye, 1980, *The New International Division of Labour: Structural Unemployment industrialised Countries and Industrialisation in Developing Countries.* Cambridge: Cambridge University Press.

Raphael Schaub, expressing a widespread view among mainstream economists, radical reformers and neo-Marxists, peers through the FDI lens and sees that "most of the FDI stock is owned by and is invested in developed countries [...] FDI stock and flows have increasingly been concentrating in the industrialized countries since the 1960s." [34] David Held, the social democratic visionary, forms a similarly blurred image: "The vast majority of [...] FDI flows originate within, and move among, OECD countries" [35] Kavaljit Singh, writing from a radical-reformist perspective representative of many NGO critics of globalisation, concurs: "the bulk of global FDI inflows move largely within the developed world [...] This situation could be aptly described as investment by a developed country TNC in another developed country. The US and the EU [...] continues to be the major recipients of FDI inflows." [36] Sam Ashman and Alex Callinicos, writing in the Marxist journal *Historical Materialism*, cite the same Unctad data and reach the same conclusion: "the transnational corporations that dominate global capitalism tends to concentrate their investment (and trade) in the advanced economies [...] Capital continues largely to shun the global South." [37]

The biggest problem with peering through an FDI lens is that arm's-length outsourcing is rendered invisible. But even before we bring outsourcing into the picture, enough can be seen to seriously undermine the conclusions propounded by Schaub, Held et al. Even a cursory examination of the relevant Unctad data on FDI flows is sufficient to refute the conclusion that capital is 'shunning' the global South. Indeed, the closer we look, the plainer it becomes that far from 'shunning' the global South, *northern capital is becoming ever-more dependent on exploiting its low-wage labour*.

The extreme asymmetry of N-S FDI

In 2005, Unctad tells us, 46 of the top 50 TNCs were headquartered in the EU, Japan and the United States, leading it to conclude that "the large gap between TNCs from the developed and

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34 Raphael Schaub, 2004, *Transnational Corporations and Economic Development in Developing Countries,* pp26-7 (http://www.pik-potsdam.de/members/edenh/theses/masterschaub.pdf, accessed 29/9/2009).

35 David Held, A. McGrew, D. Goldblatt & D. Perraton, 1999, *Global Transformations: Politics Economics and Culture.* Cambridge: Polity Press. (p248)

36 Kavaljit Singh, 2007, *Why Investment Matters – The Political Economy of International Investments.* Delhi: Madhyam Books (pp26-7).

37 Sam Ashman & Alex Callinicos, 2006, 'Capital Accumulation and the State System', in *Historical Materialism* 14:4, 107-131 (p125). In the same vein, Chris Harman, another partisan of the 'International Socialist Tradition', wrote, '*Whatever may have been the case a century ago, it makes no sense to see the advanced countries as 'parasitic', living off the former colonial world [...] . the centres of exploitation, as indicated by the FDI figures, are where industry already exists.'* Chris Harman, 2003, 'Analysing Imperialism', in *International Socialism,* 99, (pp39-40).

developing groups remains. For instance, the total foreign assets of the top 50 TNCs from developing economies in 2005 amounted roughly to the amount of foreign assets of General Electric, the largest TNC in the world."[38] More importantly, qualitative differences between N-N FDI and N-S FDI mean they cannot be simplistically compared. Investment flows between the US, Europe and Japan are symmetrical inasmuch as they invest in each other. In striking contrast to this, cross-border investments between the global South and the 'Triad' nations are extremely asymmetric: S-N FDI is a negligible fraction of N-S FDI.

Direct investment and profits flow in both directions between the US, Europe and Japan; between these nations and the global South *the flow is one-way*. As the accumulated stock of FDI in the South has increased, so has the flow of repatriated profits grown into a mighty torrent, to the point where S-N profit repatriation now approaches, if not exceeds, new N-S FDI flows.[39] As Unctad's 2008 World Investment Report notes, TNC profits "are increasingly generated in developing countries rather than in developed countries."[40]

Of all of the categories of data prospected and processed for this thesis, data on profit flows are by far the sparsest and most unreliable. In its 2008 World Investment Report, Unctad presented its estimates of global FDI profits from 1990 to 2007 in graphic form. The trace for 'Imputed TNC profits from 'developing economies'' in Figure 2.1 combines data extracted from this graphic with data on global stocks of FDI in order to reveal the evolution of South-North repatriated profits since 1990, and allow this to be compared with North-South FDI flows. Before evaluating what Figure 2.1 can tell us about N-S FDI and S-N profits, it is necessary to consider various factors affecting the reliability of this data, and before embarking on this, it is worth noting in passing a particularly striking feature of Figure 2.1: the steepness of the increase in both categories following the bursting of the dot.com bubble at the turn of the millennium (consistent with Bronfenbrenner et al's findings cited above on the increased pace of US outsourcing during this period), an acceleration that was sustained right up until 2007, the beginning of the global economic crisis. This, of course, was no coincidence, though the relation between the burgeoning acceleration of N-S FDI and the onset of the financial crisis is quite complex.[41]

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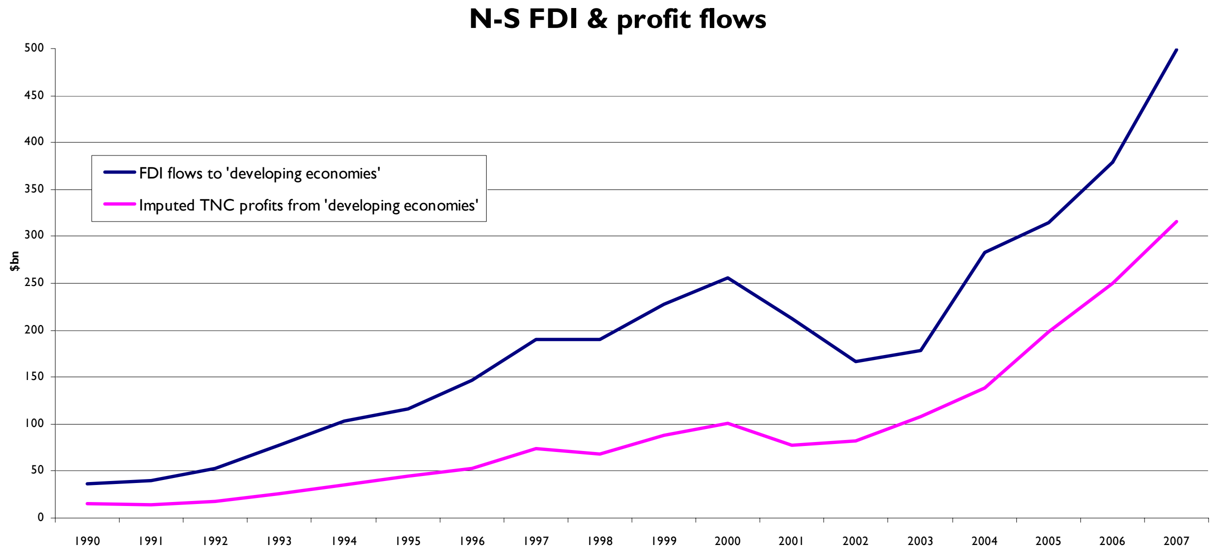
38 Unctad, 2008a, *Development and Globalization: Facts and Figures.* Geneva, Unctad, (p30).

39 Milberg comments *"net capital flows [...] have arguably been [...] perverse, in the sense that debt repayment and profit repatriation by multinational enterprises has brought a flow from developing to developed countries".* Milberg, 2004a, 2n.

40 Unctad, 2008c, World Investment Report 2008—Transnational Corporations and the Infrastructure Challenge. Geneva, Unctad (p4).

41 This important connection will receive further attention in Chapter 6 and in the conclusion. For the moment, we can surmise that the same factors which encouraged an acceleration of N-S investment are also implicated in the financial crisis: low interest rates in the USA sparked a 'hunt for yield'; the

Figure 2.1 North-South flows of FDI and profits



Sources: Data on flows from Unctad, Handbook of Statistics, 2008 Table 7.3 (http://stats.unctad.org/Handbook/). 'Imputed TNC profits from 'developing economies' were derived from data on global FDI profits reported in Figure 1.3 in Unctad World Investment Report 2008 (p5), then by assigning part of these to TNC subsidiaries in the 'developing economies' in proportion to these nations' share of global FDI stocks.

According to Unctad's WIR2008, the world's TNCs earned $1130bn in 2007 in profits from their foreign subsidiaries, 406,967 of which are located in 'developing economies' and 259,942 in 'developed economies'.[42] Unctad provide no breakdown or detailed analysis of FDI profits by firm, sector or country, except for 'Annex Table B.14.', which reports that in 2005, the most recent year for which data is available, US TNCs earned $549bn in profits from what it elsewhere reports to be their $2.05 trillion stock of foreign subsidiaries. Japan, the only other country to report profits from FDI, earned $87bn. This table with just two entries epitomises the scanty information on, and attention to, global profit flows in data provided by public bodies. Furthermore, there are many reasons to question the accuracy of this sparse data. Doubts are aroused by Figure 1.3 on p5 of WIR2008, 'Worldwide income on FDI and reinvested earnings, 1990-2007', which shows total income from FDI in 2005 to have been $760bn. If both this and 'Annex Table B.14.' are accurate, it means that subsidiaries of US TNCs captured 72% of global FDI profits in that year, despite comprising 19% of global FDI stocks.[43] Such a disproportionate

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accelerated flow of N-S FDI was thus, at least in part, another expression of heightened investors' appetite for risk. These low interest rates were themselves largely a result of the southward 'global shift' of production, as China and other exporters returned a significant part of their export earnings to US & European central banks as loans at zero or negative real rates of interest.

42 Source for data on the global distribution of subsidiaries: Unctad, 2007, *World Investment Report 2007—Transnational Corporations, Extractive Industries and Development.* Geneva, Unctad, p217.

43 Gérard Duménil and Dominique Lévy report that *"[w]hatever the types of foreign investments, the United States obtains returns on the rest of the world quite larger than the rates made by foreigners when they invest in the United States."* Gérard Duménil and Dominique Lévy, 2004. 'The economics of US imperialism at the turn of the 21st century,' in Review of International Political Economy 11:4, 657–676 (p664).

share is not credible, and suggest that either US profits are exaggerated or those received by non-US TNCs are massively under-reported

In 2007, TNC subsidiaries in 'developing economies' constituted 28% of the global stock of FDI. If we assume that TNC subsidiaries in low-wage countries generate profits for their parent companies only at the same rate as their subsidiaries in other 'developed economies', then northern firms made $316bn (28% of $1130bn) from their direct investments in the global South. The true figure will be higher still, to the significant extent that the rate of profit from subsidiaries in low-wage nations exceeds the returns from investments in other imperialist nations. This is likely to be the case, though publicly available data on profits and profitability is too sparse and too poor in quality to easily yield a definitive answer. One IMF working paper investigated profits from subsidiaries of US-owned TNCs in Latin America and Asia, concluded that "[t]he estimates for the return on foreign direct investment suggest that profitability is widely underestimated. U.S. data show returns on total foreign direct investment in emerging markets in the order of 15 to 20 per cent. An additional three per cent on invested capital [is] paid to parent companies for royalties, license fees and other services." [44]

Declared profits ignore underreporting, transfer pricing etc, which is likely to significantly undercount the true scale of South-North profit flows. According to Raymond Baker, a leading authority on "the countless forms of financial chicanery [...] prevalent in international business",[45] they are easily large enough to close the gap between FDI flows and TNC profits depicted in Figure 2.1. In an article co-written by Jennifer Nordin, Raymond Baker informed *Financial Times* readers that "[o]ver the past four decades or so, a structure has been perfected that facilitates illegal cross-border financial transactions [...] Many multinational companies and international banks regularly use this structure, which functions by ignoring or skirting customs, tax, financial and money laundering laws. The result is nothing less than the legitimisation of illegality [...] By our estimate, it moves some $500bn a year illegally out of developing and transitional economies into western coffers." [46]

Even though FDI has replaced debt and 'aid' and in recent years has comprised the great bulk of N-S capital flows, repatriation of profits mean that the net effect of N-S FDI is increasingly to decapitalise the southern nations, vindicating Fidel Castro's assessment, made in a report to the Non-Aligned Movement in 1983, that FDI results in "a net transfer of resources [...] a continuous

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44 Alexander Lehmann, 2002, *Foreign Direct Investment in Emerging Markets: Income, Repatriations and Financial Vulnerabilities.* IMF Working Paper WP/02/47 (p24). (http://www.imf.org/external/pubs/ft/wp/2002/wp0247.pdf, accessed 29/09/2009)

45 Raymond W, Baker, 2005, *Capitalism's Achilles Heel.* New Jersey, John Wiley & Sons (p162).

46 Raymond Baker & Jennifer Nordin, 2005, 'How dirty money thwarts capitalism's true course', in *Financial Times*, 10 October, 2005.

decapitalisation of the underdeveloped countries, which are in no small measure financing the 'development' of those very same developed capitalist countries." [47]

Manufacturing FDI vs services FDI

The 'capital is shunning the global South' thesis is further undermined when we look specifically at Unctad data on FDI flows in manufacturing, the fastest growing and now dominant sector of international trade. They reveal that 'developing economies' have in recent years received close to 50% of manufacturing FDI: from 2003 to 2005, they received $82.1bn in such flows, compared to $83.7bn flowing into developed countries.[48] On the other hand, FDI in 'Finance' and 'Business activities' into 'developed countries' totalled $185.1bn in these years, more than twice the inward flow of manufacturing FDI. In other words, FDI flows between the US, Europe and North America are puffed up by non-productive investments. What's more, much of the supposed 'N-N manufacturing investment' is in firms *which have offshored/outsourced some or all of their production processes to low-wage nations.* For example, the 2005 restructuring of the world's second-largest oil company, Royal Dutch Shell, increased the UK's inward FDI by $100bn, causing it to leap above the USA to become that year's prime destination for FDI. Yet, wherever they may book their sales and their profits, the vast bulk of Shell's oil production takes place in Latin America, Central Asia and the Middle East![49]

Mergers and acquisitions vs 'greenfield' FDI

In 2007 total FDI flows were $1.83 trillion, while total cross-border M&As were worth $1.64 trillion. While differences in the way these figures are collated means they are not directly comparable, they starkly highlight the overwhelming weight of M&As in overall FDI flows. 70% of total M&A flows were in the service sector (compared to 54% of total FDI flows), and 81% of the service sector M&A flows were in 'finance' and 'business activities'. [50] Indeed, in 2007 M&As in 'financial services' alone accounted for 51.4% of all cross-border M&As, or $842bn out of a total of $1637bn.

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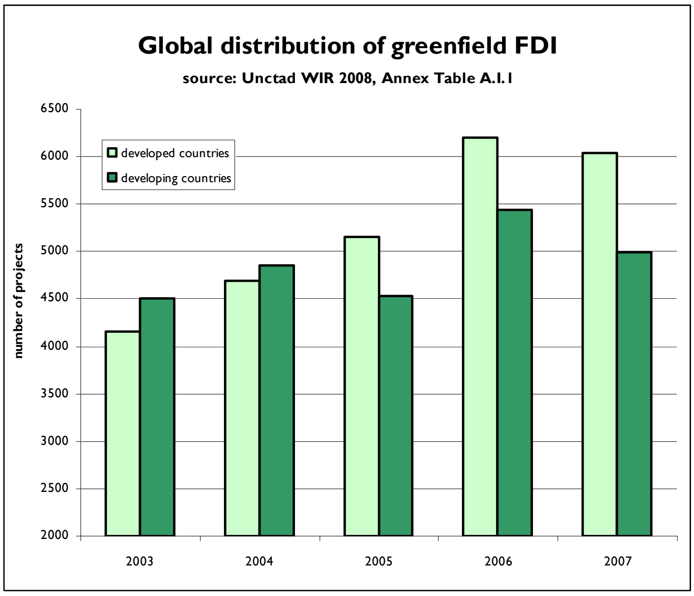
47 Fidel Castro, 1983, *The World Economic and Social Crisis – its Impact on the Underdeveloped Countries, its Somber Prospects, and the Need to Struggle if We Are to Survive.* Havana: Publishing Office of the Council of State, (p141).

48 *Unctad, 2007* p227. This dramatically contrasts with the 1989 – 1991 period, when developing economies received $16.3 billion in manufacturing FDI, compared to $47.3 billion received by developed countries. 'Developing economies' are also becoming increasingly important as a destination for N-S FDI in services: '*In developing countries [...] the stock of services FDI rose from an estimated $160 billion in 1992 to an estimated $1.1 trillion in 2002.*' Unctad, 2004, p126.

49 According to Unctad (2007c, p28), Royal Dutch Shell operates majority-owned affiliates in 98 countries, second only to Deutsche Post AG with majority-owned affiliates in 111 countries.

50 Unctad breaks down its stock and flow information according to sectors or according to countries, but not both, making it difficult to see the difference in the composition of N-N and N-S FDI stocks and flows.

Figure 2.2 Global distribution of greenfield FDI



FDI flow data record changes in the ownership of assets; they do not mean anything has actually changed about the particular economic activities which they are connected to.[51] This is why it is important to distinguish between 'greenfield' FDI, which is unambiguously an investment in a new economic facility, and mergers and acquisitions (M&As), which don't necessarily involve any alterations to, still less expansion of, the production facilities targeted for investment. In 2007 'developed economies' received 89% of M&A flows and 66% of FDI flows—as can be seen, imperialist countries are much more preponderant in global M&As than in FDI as a whole. Conversely, while 'developing economies' captured just 11% of global M&A flows, they captured 27% of FDI flows ('transitional economies' in Central Europe accouting for the remaining 7%). On the other hand, the distribution of greenfield FDI between 'developed economies' and 'developing economies' is much more balanced. Between 2000 and 2006, for example, 51% of all greenfield FDI projects were located in 'developing countries' (see Figure 2.2).[52]

The dangers of looking no further than headline figures and ignoring the pervasive effect of the 'asymmetry' between North and South are highlighted by the important distinction between M&A and greenfield FDI. In the tunnel vision that results from viewing the world through the FDI lens, the merger or acquisition of one European, North American or Japanese firm with or by another is regarded as unambiguous instance of North-North FDI. A brief examination of the three largest M&A deals in 2007—which, like another 40 of the 50 largest M&A deals, were between Triad nations—shows such a reading of the data to be simplistic and misleading. The largest cross-border M&A deal in 2007 was the ill-fated acquisition of the Dutch bank ABN-AMRO by the Royal Bank of Scotland for $98.2bn. Banks circulate titles to wealth, skim off

51 Ricardo Hausmann and Eduardo Fernández-Arias note another reason why FDI data is not what it seems: *"FDI is not bolted down, machines are. If a foreigner buys a machine and gives it as a capital contribution (FDI) to a local company, the machine may be bolted down. But the company's treasurer can use the machine as collateral to get a local bank loan and take money out of the country."* Ricardo Hausmann & Eduardo Fernández-Arias, 2000, Foreign Direct Investment: Good Cholesterol? Prepared for the Seminar The New Wave of Capital Inflows: Sea Change or Just Another Tide? Annual Meeting of the Board of Governors, Inter-American Development Bank and Inter-American Investment Corporation New Orleans March 26, 2000 (p14)

52 Unctad, 2007, p206.

some of it for themselves, but produce none of it. In a multitude of ways—through their loans and investments, participation in hedge funds and future markets, handling of flight capital etc, and indirectly through the TNCs they finance—their tentacles are wrapped around the global South. Second on the list of the largest M&A deals in 2007 was the mining and packaging giant Alcan, purchased from its Canadian owners by the UK's Rio Tinto. Alcan employs 65,000 workers in 61 countries, 28% of them outside of Europe and North America.[53] Number three on the list was the acquisition of the Spanish owned utilities giant Endesa SA by a group of Italian investors for $26.4bn. Endesa operates in Spain, Portugal, Italy and France and also in Morocco, Chile, Argentina, Colombia, Peru, Brazil, Central America and the Caribbean. In 2007, it earned 67% of its operating profits from Spain and Portugal, and 18%, or €471m, from its business in Latin America and the Caribbean.[54] We could continue on down the list, and the picture would become ever-clearer. Every time a company or group of investors acquires or merges with a TNC headquartered in another imperialist country, counted as North-North FDI by the Unctad statisticians, they are likely to be buying into an entity with assets and activities spread on both sides of the North-South divide. No such ambiguity exists in the case of North-South FDI, since southern firms are much less likely to own significant assets in the North.

The overwhelming weight of M&As in N-N FDI flows reflects a process of concentration and monopoly-formation among TNCs, in the financial sector and in all industrial sectors, proceeding in parallel to the shift of production processes to 'developing' low-wage economies. William Milberg is among those to have drawn attention to this dual process: "[o]n one side [...] [t]he global wave of merger and acquisition activity constituted a consolidation of the oligopoly position of lead firms who, in the process, focused their efforts on 'core competence' and outsourced other activities. On the other side, there is evidence that more and more developing countries are entering manufacturing industries at the low end of the value chain, seeming to introduce more, not less, competition at the world level." [55]

Another is Gary Gereffi, who points to "two dramatic changes in the structure of the global economy. The first is an historic shift in the location of production, particularly in manufacturing, from the developed to the developing world. [...] The second is a change in the organisation of the international economy. The global economy is increasingly concentrated at the top and fragmented at the bottom, both in terms of countries and firms." [56]

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53 Or more, depending on how it counts agency and temporary contract labour.

54 Business Wire, 2008 *'Endesa Announces Full Year 2007 Results,'* Business Wire, February 21, 2008.

55 Milberg, 2004a, p9

56 Gereffi. 2005, p40

FDI statistics thus merge two very different trends—the process of concentration of ownership in the hands of northern capitalists and the process of the disintegration of production processes and their dispersion, wherever possible, to the southern nations. It is thus a fallacy to treat all FDI flows as if they were all directly comparable, as do those analysts who peer at the world through a one-dimensional 'FDI lens' and only focus on the headline figures.

TNC employment, North and South

Unctad's 2007 World Investment Report boasted a particular focus on the employment effects of foreign direct investment. Yet even here the amount of information is meagre, providing data on total TNC employment in only a handful of 'developing countries'. The most interesting and relevant part of this Unctad study was an analysis of the employment effects of foreign direct investment by US TNCs. It reported that, in 2003, 9.8 workers were employed for each $1 million of FDI stock owned by US TNCs in the manufacturing sector in 'developed countries', while the same stock of FDI in 'developing countries' employed 23.8 workers, or 2.4 times as many.[57] As a result, a stock of $281bn in US manufacturing FDI in 'developed countries' employed 2.76 million workers, while a stock of $88bn in 'developing countries employed 2.1 million workers.

The same quantity of overseas investments in extractive industries (mining, quarrying and petroleum) employs a much smaller number (1.3 workers in 'developed countries' per $1 million of FDI, compared to 2.5 workers in developing countries), although a similar ratio between the two can be observed.[58] In contrast, each $1 million of FDI in 'services' not only employs a much smaller number of jobs than manufacturing FDI, but little difference can be detected between the employment effects of services FDI in 'developed' as compared to 'developing' countries—each $1 million invested in services leads to the employment of 2.1 workers 'developed countries' and 2.3 workers in 'developing countries'.

Extrapolation of these ratios to the overseas investments of European and Japanese TNCs provides a rough approximation of the total workforce employed by TNCs in the global south. This is necessary because Unctad data on the total number of employees of the top 100 transnational corporations is unfortunately not broken down into employment in 'developed' and 'developing' countries. If we judge the importance of US TNC's overseas investments merely from the gross value of FDI stocks, we would conclude that the investments of US TNCs in other

57 Data for 2003. Unctad, 2007, Table 1.6.

58 9.8/2.4=2.4; 2.5/1.3=1.9

'developed nations' are 3.2 times as important as their investments in 'developing nations'. If we look at the total workforce employed in their foreign subsidiaries, we discover that their workforce in 'developed nations' is only 1.3 times the size of the workforce employed in 'developing economies'.

However, there are compelling reasons to believe that this data seriously underestimates the number of southern workers employed by northern TNCs and misleadingly downplays the relative importance of their investments in the global South. In the first place, Unctad does not count temporary, casual and sub-contracted workers as 'employees', yet US TNCs have led the way in casualising southern labour. Counting all of these employees would surely bring the ratio from 1.3 to well below parity, in other words it would show that a majority of the employees of TNCs headquartered in imperialist countries are in the global South.

Another reason to take FDI stock and flow data with a large pinch of salt is that they are given in dollars, converted from national currencies at current exchange rates. But a dollar invested in, say, China or Indonesia buys a lot more resources and living labour that a dollar invested in Germany or the UK. If we were to correct for this by measuring the value of southern FDI in PPP dollars, we'd need to nearly double the Unctad N-S FDI totals (the weighted average PPP coefficient between the 'developed' and 'developing' countries being 1.9 – see chapter 5). A similar logic led David Harvie and Massimo de Angelis to suggest an alternative way to interpret data on N-S FDI flows: "in the United States, $20 will [...] command just a single hour of labour time. But in China or Thailand, $20 can put four people to work for 10 hours, while in India, that $20 is sufficient to put 10 people to work, each for 10 hours. When the difference that $20 makes is between commanding one hour of labour time, on the one hand, and commanding 40 hours or 100 hours, on the other, it matters much less that less FDI goes to the South." [59]

Harvie and de Angelis calculate that between 1997 and 2002 around $3.4 trillion of N-N FDI commanded 190 billion hours of labour time, while the $0.8 trillion that flowed into semi-colonial nations commanded 330 billion hours (they assume an average wage of $18 per hour in developed countries and $2.4 per hour in low-wage countries, an average labour-cost ratio of 7.5:1). During this period, N-S FDI flows accounted for 19% of Unctad's global tally of FDI, yet N-S FDI accounted for 63% of total 'labour commanded'.

This numerical comparison, of course, takes no account either of differences in labour productivity or of differences in the rate of exploitation between countries, topics which will be

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59 David Harvie & Massimo de Angelis, 2008, 'Globalisation? No Question! To and Foreign Direct Investment and Labour Commanded', in *Review of Radical Political Economics*, 14:4, 429-444 (p433).

considered in later chapters. Higher labour productivity in imperialist nations, it will be argued here, is accompanied by a higher rate of exploitation in the global south, a conclusion reached by rejecting the article of faith of mainstream economists that wages merely reflect labour productivity and there is therefore no such thing as 'exploitation'.

A higher rate of exploitation in the oppressed nations would imply that the importance of the southern labour force to northern TNCs profits is inversely related to the wages they are paid—in other words, the less they are paid, the smaller is their apparent contribution to 'value-added', but the more important they are as a source of surplus value for the whole system. This is one reason why employment levels are at least as important for understanding FDI as stock and flow data.

Asymmetric 'market structures'—monopolistic 'lead firms' in the North, cut-throat competition in the South

Intense competition between southern producers, combined with what Kaplinsky called a 'fierce oligopsony' of global buyers, contrives to deprive southern producers of the fruits of their labour while supporting profits and asset values in the 'financialised' imperialist countries. Reviewing the results of a decade of research into global value chains, Gary Gereffi identifies the root cause of these unequal outcomes to lie in "the fundamental asymmetry in the organisation of the global economy between more and less developed nations. To a great extent, the concentrated higher-value-added portion of the value chain is located in developed countries, while the lower-value-added portion of the value chain is in developing economies." [60]

Milberg agrees: "the asymmetry of product market structures in global value chains [have] created the conditions for greater returns from externalization than internalization." [61] Expanding on "this [...] key issue", he states, "This asymmetry [...] may lie behind the current situation in which developing countries have greatly expanded their share of global manufacturers exports while seeing their share of global value added in manufacturing rise by proportionally much less." [62]

This asymmetry—oligopoly exercised by firms headquartered in the 'advanced nations' at one pole and intense competition between southern suppliers on the other—has "immediate implications for value-added along global value chains." In particular, southern suppliers "have no

60 Gereffi, 2005, p46-7

61 Milberg, 2004a, p34

62 William Milberg, 2004b, 'Globalised production: structural challenges for developing country workers', in *Labour and the globalisation of production - causes and consequences of industrial upgrading,* 1-19. New York: Palgrave Macmillan (p10).

rents to share with employees, and can survive only if wages are kept at a minimum. The increased use of sweatshop labour today, which has come with the rise in arms-length outsourcing, can be seen as tied to global production sharing."[63]

This argument has much force, but focus on 'market structures' can encourage the notion that low wages and poor outcomes result from conditions in product markets, distracting attention from the conditions in labour markets and diverting analysis away from the relation between these 'greater returns' (i.e. higher profits) and the more intense exploitation of low-wage labour in outsourced production processes. To put this differently, the 'asymmetries' that result in super-profits and swollen asset values at one end of the chain and sweatshops at the other extend well beyond what Milberg refers to above as 'market structures'.

The recognition by these researchers of the 'asymmetries' that impart a steep gradient to the promised level playing field, and the 'race to the bottom' dynamic that they engender, leads them to generally pessimistic conclusions, as in Feenstra and Hanson's comment that "[t]he asymmetry of market structures in global production networks, with oligopoly firms in lead positions and competition among first- and certainly second-tier suppliers, has meant intense pressure on suppliers who, in seeking to maintain markups must keep wages low and to resist improvements in labor standards that might lead to a shift in the supply process to another firm or country."[64]

Raphael Kaplinsky suggests that "the so-called gains from outward oriented manufacturing may reflect a fallacy of composition. In other words, it may make sense for an individual country such as China to expand massively its exports of manufactures, but if the same path is adopted by all low-income economies, everyone will lose."[65] Kaplinsky's bleak conclusion is that for every 'winner' there will inevitably be many 'losers', and that individual links in the chain can only escape the race to the bottom if they succeed in erecting some form of barrier to competition, i.e. some form of (partial or total) monopoly: "[w]hen barriers to entry are eroded […] the best option may be to vacate the chain altogether."[66]

Gary Gereffi, straying from his usual sober realism, tries to sound an optimistic note, but he presents no evidence that such an outcome is possible:

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63 Ibid., p10

64 Robert Feenstra & Gordon Hanson, 2001, *Global Production Sharing and Rising Inequality: A Survey of Trade and Wages*. NBER Working Paper No. 8372 (p17).

65 Raphael Kaplinsky, 2005, *Globalization, Poverty and Inequality*. Cambridge: Polity (p230).

66 Ibid., p108.

"It may yet be possible to develop a 'fair globalisation' in which economic gains will be more broadly shared, and a more complete array of governance mechanisms will mediate market forces to the benefit of both developing and developed economies." [67]

2.4 Services outsourcing

One reason for the peculiar dynamism of the globalisation of production processes is that technological and other changes increasingly propitiate the outsourcing of individual segments and links of production processes, as they also do to a myriad of 'service' tasks. Richard Baldwin, in *Globalisation: the great unbundling(s)* argues this has created 'a new paradigm': "international competition", he states, "which used to be primarily between firms and sectors in different nations, now occurs between individual workers performing similar tasks in different nations." [68] This has far-reaching consequences, one of which is to blur still further the boundaries between 'industry' and 'services', leading Baldwin to argue that the old conception of trade in goods and services should be replaced with 'task trading'.

For several decades, outsourcing was associated with labour-intensive manufacturing processes, and has taken place on a massive scale, despite the significant obstacles presented by the continuing costs and delays involved in the transportation of commodities over long distances. The irruption of this into 'services', in particular into the production of any service which can be delivered instantaneously and with zero transportation costs to a computer screen, is still in its early stages; services outsourcing has only become a practical possibility for most firms since the late 1990s. The beginning of a big impact of outsourcing on many sectors of skilled workers has had a major impact on middle-class psyche. As Gary Gereffi remarks, "While low-cost offshore production had been displacing US factory and farm jobs for decades, the idea that middle-class office work and many high-paying professions were now subject to international competition came as something of a shock." [69]

According to Richard Freeman, "if the work is digital — which covers perhaps 10% of employment in the United States [around 14 million workers] — it can and eventually will be

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67 Gereffi, 2005 p58
68 Baldwin, 2006 p5
69 Gereffi, 2005 p15

off-shored to low-wage highly educated workers in developing countries."[70] These predictions were widely reported in the US news media. So too was an article in Foreign Affairs in 2006 entitled *Offshoring: The Next Industrial Revolution?* by Alan Blinder, who grabbed headlines with his warning in that "we have so far barely seen the tip of the offshoring iceberg, the eventual dimensions of which may be staggering".[71] Under the sub-heading 'This time it's personal' he concluded by saying, "as the domain of tradable services expands, many service workers will also have to accept the new, and not very pleasant, reality that they too must compete with workers in other countries. [...]. Many people blithely assume that the critical labor-market distinction is, and will remain, between highly educated (or highly skilled) people and less-educated (or less-skilled) people [...] The critical divide in the future may instead be between those types of work that are easily deliverable through a wire [...] and those that are not."[72]

Blinder was criticised by other professors for alarmism and hyperbole, who cited an array of bottlenecks, obstacles and negative externalities which they claim will slow the pace of services outsourcing. Columbia University's Arvind Panagariya, in his direct reply to Blinder (who, he claims, represents a 'minority view' among 'informed analysts'), even argued that global wage differentials are a temporary phenomenon. During the next half century, he opines, "the chances are excellent that India and China themselves will turn into rich countries [...] [thus Blinder's] fear of having to compete against low-skilled-wage workers in these countries is perhaps exaggerated."[73] Panagariya's Panglossian prognostications derive from his attachment to the 'convergence hypothesis'—the prediction of mainstream international trade theory that deepening global integration of markets in capital and labour will result in an international convergence in factor prices and in the attainment of 'development' by the southern nations. The deflationary crisis now radiating outwards from the USA, Europe and Japan suggest a different type of convergence, one in which workers in these imperialist economies join their southern sisters and brothers in an accelerating race to the bottom.

One aspect of the distinction between 'industry' and 'services' that is of great significance to this thesis is that many service tasks are inherently labour-intensive and are therefore far less susceptible to productivity-enhancing capital investments than is the case in manufacturing

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70 Richard B Freeman, 2005, 'What Really Ails Europe (and America): The Doubling of the Global Workforce', in *The Globalist,* June 03, 2005. (http://www.theglobalist.com/StoryId.aspx?StoryId=4542, accessed 22/02/2008), These projections are a subject of intense debate. See Bronfenbrenner and Luce (2004) for a survey of attempts to estimate the number of jobs in the USA that are susceptible to outsourcing over the coming decade.

71 Alan S, Blinder, 2006 'Offshoring: The Next Industrial Revolution?' *Foreign Affairs,* 85:2. p114

72 Blinder, 2006, pp117-8.

73 Arvind Panagariya, 2007, *Outsourcing: Is the Third Industrial Revolution Really Around the Corner?*, p33 (http://www.columbia.edu/~ap2231/Policy%20Papers/Tokyo%20club%20Outsourcing%20November%2013-14%202007.pdf, accessed 28/09/2009).

industry. For this reason, labour productivity tends to advance much faster in 'industry' than in 'services', signifying that capitalism has a built-in tendency towards a relative decline in manufacturing employment. [74]

The paradoxical result of this is that the faster that labour productivity in manufacturing industry advances relative to the economy as a whole, the more rapidly does industry's contribution to GDP decline. This differential phase of productivity advances between industry and services is known to mainstream economics as the Baumol effect (later renamed the Baumol disease), after William Baumol's seminal paper in 1967,[75] but has much older roots as we shall see when Marx's theory of capitalism's 'relative surplus population' is discussed in the next chapter. One consequence of the Baumol effect is that GDP data tends to exaggerate the growth of services vis-à-vis industry—when an industrial firm uses direct labour to perform service tasks such as cleaning or product design, their activity counts towards 'industry', but when these service tasks are outsourced to an independent specialist firm—a change of property form which makes no difference whatsoever to the actual production process—their value-added is subtracted from 'industry' and added to 'services'. However, correcting for this distortion would not substantially change the picture of a long-term relative decline in the contribution made by 'industry' to GDP in the imperialist nations and a corresponding rise in the contribution of 'services'.

Another consequence of the slower growth of labour productivity typical of many jobs in the service sector is that the simple act of contracting out such services has the effect of increasing an industrial firm's rate of productivity growth, explaining Susan Houseman's finding that "services offshoring, which is likely to be significantly underestimated and associated with significant labor cost savings, accounts for a surprisingly large share of recent manufacturing multifactor productivity growth."[76] What's of particular interest to this thesis is that, as this author and others note, the outsourcing of production processes produces the same beneficial effect on measures of labour productivity of the outsourcing firm as does outsourcing of service tasks. Recognising this, Gene Grossman and Esteban Rossi-Hansberg contend that "improvements in

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74 Katharine Abraham, one of the foremost authorities in the field of national accounts, reports that, in the USA, '*labour productivity in the services industries [...] actually declined over the two decades from 1977 through 1997 [...] among the individual service industries showing declines in labour productivity were educational services and health services, as well as auto repair, legal services and personal services. Construction was another problem industry, with the implied labour productivity falling by 1% per year over the entire 20-year period.*' Katharine G Abraham, 2005, 'What We Don't Know Could Hurt Us: Some Reflections on the Measurement of Economic Activity'. Journal of Economic Perspectives, 19:3, 3-18 (p7).

75 See William J. Baumol, 1967, 'Macroeconomics of Unbalanced Growth: the Anatomy of Urban Crisis', in *American Economic Review*, 57, 415-426.

76 Susan Houseman, 2006, *Outsourcing, Offshoring, and Productivity Measurement in U.S. Manufacturing.* Upjohn Institute Staff Working Paper No. 06-130 (p4).

the feasibility of offshoring are economically equivalent to labour-augmenting technological progress"[77]

This thesis focuses on the outsourcing of manufacturing production and leaves services outsourcing to one side. There are five reasons for this narrowing of focus:

First, offshoring and outsourcing has transformed global production processes to a far greater degree than has so far been achieved by services outsourcing.

Second, export-oriented manufacturing is the only game in town for 'emerging nations' without major natural resources. As Özlem Onaran says, "the manufacturing sector [...] is the locomotive of growth in developing countries, and [...] has also been accepted as the engine of export booms in the context of structural adjustment programs." [78] With the exception of tourism, 'services' as a whole make a proportionately smaller contribution to the GDP of the nations of the global South than they do to the GDP of imperialist countries, and constitute a very much smaller fraction of their exports.

Third, the 'services' category comprises a very different mix of ingredients than the services sectors in the imperialist countries. 'Financial services' and other nonproductive, rent-seeking activities that have come to dominate the 'financialised' economies of the imperialist nations have a much smaller presence in the global South (and are themselves increasingly dominated by Northern financial TNCs); on the other hand, in the nations of the South the 'services' sector includes most of the 'informal economy' where people scratching out a subsistence by providing ultra-cheap services to the formal economy; a major part of the explanation for the 'purchasing power parity' anomalydiscussed in some detail in chapter 5. This makes comparison between the services sectors in imperialist and oppressed nations much more problematic than comparison of their manufacturing sectors.

Fourth, the 'services' category includes many production processes and entire branches of production, including construction, transportation and telecommunications that are lumped together with non-productive sectors such as banking, advertising and security 'services', activities which, though they may count towards GDP, add nothing to social wealth and should instead be considered as forms of social consumption. As Anwar Shaikh and E. Ahmet Tonak argue, "the very term 'services' conflates a vital distinction between production and

77 Gene M.Grossman & Esteban Rossi-Hansberg, 2006, *The Rise of Offshoring: It's Not Wine for Cloth Anymore*. Princeton University (p15).

78 Özlem Onaran, 2005, *The Effect of Neoliberal Globalization on Labor's Share in Developing Countries.* Association for Heterodox Economics 7th Annual Conference City University, London, 15–17 July 2005 p14. (http://personal.lse.ac.uk/denisa/papers/onaran.pdf, accessed 14/08/2005)..

nonproduction labor."[79] The rationale for inclusion of construction, telecommunications and transport under the heading of 'services' is that their output must be consumed in situ and cannot be packaged and traded in the same way as other goods. As noted above, however, advances in IT and transport technology have undermined this rationale for many services. The result— unlike 'agriculture' and 'industry', the other two basic categories, the category of 'services' has come to signify a random assortment of activities that have nothing in common with each other except that they are not 'agriculture' or 'industry'. To be of any use, 'services' must be disaggregated, in particular to enable the separation of production activities, such as transport, telecommunications and construction from nonproduction activities such as finance and security services.

Finally, a fifth reason for focusing on manufacturing processes is the even greater difficulties encountered by attempts to measure the outsourcing of services, most of which do not need to pass through customs, in contrast to cross-border movements of manufactured goods. For this and other reasons, data on the outsourcing of services is highly vitiated by under-reporting and dubious government accounting practices. Speaking of the latter, Susan Houseman voices "concerns that services offshoring is significantly understated", one example of this being that "[r]eporting of service transactions with unaffiliated foreigners is only required if the transaction exceeds $1 million or with affiliated services if the affiliate's assets, sales, or net income exceed $30 million".[80]

2.5 Living labour centre stage

Focusing on the globalisation of production processes gives centre stage to living labour, the vital ingredient, common to all of them, and in particular to southern labour, owing to its greatly enhanced presence and to the keenness of the TNCs to get access to it. The globalisation of production processes signifies that the global workforce (which includes both waged and self-employed workers) is also undergoing a profound global transformation. This study singles out two dimensions of this transformatory process for special attention; both will be considered in more detail in the next chapter and are summarised here because of their importance to the overall conceptual framework of this study:

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79 Anwar M. Shaikh & E. Ahmet Tonak, 1994, *Measuring the Wealth of Nations*. Cambridge University Press, p24.

80 Houseman, 2006, p11

— while all other global capital and commodity markets are becoming more integrated, the global labour market is increasingly and enormously distorted by restrictions on the free movement of labour across borders,

— living labour, i.e. labour power, is also a commodity and its production is also being globalised, as more and more of the consumption goods which sustain and reproduce the working class in imperialist nations are produced by workers in the global south.

Labour is the great and glaring exception to global economic integration. Unlike the rest of the universe of commodities, labour power cannot freely move across borders—with the result, as noted by Marilyn Carr, Martha Chen and Jane Tate in a study of the spread of homeworking, that "global integration privileges those who can move quickly and easily across borders—notably, capitalists—to the disadvantage of those who cannot do so—notably, labor." [81] The stark contrast between the international mobility of capital and the international immobility of labour was highlighted by Ajit Ghose, a senior economist at the ILO, who reported that the total stock of foreign direct investment as a percentage of global GDP nearly tripled between 1980 and 1998 (from 5% to 14%), while the total migrant population as a percentage of the global population barely changed (rising from 2.2% to 2.4%).[82]

The pre-existing segmentation of the labour market by skill and sector is, at a global level, accompanied by an extremely deep territorial segmentation, and the deepest cleavage of all coincides with the great North-South divide. Factories freely cross the border between the US and Mexico and pass with ease through the walls of Fortress Europe, as do the commodities produced in them and the capitalists who own them, but the human beings who work in them have no right of passage. What we've got is not globalisation but a travesty of globalisation—a world without borders to everything and everyone except for working people. Instead of equality among proletarians, capitalist globalisation has constructed a racial hierarchy, and upon this both the prosperity and the political supremacy of the 'Western world' increasingly depends.

An immediate and outstanding consequence of this suppression of the free movement of labour is a tremendous divergence in wage levels between imperialist and oppressed nations. Such a flagrant violation of the basic principles of free markets, one which gives rise to extreme distortions and imbalances, has provoked criticism from several leading development economists, including Dani Rodrik, who commented:

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81 Marilyn Carr, Martha Chen, & Jane Tate, 2000, 'Globalization and home-based workers', in *Feminist Economics,* 6(3), 123_42 et al., 2000 (p124).

82 Ajit K.Ghose, 2005, *Jobs and Incomes in a Globalizing World*. New Delhi: Bookwell (p9).

"Removal of restrictions in markets for goods and financial assets has narrowed the scope of price differentials in these markets […] Meanwhile, there has been virtually no liberalization of markets for cross-border labor services. Consequently, wages of similarly qualified individuals in the advanced and low-income countries can differ by a factor of 10 or more." [83] Stephen Roach made the same point: "wage rates in China and India range from 10% to 25% of those for comparable-quality workers in the US and the rest of the developed world." [84] This chimes with Fidel Castro's denunciation, made 20 years earlier in his 1983 report to the Non-Aligned Movement, of TNCs for "taking advantage of the low wages and longer and more intensive work shifts in underdeveloped countries in which productivity similar to that of the developed capitalist countries can be obtained." [85]

Rodrik's and Roach's choice of words— 'similarly qualified' and 'comparable productivity'— implies that the southern workers' 'marginal product' systematically and massively diverges from their wages. This, we should note, casts doubt on the validity, at least in respect of global wage differentials, of a central precept of the ruling neoclassical doctrine—that a worker's wage is determined by her/his productivity. The two must be equal, so the reasoning goes, since if labour's 'marginal product' was greater than its price, the capitalist would hire more workers, bidding up wages until parity is achieved, while if its marginal product was less than its price the reverse would happen. According to this, the lynch-pin of neoclassical economics, higher wages reflects higher productivity and vice-versa; in other words the worker receives, in her/his wages, an equivalent of the value he or she has produced, and that capitalist exploitation is therefore a myth.. Transposed to the global economy, the corollary of this is that international wage differentials result from and reflect international differences in the productivity of labour and nobody is exploiting anybody else.[86]

Refuting this ruling doctrine, theoretically and empirically, is a central task of this thesis, and is a specific focus of Chapters 5 & 6.

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83 Dani Rodrik, 2002, *Feasible Globalisations,* p19 (http://ksghome.harvard.edu/~.drodrik.academic.ksg/Feasglob.pdf, accessed 14/04/2008).

84 Roach, 2003, pp5-6.

85 Fidel Castro, 1983, The World Economic and Social Crisis – its Impact on the Underdeveloped Countries, its Somber Prospects, and the Need to Struggle if We Are to Survive. Havana: Publishing Office of the Council of State, pp132-3.

86 Along these lines, Baldwin asserts that *"in manufacturing [...] the North-South wage gaps have already been brought more or less into line with the North-South productivity gaps."* Baldwin, 2006 p37. This contention is examined in chapter 5.

Outsourcing and the reproduction of labour power in Triad nations

The international divergence in wage levels only speaks of the extremely anomalous characteristics of the global labour market, where labour power is bought and sold, and, in its concern for the productivity of this labour, tangentially of the production process. It says nothing at all about the production and reproduction of labour power itself and the impact of globalisation on this. To develop a concrete concept of the globalisation of production processes, it is necessary to recognise that living labour is also a commodity—indeed, the commodification of labour power is the very essence of capitalism—and its production is also being globalised, in that more and more of the manufactured consumer goods which reproduce labour power—'final goods' that are also intermediate inputs in the production of labour power—are produced by super-exploited workers in the semicolonial nations.

Hence the dual effects of the globalisation of production processes on workers in imperialist nations. As cheap industrial raw materials or semi-processed manufactures, production outsourcing enables capitalists in the imperialist nations to lower production costs and boost profits by replacing higher-paid domestic labour with low-wage southern labour. As clothing, food and other mass consumption goods, it permits consumption levels to rise faster than wages—or to fall slower. The IMF's *World Economic Outlook 2007* (WEO 2007) attempted to weigh this effect, concluding that "although the labor share [of GDP] went down, globalization of labor as manifested in cheaper imports in advanced economies has increased the 'size of the pie' to be shared among all citizens, resulting in a net gain in total workers' compensation in real terms."[87] This confirmed Unctad's earlier verdict that "Industrial countries [...] [have] gained from [...] cheaper manufactured imports [...] greatly help[ing] to maintain income levels and reduce inflation," [88] a conclusion that was stated more bluntly by Princeton economists Gene Grossman and Esteban Rossi-Hansberg: "[i]ncreased offshoring has been a countervailing force that has supported American wages."[89]

The most detailed research into this effect has been provided by University of Chicago professors Christian Broda and John Romalis in *Inequality and Prices: Does China Benefit the Poor in America?,* [90] who performed the heroic task of establishing a 'concordance' between two giant databases, one tracking the quantities and price movements of hundreds of thousands of different goods

87 IMF, 2007, p179.

88 Unctad, 1999, *Trade & Investment report* 1999 - Overview pII.

89 Gene M.Grossman & Esteban Rossi-Hansberg, 2006, *The Rise of Offshoring: It's Not Wine for Cloth Anymore*. Princeton University (p28).

90 Christian Broda & John Romalis, 2008, *Inequality and Prices: Does China Benefit the Poor in America?* (http://faculty.chicagogsb.edu/christian.broda/website/research/unrestricted/Broda_TradeInequality.pdf, accessed 29 May 2008).

consumed by 55,000 US households, the other one classifying imports into 16,800 different product categories.

Focusing on non-durable goods, i.e. food, clothing and other so-called 'consumables', they found that, over the twelve years from 1994 to 2005, prices of the non-durable goods purchased by the richest decile of households rose at a significantly faster rate than those purchased by the poorest decile; a divergence explained by the "fall in the price of goods that are heavily consumed by the poor" resulting from "the expansion of trade with low wage countries". This effect is amplified because the richest households spend significantly more of their income on services and less on non-durable goods than working-class households, and "service inflation [...] has been substantially larger than inflation in non-durable goods."[91] These differential inflation rates are large enough, the authors claim, to offset almost half of the widely-reported increase in income inequality in the United States over this period.

Broda and Romalis' central conclusion is that "while the expansion of trade with low wage countries triggers a fall in relative wages for the unskilled in the US, it also leads to a fall in the price of goods that are heavily consumed by the poor. We show that this beneficial price effect can potentially more than offset the standard negative relative wage effect."[92] They calculate that four-fifths of the total inflation-lowering effect of cheap imports is accounted for by cheap Chinese imports,[93] these having risen during the decade from 6% to 17% of all US imports,[94] and that "the rise of Chinese trade [...] alone can offset around a third of the rise in official inequality we have seen over this period". Hence the provocative title of the Financial Times article that broadcasted their findings: *China and Wal-Mart: the champions of equality*. Nelson Lichtenstein, in *Wal-Mart: The Face of Twenty-First-Century Capitalism*, comments,

"Wal-Mart argues that the company's downward squeeze on prices raises the standard of living of the entire U.S. population, saving consumers upwards of $100bn each year, perhaps as much as $600 a year at the checkout counter for the average family [...] 'These savings are a lifeline for millions of middle- and lower-income families who live from payday to payday', argues Wal-Mart CEO H. Lee Scott, '[i]n effect, it gives them a raise every time they shop with us'."[95]

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91 Broda & Romalis, 2008, p24. Two reasons why this is so: 1) 'services' tend to be labour-intensive and less susceptible to technology-driven productivity gains than manufacturing processes; 2) unlike manufactured goods, many services must be produced where and/or when they are consumed (e.g. hairdressing, transportation) and cannot readily be outsourced to low-wage nations.

92 Ibid., p3

93 Ibid., p48, Appendix Table 4[a].

94 Ibid., p25

95 Nelson Lichtenstein, 2005, *Wal-Mart: The Face of Twenty-First-Century Capitalism.* New York: New Press.

Richard Bolin, director of the Flagstaff Institute, an Arizona-based organisation that promotes export processing zones, eulogises outsourcing in the following terms:

"The outsourced products imported by the U.S. are much less expensive than formerly. The apparel (clothing and shoes) worn in America today costs the American family, in real dollar terms, only 40 percent of what it cost in 1950. That means that 300 million people are now buying for the modern equivalent of forty 1950 cents what in 1950 they had to pay a whole dollar for." [96]

The important point coming out of this is that these two dimensions—the globalisation of labour processes and the globalisation of the production of labour power—produce contradictory effects and interact in complex ways. Between them, these two outstanding features of neoliberal globalisation—increasing interdependence and competition between workers in imperialist countries and in low-wage countries, and the increasing role of cheap imports in the sustenance of northern workers—increasingly define relations between capital and labour in both the North and South.

2.6 'Global labour arbitrage'—key driver of the globalisation of production processes

Having identified globalisation production processes as neoliberal globalisation's vital transformation, and having extended this to include the globalisation of the production of living labour, we now turn to identifying and analysing the driving force behind this: the desire and compulsion of northern TNCs to locate or relocate production to low-wage countries, global labour arbitrage.

By 'liberating' hundreds of millions of workers and farmers from their ties to the land or their jobs in protected national industries, neoliberal globalisation has stimulated the expansion in southern nations of a vast pool of super-exploitable labour. As the editors of *Monthly Review* have stated, "Multinational capital is [...] able to take advantage of global asymmetries to create more vicious forms of competition between pools of labor that are geographically immobile and thus unable to coalesce." [97] 'Global asymmetries' is a euphemistic reference to the North-South divide, and in particular to the increasingly Draconian restrictions on the free movement of labour across borders that prevent labour from coalescing as an internation movement. The

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[96] Richard L. Bolin, 2008, *A History of Job Flows* (p1). (http://www.wepza.org/, accessed 12/06/2009)

[97] Monthly Review, 2004, 'The Stagnation of Employment' (signed 'The Editors') *Monthly Review* April 2004. (http://www.monthlyreview.org/0404editors.htm, accessed 27/09/2009).

suppression of the free mobility of working people has interacted with a hugely increased supply of labour in southern nations to produce a dramatic widening of international wage differentials between 'industrialised' and 'developing' nations, vastly exceeding price differences in all other global markets.

The resulting steep wage gradient between northern and southern economies provides two different ways for northern capitalists to increase profits—through expanding exploitation of low-paid labour by relocating production processes to low-wage countries; or through the super exploitation of low-wage migrant workers 'at home'. *WEO 2007* makes this connection quite precisely: "[t]he global pool of labor can be accessed by advanced economies through imports and immigration," significantly observing that "[t]rade is the more important and faster-expanding channel, in large part because immigration remains very restricted in many countries" [98]

The result, according to NBER economist John Whalley, is that, "we are at an early stage of a historic transformation in which large portions of global manufacturing and service activity progressively relocate to low-wage economies to arbitrage wage differences supported by OECD immigration restrictions"[99]

♦ ♦ ♦

The phenomenon described in the IMF's measured and diffuse terms as 'advanced economies accessing the global labour pool' is what Stephen Roach, senior economist at Morgan Stanley and other labour and trade economists have dubbed 'global labour arbitrage' (sometimes 'global wage arbitrage'). Roach explains that: "in an era of excess supply, companies lack pricing leverage as never before. As such, businesses must be unrelenting in their search for new efficiencies [...] offshore outsourcing that extracts product from relatively low-wage workers in the developing world has become an increasingly urgent survival tactic for companies in the developed economies." [100] This is a much sharper and richer description than the one offered by the IMF's technocrats. Expanding on it, Roach argues that "A unique and powerful confluence of three mega-trends is driving the global arbitrage [...] The first is the maturation of offshore outsourcing platforms. China exemplifies the critical mass in new outsourcing platforms for manufacturing [...] but China is not alone [...] E-based connectivity is the second new mega-trend behind the global labor arbitrage.... the new imperatives of cost control is the third factor in this equation...

98 IMF 2007, p180

99 John Whalley, 2006, *China and Outsourcing.* University of Western Ontario and NBER, pp25-6

100 Stephen Roach, 2003, *Outsourcing, Protectionism, and the Global Labor Arbitrage*. Morgan Stanley Special Economic Study, pp5-6.

Not surprisingly, the primary focus of such efforts [i.e. of 'cost control'] is labor, representing the bulk of production costs in the world…" [101]

Legions of scholars have made a broadly similar characterisation of the main drivers of globalisation. What's unusual here is the emphasis on the 'extraction of product' from southern labour by TNCs headquartered in the imperialist countries, and its plain speaking (though Roach avoids a still more concrete term—*exploitation*); the general rule in academic and business literature is to treat labour as just one factor of production among others, and make glancing, desultory references to wage differentials as one of a number of possible motives influencing outsourcing decisions.[102] As we shall see in our critique of the global commodity chain/global value chain schools in chapter 7, regarding cheap labour costs as just one factor amongst others, and aversion to any concept of exploitation (preferring to talk of 'unfairness' and level playing fields), is a defect that is also evident in the influential 'value chain' paradigms.

The primacy of labour cost is emphasised by Charles Whalen, a prominent labour economist: "[t]he prime motivation behind offshoring is the desire to reduce labor costs […] a U.S.-based factory worker hired for $21 an hour can be replaced by a Chinese factory worker who is paid 64 cents an hour. … The main reason offshoring is happening now is because it can."[103]

David Levy is another international business scholar who explicitly recognises that what he calls the "new wave of offshoring […] is a much more direct form of arbitrage in international labour markets, whereby firms are able to shift work to wherever wages are lower." [104] However, Levy considers "the increasing organizational and technological capacity" of TNCs to be the 'core driver of the latest form of offshore sourcing', confusing the driver with the vehicle; the driver, of course, being the TNCs' insatiable hunger for super-profits.

The same imprecision on this most crucial issue is also evident in Stephen Roach's 'three megatrends' quoted above. Examining these more closely, we find that the first two ('the

101 Roach, 2003, pp5-6

102 For two examples of this, see *The Globally Integrated Enterprise* by IBM CEO Samuel J. Palmisano (2006), and Michael E. Porter's *The Competitive Advantage of Nations* (1998). Perhaps the most extreme example of this approach is Unctad's 'Inward FDI Potential Index', an unweighted composite of 12 variables: GDP per capita, real GDP growth rate, exports/GDP, telephone lines and mobile phones per 1,000 inhabitants, commercial energy use per capita, R&D/GNI, tertiary level students/population, country risk, share of world exports of natural resources, share of world imports of electronics and automobile components, share of world exports of services, share of world inward FDI stock). The one that most closely approximates to wage levels is GDP per capita. See Unctad, 2007, p31 fn. 39.

103 Charles J. Whalen, 2005, 'Sending Jobs Offshore from the United States: What are the Consequences?' *Intervention. A Journal of Economics* 2:2 13-40, p35.

104 David L. Levy, 2005, 'Offshoring in the New Global Political Economy', *Journal of Management Studies*, Vol. 42, No. 3, 685-693, p689. According to Levy, two things have unleashed this 'new wave': *"low-cost and instantaneous transmission of data that embed engineering, medical, legal, and accounting services' combined with 'the increasing organizational and technological capacity of companies, particularly multinational corporations, to separate and coordinate a network of contractors performing an intricate set of activities."*

maturation of offshore outsourcing platforms' and 'E-based connectivity') merely provide the necessary conditions for the third to express itself. In other words one 'megatrend' motivates, the others facilitate. In an article in the New York Times, Stephen Roach gave a more satisfactory account of the respective roles—one motivating, the other facilitating—played by wage differentials and by new technology: "[u]nder unrelenting pressure to cut costs, American companies are now replacing high-wage workers here with like-quality, low-wage workers abroad. With new information technologies allowing products and now knowledge-based services to flow more easily across borders, global labor arbitrage is likely to be an enduring feature of the economy." [105]

William Milberg argues that technological advance only serves to make labour cost an even more central preoccupation of employers: "[t]he irony is that precisely at the moment computerisation has led to a revolution in the mechanisation of production, the ability to outsource has reasserted the importance of the labour component of production costs. Instead of being inconsequential as the result of technological change, labour costs are now an important determinant in the production location decision as firms increasingly slice up the value chain." [106]

Nobel economics laureate Paul Krugman has also explained why outsourcing does not lessen the importance of labour: "it is often said that labour costs are now such a low share of total costs that low wages cannot be a significant competitive advantage. But when businesspeople say this, they… mean that because of the growing vertical disintegration of industry the value added by a given manufacturing facility is likely to be only a small fraction of costs, which are denominated by the cost of intermediate inputs."[107] In other words, outsourcing of production means that what were labour costs now reappear in the price of inputs. In continuation, Krugman makes another important observation: "this vertical disintegration, or slicing up of the value chain, create [sic] a greater, not a smaller opportunity to relocate production to low-wage locations."[108] In other words, production can be more easily separated from design, R&D, marketing, and itself dissembled into discrete production tasks and readied for outsourcing. Indeed, Claude Pottier argues that "firms are involved in a process of reengineering and standardizing their activities so that the related standardized jobs can be sent offshore."[109]

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105 Stephen S. Roach, 2004, 'More Jobs, Worse Work.' *New York Times,* July 22, 2004, 2004.

106 Milberg, 2004b p10

107 Paul Krugman, 1995, 'Growing World Trade: Causes and Consequences', in *Brookings Papers in Economic Activity*, 1995:1, 327-377 (p336).

108 Ibid., p337

109 Claude Pottier, 2005, *Transnational Corporations and the Global Labor Arbitrage: A New Era of Capitalism?* , p6 (http://cas.umkc.edu/econ/iwwconf/papers/pottierpaper.rtf, accessed 21/07.2007).

IT technology, low transport costs, infrastructure, proximity to growing markets, 'governance'—all these influence the offshoring and outsourcing decisions of northern capitalists.[110] But their overriding motive, the elemental driving force behind this process of the globalisation of individual production processes and entire branches of production, is the pursuit of higher profits through the substitution of higher-paid labour for low-paid labour, i.e. through 'global labour arbitrage'. *This* is the megatrend driving the globalisation of the social relations of production and intensifying competition between wage earners across the North-South divide, it is this which provides the spring, the motive force powering and shaping the entire dynamic process.

'Global labour arbitrage'— a useful term, or euphemistic jargon?

Having defined 'global labour arbitrage', we now consider the potential and the shortcomings of this term. The term 'global labour arbitrage' suffers from several defects. Its three words include two euphemisms: 'global' really means 'North-South', and 'labour arbitrage' is an obtuse reference to the substitution of higher-paid labour by lower-paid labour. It could also be misleading: 'arbitrage' is often used to describe activities that take place entirely in financial markets far removed from production processes.[111] Finally, it is jargon, which can act as a code, giving access to those with the key while mystifying everyone else.

However, there are three specific reasons why, despite these defects, 'global labour arbitrage' term can serve as a useful way of introducing this key driver of the globalisation of production processes and an aide to identification of its essential features—and why it is much more useful than any of the core concepts so far developed by value chain analysts, proponents of global production networks, or neo-Marxist theorists of 'new imperialism' and 'transnational capitalism'.

First, 'global labour arbitrage' foregrounds the labour-capital relation, spotlights the enormous international differences in the price of labour, and, furthermore, it conceptually links the two

110 Anwar Shaikh helped answer many reservations some may have about this: *"cheap labor is not the only source of attraction for foreign investment. Other things being equal, cheap raw materials, a good climate, and a good location [...] are also important [...] But these factors are specific to certain branches only; cheap wage-labor, on the other hand, is a general social characteristic of underdeveloped capitalist countries, one whose implications extend to all areas of production, even those yet to be created."* Anwar Shaikh, 1980, 'The Laws of International Exchange' in Edward J. Nell (ed.) Growth, Profits and Property: Essays in the Revival of Political Economy, 204-235. Cambridge: Cambridge University Press, p228.

111 'Arbitrage' is being increasingly used in other contexts. What some call 'regulatory arbitrage' exerts a pressure on states to relax rules on business activities or risk losing business to rival states. For example, the passage by the US Congress of the Sarbanes-Oxley Act in 2002, following the Enron and other scandals, is widely believed to have resulted in a major shift of business activity from Wall Street to the City of London. Similarly, commentators sometimes talk of 'tax arbitrage' and 'environmental arbitrage'.

ways in which higher-wage labour can be substituted for low-wage labour: offshoring/outsourcing (the relocation of production processes to low-wage economies); and labour migration (the relocation of the producers from low-wage economies and their super-exploitation within the borders of imperialist nations). This coincides with Aviva Chomsky's observation that "most accounts treat immigration and capital flight separately. My approach insists that they are most fruitfully studied together, as aspects of the same phenomenon of economic restructuring."[112] Chomsky points to another specific quality they have in common which is of great significance: "immigration and capital flight [...] relieve employers of paying for the reproduction of their workforce."[113] Capital flight does this by giving employers access to a ready-made workforce in southern nations, who are sustained in part by remittances from migrant workers in the imperialist economies, foreign aid and public debt, and by unpaid labour performed in the informal economy. Jeffrey Henderson and Robin Cohen made the same conceptual connection: "[w]hile some fractions of metropolitan capital have taken flight to low-wage areas, partly in response to the class struggles of metropolitan workers, less mobile sections of Western capital have enormously increased their reliance on imported migrant labour to cheapen the labour process and lower the costs of the reproduction of labour in the advanced countries." [114]

Second, it focuses attention on imperfections in the global labour market. These 'imperfections' take the form of the repression of the free movement of labour, militarised borders around the EU and USA, the centrepiece of a vast superstructure of discrimination and dehumanisation that signify the future promised by neoliberal globalisation is not convergence with the 'West' but global apartheid, in which the southern nations become converted into labour reserves for super-exploitation by northern capitalists, either directly or at arm's length, through channels and via mechanisms to be explored in later chapters.

Third, 'arbitrage'—buying cheap and selling dear, as merchant capitalists have done for ages—is a way of capturing a bigger share of total value without making any addition to it. Arbitrageurs communicate price information in imperfect markets, causing price differences to narrow (in contrast, speculators typically amplify price swings)—unless, that is, some artificial factor intervenes (in our case, international restrictions on the free movement of labour) to prevent

112 Chomsky , 2008, p294.

113 Ibid., p3. William Robinson makes the same point: *"the use of immigrant labour allows employers in receiving countries to separate reproduction and maintenance of labour, and therefore to 'externalise' the cost of social reproduction."* William Robinson , 2008, *Latin America and Global Capitalism - a Critical Globalisation Perspective*. Baltimore: Johns Hopkins University Press (p204).

114 Jeffrey Henderson & Robin Cohen, 1982, 'On the reproduction of the relations of production', in *Urban political economy and social theory*. Ray Forrest, Jeff Henderson and Peter Williams (eds.) Aldershot: Gower.

price differences from being arbitraged away, in which case arbitrage becomes an opportunity for open-ended profiteering. In general, the bigger the imperfections, the bigger the price differences and the bigger the potential profits—and there's no market more imperfect than the global labour market. [115]

2.7 Neo-Marxists and the 'Global Labour Arbitrage'

Most of the scholars and analysts cited so far in our survey of 'global labour arbitrage' have been from mainstream or heterodox schools. This is because Marxist academia has been strangely reticent on this subject. The dereliction of the neo-Marxists is epitomised by a collection of essays by Marxist scholars entitled *Neoliberalism, a Reader*. Its front cover is a photograph of women working on a production line somewhere in Asia, yet—despite the many insightful articles it contains, not least the one written by its editor, Alfredo Saad-Filho—none of them discuss the super-exploitation of southern labour, male or female, none ask how capitalist firms in imperialist countries reap super profits from them, or recognise that this might be not just relevant to, but the very essence of 'neoliberalism'.

What is so special about 'global labour arbitrage', apart from its great scale, is that it takes place entirely within the orbit of the capital-labour relation. 'Global labour arbitrage', or the globalisation of capitalist production processes driven by the super-exploitation of low-wage southern labour by northern capital, is capitalist imperialism par excellence. Here, capitalism has evolved ways of extracting surplus value from the global South which are proper to it, which are effected not by political-military coercion but by 'market forces'—what Ellen Wood calls, in *Empire of Capital*, the 'globalisation of capitalist imperatives'[116]—and which have fully sublated (i.e. they have incorporated all that is useful, eliminated all that is inimical) the pre-capitalist forms inherited by capitalism as it entered its imperialist stage a twentieth century ago.

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115 'Arbitrage', when used to describe a particular type of behaviour in global finance, is the opposite of 'speculation'. Speculators bet on the future movement of prices, while 'arbitrageurs' make their money by detecting existing price discrepancies, which in financial markets tend to be minute and momentary, and buy where cheap and sell where dear. Speculators take risks while arbitrageurs seek to eliminate risk. Risk, for the arbitrageur, lies in the possibility that the price of an asset will change between buying it and selling it. When both trades can be transacted simultaneously, as in many global financial markets, the result is a pure, risk-free, arbitrage profit. For a useful discussion of the difference between arbitrage and speculation in modern financial theory, see Hirokazu Miyazaki, 2007, 'Between arbitrage and speculation: an economy of belief and doubt', *Economy and Society*, 36:3, 396–415.

'Arbitrage' is being increasingly used in other contexts. What some call 'regulatory arbitrage' exerts a pressure on states to relax rules on business activities or risk losing business to rival states. The passage by the US Congress of the Sarbanes-Oxley Act in 2002, following the Enron and other scandals, is widely believed to have resulted in a major shift of business activity from Wall Street to the City of London. Similarly, commentators sometimes talk of 'tax arbitrage' and 'environmental arbitrage'.

116 Wood, 2003

As Wood recognises, the exercise of military power by states continues to play a central and very active role in constituting the imperialist world order, policing it and violently removing obstacles in its way, whether these be forests and forest dwellers, insubordinate despots, rebellious social movements or radical governments. But, in common with other neo-Marxist theorists of 'new imperialism' and 'global capitalism', her theoretical framework gives no place to the most important, most direct, most pernicious and most quotidian exercise of coercive violence by the state in the global political economy: the suppression of the international mobility of labour. Apart, that is, from one cursory reference, a brief and passing acknowledgement that "[n]ot the least important function of the nation state in globalisation is to [...] manage the movements of labour by means of strict border controls and stringent immigration policies, in the interests of capital." [117] Along with the massive relocation of production processes to the global South, this receives no further attention, despite their obvious relevance to her stated aim, which is "to define the essence of capitalist imperialism".[118]

However, not all Marxists are so indifferent towards this burning question of our day. Jack Barnes, a communist leader in the USA, gave this explanation of the motives guiding state policy in the imperialist countries: "Far from aiming to stem the inflow of labour [...] the rulers intend for their repressive measures to heighten insecurity and fear among immigrants, hoping to maintain them as a super exploitable labour pool and discouraging involvement in unionisation efforts and other social struggles and political fights."[119]

Just so—except that the rulers do aim to 'stem', as in control and restrict, the inflow. Indeed, they seek to maximise their ability to control the supply of cheap labour, including acquiring the power to reverse the flow. But, as millions of immigrant workers and their supporters chanted in cities across the USA in 2006, 'Aquí estamos y no nos vamos' (We're here and we're not leaving).

William Robinson reaches a similar conclusion to Barnes: "Neither employers nor the state wants to do away with immigrant labour. To the contrary, they want [...] its maximum exploitation together with its disposal when necessary"[120] In *Latin America and Global Capitalism*, he reports in detail on the struggles by immigrant workers in the USA and commendably gives great prominence to the issue of labour migration, noting that "capital and goods move freely across national borders in the new global economy; labour, however, cannot." He makes the essential point that a "free flow of labour would exert an equalising influence on wages across borders

117 Wood, 2003, p137

118 Wood, 2003, pp7, 3

119 Jack Barnes, 2001, *Cuba and the Coming American Revolution.* New York: Pathfinder (p87).

120 Robinson, 2008, p313

while state controls help reproduce such differentials. Eliminating the wage differential between regions would cancel the advantages that capital accrues from disposing of labour pools worldwide subject to different wage levels and would strengthen labour worldwide in relation to capital."[121]

Robinson makes a brave but unconvincing attempt to integrate this into his theory of 'transnational capitalism': "National labour pools are merging into a single global labour pool that services global capitalism. The transnational circulation of capital induces the transnational circulation of labour."[122] However, the enforcement and reinforcement of territorial national borders against the free movement of labour makes nonsense of his talk of 'a single global labour pool' and poses a severe challenge to the whole 'transnationalisation of capitalism' thesis. In order to sustain his argument, Robinson argues that "[n]ational boundaries are not barriers to transnational migration", [123] as if labour flows freely around the 'global pool'. Capitalist employers and their states use immigration controls, in Robinson's own words "to sustain a vast exploitable labour pool that exists under precarious conditions, that does not enjoy the civil, political, and labour rights of citizens, that faces language barriers and a hostile cultural and ideological environment, and that is flexible and disposable through deportation;"[124] in other words to maintain what a racial hierarchy that impedes the emergence of a transnational proletariat.

For William Robinson, super-exploitation continues to exist, but he refuses to accept that this has a territorial North-South dimension, allowing him to argue that capitalism has now become transnationalised and deterritorialised, and any concept of imperialism, i.e. of one part of the world oppressing and exploiting another part, has become outdated: "the class relations of global capitalism are now so deeply internalised within every nation state that the classical image of imperialism as a relation of external domination is outdated [...]. The end of the extensive enlargement of capitalism is the end of the imperialist era of world capitalism."[125]

In contrast to Robinson's thesis of deterritorialised super-exploitation, the super-exploitation of southern labour by northern capital has been excluded altogether from Wood's 'theory of capitalist imperialism'. It is also entirely absent from Robert Brenner's writings on the end of the post-war boom, 'The Boom and the Bubble' (2002) and 'The Economics of Global Turbulence'

121 Ibid. p204
122 Ibid., p203
123 Ibid., p314
124 Ibid., p313
125 Ibid., p42

(2006), Robert Brenner discards the terminology and any concept or notion of imperialism and imperialist exploitation, preferring instead to adopt the World Bank's anodyne phraseology of 'developed economies' and 'less developed economies'. Despite introducing his earlier work with a reference to "the epoch-making internationalisation of production by means of the relocation of industry, carried through by dynamic multinational corporations and banks," [126] and in sharp contrast to his impressively subtle and data-rich analysis of manufacturing profit rates, growing inequality, budget deficits and so forth, the globalisation of production processes is given minimal attention. Brenner's main thesis is that basic industries in the 'developed economies' are suffering from structural overcapacity that weighs down on their manufacturing profit rates. The expansion of manufacturing industry in southern nations only adds to this global overcapacity. In his words, "emergent low-cost producers [...] [have] ended up adding more and cheaper goods to many already oversupplied manufacturing lines, with the result that downward pressure on prices and profitability was further intensified." [127] In the same vein, speaking of the two decades from 1973 to 1993, he argues "even while manufacturers throughout the advanced capitalist world strained to defend their competitiveness and profit rates... producers based in a limited number of LDCs ['Less Developed Countries']—most especially in East Asia, but also during the 1970s, in such places as Mexico and Brazil—were able to rapidly increase their exports [...] international competition in manufacturing was thus further intensified, exacerbating the problem of redundant production."[128]

Only in relation to Japan and East Asia does Brenner notice that the massive growth in 'less developed countries' manufactured exports was to a very large extent a direct result of the outsourcing and offshoring decisions of Japanese transnational corporations, when he mentions in passing that "[s]ubsidiaries in the labour-intensive textile industry were particularly profitable as a result of much lower East Asian labour costs"[129]. However, he strikingly fails to make any similar observations in relation to the focus of his study, the USA and its manufacturing corporations.

The latent crisis of overproduction, i.e. 'global overcapacity' on the one hand, and the underlying and gathering trend towards a decline in the average rate of industrial profit on the other, are both consequences of increasing labour productivity, and these two effects interact with each other in complex ways. Brenner's argument that the growth of southern manufacturing production has contributed "to the further build-up of that redundant manufacturing productive

126 Brenner, 2002, p13

127 Ibid. p26

128 Ibid., p32.

129 Ibid., p117

power that was holding down profitability on a world scale"[130] is contradicted by the fact that, as we have seen, this 'global shift' has been and is being driven by the strenuous attempts of these same northern capitalists to arrest the decline in their rate of profit by exploiting low-wage labour; or—in the words of Stephen Roach cited above—"extract[ing] product from relatively low-wage workers in the developing world has become an increasingly urgent survival tactic for companies in the developed economies." [131]

2.8 Global labour arbitrage in a broader perspective

During the era of neoliberal globalisation, global labour arbitrage, or the location or relocation to low-wage nations of steps in the processes of production of commodities destined for consumption in high-wage nations, has become the predominant expression of the rapidly evolving relationship between northern capital and southern labour. It is useful to place this in context with other expressions of this relationship, see what it shares with them and what makes it specific.

FDI is often categorised into three different types depending on the motive of the direct investor, and analogues can also be identified in arm's length relationships. 'Resource-seeking' FDI denotes those investments whose location is determined by climate and geology and where the presence of low-wage labour is a bonus; 'market-seeking' FDI defines investment aimed at capturing a share of the local market.[132] The third—'efficiency-seeking' FDI—corresponds exactly to the 'in-house' form of global labour arbitrage, since the 'efficiencies' sought by the TNCs are, first and foremost, lower labour costs.

We can exclude 'market seeking' FDI forthwith from our investigation: moving production close to markets used to be the principal form taken by foreign direct investment in the years before neoliberal globalisation, in which TNCs attempted to circumvent high tariffs and other barriers impeding international trade. Since the most important markets for final goods are in the imperialist nations, 'market seeking' FDI mainly takes the form of cross-border investments

130 Ibid., p290.

131 Roach . 2003, p5-6

132 Sometimes a fourth type is differentiated, so-called 'technology seeking' investment, FDI aimed at the acquiring technological expertise available in the host country. This type of FDI has little relevance to TNC operations in the global South.

from one Triad nation into another,[133] a typical example being US and Japanese investments in Ireland as a means of gaining access to the European market.

'Resource-seeking' FDI is much more relevant to our investigation, and can be extended to include not just hydrocarbons and minerals but also farm and forest products. Its arm's length counterpart are all those agricultural products and basic resources that are cultivated or extracted by independent southern producers and sold to northern buyers. 'Resource-seeking' FDI is determined by geology or climate and not by the availability of low-wage labour, yet the 'extraction of product' from southern low-wage or self-employed labour engaged in agriculture or resource extraction results in super-profits for their northern TNCs just as surely as it does in the case of the South's export-oriented industries. Furthermore, resource-seeking FDI is much older than modern production outsourcing, and played a key role both in the genesis of capitalism and in the transition to its imperialist stage of development, as Marx and Luxemburg emphasised throughout their writings.

Resource extraction is nowadays generally much less labour-intensive than manufacturing—as noted above, Unctad reported in 2003 that each $1m in US manufacturing FDI in 'developing countries' resulted in the creation of 23.8 jobs, while the same sum invested in resource extraction resulted in 2.9 jobs, one eighth as many.[134] However, the same is not necessarily true of agriculture, which tends to be highly labour-intensive and therefore more likely to be influenced by the relative price of labour.

♦ ♦ ♦

The study of the economic processes of global outsourcing opened in this chapter will be resumed in chapter 6. The next three chapters focus attention on its greatest accomplishment: a tremendous expansion and transformation of the southern proletariat. This is not an excursus, it zeroes in on this chapter's most significant finding: the greatly-enhanced importance of the super-exploitation of southern living labour to the fortunes of northern capitalists. This essential aspect of the globalisation of production is the subject of this thesis and provides its central argument.

By taking this direction, this thesis attempts to achieve three goals.

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133 Or, as a study by three Unctad economists put it, '*Trade based on horizontal international production sharing occurs mainly between developed countries.*' Jörg Mayer, Arunas Butkevicius & Ali Kadri, 2002. Dynamic Products In World Exports. Unctad Discussion Paper No. 159. (http://ideas.repec.org/p/unc/dispap/159.html, accessed 27/09/2009).

134 Data for 2003. Unctad, 2007, Table 1.6. In the next chapter we will consider why these figures significantly understate the employment generated by manufacturing FDI.

First, to make these hundreds of millions of women and men visible, to bring them into our consciousness, to turn their contribution to global wealth and their place in history into the field of this enquiry, rather than the exchange of things in markets.

Second, by placing ourselves in the midst of their reality, to aid discovery of the real questions about the world that analysis and theory must answer.

Finally, analysis of the globalisation of production must give at least as much attention to conditions in the labour market as it does to commodity and capital markets— 'conditions' which include imperialist borders, the 'planet of slums' and other key features which we will now proceed to examine.

Chapter 3—Southern labour, peripheral no longer

> "A striking feature of contemporary globalisation is that a very large and growing proportion of the workforce in many global value chains is now located in developing economies. In a phrase, the centre of gravity of much of the world's industrial production has shifted from the North to the South of the global economy." – Gary Gereffi.[1]

Chapter One showed that human society continues to be disfigured by the North-South divide, with one eighth of humanity living in nations with an annual per capita GDP above PPP$30,000 and most of the rest living in nations with a per capita GDP below PPP$10,000. It argued that this territorial cleavage into what Lenin called a handful of oppressor nations and a great majority of oppressed nations is not separate from or additional to the division of human society into antagonistic social classes; on the contrary, it is one of the chief ways in which modern class divisions are concretely expressed.

Chapter Two argued that the intense efforts of capitalists in imperialist countries to "extract product from [...] low-wage workers in the developing world" (Stephen Roach) has effected the most significant transformation of the neoliberal era: the globalisation of production processes. This is manifested as a massive shift in the centre of gravity of the world's industrial proletariat towards the global South, and in the increasing dependence of capitalists in North America, Europe and Japan on the proceeds of the super-exploitation of the workers who live there.

This chapter continues and combines these arguments. Its task is to assess the changing weight and role of the industrial workers of the global South during the past three decades of neoliberal globalisation. This can only be done by placing it within the context of the main conditions and constraints that have shaped the growth and evolution of the southern workforce as a whole during this period. This is a potentially endless task, with a limitless number of variables and levels of analysis, but it can be tackled by applying what was learned in the first two chapters. Accordingly, two levels of analysis are deployed in order to comprehend the essential characteristics of the southern workforce and within it of the southern industrial proletariat.

First, the chapter considers how the continuation and deepening of the North-South divide has affected the evolution of southern labour. Attention is focused on one particular economic-structural aspect of this: the violent suppression of the international mobility of labour. This

1 Gary Gereffi, 2005, *The New Offshoring of Jobs and Global Development.* ILO Social Policy Lectures. Geneva: ILO Publications (p5).

should not be understood in isolation from the political and cultural aspects of the North-South divide which have also profoundly shaped today's southern workforce, including the countless military coups, wars and direct interventions perpetrated against the peoples of Asia Africa and Latin America, and the ceaseless political and cultural subversion carried out in these continents by armies of advisers, academics and missionaries. Neither should it be forgotten that all of this has been and continues to be a contested terrain: imperialist governments have received blows as well as have dealt them; each crime they have committed in Vietnam, Iran, Chile, Palestine and elsewhere has come with a political price attached and forms part of the collective memory of this growing and evolving class whose contours are to be mapped in this chapter.

The second level of analysis concerns the dynamics of this process of class formation, resolved into four distinct dimensions: the relative weight of wage-labour vis-à-vis self-employment; formal employment vis-à-vis employment in the 'informal economy'; gender dynamics, i.e. the massive incorporation of women into the southern workforce; and finally, the distribution/redistribution of the workforce between industry, agriculture and services.

This chapter will set the scene for the Chapter 4—a survey of real wages in the global South and of North-South wage differentials during the last quarter-century of neoliberal globalisation.

3.1 Southern labour in chains

> "The proclaimed free movement of capital and commodities must also be applied to that which must be above all else: human beings. No more blood-stained walls like the one being constructed along the American-Mexican border, which costs hundreds of lives each year. The persecution of immigrants must cease! Xenophobia must end, not solidarity!" [2]
>
> Fidel Castro, Durban, 2nd September 1998.

The suppression of free labour mobility and the making of the Global South

A facile analogy between the 'modernisation' processes taking place in the global South since WW2 and the 19th century development of capitalism in Europe and North America is central to capitalist ideology in both its liberal and neoliberal variants. Such, for instance, was the essential premise of Walter Rostow's 'development' thesis developed in *The Stages of Economic Growth: A Non-Communist Manifesto,* which argued that 'developing countries' would naturally pass through the same stages of development as did Europe and North America a century earlier. Rostow's seminal work helped to turn this archetypical Eurocentric notion into the intellectual foundation both for the mainstream academic theories of 'development' and for the policies vigorously promoted by imperialist governments and IFIs from the end of direct colonial rule up to the present.[3] The fundamental reason why such an analogy is invalid is that the very processes which produced modern, developed, prosperous capitalism in Europe and North America also produced backwardness, underdevelopment and poverty in the global South. As Mike Davis points out in his study of Third World urbanisation, the rampant imperialism of the late nineteenth century resulted in the "forcible incorporation into the world market of the great subsistence peasantries of Asia and Africa," proceedings that "entailed the famine deaths of millions and the uprooting of tens of millions more from traditional tenures." [4] The real parallel between the second half of the 19th century in Europe and the second half of the 20th century in

2 Fidel Castro, *Speech to the 12th summit of the Non-Aligned Movement*, Durban, South Africa, 2nd September 1998 (translated by author) (http://www.cuba.cu/gobierno/discursos/1998/esp/f020998e.htm, accessed 14/11/2002).

3 Walter W. Rostow, 1960, *The Stages of Economic Growth: A Non-Communist Manifesto*. Cambridge: Cambridge University Press.

4 Mike Davis, 2006, *Planet of Slums.* London: Verso (p174)

the global South is therefore very different: "[t]he brutal tectonics of neoliberal globalization since 1978 are analogous to the catastrophic processes that shaped a 'Third World' in the first place." [5]

The two periods do indeed have many common features, one of the most notable being that, as in nineteenth century Europe, the spread of capitalist social relations throughout southern nations is proving itself to be far more effective in dispossessing peasants and small producers and dissolving traditional economies and ties to the land than it is of absorbing those so destituted into wage labour. But there are some important differences between the processes that gave rise to a surplus population in Europe in the 19th century and those shaping the 20th century global South , the most far-reaching and significant of which is that an important escape-valve, which remained open throughout the 19th century, has since been welded shut: *migration*.

Between 1850 and 1920—a time when "there were no restrictions on the mobility of people across national boundaries—passports were seldom needed and immigrants were granted citizenship with ease"[6]—about 70 million people emigrated from Europe, 36 million of them to the USA, 6.6 million to Canada, 5.7 million to Argentina, and 5.6 million to Brazil,[7] settling on land cleared by the genocide of indigenous civilisations. The total migratory flow was equivalent to more than a sixth—17%—of the 408 million people living in Europe in 1900. This mass emigration to the Americas and Australasia mitigated the growth of pauperism in Europe. According to senior ILO economist Ajit Ghose, "for several European countries, emigration was large and sustained enough to make growth rates of population and labour force insignificant or negative for years." [8] If the same proportion had emigrated from the global South since the Second World War as left Europe between 1850 and 1920, 800 million people would have moved north,[9] equivalent to 70% of the total population in 2000 of the 'more developed countries'. Instead, "a negligible 0.8% of the workforce of the developing world has migrated to work in industrial countries" [10]—one twentieth of the fraction of Europe's population that emigrated in the earlier period. As Ghose remarks, "it is quite clear that, for most of the

5 Ibid., p174.

6 Deepak Nayyar, 2003, 'Globalisation and Development', pp61-82 in *Rethinking Development Economics*, Ha-Joon Chang (ed). London: Anthem Press, (p70). The Balfour government's 1905 Aliens Act, which closed Britain's door to central European Jews fleeing tsarist pogroms, is widely considered to be the first piece of modern immigration legislation in the UK; in the USA the imposition of a literacy test in 1917 and the introduction of quotas in 1921 marked the end of unrestricted immigration. For a useful comparison of immigration in the later 19th and late 20th centuries, see Timothy J. Hatton & Jeffrey G. Williamson, 2008, 'The Impact of Immigration: Comparing Two Global Eras'. *World Development*, 36, 3: 345-361.

7 Teresa Hayter, 2000, *Open Borders*. London: Pluto Press, p9.

8 Ghose, 2005, p17.

9 800 million is approximately 1/6 of the 4.9 billion people living in what Laborsta calls the 'less developed countries' in 2000.

10 Ghose, 2005, p83.

developing countries, international migration is of no help in coping with the major labour market problem—that of surplus unskilled or low-skilled labour." [11]

The contrast between the two periods is all the more striking when we consider some reasons why we might have expected to see increased migration flows in the late 20th century compared to 100 years earlier, including the huge increase in wage differentials and disparity in living conditions between source and destination countries over the past century; the greater ease and safety of travel; the vastly improved possibilities of maintaining contact with families and communities back home, of financially supporting them through remittances, and of eventually returning.

The contrast between the two periods could not be starker—or of greater significance to understanding the shaping of the modern global political economy: "The European urban-industrial revolutions were incapable of absorbing the entire supply of displaced rural labour…but mass emigration…provided a dynamic safety valve that prevented the rise of mega-Dublins and super-Napleses […] Today, by contrast, surplus labour faces unprecedented barriers to emigration to rich countries." [12] Because of these barriers, "the majority of migrants move from one developing country to another rather than from a developing country to a developed one." [13] South-North migration was negligible before WW2, and, relative to the potential migrant population, there was little change afterwards. As Deepak Nayyar points out, "between the late 1940s to the early 1970s, there [was] a limited amount of labour migration from developing nations to the industrialised world. Since then, however, international migration has slowed to a trickle because of draconian immigration laws or restrictive consular practices." [14]

The International Organisation for Migration reports that in 2005 a total of 62 million migrants from southern nations lived in 'industrialised countries', [15] and estimate that around one half, or 31 million, are employed there. The total industrial workforce in the 'industrialised countries' is

11 Ghose, 2005, p89. There are important exceptions, mostly in Latin America and the Caribbean. Perhaps the most significant exception is Mexico, around 10% of whose workforce has emigrated to the USA. Portes & Hoffman (2003, p70) report that 8% of the Ecuadorean population migrated to the USA during the 1990s.

12 Davis, 2006, p183.

13 International Organisation for Migration (IOM), 2008, *World Migration 2008 - Managing Labour Mobility in the Evolving Global Economy.* Geneva: International Organization for Migration, p32.

14 Nayyar, 2002, p70. He continues, *"The present phase of globalisation has found substitutes for labour mobility in the form of trade flows and investment flows."*

15 IOM, 2008, p80. In comparison, 14 million migrants from 'industrialised countries' lived in 'developing countries'. IOM also estimates that the S-S migrant population comprised 61 million people. The IOM adds '*Given the amount of political attention it attracts, the total knowledge about the nature and magnitude of the international labour force, which represents around three per cent of the global workforce, is remarkably limited. This is particularly the case in relation to irregular migration, which by its very nature is difficult to measure.'* (IOM, 2008, p31)

approximately 125 million; one tenth of them are migrants from southern nations.[16] Their sectoral composition is markedly different from native-born workers: 40% of migrant workers in the Triad nations are employed in industry, compared to 25% of the indigenous workforce; 10% in agriculture, compared to 3% of the indigenous workforce; and 50% work in 'services', compared to 72% of local workers.[17]

Looking at each leg of the Triad in turn, the USA has been far more open than other imperialist nations. It was reckoned in 1998 to host around 75% of all immigrant workers from the global South working in imperialist countries, [18] and it is this much larger inflow of super-exploitable southern labour, rather than the much-hyped IT 'revolution', which explains the USA's relative economic dynamism vis-à-vis Europe since the early 1990s. At the end of 2005 there were around 23 million 'immigrants and foreign residents' in the EU-15,[19] around 6% of its total population of 380 million. The Council of Europe's 'Economic Migration, Social Cohesion and Development' reports that 17% of these come from Africa and 12% from Asia, with a much smaller fraction from Latin America.[20] Migrants from the global South as a whole comprise around one third of Europe's foreign-born population. Thus around 7.5 million migrants from 'developing' countries have settled in the EU. Most had arrived by the mid 1990s; stringent immigration controls have since reduced the flow to a trickle. As the Council of Europe's report states, "[t]he EU 'fortress' confronts the most visible waves of unauthorised attempts to enter the common European area at its southern borders." [21] The ILO reckons that around 50% of this migrant population are economically active, or around 4 million people.[22]

The UN's International Organisation for Migration estimated that 900,000 workers from other Asian nations were employed legally or illegally in Japan in 2000, 1.4% of a total workforce of 64.5 million.[23] It further reported that, in 2001, 142,000 immigrants entered Japan with work

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16 To begin to put this in context, the ILO reports that 63 million industrial workers are employed in the South's export processing zones, around one-eighth of the South's industrial workforce.

17 IOM, 2008, p81, Table 3.2.

18 Ghose, 2005, p83.

19 International Organisation for Migration (IOM), 2005, *World Migration 2005 - Costs and Benefits of International Migration.* Geneva: International Organization for Migration. Table 7.2 shows eight different measures of the total population of immigrants and foreign residents in the EU-15, ranging from 18.7 million (Eurostat) to 26.4 million (UN Population Division). The *EU-15* consists of: *Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, UK.*

20 Council of Europe, 2008, *Thematic report – Economic migration, social cohesion and development: towards an integrated approach.*8th Council of Europe conference of ministers responsible for migration affairs, p49. (http://8emc.mvc-expo.com.ua/img/zstored/File/MMG8_thematic_report_color_final_en.pdf). As this report states, choosing its words carefully, *'Countries of the global South remain important migration partners for Europe.'*

21 Council of Europe, 2008, p50.

22 Ghose (ibid. p84) estimates that in 1998 Western Europe posted 2.26 million migrant workers from 'developing countries', 1.3% of Europe's workforce.

23 710,000 with permits, 192,000 without. IOM, 2003, Table 11.2, p199.

visas. Of these, 117,839 (71,678 of them Filipinas) were classified as 'entertainers', "which includes actors, singers, and professional athletes. However, some of the entertainers are actually recruited to work in the sex industry." [24] Nevertheless, migrant labour has become increasingly important to Japanese manufacturing industry: "[r]ather than provide stable employment, factories hire temporary workers – often Chinese or Brazilians on short-term visas – who get low pay and poor conditions. Japan has not just moved factories to cheap labour, it has also brought cheap labour to the factories." [25]

To complete this panorama, we should note the relatively very high proportion of the South's highly skilled workers who have joined the 'brain drain' and taken advantage of what, to them, is an open door into the rich nations. As Ghose comments, "for certain countries… the brain drain seems to be of truly astonishing magnitudes," [26] reporting that, by 1990, 58% of Gambians with 13 or more years of education, 69% of Jamaicans and 81% of Guyanese had emigrated to the United States alone. Europe is also a major destination for skilled workers from southern nations; the UK in particular has achieved notoriety for its efforts to entice health professionals away from African and Asian countries without showing slightest concern for the disastrous effects on these countries' tottering health care systems.[27] The scale of the skilled workers' northern exodus gives an idea of the likely extent of unskilled migration, were it not inhibited and suppressed by militarised borders, xenophobia and racism. So, while the migration of low-skilled workers has made a trifling impact on the South's vast labour surplus, the migration of high-skilled workers has had a devastating effect on the South's health and education services and has seriously damaged its quest for sovereignty and social development.

Instead of emigrating, the South's surplus population has congregated in the 'planet of slums', as documented by Mike Davis in his book of that name, where hundreds of millions of people live in destitution surpassing the worst horrors of Victorian England described by Engels in 1845, where they form part of the permanent and massive reserve army of labour, the rest being dispersed in conditions of great misery in rural villages and homesteads. The profundity of the crisis in the African, Asian and Latin American countryside can be seen in the spectacular growth of urban squalor. As Mike Davis points out, "Third World urbanisation […] continued its breakneck pace

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24 International Organisation for Migration (IOM), 2003, *World Migration 2005 - Managing Migration - Challenges and Responses for People on the Move.* Geneva: International Organization for Migration, p200.

25 Robin Harding & Jonathan Soble. 'Not made in Japan,' in *Financial Times*, July 20 2009.

26 Ghose, 2005, p89.

27 The Royal Africa Society made headlines in 2005 with its claim that more Malawi doctors worked in Birmingham than in Malawi. Royal Africa Society, 2005, *A Message to World Leaders: What About the Damage We Do to Africa.* (http://www.royalafricansociety.org/index.php?option=com_content&task=view&id=212&Itemid=208, accessed 28/09/2009).

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[…] in spite of falling real wages, soaring prices, and skyrocketing urban unemployment. This perverse urban bloom surprised most experts and contradicted orthodox economic models that predicted that [migration from the countryside] […] would slow or even reverse."[28]

A very large proportion of these slum dwellers and of the rural villages they have left behind are supported by remittances from family members who have succeeded in passing through the eye of the needle to find work in the imperialist nations.[29] The potential for increased labour mobility to make an immediate and major impact on extreme poverty in the global South—and the hypocrisy of those who talk about development while clamping down on immigration—was underlined by former World Bank economist Dani Rodrik: "[i]magine that the negotiators who recently met in Doha to hammer out an agenda for world trade talks […] really meant it when they said the new round would be…designed to bring maximum benefit to poor countries. What would they have focused on? Increasing market access […] ? Reform of the agricultural regime in Europe […] ? Intellectual property rights […] ? The answer is none of the above […] The biggest bang by far […] was not even on the agenda at Doha: relaxing restrictions on the international movement of workers… Nothing else comes close to the magnitude of economic benefits that this would generate." [30]

The growth of the southern workforce and its proletarianisation

The world's 'economically active population' (EAP), grew from 1.9 billion in 1980 to 3.1 billion in 2006, a 63% increase.[31] Almost all of this numerical growth has occurred in the 'emerging nations', now home to 84% of the world's EAP, as is graphically depicted in Figure 3.1.[32] There are now around 1.6 billion wage workers in the global South; the other one billion being small farmers and a multitude of people working in the infinitely variegated 'informal economy'. The global South's EAP increased by 2.0% per year between 1995 and 2005, compared to 0.8% in

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28 Davis, 2006, p14

29 The World Bank estimates that remittances flowing to 'developing countries' peaked at $283bn in 2007 and began to fall sharply in 2008 (http://remittanceprices.worldbank.org). To put this sum into perspective: $283bn is around six times larger than total N-S 'development aid', much of which is anything but; and it is *around twice the total annual income of the world's poorest one billion people*—an estimate made by noting that nearly one billion people live on less than one PPP$ per day; rounding this to one billion and supposing that their average income was 77¢ per day gives a total annual income of PPP$283bn—but remittances are measured in real dollars while the income of the poorest are measured in PPP$, and the PPP conversion index for the poorest countries is typically greater than 2.0.

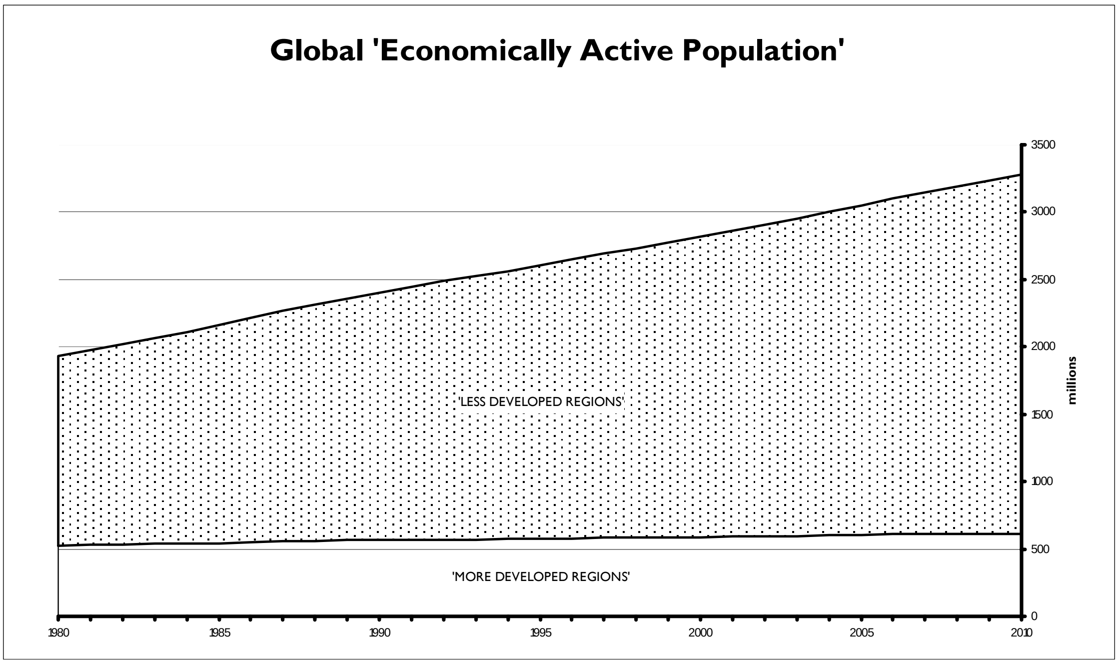
30 Dani Rodrik, 2002, *Feasible Globalisations*, pp18-19. He adds (p20), *"What is equally important, the economic benefits would accrue directly to workers from developing nations. We would not need to wait for trickle-down to do its job."*

31 EAP data from Laborsta.

32 The ILO reports that, in 2004, 218 million children were '*trapped in child labour, of which 126 million were in hazardous work*' ILO, 2006a, p22. It is not clear whether these are included in their data for global EAP.

the 'industrialised countries', mostly due to an increase in the workforce in the USA—and much of this was the result of immigration.[33]

Figure 3.1 Global Economically Active Population (EAP)



Source: ILO/Laborsta: EAPEP (Economically Active Population Estimates & Projections). Laborsta defines 'more developed regions' to include Northern America, Japan, Europe, Australia and New Zealand, and 'less developed' regions *to 'comprise all regions of Africa, Latin America and the Caribbean, Asia (excluding Japan), Melanesia, Micronesia and Polynesia.'*

Over the past three decades the proletarians of the global South have not only become more numerous, they are very much more integrated into the global economy. The 63% quantitative growth in the global EAP reported above therefore significantly understates the qualitative increase in the role and weight of the South's waged workers. One attempt to conceptualise this was made by Harvard economics professor Richard Freeman, who attracted a great deal of media attention with his assertion in 2005 that the global workforce had doubled in size in the previous 15 years, arguing that "in the 1980s and 1990s, workers from China, India and the former Soviet bloc [entered] the global labour pool. Of course, these workers had existed before then. The difference, though, was that their economies suddenly joined the global system of production and consumption."[34] As a result, 1.47 billion workers had been added to the global labour pool, "effectively doubling the size of the world's now connected workforce".

33 ILO, 2006a, p5

34 Richard B. Freeman, 2005.

Another attempt to capture the dynamic effects of globalisation was made by the IMF in its World Economic Outlook 2007, which computed what it terms the 'export-weighted global workforce' (EWGLF) by applying the simple idea that if X% of a nation's production is internationally traded, then X% of its workers participate in global trade. Since exports, for most nations, are growing faster than GDP, the 'effective global workforce' is growing much faster than the world's total economically-active population—indeed, the IMF calculates that the EWGLF quadrupled in size between 1980 and 2003 as can be seen in Figure 3.2, which reproduces 'Figure 5.1' in the IMF's *World Economic Outlook, April 2007*.[35]

Figure 3.2 The 'Export-Weighted Global Labour Force'

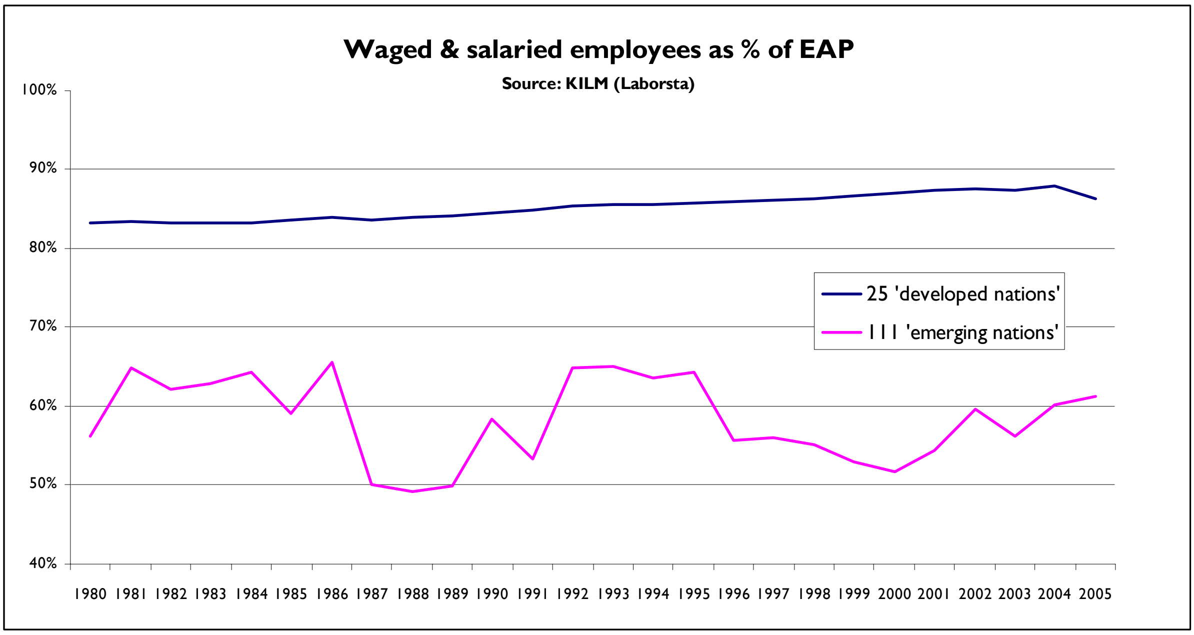
However, distortions inherent in trade data—which record gross exports, including the cost of imported components and raw materials—call into question the validity of this construct. To calculate the 'export weighted global labour force' it would seem more appropriate to weigh the size of each national contingent of the global labour pool not by the gross value of each nations' exports but by that portion it that was added domestically. Since export-oriented industry now contributes nearly 80% of the total merchandise exports of southern nations, a more relevant way to weight a nation's workforce would be to construct an index using manufacturing value-added (MVA). However, MVA is often only a small fraction of the value of southern manufactured exports and has been growing much more slowly than employment, trade or just about any other measure of globalisation. Had the IMF calculated its EWGLF by using this procedure, instead of depicting the dynamic growth of the globally-integrated southern workforce it would have had the embarrassing task of explaining why this growth appears to be

35 IMF, 2007, p162.

so lacklustre. The paradox between burgeoning industrial development in the global South and stagnating MVA is a key issue and will be given further attention in chapter 6.

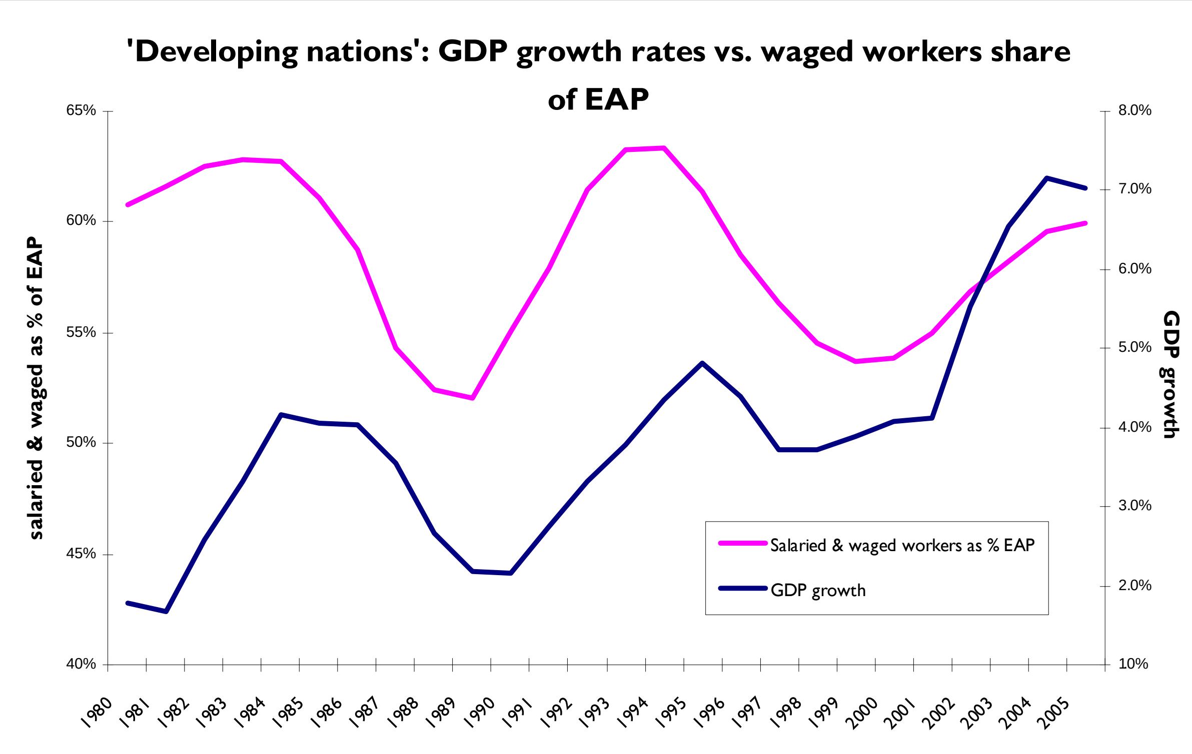
The absolute and relative (to the workforce in the imperialist nations) growth of the southern workforce is a striking feature of the neoliberal globalisation period, but it only tells part of the story. Examination of how the composition of this 'global labour pool' has evolved, between the employed and the self-employed, reveals other features of fundamental importance.

Figure 3.3 Waged and salaried employees as percentage of EAP



Source: Key Indicators of the Labour Market (KILM) Fifth Edition. See appendix for lists of the 25 'developed nations' and 111 'emerging nations' for which Laborsta provides data. These do not include China.

Figure 3.4 Waged and salaried employees as percentage of EAP vs. GDP growth rates



Sources: Employment status for 111 'developing nations' from Laborsta's KILM 5th edition; GDP growth rates are calculated from 'World Development Indicators' data for GDP of 'low & middle income countries' in constant 2000 US$. Both traces have been smoothed, showing 3-year moving averages.

Figure 3.3 shows that between 1980 and 2005 the proportion of wage and salaried workers in total EAP in what Laborsta calls the 'developed nations' steadily rose, from 83% to 88% (in 2005, around 500 million people), indicating an ever-deeper proletarianisation in these countries. The counterpart to this is a decline in self-employment, including a continuing shrinkage in the number of small family farmers. In contrast, no such long-term trend is apparent in the proportion of southern nations' EAP in paid employment, which over the 25 years has fluctuated between 50% and 65% of total EAP.

Both traces in Figure 3.3 are generated from the same database. The striking contrast between the smoothness of the trace for the 'developed nations' and the spikiness of the 'emerging nations' trace results from missing data; poor data collecting capabilities of government agencies in many 'emerging nations'; and the immensity of the informal economy, greatly complicating efforts to measure wages and determine employment status. [36] This spiky trace is decoded in

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36 The data used to generate Figure 3.1 are Laborsta's global estimates and projections, while Figure 3.3 was constructed by aggregating the raw annual data reported by each country; this explains the contrast

Figure 3.4, which shows a smoothed (three-year rolling average) version of the 'developing nations' trace in Figure 3.3, reveals that these rises and falls are not random fluctuations or statistical artefacts resulting from poor data quality, as might be suspected from a glance at the unsmoothed trace in Figure 3.3, but rather that the ratio of wage labour to total EAP has followed a cyclical pattern, waxing and waning with the changes in the pace of GDP growth. Interpreting this graph, it is possible to discern that the relative decline of wage labour in 'emerging nations' between 1982 and 1988 coincided with the worst years of the Third World debt crisis, while the gains made in the subsequent five years were reversed by a subsequent period of slower growth and another wave of economic crises. Beyond these cyclical peaks and troughs, no secular trend over the 1980 to 2005 period can be detected in the ratio of wage labour to total EAP in southern nations, in contrast to its steady ascent in the imperialist countries. Nevertheless, this constancy in the waged share of what is a rapidly growing EAP translates into an absolute rise in the numbers of southern wage workers and into a growing preponderance of southern workers within the global proletariat.

The persistently high proportion of self-employed and own-account workers within the South's EAP casts doubt on the ILO's confident assertion in its *Global Wage Report* that, between 1995 and 2007, "paid employment appears to be growing everywhere (with the exception of Latin America) and has been expanding particularly rapidly in East Asia [...] this suggests that, over time, wages will become an ever more important dimension of total employment-related income." [37] The ILO's statement is supported by data presented in Table 3.1, which shows that, between 1996 and 2006, waged and salaried employment increased its share of overall EAP in every region of the global South with the exception of Latin America and the Caribbean. Figure 3.4 indicates that waged employment did indeed rise in the 10 years after 1996, but only after recovering from a significant fall between 1996 and the end of the millennium. This counters the impression given by the ILO of a smooth, steady advance in the ratio of waged workers to total EAP. This questionable impression is endorsed by Nomaan Majid, in his statistical analysis of the same ILO database for the three decades from 1970 to 2000. Majid concludes that it is "quite clear [...] that the increase in 'employees' is the more dominant trend, the decline in unpaid family work is the second one, and interestingly even the category self employment and own

between the smooth gradient of 'developed nations' EAP in Figure 3.1 and the jagged line for their waged/salaried share of EAP in Figure 3.3.

Figure 3.3's trace for 'emerging nations' appears to be no smoother after 1990, despite significantly improved data coverage from that date onwards—indicating that its erratic course is mostly due to a combination of poor data quality and greater actual turbulence.

37 International Labour Office (ILO), 2008, *Global Wage Report 2008-9.* Geneva: ILO. p9.

account workers tends to show a slight but statistically significant decline." [38] This can only be reconciled with the evidence presented in Figure 3.4—which shows that waged labour vs. EAP has stagnated or even declined between 1980 and 2005—by supposing that there was, between 1970 and 1980, a significant growth in the share of waged employment in total EAP followed by stagnation thereafter—*i.e.* in the period of neoliberal globalisation. Unfortunately, Laborsta's data for employment status in 'developing nations' during the 1970s is too patchy to corroborate this.

Table 3.1 Share of wage and salaried workers (% of EAP)

	Wage & salaried workers		Employers		Self-employed ('own-account workers')		Contributing family workers	
	1996	2006	1996	2006	1996	2006	1996	2006
World	43.1	46.9	3.4	2.9	30.8	33.0	22.7	17.2
Developed economies and EU	82.4	84.3	6.4	6.3	8.7	7.8	2.5	1.6
Central & SE Europe (non-EU and CIS)	77.1	76.6	2.9	3.8	14.2	16.1	5.7	3.6
East Asia	32.4	42.6	2.8	1.2	33.4	38.2	31.4	18.0
South-East Asia & Pacific	33.0	38.8	2.1	2.1	34.8	35.2	30.1	23.9
South Asia	17.1	20.8	1.5	1.0	45.6	47.4	35.8	30.8
Latin America & Caribbean	64.4	62.7	4.4	4.7	24.5	27.1	6.7	5.5
North Africa	54.4	58.3	7.9	9.6	17.7	16.2	20.0	15.9
Sub-Saharan Africa	20.6	22.9	3.1	3.0	49.1	48.7	27.2	25.4
Middle East	58.5	61.5	3.9	5.2	28.6	22.6	9.0	10.6

Source: ILO, 2008, *Key Indicators of the Labour Market*: http://www.ilo.org/public/english/employment/strat/kilm/index.htm.

Figure 3.4 provides evidence for a different and much less complacent conclusion than that reached by the ILO economists. The clear correlation between economic growth and the share of waged labour in total EAP is strong evidence that a higher share is a sign of growing prosperity and that a lower share is a sign of increased misery. This powerfully argues against those who glorify self-employment, notably the Peruvian economist Hernando de Soto, who believes the teeming microentrepreneurs in Third World cities, "possess[ing] talent, enthusiasm, and an astonishing ability to wring a profit out of practically nothing", are "not the problem but the solution".[39]

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38 Nomaan Majid, 2005, *On the evolution of employment structure in developing countries.* Employment Strategy Papers 2005/18. Employment Analysis Unit, Employment Strategy Department. Geneva: ILO (p3).

39 Hernando de Soto, 2000. The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else. New York: Basic Books (p4). Jan Breman comments, *"bitter experiences of the recession-*

Figure 3.4 shows that, despite severe fluctuations, the rate of GDP growth over the two and half decades to 2005 tended to increase, yet failed to produce a corresponding increase in the ratio of waged employment to EAP. On the other hand, a 23% reduction in average growth rates between 1995 and 1998 (from 4.8% to 3.7% p.a.) coincided with a 10% fall in the waged share of GDP. Between 1986 and 1990, the same reduction in the waged share of EAP was correlated with a 45% fall in the South's GDP growth rates (from 4.0% to 2.2% p.a.). In other words, the capitalist economies of the global South are finding it more and more difficult to absorb the workforce into paid employment during growth spurts and are more and more prone to shedding this labour during downturns. This has massive implications for the present and the immediate future. The credit crunch, and the global depression it augurs, signals a sharp reversal in the secular trend towards higher GDP growth rates in the 'developing world'. The collapse in growth rates is likely to produce an even bigger collapse in paid employment across the global South. One result of bursting bubbles in the imperialist nations will therefore be a ballooning of the 'informal economy' in the oppressed nations.

3.2 The informal economy: capitalism's 'relative surplus population'

In a 2002 report, *Decent work and the informal economy,* the ILO reported that "[c]ontrary to earlier predictions, the informal economy has been growing rapidly in almost every corner of the globe, including industrialized countries – it can no longer be considered a temporary or residual phenomenon. The bulk of new employment in recent years, particularly in developing and transition countries, has been in the informal economy." [40] The 'informal economy', diffuse, shape-shifting and involuted, defies simple definition. Once termed the 'informal sector', it was first delineated in 1972 by the ILO to include all those activities "that are unrecognised, unrecorded, unprotected or unregulated by public authorities." [41] Since then, a vast body of

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struck informal economy [...] can be repeated for region after region across India, Africa and much of Latin America. Confronted with such misery it is impossible to concur with the World Bank's and Wall Street Journal's optimism about the sector's absorptive powers. As for their praise for the 'self-reliance' of those struggling to get by in these conditions: living in a state of constant emergency saps the energy to cope and erodes the strength to endure. To suggest that these workers constitute a 'vibrant' new class of self-employed entrepreneurs, ready to fight their way upward, is as misleading as portraying children from the chawls of Mumbai as slumdog millionaires." Jan Breman, 2009, 'Myth of the Global Safety Net', in New Left Review 59 (p32).

40 International Labour Office (ILO), 2002b, *Decent work and the informal economy.* Report 6, International Labour Conference, 90th Session, Geneva., (p1).

41 Kristina Flodman Becker, 2004, *The Informal Economy*, Sida Fact-Finding Study, Stockholm: Edita Sverige AB, p8. For a summary of the methodologies ILO analysts used to achieve the estimates of informal employment given in Table 3.2, see ILO (2007) pp18-19. Flodman Becker (ibid. p16) reports that southern governments deploy a variety of techniques to determine the size of their informal economy. For instance,

research has documented the myriad ways in which the formal and informal economies are interconnected, replacing the once-widespread notion of two sectors connected at the boundary but functioning largely independently of each other. In *Women and Men in the Informal Economy, a Statistical Picture*, published in 2002, the ILO explained that, "most segments of the informal economy have direct or indirect production, trade or service links with the formal economy. There are the women forced to work from their homes under subcontracting arrangements because the employer will not hire them under more secure work arrangements, the workers in a sweatshop producing garments for lead firms on the other side of the world, the street vendors selling on commission for formal firms, or even the janitor who cleans the offices of formal firms under a subcontracting arrangement." [42]

The most characteristic attribute of the informal economy is that it is unregulated by the state, i.e. an absence of taxation, of minimum labour standards, of enforcement of health and environmental standards etc. According to the ILO, "[i]nformal workers and entrepreneurs are characterized by a high degree of vulnerability. They are not recognized under the law and therefore receive little or no legal or social protection and are unable to enforce contracts or have security of property rights. They are rarely able to organize for effective representation and have little or no voice to make their work recognized and protected. They are excluded from or have limited access to public infrastructure and benefits." [43]

For want of a state power capable of enforcing laws and contracts, capitalists and petty entrepreneurs must rely on custom, and on their own muscle and firepower, to protect what's theirs. The extension of the informal economy does not mean that the state is absent, it means that it has regressed, that it has reverted to more primitive forms, reduced to its core competences: coercion and parasitism. The informal economy stimulates this corrupting and degrading role in a multiplicity of ways, from the bribes paid to officials to evade regulation and taxation, to collaboration between the police and gang leaders to maintain control over slum neighbourhoods or protect market monopolies. Business elites and state authorities in southern nations actively foster and promote the expansion of the informal economy, as Alessandra Mezzadri discovered in her study of the textile and garment industry in India: "[t]he State, through very specific policy choices, has facilitated and reproduced informality in the garment sector, and has empowered the class of garment exporters allowing them to adopt specific anti-labour strategies [...The] capitalist State [...] has been a very active agency in [...] a broader

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authorities in India, Indonesia, Thailand, Bangladesh and the Philippines count all firms with less than 10 employees as part of the informal economy.

42 ILO, 2002b, p38

43 Ibid., p3

process of informalisation of labour which condemn Indian working classes to precarious and vulnerable working conditions." [44]

It is far from the case that that wage labour corresponds to the formal economy, self-employment to the informal economy. Much, in some countries most, of wage labour is performed in the informal economy. According to a 2002 ILO survey, informal employment as a percentage of total non-agricultural employment ranged from 50% in Latin America and North Africa to 65% in Asia and 72% in sub-Saharan Africa (81% if South Africa is excluded – see Table 3.2).[45] Within this, India is an extreme case, with 83% of its employed population active in the informal economy, 69% of them working in unregistered enterprises.[46] As Mike Davis points out, "[a]ltogether, the global informal working class (overlapping with but non-identical to the slum population) is about one billion strong, making it the fastest-growing, and most unprecedented, social class on earth." [47]

The data presented in Table 3.2 are likely to underestimate the full extent of informal employment, since "few developing countries collect data that would enable estimations of the numbers of people who, for example, have casual jobs that do not amount to be being fully employed but are above the threshold for unemployment." [48] This is confirmed by a study of subcontracting in Sri Lanka by Swarna Jayaweera, who reports, "[w]hat has emerged… is the relative invisibility of these subcontracted workers in international subcontracting chains in the labour market… It is apparent that the incidence of subcontracting is much higher than reported in macro, sectoral, and regional studies." [49]

As Martha Chen, Jennifer Sebstad, and Lesley O'Connell, in their investigation of the growth of homeworking, note, "[i]f the magnitude of women's invisible paid work, particularly homebased remunerative work, were to be fully counted, both the share of women and the share of informal workers in the work force would increase." [50]

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44 Alessandra Mezzadri, 2008, *The Informalisation of Labour As a 'State Practice: Evidence from the Indian Garment Sector*. IIPPE Procida Workshop paper. p1.

45 International Labour Office (ILO), 2002a, *Women and Men in the Informal Economy, a Statistical Picture*, Employment Sector, Geneva: ILO, (p19). (http://www.wiego.org/publications/women and men in the informal economy.pdf , accessed 14/03/2009).

46 ILO, 2002a, p21.

47 Davis, 2006, p178

48 ILO, 2006a, p19n

49 Swarna Jayaweera, 2002, 'Women subcontracted workers in Sri Lanka', in *The Hidden Assembly Line— Gender Dynamics of Subcontracted Work in the Global Economy*, ed. Radhika Balakrishnan, 63-86. Connecticut: Kumarian Press (p69).

50 Martha Chen, Jennifer Sebstad, & Lesley O'Connell, 1999, 'Counting the invisible workforce: The case of homebased workers', in *World Development,* 27(3), 603_10 (p604).

Table 3.2

Informal employment as % of non-agricultural employment

Average for 1994 – 2000	All	Women	Men
North Africa	48	43	49
Algeria	43	41	43
Morocco	45	47	44
Tunisia	50	39	53
Egypt	55	46	57
Sub-Saharan Africa	72	84	63
Benin	93	97	87
Chad	74	95	60
Guinea	72	87	66
Kenya	72	83	59
South Africa	51	58	44
Latin America	51	58	48
Bolivia	63	74	55
Brazil	60	67	55
Chile	36	44	31
Colombia	38	44	34
Costa Rica	44	48	42
El Salvador	57	69	46
Guatemala	56	69	47
Honduras	58	65	74
Mexico	55	55	54
Dominica	48	50	47
Venezuela	47	47	47
Asia	65	65	65
India	83	86	83
Indonesia	78	77	78
Philippines	72	73	71
Thailand	51	54	49
Syria	42	35	43

Source: ILO, 2002, *Women and Men in the Informal Economy, a Statistical Picture,* Table 2.1., page 19. (http://www.wiego.org/publications/women and men in the informal economy.pdf, accessed 14/03/2009)

Informalisation and social retrogression

What Stephanie Barrientos, Naila Kabeer, and Naomi Hossain have termed the "continuum […] between formal and informal work in global production" [51] is becoming ever more continuous. As Henry Bernstein has commented, "we observe virtually everywhere today and especially in the 'global South' […] that the boundaries between the active and reserve armies of labour become ever more fluid".[52] What is more, this continuum is flowing, faster and faster, in one direction. "[A]ll segments of the informal workforce—self-employed, casual, sub-contract, temporary and part-time workers and microentrepreneurs […] appear to be growing",[53] reported Sida, the Swedish International development agency in 2004 adding that the "main reason for this growth appears to be that the formal labour markets have not been able to generate sufficient amounts of jobs." [54]

During the era of 'neoliberal globalisation' spontaneous economic forces, premeditated government/IFI policies and the offensive actions of employers are driving through a process of informalisation of the formal economy, exemplified by the proliferation of temporary contracts and more generally by labour's heightened insecurity and precariousness, as state regulation and protection is wound down or breaks down.

There is overwhelming evidence that "self-employment, casual labor markets, and subcontracting rather than union contracts appear to be a defining characteristic of recent economic trends," [55] contradicting a great misconception that once permeated mainstream academic and official thinking: that the march of progress would see the steady diminution of the informal economy and its absorption into modern, civilised social arrangements.[56] Like so much else of the tattered 'convergence hypothesis', this turns out to have been so much wishful thinking. Alejandro Portes and Kelly Hoffman, speaking of Latin America, confirm this verdict: "[a] shrinking formal

51 Stephanie Barrientos , Naila Kabeer, & Naomi Hossain, 2004, *The gender dimension of the globalization of production.* Policy Integration Department, Working Paper No. 17. Geneva: ILO,2004, p1.

52 Bernstein, Henry, 2007, *Capital and labour from centre to margins*- keynote address for conference on 'Living on the margins, Vulnerability, exclusion and the State in the Informal economy', Cape Town, 26-28 March 2007, p4. (http://www.povertyfrontiers.org/ev_en.php?ID=1953_201&ID2=DO_TOPIC, accessed 28/09/2009).

53 Flodman Becker, 2004, p9.

54 ibid, p5

55 Carr et al, 2000, p126

56 It also contradicts W. Arthur Lewis's thesis that as economic development took place formal wage labour would gradually absorb informal non-wage labour. Instead it is wage labour which is being informalised. W. Arthur Lewis, 1954, *Economic Development with Unlimited Supplies of Labour.* (http://www.unc.edu/~wwolford/Geography160/368lewistable.pdf, accessed 17/06/2008).

working class and a stagnant or rising informal proletariat negate predictions about the capacity of the new economic model to absorb labor and reduce poverty."[57]

What William Robinson has described as 'widespread transition from a regime of Fordist to flexible employment relations' has been particularly marked in Latin America, in part because of the historically greater economic and social development of this sub-continent compared to other regions of the global South, in large measure a consequence of its much earlier attainment of national sovereignty. Robinson cites data showing that in 1950, 69.2% of Latin America's urban workers worked in the formal economy; this was barely unchanged in 1970, when it stood at 70.2%. But by 1985 the formal economy only offered employment to 53.1% of urban workers, falling to 45.7% by 1992, and to just 42.1% by 1998.[58]

Chen et al. noted that, "the informal sector, particularly small-scale enterprises, accounts for a larger share of output and employment than anyone ever dreamed of in the 1950s and 1960s."[59] Mike Davis reinforces this observation: "among researchers, there is a base consensus that the 1980s crisis—during which informal-sector employment grew two to five times faster than formal-sector jobs—has inverted their relative structural positions, establishing informal survivalism as the new primary mode of livelihood in a majority of Third World cities."[60]

Thus, what is truly modern is not universal progress towards prosperity and the rule of law but an accelerating descent into the war of each against all. This trajectory was already starkly evident before export-oriented industrialisation, and neoliberal globalisation with it, entered its crisis phase with the financial blow-out that began in August 2007. The reality that capitalist progress is bringing to the peoples of the global South is that "[i]nstead of upward mobility, there is seemingly only a down staircase by which redundant formal-sector workers and sacked public employees descend into the black economy."[61]

And not just in the global South. This retrogression has also been gathering pace in imperialist countries, and will undoubtedly be given a mighty boost in the depression years now beginning. As the ILO noted in its study of the growth of the informal economy, "[i]n the United States, forms of informal employment are increasingly observed in sectors such as electronics and

57 Alejandro Portes and Kelly Hoffman, 2003, 'Latin American Class Structures: Their Composition and Change during the Neoliberal Era', in *Latin American Research Review*, 38:1, 42-82 p75.

58 Robinson, 2008, pp242-3.

59 Chen et al, 1999, p604.

60 Davis, 2006, p178.

61 Davis, 2006, pp178-9.

garment manufacturing, where workers from Latin America and Asia, especially women, are often employed under sweatshop conditions." [62]

The picture that is emerging is that the growth of the informal economy doesn't merely coincide with neoliberal globalisation, it is promoted by it. There are two aspects to this. First, the growth of the informal economy was given a mighty boost by the wrenching transition from import protection and state regulation to the new neoliberal laissez-faire export-oriented regime. As the ILO stated, "[i]t is now widely acknowledged that the stabilization and structural adjustment policies of the 1980s and 1990s, which in many countries resulted in growing poverty, unemployment and underemployment, contributed to the spread of the informal economy." [63]

Second, these traumas were far from being 'teething troubles', the growth of the informal economy has proved to be not a transient effect of transition from protectionism and state regulation but a defining feature of neoliberal capitalism in the global South.

A few pages after recognising the disastrous effects of the 'stabilization and structural adjustment policies of the 1980s and 1990s', the ILO makes an awkward attempt to sing from the same hymn sheet as the World Bank and IMF: "[i]t is the failure or inability of countries to participate in globalization processes (whether because of their own domestic policies or because of international barriers), rather than globalization per se, that contributes to preventing these countries from benefiting from trade, investments and technology." [64] Then, in its very next sentence, it contradicted itself: "[o]f course, it is also true that the pressure of global competition and technological advances have increasingly led TNCs to subcontract or outsource the production of components and inputs to first-, second- and third-tier suppliers, many of whom are in micro-enterprises or are home-based in the informal economy in developing countries." Two pages later it expands on this, abandoning any attempt to sing the praises of globalisation: "[a]s part of cost-cutting measures and efforts to enhance competitiveness, firms are increasingly operating with a small core of wage employees with regular terms and conditions (formal employment) based in a fixed formal workplace and a growing periphery of 'non-standard' or 'atypical' and often informal workers in different types of workplaces scattered over different

62 ILO, 2002b, p25

63 Ibid., p30. In continuation, the ILO says: *"The main authors of these policies, the international financial institutions, are therefore now emphasizing poverty eradication and sustainable development, although they still fail to give adequate attention to the employment implications of their policies."* In other words, they now kindly provide sticking plasters as they inflict more wounds.

64 Ibid., 2002b, pp33-34

locations. These measures often include outsourcing or subcontracting and a shift away from regular employment relationships to more flexible and informal employment relationships." [65]

'Flexibilisation'

In pursuit of "flexibilization and informalization of production and employment relationships" the ILO argues that "[m]ore and more firms, instead of using a fulltime, regular workforce based in a single, large registered factory or workplace, are [...] reorganizing work by forming more flexible and specialized production units, some of which remain unregistered and informal…scattered over different locations and sometimes different countries… and the final producer is an own-account worker in a micro-enterprise or a homeworker in a developing or transition country." [66]

'Flexibility' and 'informality' are closely related qualities. Capitalist employers are not interested in formality or informality per se, but in minimising costs and maximising flexibility, which allows them to transfer risks and the costs of adjustment to changes in demand onto their workers. On the other hand, workers strongly desire the formalisation of pay levels, contracts of employment and formal rights to health and safety, while the sort of flexibility they value—for their work to accommodate their needs, desires and responsibilities—is very different from the flexibility sought by their employers. Barrientos et al point to the "increasing emphasis on 'flexibility' in the manufacturing industry," whose aim is "to enable shorter production runs, facilitate rapid shifts between different products and product specifications for different markets, and to do so at ever lower costs." [67] The authors observe that "[f]lexible employment allows producers to vary their employment levels on a constant basis. It is normal in many sectors to lay workers off unpaid on rainy days, or to vary (compulsory) overtime so that workers have no advance notice of the hours they will be expected to work." [68]

'Flexibilisation', as a conscious goal of capitalists, governments and IFIs, is key to understanding why the informalisation of labour and the growth of the informal economy is not an accidental or unintended by-product of neoliberal globalisation, but one of its essential features. Just as, in the previous chapter, it was argued that exploitation of low-wage labour was not just one factor among others but in fact the essential driving force influencing northern firms' outsourcing decisions, so the informalisation of labour is the key factor enabling capitalists to achieve their

65 ILO, 2002b, p35

66 Ibid., p2

67 Barrientos, Kabeer, & Hossain, 2004, p10

68 Ibid., p10

goal of flexible production. Barrientos et al. clearly recognise this: "[s]ome of this flexibility has been achieved through technological changes, which have allowed companies to adopt just-in-time strategies, minimizing inventories and responding rapidly to changes in demand. Some of it has been achieved through more decentralized forms of management which promote creative responsiveness and innovation throughout the production process. Most importantly, however, it has been achieved through forms of employment that are temporary, part-time, casual or contract-based." [69]

Barrientos et al.'s observations are searingly honest, accurate, and insightful. But they do not go far enough. They do not identify the driving force behind the 'cost-cutting measures and efforts to enhance competitiveness'. Chapter 2 of this thesis did do this: it established that the driving force is 'global labour arbitrage', i.e. northern capital's insatiable desire to extract super-profits from low-wage labour. For analysis to advance beyond description, this driving force must be explicitly identified or else the social nature of this phenomenon will be mystified, presented as a force of nature. This is the fate which can befall the most insightful investigation; for instance when these authors argue that "[t]he globalization of markets for manufactured goods has intensified competitive pressures to produce at lower cost with shorter lead times and increasingly differentiated product lines." [70] But globalisation is no more the cause of the intensification of competitive pressures than intensifying competition is the cause of globalisation. It is important to stress this crucial point, because otherwise, in our enthusiasm for the excellence and sincerity of this and other contributions, we will reach the door to understanding but fail to pass through it.

The informal economy and capitalism's 'relative surplus population'

"The most devastating effects of capitalism's production of a relative surplus population is in the Third World. Official unemployment rates, while themselves very high, conceal the true enormity of the numbers of human beings who live on the knife-edge of existence without any way to make a living [...] These dispossessed toilers are both peasants who would pour back to the countryside in their millions if arable land and cheap credit were available to them, but at the same time are unemployed workers in the growing ranks of capitalism's relative surplus population." [71]

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69 Barrientos, Kabeer, & Hossain, 2004, p4

70 Barrientos, Kabeer, & Hossain, 2004, p4

71 Socialist Workers Party, [1988] 1994, 'What the 1987 Stock Market Crash Foretold', 1988 resolution adopted by the Socialist Workers Party (US) in *New International #10*. New York: 408 Printing & Publishing Corp, p144.

This passage from *What the 1987 Stock Market Crash Foretold,* a resolution adopted by US communists in 1988, succinctly captures many important facets of this phenomenon, for instance that a large part of the southern workforce has been only partially proletarianised. Perhaps most interestingly, to help explain why the multitude 'of human beings who live on the knife-edge of existence' in the Third World (a good description for the euphemistic 'informal economy') are the inevitable product of capitalist development, it invokes what Karl Marx considered to be one of the chief findings in *Capital*: capitalism's tendency to produce a 'relative surplus population', what he called the 'capitalist law of population'.

Marx explained that capitalism's tendency to generate a relative surplus population has two fundamental aspects. One is capitalism's dissolution of the traditional rural economy: "[a]s soon as capitalist production takes possession of agriculture, and in proportion to the extent to which it does so, the demand for a rural working population falls absolutely [...] Part of the agricultural population is therefore constantly on the point of passing over into an urban or manufacturing proletariat". [72] This, however, is only one source of the relative surplus population congregating in every nation of the global South, and not the most important of them. Capitalism not only generates a surplus population at the frontiers of its collision with pre-capitalist social formations, the competition between capitals—which is entirely internal to the capitalist system and indeed is its essence—generates an even more powerful drive toward expansion of the surplus population. The efforts of each capitalist to replace living labour with machinery in order to capture higher than average profits means that, according to Marx, "capitalist accumulation itself constantly produces [...] in direct relation with its own energy and extent, a relatively redundant working population, i.e. a population which is superfluous to capital's average requirements for its own valorisation and is therefore a surplus population [...] the working population therefore produces both the accumulation of capital and the means by which it is itself made relatively superfluous; and it does this to an extent which is always increasing. This is a law of population peculiar to the capitalist mode of production." [73]

The integration of the global south into the imperialist world economy brings together both of these trends, the dispossession of small farmers and other small producers on the one hand, and the substitution of wage labour by machinery on the other. TNCs and domestic capitalists not only exploit low-wage labour, they can do so with advanced production processes which absorb far less living labour than those available to 19th-century European capitalists. As the ILO recognised, "[f]or developing countries [...] manufacturing is unlikely to absorb much of their

72 Marx, [1867] 1976, p796

73 Ibid., p782-4.

increased labour supply as unskilled, strongly labour-intensive, technological options become less viable on global markets." [74] IT outsourcing exemplifies this—the labour-intensive production processes outsourced by US TNCs to strategically important Asian despotisms in the 1970s and 1980s and which were decisive to the emergence of what were called, until the 1997 crisis at least, the 'Asian Tigers' (S Korea, Taiwan, Hong Kong, Singapore), were themselves rendered obsolete by newer production processes which radically reduced the demand for large numbers of low-wage workers.

Today's vast and growing informal economy corresponds to the 'relative surplus population' analysed by Marx in *Capital* 140 years ago. As he explained then, it is a gigantic ball and chain, shackling and disciplining the southern proletariat, greatly strengthening the ability of capitalists to enforce the casualisation of labour in the formal sector, as reflected in the global shift to temporary employment contracts or their replacement altogether by subcontracted, arms' length relationships. It has been shaped by the violent suppression of the right of working people in oppressed nations to traverse the same routes and cross the same borders as the wealth that they, in combination with bounteous nature, produce. The result is to ensure an inexhaustible supply of labour at subsistence rates of pay which IT-enabled TNCs can exploit at their leisure.

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74 ILO, 2006a, p68.

3.3 *The 'feminisation' of labour and the proletarianisation of women*

> "Export-led industrialization has been strongly female-intensive, with no developing country having increased manufacturing exports without greater recourse to women workers". [75]

One of the most remarkable and consequential aspects of the southwards shift in the centre of gravity of the global workforce has been the massive incorporation of young women into wage labour. Barrientos et al. report that the 'most striking change' in employment patterns in the global South "has been the rise in the percentage of women in the labour force in almost every region of the world except sub-Saharan Africa and East Asia, where it was already high [...] in almost every region, women's employment has increased faster than that of men." [76] The authors report that between 1975 and 1995, women increased their rate of participation in the workforce in 74% of developing countries and reduced it in 17% of developing countries while men increased their rate of participation in 26% of these countries and decreased it in 66%.

The changing gender composition of the workforce is particularly marked in manufacturing industry. As the United Nations reported in its *World Survey on the Role of Women in Development*, "Among the newly industrializing countries, where manufacturing production has been heavily oriented towards exports, the share of women workers in such industries has increased substantially. Indeed, none of those countries has increased its exports of manufactures without recourse to women workers. It is by now considered a stylized fact that industrialization in the context of globalization is as much female-led as it is export-led." [77]

Barrientos e al. confirm this, reporting that "[w]omen now represent more than one-third of the manufacturing labour force in developing countries and nearly a half in some Asian countries. The greatest increases over the past twenty years have occurred in countries which have adopted export-oriented strategies." [78] In an oft-cited paper, Guy Standing concurs: "all countries that have successfully industrialized have done so only by mobilizing large numbers of (low-paid) women workers." [79] The preference of foreign investors for female labour is nowhere more

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75 ILO, 2003, p6

76 Barrientos, Kabeer, & Hossain, 2004, p3

77 United Nations, 1999, *World Survey on the Role of Women in Development: Globalization, Gender and Work.* Department of Economic and Social Affairs. New York: United Nations Publications, p29. (http://www.ucl.ac.uk/dpu-projects/drivers_urb_change/urb_society/pdf)_gender/UN_1999_World_Survey_Women_in_Development.pdf, accessed 12/12/2008).

78 Barrientos, Kabeer, & Hossain, 2004, p4

79 Standing, 1999, p585

clearly expressed than in the proliferation of export processing zones (EPZs). The ILO reports that "[w]omen make up the majority of workers in the vast majority of zones, reaching up to 90% in some of them." [80]

Complicit in this shameless exploitation are the state authorities in the southern nations, who regard the supposed cheapness and malleability of female labour as a way of attracting foreign capital and advancing more quickly down the path of EOI development. As Maria Mies says, "governments, like pimps, offer their young women to foreign capital." [81]

'A perfect fit'

Why has EOI industrialisation stimulated such phenomenal growth in female industrial employment in the oppressed nations? The supply of female labour responded to demand—driven by economic necessity, when jobs were made available to them, women grabbed them with both hands. A survey of female employment in Pakistan by Saba Gul Khattack reveals this global process in microcosm. She reports that "[t]he survey data demonstrate that women are joining the workforce due to worsening economic conditions. Their economic contribution to the household is crucial for survival." [82] One source of this economic necessity was the deteriorating terms of trade for the global South's traditional exports. Unctad reported that "[b]etween 1980 and 2003, the price of food [...] declined by 73.3%; agricultural raw materials prices fell by 60.7%; and the price of minerals, ores and metals declined by 59.5%. By the first half of 2003, the price of coffee had lost 83% of its 1980 value." [83] An example of how this triggered the influx of young peasant women into factory labour was provided by a study into the impact of globalisation on a Malay village, which stated that, "[a]s a consequence of decreasing prices of agricultural products in the world market, the community was in a difficult situation, and young daughters felt a strong obligation to contribute in various ways [...] [creating] a perfect

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80 ILO, 2003, p6

81 Maria Mies, 1986, p117. Mies is not the only one to use this metaphor: *"[t]he relationship between many Third World governments and the multinational corporations is not very different from the relationship between a pimp and his customers. The governments advertise their women, sell them, and keep them in line… But there are other parties to the growing international traffic in women—such as the United Nations Industrial Development Organisation (UNIDO) and the United States government itself."* Barbara Ehrenreich & Annette Fuentes, 1981, 'Life on the Global Assembly Line', in Ms, January 1981 (p58).

82 Saba Gul Khattack, 2002, ' Subcontracted Work and Gender Relations: The Case of Pakistan', in *The Hidden Assembly Line—Gender Dynamics of Subcontracted Work in the Global Economy*, ed. Radhika Balakrishnan, 35-62. Connecticut: Kumarian Press (p53).

83 Unctad, 2004a, *The Least Developed Countries Report 2004—Linking International Trade with Poverty Reduction*. Geneva, Unctad (p126-7).

fit between the needs of the company for young female labor and the needs of the local population for cash income and employment for the young generation" [84]

Persistent, widespread and profound poverty explains why the supply of female labour has been forthcoming in the most diverse cultures and societies, including those where patriarchal oppression has traditionally confined women to the home. As Shahra Razavi and Jessica Vivian point out, "The shift towards female factory employment has occurred both in countries with a history of relatively high […] [and] low female labour force participation." [85] The real question, therefore, is the one asked by Maria Mies: "what is it that makes Third World women more attractive as workers to international capital than men?" [86] Academic researchers and international agencies widely cite the perceived cheapness, flexibility, docility and dexterity as the qualities explaining why TNCs have so favoured the employment of women. Stephanie Seguino's empirical research revealed that "those Asian economies with the widest wage gaps between men and women grew most rapidly" and that "investment is positively linked to gender wage equality". [87] Barrientos et al. found that "the most widely shared features of women's manufacturing employment across the developing world are longer hours of work and lower wages than men." [88] The ILO reports that "[e]vidence from developing economies […] has shown that the liberalization of trade and investment has led to wider gender pay gaps," suggesting that this divergence might be explained by "women's weaker ability to negotiate terms and conditions of employment." [89] Other possible reasons listed by the ILO include the abundance of rural women prepared to work for minimal wages and increasing demand for high-skilled labour which tends to be male, resulting in a widening of the gender pay gap.

These empirical findings only partially answer Mies' question. To paraphrase it, what is it about Third World women that makes them cheaper, more flexible and less prone to offer resistance than men? In Mies' opinion, it is because "Third World women [are defined] not as workers, but as housewives […] [this] is not an accidental side-effect of the new IDL [International Division of Labour], but a necessary condition for its smooth functioning." [90] Because of this, women are prepared to work longer hours and for lower wages than men, and they face greater obstacles

84 Merete, Lie and Ragnhild Lund, 2005, 'From NIDL to Globalization: Studying Women Workers in an Increasingly Globalized Economy', in *Gender, Technology and Development* 9(1): 7-30, pp21-2.

85 Shahra Razavi & Jessica Vivian, 2002, 'Introduction', in *Women's Employment in the Textile Manufacturing Sectors of Bangladesh and Morocco.* Carol Miller, Jessica Vivian (eds.). Geneva, UNRISD, 2001, p3.

86 Maria Mies, 1986, *Patriarchy and Accumulation* on a World Scale. London, Zed Press, p117.

87 Stephanie Seguino, 2000, 'Accounting for Gender in Asian Economic Growth', in *Feminist Economics* 6(3): 27–58, p55.

88 Barrientos et al., 2004 p7.

89 ILO, 2006a, p10.

90 Mies, 1986, pp118-20.

than men in organising to resist employers pressure. But the more that women gain employment as workers, the more they come to define themselves as workers, and to demand equality with male workers—potentially negating the reason for the capitalists' predilection for female labour. Thus the expansion of female employment in industry often goes hand in hand with an ideological offensive aimed at reinforcing women's second-class status and the social divisions between men and women within the workforce. Marxist writer and activist Mary-Alice Waters, speaking of the incorporation of women into industry in the USA since World War II, captures this well: "[w]omen who are industrial workers and union members have a degree of self-confidence that comes from knowing that they can sell their labor power and survive [...] yet women who are industrial workers are [...] constantly fighting the bosses' attempts to convince them and their male co-workers that they are not really workers; that being part of the labor force is only a passing moment in women's lives; that the really important thing for them is that they will leave the labor force to raise a family."[91]

There is nothing inexorable about the rising percentage of women in the industrial workforce, nor does this rising percentage necessarily mean that gender divisions are being lessened or that export-oriented industrialisation is liberating women from patriarchal oppression. Capitalist employers, of course, have no interest in the gender of their employees per se, but in maximising the rate of exploitation and minimising resistance. But they are far from neutral: gender divisions are a powerful tool helping them to achieve these aims.

'De-feminisation'

Standing argued that not only is the global workforce becoming more female, labour is becoming 'feminised' in another sense: TNCs and states and local employers use gender divisions, and the perceived acquiescence of young female workers to the low pay, long hours and temporary employment contracts typical of TNC-led industrialisation, to weaken resistance to these inferior conditions and impose them on all workers, men included. As Standing said, "[t]he types of employment and labor force involvement traditionally associated with women – insecure, low-paid, irregular, etc. – have been spreading relative to the type of employment traditionally associated with men – regular, unionized, stable."[92]

91 Mary-Alice Waters, 1992, 'The Capitalist Ideological Offensive against Women Today', in *Cosmetics, Fashions, and the Exploitation of Women*. Joseph Hansen, Evelyn Reed & Mary-Alice Waters, eds. New York, Pathfinder Press, pp20-21.

92 Guy Standing, 1999, pp599-600.

Once this degradation of the conditions of labour is accomplished, a lessening of the incentives for TNCs to hire female labour and a degree of 'de-feminization' of the manufacturing industry can often be observed. As William Rau and Robert Wazienski reported, "[i]nitially [...] factory jobs are typed as women's work and provide employment for mostly young, unmarried women. However, as the factory system spreads [...] many of these jobs are reallocated to men." [93]

According to Barrientos et al., the first example of this process was observed in the manufacturing industry in Japan, where the proportion of women workers in the manufacturing workforce fell from 36% in 1960 to 26% in 1990, and was followed by a similar trend in South Korea,[94] although here an undoubted factor was the fierce labour militancy generate by Korean women workers (who suffered the world's highest gender pay gap: in 1980, women's wages were just 44.5% of men's).[95] Their resistance to low pay and long hours became the spearhead of the mass movement against the US-backed military dictatorship of General Chung Hee Park and blazed the trail for the massive labour struggles of the 1980s. In her study of this important episode in labour history, Kim Mikyoung comments that "[o]ne of the ironies of South Korea's 'economic miracle' was the co-existence of phenomenal growth and women's labor resistance. Women initiated labor strikes at a time when labor activism was severely repressed, and this behavior was always in sharp contrast to male workers' overall labor inactivity during the 1970s" [96]

Another example of 'de-feminisation' is provided by the Mexican *maquiladora*, assembly plants strung along the US-Mexican border which "boomed in the 1980s with employment growing at 20% annually from 1982-89." [97] Low pay and retrograde conditions at first deterred male employment and the large majority of those on the assembly lines were female. Once these retrograde conditions were firmly entrenched and had become the new standard, increasing numbers of male workers began to enter the maquiladora workforce: "young working class men in the northern Mexican border regions were being socialized into becoming docile labour, as the absence of unions and workforce discipline came to be accepted by the working class: it then became possible for the industry to hire young, inexperienced and docile men." [98] And so the maquiladora workforce moved from 85% female in the earliest years, to 64% in 1988 down to

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93 William Rau & Robert Wazienski, 1999, 'Industrialization, Female Labor Force Participation, and the Modern Division of Labor by Sex', in*dustrial Relations*, 38(4): 504-521, p509.

94 Barrientos, Kabeer, & Hossain, 2004, p5

95 Elizabeth Monk-Turner and Charlie G. Turner, 2001, 'Sex Differentials in Earnings in the South Korean Labor Market', in *Feminist Economics* 7(1): 63–78, p63.

96 Kim Mikyoung, 2003, 'South Korean Women Workers' Labor Resistance in the Era of Export-Oriented Industrialisation, 1970-1980', in *Development and Society*, 32 (1): 77-101, p78.

97 Baldwin, 2006 p22

98 Barrientos et al. 2004, p5.

41% by 1999. Yet this 'defeminisation' is only relative, the number of women working in maquiladora plants continued to increase: total employment in these factories increased from 100,000 (c. 75% women) in the early 1980s to 750,000 (41% women) at the end of the 1990s.

The double burden of oppression and the heightened exploitation endured by women workers in the global South can be seen in the fact that women workers are even more likely than male workers to be trapped in the informal economy and denied the most minimal legal rights and protections. According to the ILO, in Latin America and Africa women are significantly more likely to be employed in the informal economy than men, while in Asia the reported gender balance is much more equal. The outlier is North Africa, where men are more likely than women to find themselves in informal employment. This reflects the anomalously low participation of women in non-domestic labour in this part of the world. However, in all regions "the gender bias in the informal economy is probably underestimated. Women are more likely than men to be in those informal activities that are undercounted, such as production for own consumption, paid domestic activities in private households and home work. Women are also more likely than men to be in small-scale economic units where their economic contributions are invisible and therefore not counted." [99]

The persistence of gender discrimination within the workforce and within the labour process can also be seen in the export processing zones. In the conclusion to their review of the evolution of EPZs over the past half-century, Mayumi Murayama and Nobuko Yokota discover that "a conspicuously common feature across time and space is that women have constituted the core of the labour force within the EPZs," and they ask "whether the problems for female workers have changed since the time when they were the pathfinders." [100] These problems, the authors note, include discrimination in hiring, wages, benefits and career development; lack of accommodation and child-care facilities; forced overtime and irregular working hours; dismissal on becoming pregnant and absence of maternity leave; sexual harassment and exposure to violence while commuting to and from work. They conclude that "although there may have been improvements in certain areas of concern [...] it seems that the basic problems remain unchanged," indicating "either an alarming absence of serious initiatives [...] or an alarming degree of negligence." [101] The ILO confirmed this verdict: "women still face many obstacles to equal integration in the

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99 ILO, 2002b, p12

100 Mayumi Murayama & Nobuko Yokota, 2008, *Revisiting Labour and Gender Issues in Export Processing Zones: the Cases of South Korea, Bangladesh and India.* IDE Discussion Paper #174. Institute of developing economies, p29. (http://www.ide.go.jp/English/Publish/Download/Dp/pdf)/174_murayama_yokota.pdf, accessed 23/04/2009).

101 Ibid., p29

labour market. Across nearly all occupations they still do not get equal pay for work of equal value or balanced benefits that would ensure equality with men. An overview of women in the world of work shows that they are still overwhelmingly segregated in occupations that tend to be at the lower end of the wage scale." [102]

Gender pay gap—as wide as ever

Remco Oostendorp, in an in-depth analysis of the impact of globalisation on the gender pay gap, found that increased globalisation (as indicated by rising trade and FDI) is correlated with a small but significant narrowing of pay differentials between unskilled men and women on both sides of the North-South divide, while the gender pay gap in high-skilled occupations has been widening in the South and narrowing in the North. Since male workers disproportionately populate high-skilled and high-paid jobs, the slight narrowing of pay differentials between unskilled men and women fails to prevent the overall gender pay gap from continuing to widen in most 'developing' countries. Marva Corley, Yves Perardel & Kalina Popova, in an important empirical survey of wage differentials within and between countries, reported that "the gap in wages and earnings between men and women remains entrenched in many countries. In the EU Member States the gender gap in pay was 15 per cent in 2003. In many countries in Asia and the Middle East and North Africa, the gap was upwards of 40 per cent in some sectors." [103] Corley et al. discover an interesting exception to Oostendorp's finding that the gender pay gap in low skilled occupations is narrowing: between 1996 and 2003, all of the so-called transitional economies, with the exception of Hungary, showed a sharp rise in the gender pay gap, which they ascribe to "the worsening labour market conditions resulting from the adjustments to a market economy, which have disproportionately impacted on women." [104] In *Global Wages Report 2008-9* the ILO provides the most recent assessment of the gap between male and female wages, finding that the "the wage gap is still wide and is closing only very slowly," adding that "In about 80 per cent of the countries for which data are available the gender pay gap has narrowed. However, the size of change is small, and in some cases negligible [...] the reduction in the gender pay gap has clearly been disappointing in the light of recent developments, namely women's educational

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102 ILO, 2006a, p32

103 Marva Corley, Yves Perardel & Kalina Popova, 2005, *Wage inequality by gender and occupation: A cross-country analysis.* Employment Strategy Papers 2005/20. Employment Trends Unit, Employment Strategy Department. Geneva: ILO, p1.

104 Corley et al, 2005, p19.

achievements, the progressive closing of the gender gap in work experience and the favourable economic context." [105]

Providing a glimpse of another possible world, Helen Icken Safa investigated female employment in Cuba's textile industry, revealing that it "represents a reversal of most employment patterns in this industry in Latin America, in which the percentage of women has declined with technological advances".[106] With bonuses, production workers often receive higher wages than managers and technicians, while the workforce as a whole receives "a full array of support services that far surpass those […] in other world areas. These include transportation to and from work, a day care center, medical facilities, maternity leave, prepared lunches, housing, and recreational facilities […] most women like their jobs […] they find work stable and interesting, they like their fellow workers, and they think their work is useful to society." [107]

Feminism and class analysis

Feminist writers and researchers have done a great service in opening up the dimension of gender in analysis of world political economy in general and into 'globalisation' in particular. How far they see depends on how much they also open their eyes to class oppression and class exploitation. For instance, Barrientos et al. conclude "the most widely shared features of women's manufacturing employment across the developing world are longer hours of work and lower wages than men", [108] yet surely the most widely-shared feature is the feature they share with their male co-workers: that they are exploited, like their menfolk but even worse, by capitalists who rely on sexual divisions and patriarchal oppression to divide and weaken those driven by poverty onto the assembly lines, with the fundamental aim of maximising profits and driving down the value of labour power of all workers.

A focus on the gender dimension of industrialisation can become a limitation if it is not integrated with a class perspective. Since TNCs are motivated by "extracting product from low-wage workers," [109] and employ women for no other reason, to focus on gender while disregarding capitalist exploitation or seeing it as the natural order of things, placing it outside the scope of critical analysis, results in apologetics. Instead of exploring the nature of an antagonistic relationship, such an approach attempts to reconcile the exploiters with the victims of

105 ILO, 2008, p29.

106 Helen Icken Safa,1989, *Women, Industrialization and State Policy in Cuba*. Working Paper #133, p22. (http://kellogg.nd.edu/publications/workingpapers/WPS/133.pdf, accessed 03/06/2009).

107 Ibid., pp26-33.

108 Stephanie Barrientos et al., 2004 p7.

109 Roach, 2003, pp5-6

exploitation, the abusers with the abused. Leslie Sklair, for example, veers in this direction with his argument argues that "[t]he point [...] is not whether exploitation of women or men occurs in TNC factories, for they are capitalist businesses predicated on the exploitation of all the factors of production. The point is [...] are TNCs guilty of more abuse than domestic companies?" [110]

Razavi and Vivian echo Wolf, Bhagwati and other apologists of neoliberal globalisation with their uncritical observation that "women employed in the manufacturing sector in Bangladesh and Morocco prefer this work to the other employment options available to them." Yet, two pages later, they inform us of "the extremely long hours of [Bangladeshi] garment workers – often from 8 a.m. until 10 p.m., six days a week," and that the average age of these women workers is 16.6 years.[111] Similarly, Lie Merete and Ragnhild Lund discover "a perfect fit between the needs of the company for young female labor and the needs of the local population for cash income and employment for the young generation," [112] and they conclude "that the motives for relocation were far more complex than the search for cheap labor. This does not mean that we undervalue the importance of low labor costs. However [...] these motives must be considered in relation to a range of other matters. It is the sum of these factors rather than any single one that counts." [113] Of course there are 'other factors', but minimising labour costs and maximising profits is the essence of the matter.

A result of failing to recognise the exploitative, antagonistic nature of the capital-labour relation is an inability to understand why capitalists have an interest in maintaining gender segregation and discrimination. Thus Richard Anker asked "[w]hat could be a more important source of labour market inefficiency than the extensive segmentation of male and female workers?," [114] while Zafiris Tzannatos, bemoaning the loss of output implied by the persistence and prevalence of gender discrimination in labour markets, argues that "[b]etter use of women's potential in the market results in greater efficiency at the macro level." [115]

The interaction of class and gender is much more effectively captured by Waters, who wrote: "since the beginning of the industrial revolution in the 18th century, capitalist expansion and the lash of competition have dictated the incorporation of larger and larger numbers of women into

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110 Leslie Sklair, 2002, *Globalization: Capitalism and its Alternatives*. Oxford, OUP, p131.

111 Shahra Razavi & Jessica Vivian, 2001, pp6-8.

112 Lie and Lund, 2005, p22. Their paper contains many insights, e.g. p23: *"the most peculiar of the local change processes we have observed, is that a formerly most protected group, namely young women, have been the spearheads in the process of transformation of the local community."*

113 Ibid., p19.

114 Richard Anker, 1997, 'Theories of occupational segregation by sex: An overview', in *International Labour Review*, ILO, Geneva, 136 (3), 315-339 (p316).

115 Zafiris Tzannatos, 1999, 'Women and Labor Market Changes in the Global Economy: Growth Helps, Inequalities Hurt and Public Policy Matters', in *World Development*, 27 (3): 551-569 (p560).

the labor force. This is so because capital always seeks to incorporate into the workforce large numbers of workers in oppressed social categories (in this case women), the value of whose labor power under capitalism is less than that of others. This is a key way in which the employers drive down the overall average value of labor power by heightening competition among workers for jobs." [116]

This helps to explain not just the increasing employment of female workers in the global South, but why capitalists based in the imperialist countries have been so keen to outsource their production processes to the South in the first place. Similarly, the contradictions created by these developments have a more general applicability. Waters, speaking specifically about the changes in the US industrial working class since World War II, argues that, "[t]he development of capitalism […] creates real and ultimately insoluble contradictions for the exploiting class. The capitalists' increasing purchase of women's capacities as wage labourers inevitably brings in its wake greater economic independence for women. It contributes to further disintegration of the family, and expands the need for household appliances and prepared foods… these factors, in turn, tend to raise the value of women's labor power, to raise the wages they can command in the labour market." [117]

However, this process cannot be simplistically extended to the very different conditions in which male and female workers find themselves in the global South. Two interrelated reasons why wages are so low in the oppressed nations are that part of the costs of social reproduction are borne by the informal economy, and the much greater role of the extended family in the absence of state welfare provision. As Rakhi Sehgal has argued, "capital may be attracted to communities that are primarily based on the logic of reciprocity and therefore most likely to assume the burdens of social reproduction of the labour force as part of their cultural practice. This is perhaps the real savings that capital reaps when seeking *out 'cheap labour'*." [118]

In their study of the influx of rural Malaysian women into export-oriented factories, Merete et al. comment that, "the most peculiar of the local change processes we have observed, is that a formerly most protected group, namely young women, have been the spearheads in the process of transformation of the local community." [119] Laetitia Cairoli, in an exceptionally insightful study that included 'participant observation' as a worker on the assembly lines of a Moroccan garment factory, reports that "[t]he entrance of females, en masse, into the garment factories of Fez

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116 Waters, 1992, p11.

117 Ibid., p11.

118 Rakhi Sehgal, 2005, 'Social Reproduction of Third World Labour in the era of globalisation', in *Economic and Political Weekly*, May 28-June 4, 2005, 2286-2294, p2287

119 Merete & Lund, 2005, p23.

contrasts vividly with local ideals of appropriate female behaviour." [120] If liberal and feminist analyses are severely weakened by their failure to comprehend the antagonistic and exploitative nature of the capital-labour relation, Marxist analysis is similarly weakened if it ignores these patriarchal, social and cultural dimensions, all of which are being revolutionised by the proletarianisation of women and the feminisation of the proletariat. Both the enormous expansion of wage labour in the global South and the incorporation of hundreds of millions of women into it accelerates the increasing social weight of the working class within each and every nation on earth. It also hastens the transformation of this class into the social force capable of acting as the bearer of human culture and as the gravedigger of the capitalist system that threatens its destruction.

3.4 Industrial employment vs. employment in agriculture and services

Investigation of the enormous and growing pressure of the international immobility of labour, gender divisions, informalisation and the informal economy on the 2.5 billion workers who make up the workforce of the 'emerging economies' helps us to better understand what it is about this rapidly growing southern workforce that Northern capitalists find so alluring. It helps to explain how the south's industrial proletariat has evolved within the dispossessed as a whole, aids assessment of the absolute and relative weight of the industrial proletariat in the global economy, and provides part of the grounds for refuting the neoclassical dogma that southern wages and global wage differentials are determined by differences in labour productivity and have nothing to do with the vast 'surplus population' congregated in slums and shanty towns or with the international borders that are open to all commodities except living labour.

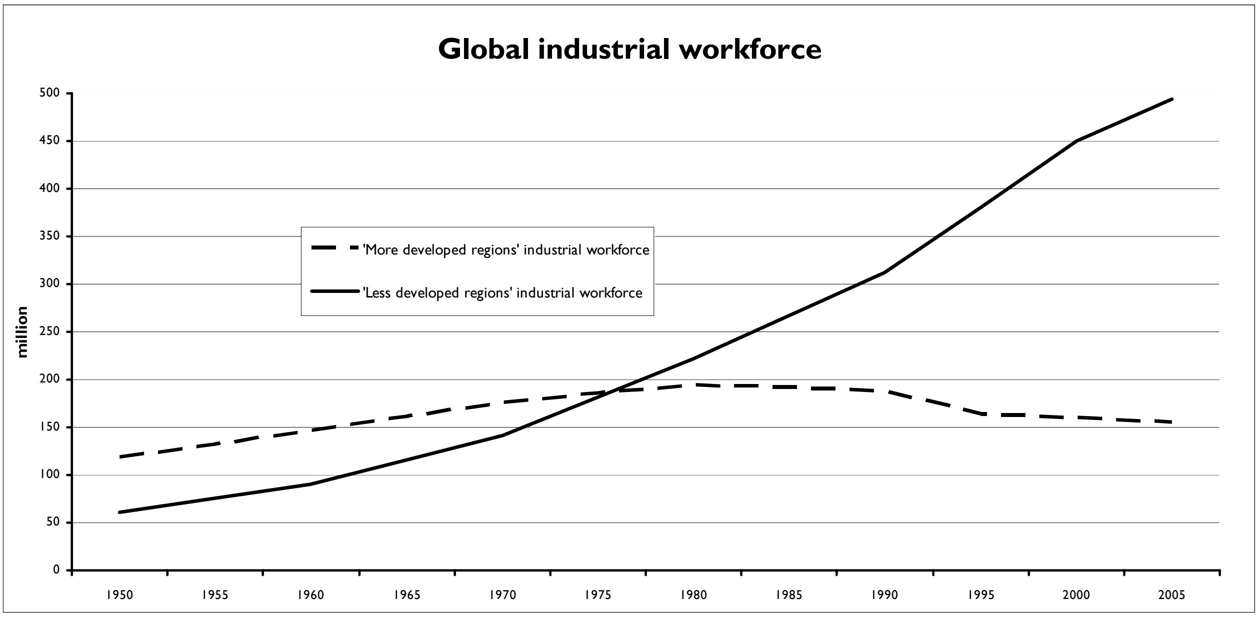
The southwards shift in the industrial working class

The ILO's KILM (Key Indicators of the Labour Market) dataset classifies the economically active population into three basic sectors: industry, agriculture and services. The 'industry' sector "comprises mining and quarrying, manufacturing, construction and public utilities (electricity, gas and water)". Globally, manufacturing accounts for around 70% of employment in the broader category of 'industry'. Figure 3.5 shows the growth of the global industrial workforce between 1950 and 2005 in 'more developed regions' and 'less developed regions'. It reveals

[120] Cairoli, M. Laetitia, 1999, 'Garment Factory Workers in the City of Fez', in The Middle East Journal, 53 (1). She adds that *"hiring young, unmarried girls rather than mature married women helps ameliorate the contradictions inherent in allowing females to labor in what is a public, and more traditionally male, role."* 'Ameliorating contradictions'? Perhaps. 'Piling up contradictions for the future'? Certainly!

that, in 2005, 494 million industrial workers lived in 'less developed regions', compared to 155 million in 'more developed regions'. In other words, 76% of the world's industrial workers now live in the global South, up from 34% in 1950 and 53% in 1980. [121] The total number of industrial workers in the USA has just about held steady over the past two decades in absolute terms, declining as a proportion of the expanding workforce. In all other imperialist nations the industrial workforce has declined absolutely as well as relatively. Meanwhile, the industrial proletariat of the global South has not only become more numerous, they have become very much more integrated into the global economy, and this greatly magnifies their economic importance and social weight.

Figure 3.5 Global Industrial Workforce



Sources: 1950-1990: ILO, *ILO, "Population and Economically Active Population" (http://laborsta.ilo.org/ - downloaded June 21, 2004);** 1995-2005: ILO, 2007, *KILM (5th edition) - htmfiles* Chapter 4 Box 4b (http://www.oitcinterfor.org/public/english/region/ampro/cinterfor/news/key_ind.htm). To generate this Figure, ILO/KILM data on the percentage of the workforce employed in 'industry' in 'more developed regions' and 'less developed regions' was applied to its data on the total economically active population in these two regions.

Data for 1955, 1965, 1975, 1985 calculated by interpolation from decade-end data. Data for 'less developed nations' industrial workforce for 1995, 2000 & 2005 extrapolated from KILM 5th edition Box 4b data for 1996 & 2006.

*Note: This publication has been discontinued and is no longer available from ILO's website. After 2004, data on world employment by sector is contained in annex tables to annual editions of the ILO's 'Global Employment Trends'

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121 The World Bank's 1995 world development report stated that *'Low and middle-income countries already account for almost 80% of the world's industrial work force.'* (World Bank, 1995, p4). KILM 5th edition data used here to generate Figure 3.3 indicate that the figure in 1995 was 69%.

According to KILM, industrial workers' share of the global workforce, at 21%, remained constant between 1995 and 2005. This statistical stasis conceals a major shift: while the share of industrial employment in total EAP fell from 28.7% in 1995 to 24.8% in 2005 in 'industrial countries' it rose in 'developing countries' during the same years from 19.4% to 20.2%. [122] Since, in 2005 the EAP, in 'less developed nations' stood at 2,445 million, this indicates that—as depicted in Figure 3.5—494 million workers worked in 'industry' in 'less developed countries' (includes so-called 'transitional economies' in central and eastern Europe), compared to just less than 150 million workers in 'more developed countries'. Over the 1995-2005 period, according to the ILO, total global employment in industry increased by 83 million, "half of it in East and South-East Asia, a region that is fast becoming the assembly hub of global production systems."[123]

The ILO further reports that, in 1960, agriculture employed 'approximately one-third' of EAP in 'developed countries', compared to over 73% in 'developing countries', and that by 2005 this had fallen to less than 4% in the former and to 48% in the latter. However, the sharp relative decline of agricultural employment does not mean that fewer and fewer people are working in agriculture. While agricultural employment in imperialist countries has indeed spectacularly declined, both relatively and absolutely, the same is not true in the global South: "[d]espite the declining share of agricultural workers in total employment, the absolute numbers of those engaged in agriculture are still rising, most notably in South Asia, East Asia, and sub-Saharan Africa." [124]

While Figure 3.5 clearly indicates the rapidly growing numerical predominance of southern industrial workers in the global industrial proletariat, we should also note that between 1995 and 2005 their share of total southern employment grew only very slightly, from 19.4% to 20.2%. As Majid points out, "manufacturing is not the most important sector of employment growth […]. the commerce sector […] is the main employment growth sector in both low and middle-income groups […] [this] shows that the expectation on manufacturing leading employment growth is unwarranted." [125] The 'commerce sector' refers to the petty trading characteristic of the burgeoning informal economy and corresponds to what Marx called the stagnant component of the relative surplus population. This failure of manufacturing—despite its rapid expansion in many parts of the global South—to absorb the swelling numbers seeking jobs was also underlined by ILO, who pointedly referred to the dominant development model used by the IMF and World

122 ILO, 2006a, p24
123 ILO, 2006a, p24
124 ILO, 2006a, p27
125 Majid, 2005, pp3-4

Bank to justify their advocacy of 'export-oriented industrialisation', saying that "[t]he 'dual economy' model, drawing on the experience of the early industrializing countries, expected most agricultural workers to move into factories in urban areas. However, in the late twentieth century, manufacturing ceased being a major sector of employment growth, except in East and South-East Asia." [126]

The relative stagnation in southern industrial employment (relative, that is, to the growing pool of labour) continued into the first five years of the new millennium: as the ILO commented in 2006, "[d]espite robust economic growth [...] the global economy is failing to deliver enough new jobs for those entering the job markets" [127]. Thus, even in those unprecedented and not-to-be-repeated years, the southern capitalist economies fell far short of being able to absorb the growing workforce, reinforcing the earlier argument concerning capitalism's tendency to produce a relative surplus population in southern nations.

In sum, the southern industrial workforce has experienced tremendous numerical growth, it has greatly increased its weight in global industry as a whole, but it has barely increased its share of the South's economically active population.

Export-oriented industrialisation: widely spread or narrowly concentrated?

Having looked at the global trends and proportions of the emergent southern proletariat, we now turn to considering its concentration and dispersion between regions and nations.

Export-oriented industrialisation is the only game in town for poor countries who aren't blessed—or cursed—with abundant natural resources. Yet it is a widely held view that the growth in the southern industrial proletariat is highly concentrated in a small number of southern nations, namely China, "the supplier of choice in virtually all labour-intensive global value chains," [128] and a handful of others; and that a majority of nations have shared in little or none of it. This popular wisdom is more popular than wise; the best that can be said of it is that it is one-sided, emphasising the unevenness of the phenomenon but obscuring just how widespread it is.

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126 ILO, 2006a, p28

127 ILO, 2006a, pviii.

128 Gerrefi, 2005, p18.

Figure 3.6 Contribution of manufactured exports to total export growth

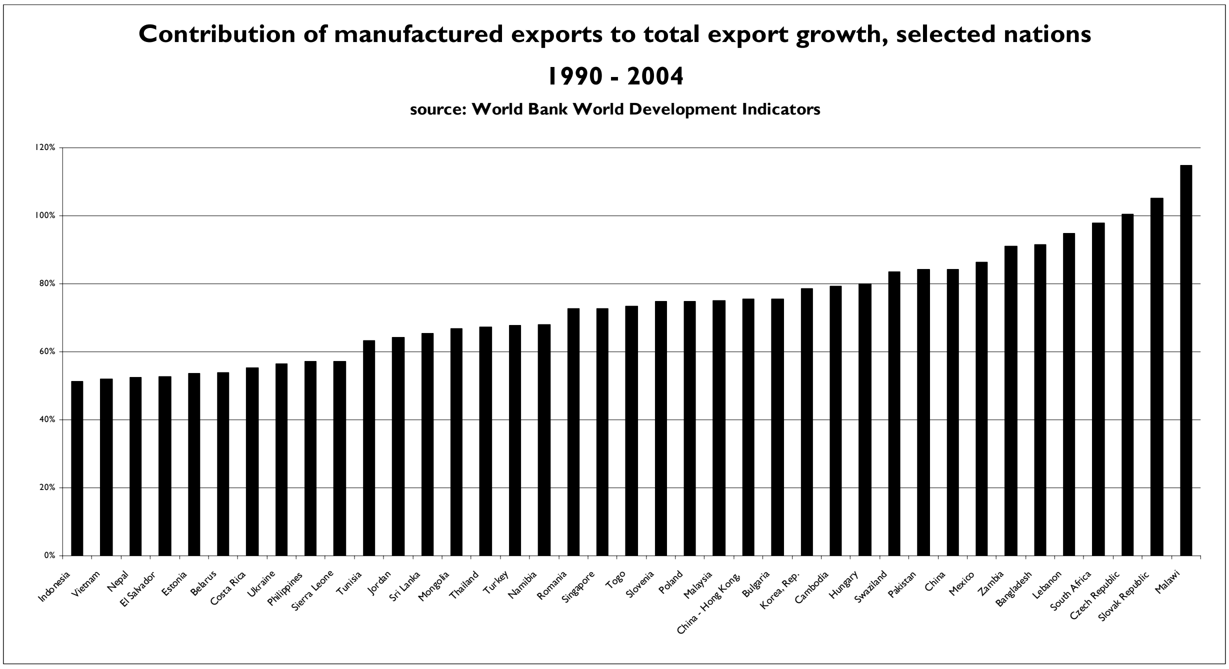
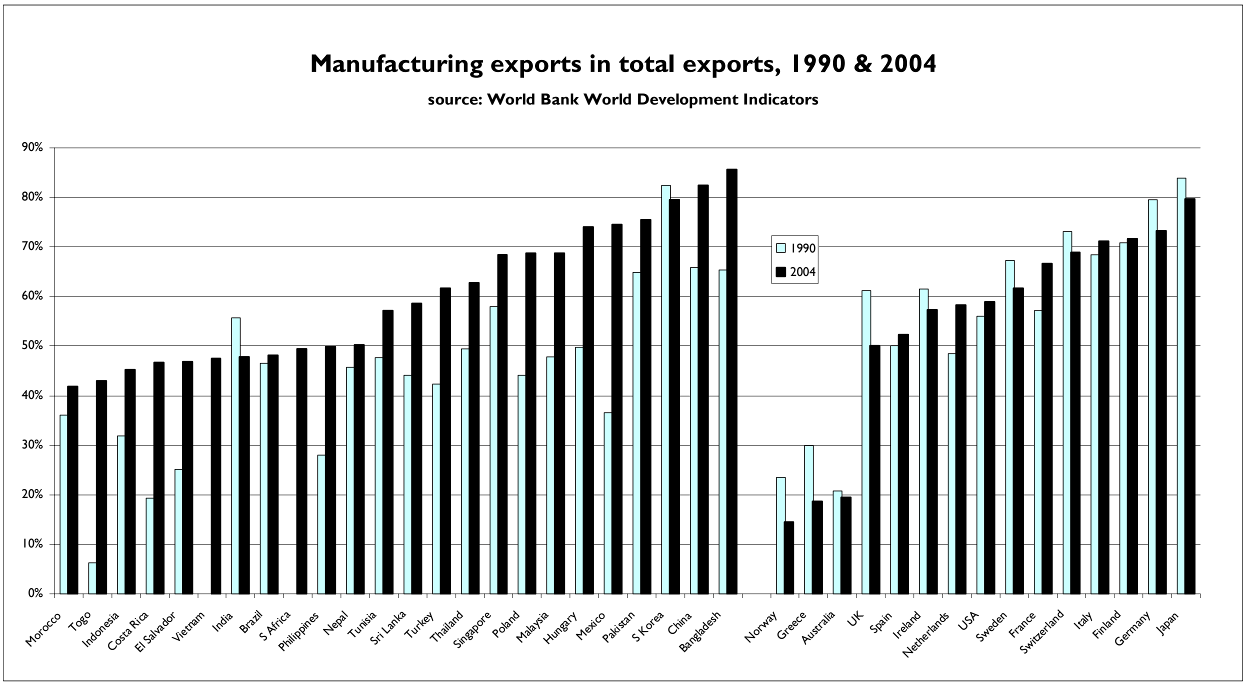


Figure 3.7 Manufacturing exports in total exports, 1990 & 2004



Source: World Bank, 2006, *World Development Indicators 2006*, Table 4.4 ('Structure of Merchandise Exports') & Table 4.6 ('Structure of Service Exports'). Both Figures were generated by adding 'service' exports to 'merchandise' exports for 1990 and 2004, and then expressing growth in manufactured exports as a percentage of total export growth (Figure 3.6), or expressing manufactured exports as a percentage of total exports (Figure 3.7).
(http://books.google.co.uk/books?id=gE7bCAqKkkUC&pg=PT221&dq=%22+World+Development+Indicators+2006%22&ei=BeNVS_SzMZewyATBuNSnBA&cd=2#v=onepage&q=%22%20World%20Development%20Indicators%202006%22&f=false, accessed 23/07/2009)

China's astonishing rise as a major manufacturing exporter is renowned, but manufactured exports provided 50 percent or more of export growth between 1990 and 2004 for another 40 'emerging nations' with a combined population twice that of China's, as can be seen in Figure 3.6.[129] This is underlined by Figure 3.7 which shows the change in the share of manufactures in total exports between 1990 and 2004 for 24 'developing nations' that receive more than half of their export earnings from manufactured goods, comparing this with the performance of 15 leading imperialist nations. The most striking conclusion to draw from it is that most of the 'emerging' nations significantly increased the manufacturing component of their total exports, in contrast to a decline in the 'developed' nations. Yet the ILO reports that, "From 1994 to 2004, developing country exports rose from 28% to 33% of world exports. However, only 22 developing countries succeeded in significantly shifting their export base from primary commodities to manufactures. Exports in other countries either stagnated or declined, leading to the marginalization of a large group of developing countries from the global economy." [130]

Ajit Ghose, senior economist at the ILO, develops this one-sided view, arguing that "what appears to be a change in the pattern of North-South trade is in essence a change in the pattern of trade between industrialised countries and a group of 24 developing countries… the rest of the developing world, in contrast, remained overwhelmingly dependent on export of primary commodities." [131] According to Ghose, in 1998 manufactured exports constituted 50% or more of merchandise exports for 24 developing countries (the ILO's 22 nations plus Malta, with Hong Kong counted as a separate nation), and these "accounted for more than 95% of manufactured exports from the developing world." Therefore, he argues, recent decades have seen a "growing polarisation of developing countries" between a minority of countries that have "succeeded in shifting their export base from primary commodities to manufactures," while "for the rest, the old pattern of trade with industrialised countries remained basically unaltered." [132] 'The rest' comprises more than 107 'developing countries' "fac[ing] global exclusion in the sense that they became increasingly insignificant players in the global marketplace." [133]

Ghose neglects to mention that the '24 developing countries' he selectes on account of their reliance on manufactured exports include eight of the ten most populous southern nations, containing 74% of the total population of the global South. The other two most-populous nations

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129 Manufactured exports may contribute more than 100% to a nation's overall export growth if there's been absolute decline in this nation's non-manufactured exports.

130 ILO, 2006a, p9. The 22 'developing country manufacturing exporters' are Argentina, Bangladesh, Brazil, China (including Hong Kong), Egypt, India, Indonesia, Israel, South Korea, Malaysia, Mauritius, Mexico, Morocco, Pakistan, Philippines, Singapore, South Africa, Sri Lanka, Taiwan, Thailand, Tunisia, Turkey.

131 Ghose, 2005, p12

132 Ghose, 2005, p12

133 Ghose, 2005, p14

are Vietnam and Nigeria.[134] Vietnam's manufactured exports contributed 41.6% of its total exports in 1998, rising to 52.8% in 2003.[135] Adding Vietnam to Ghose's list of manufacturing exporters, these nations' combined population rises to 76% of the entire population of the global South. In addition, many other smaller nations have made a brave effort to reorient their economies to the export of manufactures and play host to manufacturing enclaves (see next section) that exert a powerful and distorting influence on their national economies.[136]

Export Processing Zones (EPZs)

The proliferation of EPZs (now found in more than 130 countries) further supports the argument that, while industrial development in the global South may be very unevenly distributed, it is nevertheless very widespread. It also adds more detail to our account of the insatiable appetite of imperialist TNCs for ultra-flexible, low-waged employment in which "[t]he burden of the cyclical nature of demand is placed on workers." [137]

The World Bank defined an export processing zone in 1992 as "an industrial estate, usually a fenced-in area of 10 to 300 hectares, that specializes in manufacturing for export. It offers firms free trade conditions and a liberal regulatory environment." [138] Later, in a more expansive definition, it listed these characteristic features: "[EPZs] allow duty-free imports of raw and intermediate inputs and capital goods for export production; Government red tape is streamlined, allowing 'one-stop shopping' for permits, investment applications, and the like. In addition, labor laws are often more flexible than for most firms in the domestic market; Firms in zones are given generous, long-term tax concessions; Communications services and infrastructure are more advanced than in other parts of the country. Utility and rental subsidies are common."[139] One well-known feature is conspicuously absent from this list: the widespread

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134 They also comprise 15 out of the top 20 most populous 'developing' nations. Apart from Vietnam and Nigeria, the other three are Ethiopian, Iran and Myanmar.

135 World Bank, World Development Indicators.

136 Why so many small and impoverished states have failed to climb fully aboard the EOI bandwagon is beyond the scope of this investigation. Part of the answer lies with the development of local economies of scale and the emergence of 'clusters', as described by 'global value chain' and 'global production network' analysts. See Dicken, 2007; and Kaplinsky, 2005, who applies ideas of 19th century economist Alfred Marshall to the tendency of southern export oriented manufacturers to clump together.

137 Madani, 1999, p44

138 World Bank, 1992, *Export Processing Zones.* PRS 20. Industry Development Division. Washington DC: World Bank, p7. (http://books.google.co.uk/books?id=xJBoyutM4KMC&pg=PA11&lpg=PA11&dq=World+Bank.+1992.+%22Export+Processing+Zone%22+Industry+and+Development+Division.&source=bl&ots=P0pM3XGH-C&sig=q-yzpPAJHmHXYqePe8XtbSnNygA&hl=en&ei=3Mi-SamQL6SLjAeg1fSnCA&sa=X&oi=book_result&resnum=2&ct=result#PPP1,M1, accessed 22/03/2009).

139 World Bank, 1998, *Export processing zones*. PremNotes #11, p1. (http://www1.worldbank.org/prem/PREMNotes/premnote11.pdf, accessed 12 July, 2009)

prohibition of trade unions. Another is the predilection of investors in EPZs for female labour, discussed above in the section on 'feminisation of labour'.

As Dostani Madani explains in his review of the evolution of export processing zones,[140] the traditional conception of an EPZ as an enclave specialising in low-technology manufacturing for export had by the end of the 1990s become narrow and outdated. The 1990s saw a diversification of EPZs into a wide range of economic functions, including the provision of data processing services and platforms for medium- and high-technology production. They have also developed diverse forms, from the growth of 'Export Processing Firms', or EPFs, which share the characteristics of EPZs but may be located anywhere in the host country, to 'Special Economic Zones' (SEZs), most famously in China, which replicate the characteristic features of EPZs over wide areas of national territory. Finally, in many locations EPZs have begun to produce for the local market, and also to outsource labour-intensive tasks to homeworkers and to informal enterprises outside of the EPZ enclaves, evidence that much sought-after backward linkages may result not in a modernising leg-up but in a strengthening of the informal economy and the degrading, extremely low paid work associated with it.[141]

Since their inception, EPZs have been the focus of intense controversy, and were singled out by scholars and activists influenced by the 'New International Division of Labour' school as the epitome of unbridled transnational exploitation of low-wage labour.[142] Another source of controversy is the general failure of EPZs to stimulate economic development outside of the zones, typically importing all inputs except labour and paying little or no taxes to host governments. In a survey for the ILO, William Milberg concludes that "[d]espite the presence of EPZs – for over 30 years in some cases – there are very few cases where EPZs have played an important role in accomplishing […] direct developmental goals."[143] This is echoed in Unctad's 'Least Developed Countries Report 2004', in a passage which points to the colonial antecedents of EPZs and to what they share in common with two other forms of N-S economic linkages: tourism and extractive industries. It states: "there is a great likelihood that export expansion will be associated with 'enclave-led growth'. This is […] exemplified by the pattern of development in the colonial period in African LDCs [Least Developed Countries] where a relatively rich commodity-exporting sector, well connected to roads, ports and supported by ancillary services,

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140 Madani, 1999, pp11-16.

141 See Murayama and Yokota, 2008, and Madani, 1999, p13

142 See e.g. Fröbel et al, 1980, p313.

143 William Milberg, 2007, *Export Processing Zones, Industrial Upgrading and Economic Development.* International Labor Organization, Geneva,(p6).

existed side by side with large undeveloped hinterlands where the majority of the population live. But it can equally occur with expansion of manufactures exports confined to an export-processing zone based on assembly of imported inputs, or tourism enclaves which are supplied through imports, or capital-intensive mines based on FDI." [144]

Finally, EPZs have received much criticism because of the effects of export subsidies and other trade-distorting emoluments dangled before outsourcing TNCs, confounding efforts by the World Trade Organisation to create a 'level playing field'. Indeed, clothing and apparel, which along with electronics assembly dominate EPZs activity, flourished during the quota system brought to an end by the Agreement on Textiles and Clothing that came into full force on January 1, 2005, leading to a huge shift in apparel production from EPZs in many countries to China.

Table 3.3 Employment in EPZs, 2006 or nearest year

	Employment	Number of zones
Asia	53,089,262	900+
- of which China	(40,000,000)	
- of which bonded factories in Bangladesh	(3,250,000)	
Central America & Mexico	4,988,459	155
Middle East	1,070,275	50
North Africa	643,152	65
Sub-Saharan Africa	816,474	90+
United States	330,000	713
South America	456,175	43
Transition Economies	1,131,462	400
Caribbean	542,163	250
Indian Ocean	189,412	1
Europe	45,472	50
Pacific	145,930	14
Total (estimated)	63,118,236	2,700+

Source: ILO, *EPZ Employment Statistics* http://www.ilo.org/public/english/dialogue/sector/themes/epz/stats.htm, accessed 28/09/2009.

144 Unctad, 2004a, p119.

Despite all of this, EPZs in their various forms continue to play a vanguard role in the competitive race for export-oriented industrialisation. Far from declining in significance, EPZs have experienced accelerating growth in recent years, and the numbers employed in them have nearly tripled in the decade following 1997, when 22.5 million workers were employed in EPZs in 93 different countries. By 2002, this had increased to 43 million workers in 116 different countries, and in 2005-6, the latest year for which there are statistics, 63 million workers were employed in EPZs located in 132 countries, and, as noted above, in all regions the large majority of them are women. Although China remains the most important host, EPZs have been growing faster still in other low-wage countries: in 1997, 40 million, or 80%, of EPZ employment was accounted for by China, falling to 70% in 2002 and 63% in 2005-6.[147] After China, the largest EPZ employer is Bangladesh, with 3.25 million employees in 2005-6.[148]

Not only have EPZs become more widespread and are now found in a large majority of southern nations, their classic features have become generalised: neoliberal globalisation has gone a long way towards turning the global South into a vast export processing zone. As Milberg comments, "[t]he distinction between EPZ and non-EPZ activity has diminished in many countries as liberalization policies have expanded in the WTO and regional trade agreements."[149] Nevertheless, significant regional disparities persist, as indicated in Table 3.3, which shows the most recent data on EPZs employment and location collected by the ILO.[150] In an accompanying note, the ILO reports that "Asia and Central America are the front runners in employment generation [...] Mexico in particular increased employment over the past years [...] the EPZs in the Transition Economies of Central and Eastern Europe may not survive in their present form as most are now EU members [...] Almost 1.5 million work in the EPZs of Africa. On the whole, according to the figures below, EPZs have not really taken off in South America."[151]

Given the controversy surrounding EPZs, and their decidedly lacklustre contribution to economic and social development in nations playing host to them, the question arises, why are they continuing to proliferate? This question has also occurred to William Milberg, and he provides two highly plausible answers: "[d]espite [...] growing economic and political resistance to EPZs, developing country governments continue to expand their use of EPZs. Why? Most developing country governments embrace an export-led industrialization strategy to

147 ILO, 2003, p2; number of countries with EPZs in 2005-6: http://www.wepza.org/

148 See Madani, 1999, for a detailed discussion of the definition of EPZs, their evolution and diversity, their impact on host economies and their treatment of workers.

149 Milberg, 2007, p7

150 Concerning the appearance of the United States in Table 3.3, the ILO reports that *"US zones in North America are more warehousing facilities for transshipment, and not for manufacturing."* ILO, 2003, p2.

151 ILO, 2003, p2; for the number of countries with EPZs in 2005-6: http://www.wepza.org/

development, and they continue to see inward FDI as providing a crucial connection to the global economy through its global value chains [...] Also, and this may be the most important political factor, developing country governments find the employment creation in EPZs to be essential for absorbing excess labor."[152]

Table 3.4 EPZ share of Exports, selected economies, 2006

	%		%
Kenya	86.9	Philippines	60.0
Malaysia	83.0	Tunisia	52.0
Gabon	80.0	Costa Rica	52.0
Madagascar	80.0	Haiti	50.0
Macao	80.0	Maldives	47.7
Zimbabwe	80.0	Mexico	47.0
Vietnam	80.0	Mauritius	42.0
Dominican Republic	80.0	Colombia	40.0
Bangladesh	75.6	Sri Lanka	38.0
Morocco	61.0	Cameroon	33.0

Source: William Milberg, 2007, *Export Processing Zones, Industrial Upgrading and Economic Development.* International Labor Organization, Geneva.

Non-traditional agro-exports

To complete our broad-brush picture of the rapidly-growing multitude of southern proletarians producing commodities for northern markets and profits for northern firms, we turn to new, dynamic areas of growth in the south's agro-export sector, particularly in 'non-timber forest products' (NTFP) & 'non-traditional agricultural exports' (NTAE). Concerning NTFP, the ILO reported that "globalization has [...] made major inroads into rural areas, sometimes in the remotest areas. Extensive value chains often link forest workers who collect non-timber forest products in many developing countries to international markets. These products include essential oils, medicinal plants [...] wild nuts and seeds which produce oils that can be used for

152 Milberg, 2007, p6

cooking, skin care and other purposes [...] there are now 150 such non-timber forest products of major significance in international trade, involving millions of workers and producers." [154]

On the growth of the south's NTAE, this same report informed us that, in Latin America and Africa, "the last decade has brought tremendous growth in the production of non-traditional agricultural exports, primarily fruits, vegetables and cut flowers for the European and North American markets. The global value chains for these products are buyer-driven and basically controlled by a handful of major supermarket chains in Europe and North America." [155]

The ILO estimated that some four-fifths of the workers in the NTAE sector are women, who "often work on large-scale 'factory farms' for very low wages and in poor working conditions. The extensive use of pesticides [...] places them at risk for nausea, depression and giving birth to babies with birth defects."[156] In their study of women and home-based working, Marilyn Carr, Martha Chen and Jane Tate noted that "In Chile [...] there are an estimated 300,000 temporary workers on NTAE farms of whom over 50 percent are women. There are only 50,000 permanent workers, 95 percent of whom are men."[157]

NTFP activities typically involve very little mechanisation in their cultivation, harvesting and processing. This is not true of NTAE, some of which, for example floriculture, are semi-industrial activities. The characteristics which unite NTAE activities with global labour arbitrage-driven manufacturing exports were highlighted by William Robinson in *Latin America and Global Capitalism*: "[t]he extension of transnational agribusiness and growth in worldwide trade of exotic fruit and vegetables are made technically possible by new mechanisms for transportation and refrigeration and by other innovations. 'Cool chains,' for instance, maintain chill temperatures for moving fresh fruit and vegetables and allow perishable to be produced anywhere in the world [...] The growth of NTAEs is associated as well with the relocation of labour-intensive branches of agribusiness to regions with a comparative advantage in terms of agricultural seasons, soils, and wage rates." [158]

Robinson also identifies "two principal patterns of NTAE production in Latin America" corresponding to the essential distinction between the in-house (FDI) and the arm's-length relationship discussed above in relation to manufacturing. In 'estate-plantation farming', where "local or transnational agribusiness firms directly organise production on large estates, generally hiring a small corps of permanent workers and large numbers of casualised part-time and seasonal

154 ILO, 2002b, p36-37
155 ILO, 2002b, p36-37
156 ILO, 2002b, p36-37
157 Carr et al., 2000, p134
158 Robinson, 2008, p60

workers” we see a description FDI, while the arm’s length relationship can be seen in “satellite production, in which TNCs or local firms contract out production to small producers”.[159]

Thus many of these new and dynamic agro-exports display characteristics which strongly suggest that labour arbitrage is a driving force behind their growth; and many NTAE activities are showing similar ‘race-to-the-bottom’ dynamics to those exhibited by the south’s export-oriented manufacturing industries. Speaking of floriculture, Robinson notes that “[n]otwithstanding increased worldwide consumption, the global flower industry was already showing signs in the 1990s of saturation… as a result there has been a tendency in the Latin American floriculture industry to increase labour flexibility and to extract greater absolute surplus value by increasing the working day and the amount of piece work required of each worker.” [160]

♦ ♦ ♦

In conclusion, it is clear that export-oriented industrialisation is extremely widespread throughout the global South. It is just as true that this industrialisation is extremely uneven, and is highly concentrated in some countries and some regions of some countries. Gross unevenness characterises capitalist ‘development’ within the global South just as it does between North and South.

It is important to make this correction for three reasons. First, so that we can clearly see that most of the global South has made significant progress in implementing the export-oriented industrialisation strategy urged on them by imperialist governments, IFIs and mainstream academics, and that the large majority of the population of the global South live in countries where manufacturing exports—mainly to the imperialist economies—form more than a half of their total exports.

The second reason is to counter the insinuation that if large parts of the global South remain mired in extreme poverty it is because of the failure of many southern economies to successfully integrate into world markets, ‘intergation’ meaning that if they have no natural resources, they must export more manufactured goods. However, as we shall see in later chapters, with few exceptions those who have found success in reconfiguring their economy in line with neoliberal prescriptions have succeeded only in joining a race to the bottom, as indicated by Milberg’s

159 Robinson, 2008, pp62-3

160 Robinson, 2008, p71

finding that "EPZs have contributed to robust growth in the developing countries share of world exports of manufacturers, but not an equivalent capture of manufacturing value added."[161]

The third reason is to help us see how much export-oriented development development has increased the vulnerability of the peoples of the global South to the new era of recession and depression in the imperialist North.

♦ ♦ ♦

This chapter has begun the identification and analysis of the most important and relevant features of the transformation of southern labour during the era of neoliberal globalisation, and has gathered compelling evidence that shows the greatly increased dynamism and importance of southern manufacturing labour to profits, prosperity and social peace in the imperialist nations.

One finding of this chapter is that there isn't the slightest sign of the clearing of labour markets which would allow the marginalist thesis—that wages are determined by productivity—to satisfy even its own criteria. Instead, conditions in the labour market which have no bearing on labour productivity, including the suppression of the free international movement of labour and the emergence of a vast 'relative surplus population' in the global South, are shown to profoundly affect the terms on which the global South makes its living labour available to imperialist TNCs and indigenous capitalists. This knocks a large hole in the tottering edifice of mainstream development theory. In the next chapter, which surveys what has happened to southern wages during neoliberal globalisation, we will make the hole wider still.

161 Milberg, 2007, p7

Chapter 4—Wage trends in the era of globalisation

> "Half of the world's labour force is working in poverty, socially and economically excluded from globalization except that their meagre earnings serve as a brake on the market wage for unskilled labour in developing countries. Gender and other forms of discrimination remain widespread. And while skilled workers have greater opportunities to move within and between countries in search of better rewards, their mobility is also restricted. The interaction between this emerging but highly fragmented global labour market and the increasingly open markets for products and finance is a major driver of change in the world of work." – ILO.[1]

The ILO reported in 2006 that "[n]early a half of the world's 2.8 billion workers are unable to earn enough to lift themselves and their family members above the $2 a day poverty line." These 'working poor' were just as numerous as in 1994, but accounted for "just under half of the world's labour force, compared to 57% at that time. Of that total, 535 million working women and men are surviving on $US1 a day or less."[2] To what extent is this extreme income inequality reflected in wage inequality? Three ILO researchers, Marva Corley, Yves Perardel and Kalina Popota, directly posed this question with their observation that "[w]ages and earnings constitute a large share of total income in many countries; therefore, wage/earning inequality can be held responsible for much of the inequality that exists in wealth, consumption, healthcare and other well-being indicators associated with income."[3]

As revealed in this chapter, four important facts about global wage disparities and trends can be distilled from these and other studies.

- On both sides of the North-South divide, labour's share of national income has been sharply declining. This is a secular, not a cyclical phenomenon, and there are indications that this decline is accelerating.
- Labour's share of GDP in the 'poor nations' is declining faster than in the 'rich nations', and has been doing so over a longer period.

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1 ILO, 2006a, p8.

2 ILO, 2006a, p29. According to the UNDP, the 'working poor' also accounted for around half of the 40% of humanity who live on PPP$2 a day for less, receiving 5% of global income. The next 40% receive around 20% of global income, the richest 20% capturing the remaining 75%. UNDP, 2007, *Human Development Report 2007/2008: Fighting climate change: human solidarity in a divided world* (p25).

3 Corley et al, 2005, p1

- Intra-national wage inequality is growing rapidly in most rich countries and even faster in most poor countries. Data on average wages therefore obscures the reality of stagnant and falling wages received by average- and low-paid workers.
- In 'developing economies', a weak correlation between wages and GDP during periods of growth turns into a strong correlation during economic contraction—in other words, wages crawl when growth surges and plummet when growth turns negative. The currency crises and recessions which have plagued southern continents have played a major role in savaging labour's share of national income in these countries.

This chapter assesses research by the ILO and others into these divergences and trends. It continues the work of the previous chapter in putting southern labour centre stage; the aim of these two chapters is to form a quite concrete conception of the dynamic forces acting on southern wages and to open windows onto the increasingly globalised social relation between capital and labour.

The first section considers some of the problems in accessing and interpreting data on global wages, including data coverage and quality and PPP.

The second section surveys global wage trends and differentials.

The third section evaluates the findings of research into labour's declining share of national income in the Triad nations and its even more rapid decline in the global South.

The fourth section considers the evidence for growing wage inequality within nations, again reporting on how this is manifested more sharply in poor countries than in rich countries, and considers the implications of this long-running trend.

The fifth section reports on the devastating impact on labour of the economic crises and recessions that have periodically swept through the 'developing world' during the past three decades of neoliberal globalisation's remorseless advance.

4.1 Global wages – data issues

Poor quality of global wage data

Global data on wages has been collected by the ILO's 'October Inquiry' since 1924. The 'October Inquiry' is an annual questionnaire sent to national governments requesting detailed information on the prevailing wage rates in their countries. It is the sole repository of economy-wide data on wages in different countries around the world. Its coverage has increased from 18 occupations in 15 countries in its first survey in 1924 to 159 occupations in 158 countries in 2000. However, the October Inquiry is notorious for missing data and for the inconsistency and incompatibility of the data that has been collected. In particular, there is a huge gulf between 'developed' and 'developing' countries in the quality and coverage of data sent to the October Inquiry. ILO's Global Wage Report 2008-09 notes that "in developing countries… wage statistics are often scarce. This is because wage statistics are not only among the most complex statistics but also require substantial resources and infrastructure." [4] The problem has been getting worse: "reporting by ILO member States has been falling over the years," says the ILO, with 71 countries reporting wages for 'at least one' (!) occupation in 1985, while only 43 countries did so in 2002.

Greatly compounding the problem, the ILO reports that "the vast majority of the Inquiry statistics are non-comparable"—countries use different definitions for the same occupation, and may or may not define wages to include non-wage benefits such as employer contributions to national insurance; some provide data before the deduction of taxes and other stoppages and some after; and by the hour, day, week, or month. All, of course, in national currencies whose real purchasing power fluctuates according to domestic inflation and international currency movements. As a result, the ILO informs us, "the data from the October Inquiry are seldom used." [5]

Perhaps the most egregious source of bias results from systematic under-reporting of low-wage sectors of the workforce. As Nomaan Majid has pointed out, "statistics on wage rates generally, and quite understandably, cover organised parts of economies. Therefore in developing

4 ILO, 2008, p9.

5 ILO, 2008, p11.

economies they tend to exclude unorganised sections of the labour force where the bulk of poor workers exist." [6]

However, increased use has been encouraged by the 'Occupational Wages Around the World database', a cleaned-up and harmonised version of the October Inquiry's raw statistics, whose creation was announced in 2001 by Richard Freeman and Remco Oostendorp.[7] Thanks to their efforts, and those of other analysts and economists mostly working for the ILO, a dynamic picture of a global wage disparities and trends has begun to emerge from the fog and the shadows. In particular, the ILO's *Global Wage Report 2008/09*, published in November 2008, is an important landmark in the production of reliable and usable information on wage levels and trends around the world. With its focus on the twelve years leading right up to 2007, the eve of the global financial crisis, it provides this thesis with the most up-to-date picture available of patterns and trends in global wages.

PPP or Forex?

International wage comparisons typically report PPP-adjusted wages. Such comparisons depend heavily on the accuracy of PPP adjustments, which will be called into question in chapter 5. Yet both measures of wages, PPP$ and Forex$, are relevant: while the PPP adjustment is necessary if we are to assess real wages and real wage differentials, it is forex wages that determine decisions by TNCs on where to invest or to outsource.

To Triad-based TNCs eyeing up possibilities for relocating production to the low-wage zone, what matters is the price of labour in real money, i.e. at market exchange rates. TNCs and other investors measure labour productivity with the same yardstick: the value-added by southern labour is part of the value of the South's exports; these, too, are measured in hard currency at real rates of exchange. In other words, it is actual money wages, not PPP wages, that drives the global labour arbitrage, or, as the BLS puts it, wages "converted into U.S. dollars at prevailing commercial market currency exchange rates [...] are appropriate measures for comparing levels of employer labor costs," [8] proving Robert Wade's point that GDP figures which unadjusted for PPP are "more relevant than PPP for measuring relative impacts of one part of the world on others, including the ability [...] to import, to borrow, to repay loans, and also to participate in international rule-making fora." Alan Freeman expands on this: "the determining factor that

6 Nomaan Majid, 2004, *What is the effect of trade openness on wages?*. Employment Strategy Papers 2004/18. Employment Analysis Unit, Employment Strategy Department. Geneva: ILO (pp9-10).

7 The database is downloadable from NBER, at http://www.nber.org/oww/

8 BLS wage tables p2

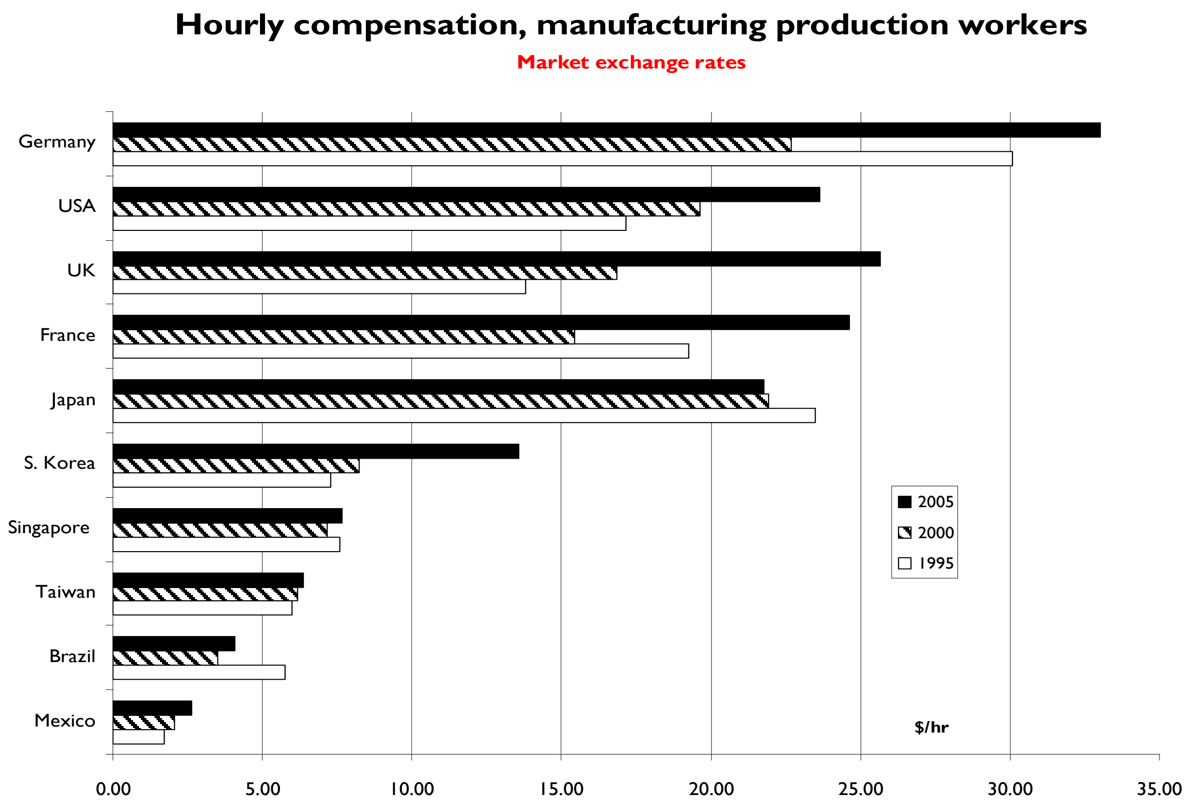
decides whether much [sic] a country may catch up with or even hold its own against the technologically advanced nations, is its ability to purchase this technology on the world markets; that is, the rate at which its own produce exchange for the products of the advanced countries. GDP in real dollars measures this capacity: the ability to acquire the means to compete globally, in global markets." [9]

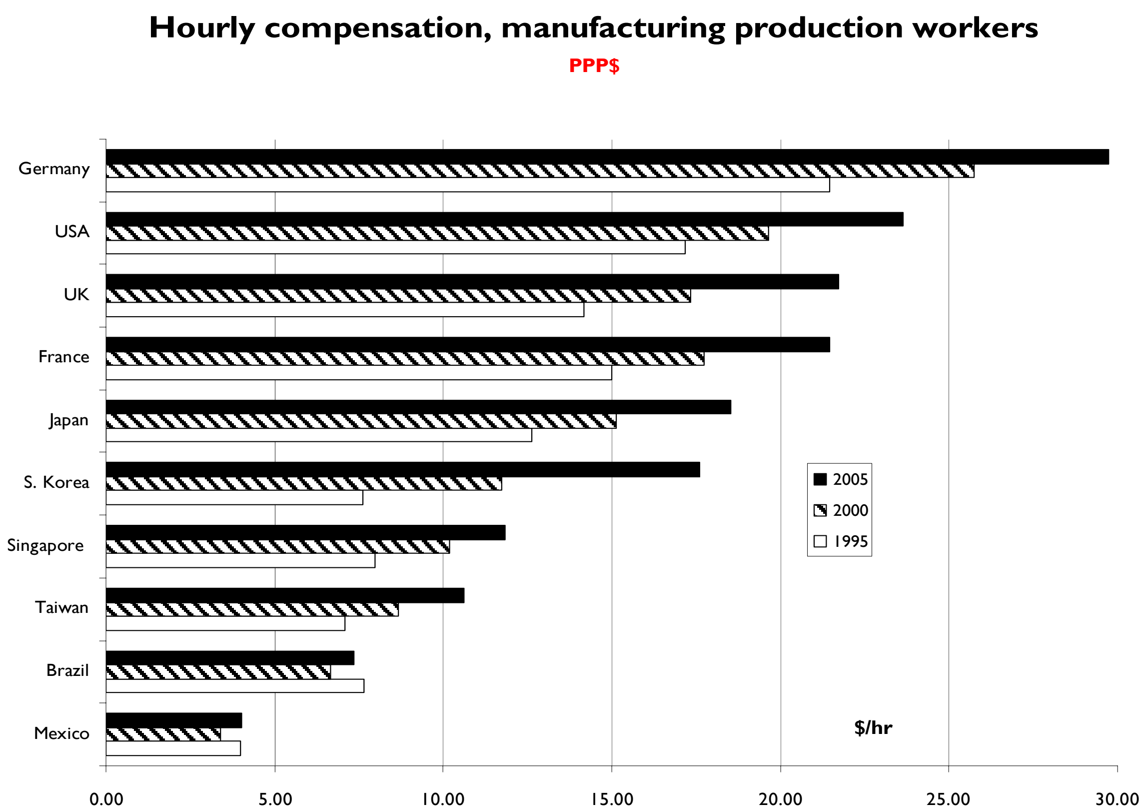
On the other hand, as the BLS also states, "purchasing power parities [...] must be used for meaningful international comparisons of the relative purchasing power of worker incomes." [10] Thus the first thing we encounter is that there are not one but two relevant ways of measuring and comparing international wages. This considerably complicates the task of bringing the degree and direction of international wage divergences into focus, as can be seen in Figure 4.1, which reproduces data from the US Bureau of Labour Statistics for 'manufacturing production workers' for five 'developing' and five 'developed' countries. The two parts of Figure 4.1 show how the picture changes when the published data, given in dollars at market exchange rates, is converted into PPP$s. At foreign exchange rates, wages in four of the five 'developing' countries increased little if at all between 1995 and 2005, South Korea being the exception; while four of the five 'developed' countries experienced wages growth over the 10-year period. The retreat of French and German wages between 1995 and 2000, and their strong advance from 2000 to 2005, largely reflects €/$ exchange-rate movements. When converted into PPP$, to show the evolution of 'real wages', a different picture emerges: the three Asian 'developing' countries show strong wage growth over the decade (50% in Taiwan, 48% in Singapore, and 131% in S Korea), while Mexico and Brazil experienced stagnant wages (1% and -4% respectively).

9 Alan Freeman. 2004. 'The Inequality of Nations,' in *The Politics of Empire–Globalisation in Crisis.* Alan Freeman and Boris Kagarlitsky (eds.), 46-83. London: Pluto Press. (pp69-70)

10 BLS wage tables p4

Figure 4.1 International comparison of manufacturing wages





Source: US Bureau of Labour Statistics; PPP conversion indices from the Economic Statistics Database

Wages in the United States, which are of course identical in both parts of the Figure, reportedly grew by 38% over this decade. This contradicts evidence (see p169) that real US manufacturing wages were stagnant over this period. Thus, even when the problems attending PPP indices are put to one side, serious questions over the reliability of reported wage data remain.

4.2 Global wage trends in the neoliberal era

Has the gulf in real wages between rich and poor countries been narrowing—or getting wider? Have the majority of workers in the Triad nations and in the global South experienced solid, steady gains in real wages, or is the picture in most countries one of increasing stagnation and even decline? On the evidence presented in chapters 3, 4 and 5 this thesis answers that, for the majority of workers in the global South who receive average or below average wages, the rising incomes predicted by mainstream theory and proclaimed as fact by economists have not materialised; and furthermore that powerful forces bearing down on southern wages—the increasing pressure of the 'relative surplus population', the retrogressive trend towards informalisation of labour, and fierce competition between capitals in different nations attempting to go down the EOI road—show clear signs of intensifying.

The persistence of wide divergence in relative wage rates between 'developed' and 'developing' nations is indisputable;[11] whether this divergence is getting greater or is narrowing is much less clear, in large part because of poor data coverage and quality. Freeman and Oostendorp, who surveyed wages during 'early' and 'late' periods of globalisation (1983-1989 and 1992-1999) for 137 occupations across 135 countries, obtained important evidence that divergence is increasing, including the 'key result' of their research, that "inequality of wages across countries in the same occupation increased over this period despite globalisation, which should have reduced the inequality."[12]

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11 The usual definition of 'wages inequality' refers to wage relativities, but excessive emphasis on relative wages can lead to a one-sided view. For example, if the average annual real wage in a poor country was to rise by 100%, from $1000 to $2000 per annum, and in a rich country by 20%, from $10,000 to $12,000, the ratio of rich to poor country wages would fall from 10:1 to 6:1—in other words, relative inequality would decline—yet the absolute difference between them would increase, from $9000 to $10000.

Robert Wade comments *"the whole discussion about inequality misleads by considering only relative incomes. Absolute income gaps between the West and the rest are widening even in the case of the fast growing countries like China and India, and are likely to go on widening for another half century. No one disputes this, but it is treated as a fact of no significance."* Robert Hunter Wade, 2004, 'On the Causes of Increasing Poverty and Inequality, or Matthew Effect Prevails,' in New Political Economy, 9:2 (p166)

12 Richard B. Freeman & Remco Oostendorp, 2001, 'The Occupational Wages Around the World data file', *International Labour Review*, Vol. 140, No. 4, 380-401, p400

The picture is greatly complicated by enormous variation between and within regions: in some countries, particularly in Latin America, wage levels have not recovered from their destruction during economic crises in the 1980s and 1990s; in others, real wages during the first two decades of neoliberal globalisation have since come under increasing pressure, as in South Korea and other NICs. China, because of its great size, weighs heavily in the global data. Its much-hyped rapid wage growth affects the global picture, yet there are many reasons to question the reliability of data on Chinese wage trends, including the extent to which they reflect big increases in the wages of highly-skilled labour and of managers, the widespread under-reporting of the wages of the poorest, and whether they properly measure the value of the social wage (the 'iron rice bowl') jettisoned in that country's attempted transition to capitalism.

Comparing trends during 2001-2007 with 'earlier periods', across 83 countries comprising about 70% of the world's population, the ILO observed that "wage growth has tended to slow down in the majority of countries for which data are available"[13]—despite the global South experiencing the strongest and most sustained period of GDP growth of the entire neoliberal globalisation period (for the GDP growth trend, see Figure 3.4 on p116). The ILO explains that "the difference is rather modest," [14] but the fact that we haven't seen any reflection of the vaunted boom-time for the global South in southern wages is an eloquent indication of the underlying dynamics.

Global wage differentials

Figure 4.2 and Table 4.1 present data on gross wages for textile production workers in 32 countries published by Werner International, a management consultancy. Again, these are reported at market exchange rates and have been converted into PPP$ by the author.[15] Textile workers' wages are amongst the most readily available of global wage data, and serve as a strong indicator of wage differentials between nations for other occupations. Table 4.1 shows the ratio between wages in each country's textile industry and those reported in the USA, in both Forex$

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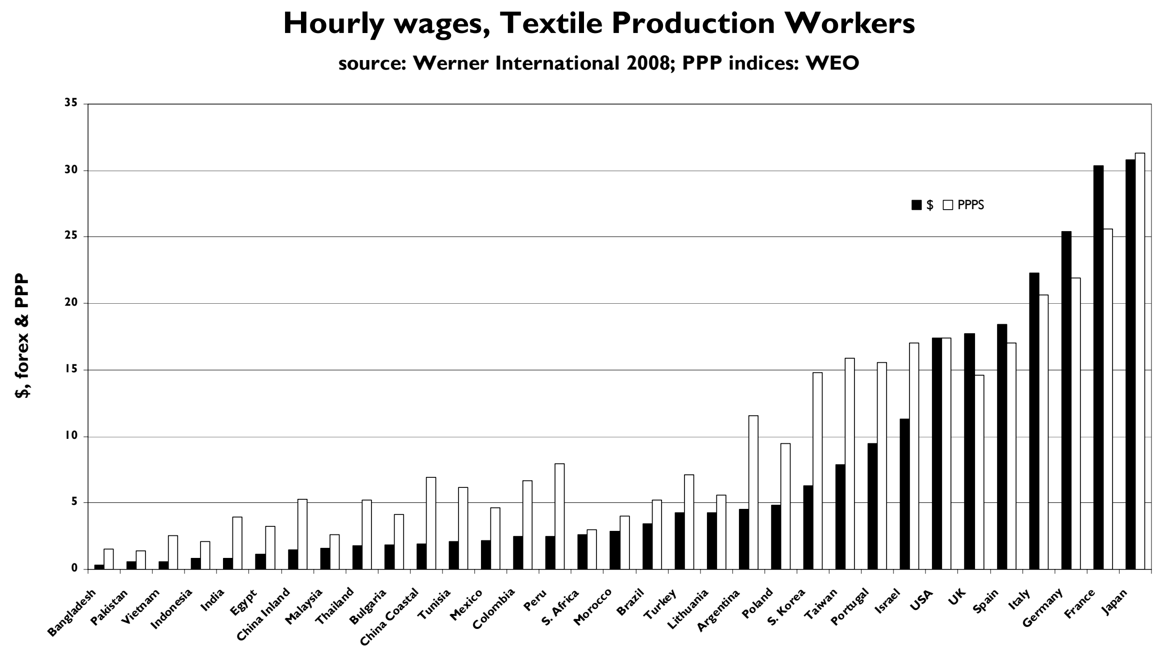
13 ILO, 2008, p12

14 ILO, 2008, p16

15 Werner International adds this note: *"The average labour costs shown in this table might not always check with the official statistics of the respective countries for the textile industry. They are based on data collected and made available to Werner and are a realistic representation of the actual labour costs."* Werner International, 2008, Primary Textiles Labor Cost Comparisons 2008 (p1) (http://texnet.ilgstudios.net/files/2009/08/Werner_International_-_Labor_Cost_Study_2008.pdf, accessed 12/03/09)

and PPP$. [16] The difference between the highest and the lowest wages, between Japan and Bangladesh, are 100 times bigger when measured in Forex$, or 20 times bigger in PPP$.

Figure 4.2 International comparison of textile workers' wages



Source: Werner International, 2008, Primary Textiles Labor Cost Comparisons 2008 http://texnet.ilgstudios.net/files/2009/08/Werner_International_-_Labor_Cost_Study_2008.pdf

Table 4.2, which presents some of the findings of Corley et al's research, [17] shows median wages and wage dispersion for 19 occupations across the whole of the ILO's KILM database of October Inquiry data covering 158 countries, Between them, Table 4.1 and Table 4.2 make it possible to get a sense of the degree of international wage inequality both between and within different economic sectors. Corley et al have attempted to 'fill a void in the literature' by providing one of the first empirical analyses of wage inequality within and between countries over the globalisation period. These researchers 'cleaned up' the ILO/KILM data in various ways, for instance by eliminating those countries reporting maxima or minima rather than average wages. The data in Table 4.2 shows averages for the 1990-2000 period, necessary because the gaps in the data set are so numerous that a shorter time period would greatly reduce coverage, underlining why it is so difficult to deduce trends for individual occupations. They attempt to do this for groups of occupations, finding that "[w]age growth in technically skilled occupations was between 15 and 60 per cent, while wage growth in low-skilled occupations was between 0 and 50 per

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16 For a different set of national wage comparisons for textile production workers, given in PPP dollars, see KILM 5th edition, Figure 16a. *'Wages and earnings in textile occupations relative to the United States (2004 US$ PPP basis)'.* The discrepancies between the ILO/KILM and those derived from Werner International indicate the general lack of precision surrounding wage data.

17 See Corley et al, 2005, p7.

cent.” [18] As they say, “it would seem that the technical occupations not only have higher wages, but have also witnessed stronger wage gains in the decade from 1990 to 2000 than in the low-skilled occupations.” [19]

Table 4.1: Hourly wages, textile production workers, 2008

	Hourly wage **$**	**Ratio of US wage to national wage (Forex)**	**Hourly wage** **PPPS**	**Ratio of US wage to national wage (PPP)**
Bangladesh	0.31	56.2	1.55	11.2
Pakistan	0.56	31.1	1.42	12.3
Vietnam	0.57	30.5	2.56	6.8
Indonesia	0.83	21.0	2.11	8.2
India	0.85	20.5	3.92	4.4
Egypt	1.12	15.5	3.25	5.4
China Inland	1.44	12.1	5.29	3.3
Malaysia	1.57	11.1	2.59	6.7
Thailand	1.8	9.7	5.23	3.3
Bulgaria	1.85	9.4	4.16	4.2
China Coastal	1.88	9.3	6.91	2.5
Tunisia	2.12	8.2	6.17	2.8
Mexico	2.17	8.0	4.62	3.8
Colombia	2.45	7.1	6.68	2.6
Peru	2.45	7.1	7.96	2.2
S. Africa	2.58	6.7	3.00	5.8
Morocco	2.89	6.0	3.98	4.4
Brazil	3.41	5.1	5.22	3.3
Turkey	4.27	4.1	7.13	2.4
Lithuania	4.28	4.1	5.61	3.1
Argentina	4.48	3.9	11.58	1.5
Poland	4.81	3.6	9.50	1.8
S. Korea	6.31	2.8	14.83	1.2
Taiwan	7.89	2.2	15.86	1.1
Portugal	9.45	1.8	15.57	1.1
Israel	11.31	1.5	16.99	1.0
USA	17.41	1.0	17.41	1.0
UK	17.7	1.0	14.63	1.2
Spain	18.39	0.9	17.00	1.0

18 Corley et al, 2005, p13.

19 Corley et al, p12

Italy	22.31	0.8	20.62	0.8
Germany	25.42	0.7	21.91	0.8
France	30.39	0.6	25.59	0.7
Japan	30.81	0.6	31.34	0.6

Source: Werner International Management Consultants.

Table 4.2: Occupational wage differences between nations

Lower/upper monthly wage limits by occupation in 1996 $PPP, average for 1990-2000

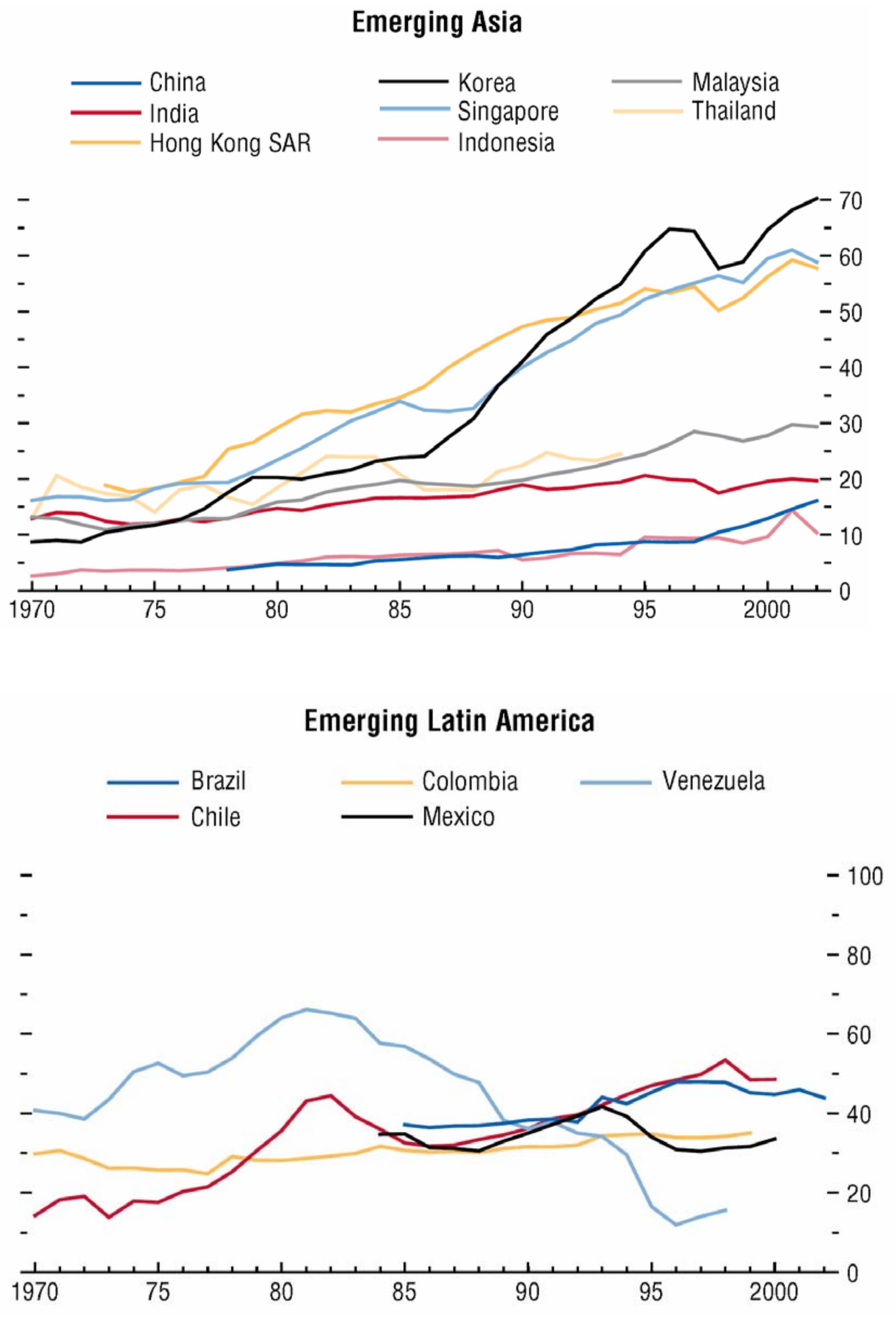
Occupation	Median	Lower wage limit	Upper wage limit	Highest/ Lowest
Sewing-machine operator	547	37	1469	40
Farm worker	607	39	1520	39
Chambermaid	620	54	1597	30
Labourer	633	46	1687	37
Garment cutter	633	37	1816	49
Salesperson (retail)	693	55	1670	30
Refuse collector	713	151	1915	13
Truck driver	780	70	1843	26
Bus driver	813	63	1832	29
Welder	813	48	1961	41
Hotel receptionist	833	60	2092	35
Office clerk	860	55	2273	41
Stenographer-typist	913	57	2138	38
Salesperson (wholesale)	1000	134	3119	23
Professional nurse	1247	138	3969	29
Primary school teacher	1267	108	3526	33
Computer programmer	1600	470	4871	10
Accountant	2027	155	6010	39
Power engineer	2067	267	5823	22

Source: Marva Corley, Yves Perardel & Kalina Popova, 2005, *Wage inequality by gender and occupation: A cross-country analysis*. Employment Strategy Papers 2005/20. Employment Trends Unit, Employment Strategy Department. Geneva: ILO., p12

Another of their important findings is that "the relative intra-occupational wage differences are higher in low-skilled occupations than in high-skilled occupations: the best paid garment cutter earns almost 50 times more than the lowest paid garment cutter; while the best paid engineer earns 'only' 22 times that of the lowest paid engineer." [20]

Figure 4.3 Wages in Asia, Latin America (in PPP$) as % of U. S. wages

(source: WEO2007a)



[20] Corley et al, p11.

Figure 4.3 reproduces two graphics published by the IMF in 2007 which show the evolution of PPP-adjusted wage differentials between selected 'emerging nations' and the USA. Asia, Singapore, Korea and Hong Kong show a significant catch-up in wage levels, but the picture for much more populous states like India, China, Indonesia, Malaysia and Thailand is much less impressive, while in Latin America, with the partial exception of Chile, no catch-up at all is discernible. The collapse of wages in Venezuela helps explain the radicalisation of Venezuelan workers that has found expression in the 'Bolívarian' revolutionary process led by Hugo Chávez.

Evidence presented in this section, which gives an overview of international wage differentials and trends, indicate the persistence of very high wage differentials; suggests convergence in the wages received by skilled workers but not in the wages received by unskilled workers; reveals a very high degree of wage dispersion within and between economic sectors; and indicates that signs of wage convergence are much less evident when international comparisons are made on the basis of Forex$ rather than PPP$, implying a growth in the purchasing power anomaly—which in itself undermines the case for global wage convergence.

Finer and firmer conclusions require qualitative analysis, and the three qualities we will now proceed to examine are labour's share of GDP with particular reference to southern nations; growing wage inequality within nations and how this affects 'average wages', and wages in times of crisis.

4.3 Falling labour share of GDP

> "Several factors have contributed to the rise in profit margins. The most important is a decline in labour's share of national income."[21]

All income can be divided into income to labour, sometimes called 'labour compensation', and income to capital, *i.e.* profit streams from financial assets. The proportions in which aggregate income is shared between labour and capital provides the basis for a very important metric: *labour's share of GDP*. Its continuous decline in both rich and in poor countries during the era of neoliberal globalisation has attracted increasing attention from researchers at the ILO, the IMF and academia.

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21 From a research note on the US economy by Goldman Sachs quoted by Richard Tomkins. Richard Tomkins, 2006. 'Profits of doom,' in *Financial Times*, October 13 2006

Whereas GDP income inequality are routinely seen within both a national and an international context, labour's share is only ever conceived of within nations and never on a global scale. Yet the globalisation of production means that the value-creating process has become qualitatively more international. Since it has not occurred to UN statisticians to compile data on labour's share of global GDP, this survey remains within the framework of 'labour's share of national income'.

Speaking of the USA, Milberg and Schöller draw conclusions which have much wider relevance: "Over the past 15 years, the new wave of globalization has led to a rise in the share of profits in the national income and decline in the share of wages, increasing inequality in the society. Unless reversed, this tendency toward polarization is likely to get stronger as globalization gradually engulfs more sections of the labor force, including high-skilled and service sector workers, and thus spreads insecurity to wider sections of the population." [22]

The concept of labour's share is very simple and very profound, yet attempts to calculate it are bedevilled by methodological problems of all kinds. The standard used by the US Bureau of Labour Statistics (BLS), the OECD and IFIs such as the ILO and IMF, which are differentiated from each other only in a host of small details, is the ratio of total employees' compensation (pre-tax wages and salaries plus employers' national insurance and other social contributions) to either GDP or GNI, aggregates that closely approximate to total value added.

Wages are recorded pre-tax because it is assumed that workers receive benefits in exchange for, and equal in value to, the taxes they pay to the state. Indirect taxes, insofar as they are paid out of labour income, automatically count towards labour's share. As a result, most of the 'state's share' of GDP is counted towards labour's share, even that part of it that is being spent waging war in Afghanistan or tooling up police to attack picket lines. It is little surprise, therefore, that "[i]ncreasing government spending is associated with an increase in labor shares, for both rich and poor countries." [23] But poor countries have not been increasing government spending; they have been slashing it, and so the same researcher finds that labour's share in "poor countries have [...] been negatively affected by [...] the fall in government spending." [24] However, this measure does at least capture the entire social wage: transfer payments, health and education provision and other social services that, in the imperialist countries, typically account for 70% or more of state expenditure.

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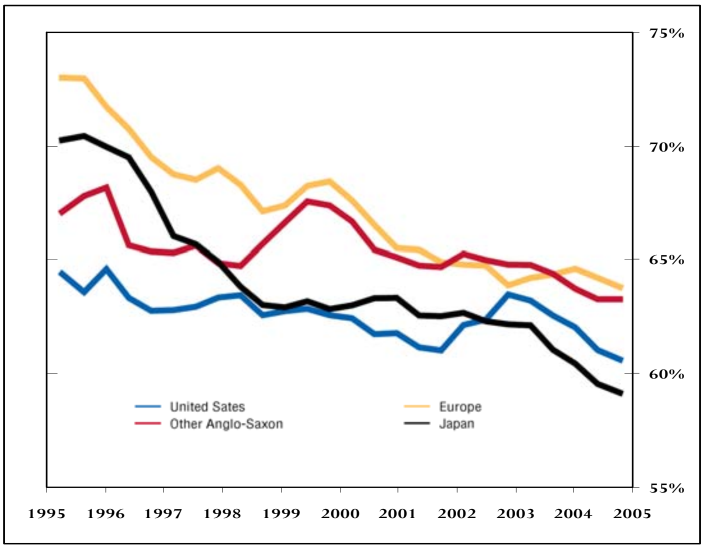
22 Milberg & Schöller, 2008, p48

23 Anne Harrison, 2002, *Has globalization eroded labor's share? Some cross-country evidence.* Mimeo. Cambridge, MA: National Bureau of Economic Research (p26).

24 Ibid., pp24-25.

Another important part of this statistical minefield concerns the method of accounting for the income received by self-employed workers and by family members. The returns to labour of people who are self-employed and of family workers are included in labour's share, but different formulae are used to make this addition—the IMF estimates the hours worked by these non-wage workers and assumes that these "categories of workers earn the same average wage as employees,"[25] a procedure also followed by the BLS.[26] Another approach is reported by Malte Lübker of the ILO, who points out that "a standard commonly applied in industrialized countries" is to attribute two-thirds of the income of the self-employed to labour and one-third to capital.[27] Were the 'standard commonly applied in industrialized countries' to be extended by the IMF to low-wage countries this would cause a major revision in their estimates of labour's share of GDP in those countries, since the incomes of informal own-account workers—who make up some 35% of South's EAP—are typically less than average wages in these southern nations.

Figure 4.4 Labour's share of GDP in 'developed' economies



Source: WEO 2007a

Another factor that causes the steepness of the decline in labour's share of GDP to be significantly underestimated is that income to capital—in the form of eye-popping increases in 'wages' and other benefits paid to the top 1% of earners—is falsely counted as part of labour's share.

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25 IMF, 2007a, p182.

26 Paul Gomme & Peter Rupert, 2004, *Measuring Labor's Share of Income*. Federal Reserve Bank of Cleveland Policy Discussion Paper No. 7, p4.

27 Malte Lübker, 2007, *Labour Shares.* Technical Brief No. 01. ILO. (http://www.ilo.org/wcmsp5/groups/public/---dgreports/---integration/documents/publication/wcms_086237.pdf, accessed 25/03/2009), 2007, p1.

NBER economists Ian Dew-Becker and Robert Gordon report that 49% of the growth in 'labour compensation' in the US between 1997 and 2001 was captured by the top 5% of the population, while the bottom 50% captured less than 12%. The richest 1% of US citizens gained more during this period than the poorest 50%. Dew-Becker et al comment that "another and perhaps even more stunning way to describe our results is that the top one-tenth of one percent of the income distribution earned as much of the real 1997-2001 gain in wage and salary income, excluding nonlabor income, as the bottom 50 percent." [28]

It is clear that a significant but difficult-to-determine part of this 'income to labour' is income to capital disguised as income to labour. The scale of this underestimation is underlined by the fact that the US government's definition of 'labour compensation' includes "both wages to employees and other benefits (such as realization of stock options)." [29]

Similarly, the £2.7 million lump sum and £703,000 annual pension (later reduced to £342,500) received by Royal Bank of Scotland chief executive Sir Fred Goodwin upon his forced retirement in October 2008 is also officially considered to be part of labour's share of GDP. Another striking example was provided by Princeton Professor Alan Kreuger, in a paper entitled 'Measuring Labor's Share': "[i]f the owner of the Chicago Bulls, Jerry Reinsdorf, were to pay [basketball star] Michael Jordan an additional $20 million, and reduce his own salary by an equivalent amount, labor's share would be unchanged because both are counted as employees of the Bulls." [30] Amazingly, Kreuger cites this not to cast doubt on the legitimacy of official measures of labour's share; he fully approves of this way of cooking the figures, and himself served as Chief Economist at the US Department of Labour in the mid-1990s.

For labour's share of GDP to remain constant, whatever that share may be, wages must rise by the same rate as GDP is growing.[31] Yet, between 2001 and 2007, real wages in 'developed countries' grew by 0.9% per annum, by 0.3% in Latin America and the Caribbean and by 1.8% in Asia, while real GDP per capita during these years grew by 2.13% in 'developed countries',

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28 Ibid., p56. Looking more broadly, other research shows that income inequality in the US is now returning to levels last seen before WW1, after a steep decline in the mid-20th century. See Thomas Piketty & Emmanuel Saez, 2006, *The evolution of top incomes*, NBER working paper 11955. Bringing income from capital into the picture, '*nearly as much of the 1966-2001 real income change went to the top 0.1 percent as went to the bottom 50 percent.*' Dew-Becker et al, 2005 p62.

29 Harrison, 2002, p10.

30 Anne O. Krueger, 2002, *A New Approach To Sovereign Debt Restructuring*. International Monetary Fund, p46. Kreuger was appointed Assistant Treasury Secretary for Economic Policy by President Obama in March 2009.

31 Assuming that the labour force is a constant fraction of the total population. It has, if anything, increased relative to the overall population, as discussed in Chapter 3.

3.46% in Latin America and the Caribbean, and 6.75% in 'developing Asia'.[32] This data is presented in table 4.3. As its last column shows, the discrepancy between real wage increases and increases in real GDP per capita implies that labour share in 'advanced economies' is declining by around a 0.8% per year, with a much larger annual decline of 2.3% in Asia and 1.5% in Latin America and the Caribbean.

Table 4.3: Wages growth and GDP growth, 2001 - 2007

	Real per capita GDP growth	Real wage growth	Implicit annual decline in labour's share
`Advanced economies'	2.13%	0.9%	0.8%
'Developing Asia'	6.75%	1.8%	2.3%
Latin America and Caribbean	3.46%	0.3%	1.5%

Sources: Real GDP per capita: Unctad, 2008b, *Handbook of Statistics*. Geneva, Unctad Tables 8.2 & 8.4.1; Real wage growth: ILO, 2008, *Global Wage Report 2008-9*. Geneva: ILO (p12).

'Implicit annual decline in labour share' is based on 63% labour share of GDP in advanced economies and a 50% labour share in the rest of the world, approximations derived from IMF 2007a and Harrison, 2002.

Taking a longer historical perspective, and comparing rich countries with poor countries, NBER economist Anne Harrison investigated what has happened to labour's share of national income in more than 100 countries between 1960 and 1996. Harrison focuses on "changes in labor's share after 1993, since this has been a topic of recent concern,"[35] contrasting this with the period between 1960 and 1993. Since there are far more gaps than values in this dataset, distortions which would arise as countries join or leave from one year to the next were avoided by calculating the averages of the within-country changes—which she does for two groups of rich and poor countries, classified according to whether their per capita GDP lies above or below the global median. She doesn't state whether the average figures for each group of nations are weighted for their population.

Harrison's main results are presented in Tables 4.4a & 4.4b. Table 4.4a reports that labour's share of GDP in poor nations on average experienced a decline of -0.1% per year between 1960 and 1993, accelerating to -0.3% per year in the four years from 1993 to 1996. In rich nations,

32 Real wage growth: ILO, 2009, p12. Real GDP per capita growth calculated from Unctad, 2008b, *Handbook of Statistics*. Geneva, Unctad Tables 8.2 & 8.4.1.

35 Harrison, 2002, p14.

labour's share of GDP rose by 0.2% per year between 1960 to 1993, in sharp contrast to the average annual decline of -0.4% between 1993 and 1996.

The most striking information is contained in the last line of Table 4.4b. It shows the difference in the average labour share of GDP between 1960-1993, on one hand, and 1993-1996 on the other: reporting that, for the poorest quintile, labour's share of GDP between 1993 and 1996 was on average 4.5% lower than its average over the 1960-1993 period, in the second-poorest quintile it was 8.9% lower, and 2% higher in the richest quintile of nations. Harrison summed up the trends over the years between 1960 to 1996 to be "enormous declines in labor's share in the poorest 20 percent of countries, and significant increases in labor's share in the top 20 percent of all countries." [36]

Table 4.4: Changes in Labour's share of GDP in Rich and Poor countries

Table 4.4a

	Per capita GDP < global median	Per capita GDP > global median
Annual % change in labour's share 1960 – 1993	-0.1	0.2
Annual % change in labour's share 1993 – 1996	-0.3	-0.4
Change in average labour share, 1993 - 1996 vs. 1960 - 1993	-1.8	0.7

Table 4.4b

	Poorest 20%	Lower Middle 20%	Middle 20%	Upper Middle 20%	Richest 20%
Annual % change in labour's share, 1960-1993	-0.2	-0.1	-0.1	-0.04	0.4
Annual % change in labour's share, 1993-1996	-0.02	-2.2	-0.9	0.2	-0.6
Change in average labour share, 1993-1996 vs. 1960 - 1993	-4.5	-8.9	-3.2	-0.7	2.0

Source: Anne Harrison, 2002. *Has globalization eroded labor's share? Some cross-country evidence.* Mimeo. Cambridge, MA: National Bureau of Economic Research.

The gains Harrison reports in labour share in the richest countries reflect advances made in the period before the onset of neoliberal globalisation, i.e. between 1960 and 1980. Had she broken down the 1960-1993 period into pre- and post-1980, year zero of neoliberal globalisation, she would have revealed a contrast between the increasing trend of labour's share in 'rich countries' up to the mid-1970s with a falling trend from the beginning of the 1980s to date. Paul Ormerod

36 Harrison, 2002, p15.

noted that, in mainland Europe, "[t]he late 1960s and early 1970s saw a sharp rise in the share of national income going to the labour force, and a corresponding erosion of profitability. The rise was made up of a combination of rapid increases in real wages in excess of productivity growth, and of rises in the costs of employing labour." [37] This was confirmed by the ILO: "[s]tudies using long-term series data from European countries indicate that the wage share appears to have peaked around the mid-1970s and has declined at an accelerating pace since then." [38] The IMF reports that this trend was noticeable across the Triad nations, identifying "a clear decline since the early 1980s across the advanced economies [...] a reversal of the rise in labor shares that took place in the 1970s, especially in Europe and Japan." [39] Harrison herself finds that, during the neoliberal globalisation period, "[i]n Europe, the change is enormous: labor's share of aggregate income has declined as much as ten percentage points of GDP. In the United States [...] labor's share in national income has declined by several percentage points in GDP." [40]

Why is labour's share falling?

Many of the assumptions and procedures involved in the calculation of labour's share—in particular, the treatment of state expenditures and the blatant distortion caused by income to capital masquerading as income to labour—could be challenged in ways that could significantly affect our picture of the absolute proportions in which income is divided between labour and capital. It could be argued, for instance, that military spending should count towards capital's share, not towards labour's share. Labour's share, from the point of view of Marxist political economy, is the portion of the net social product (the total value produced in an economy net of the values consumed during production), that workers receive as money wages or as a social wage. The rest is surplus value, part of which is consumed in diverse nonproduction activities necessary for the maintenance and motion of the system, the rest redistributed as profits to all those with shares or other claims. Here we leave all such matters to one side; the focus of this chapter is not so much on absolute proportions but on the qualitative changes in labour's share over time, on its trend in imperialist nations and in oppressed nations, and what these changes reveal about the dynamics of global production.

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37 Paul Ormerod, 1996. 'Don't follow the European model: it's collapsing,' in *The Independent*, 27 August 1996.

38 ILO, 2008, p22

39 IMF, 2007a, p167. *'Due to data availability reasons'* the IMF's first detailed examination of the impact of globalisation on real wages and labour's share—in Chapter 5 of WEO 2007—was *"limited to advanced OECD economies."* IMF, 2007a, p1

40 Harrison, 2002, p3. The IMF's calculations yield an almost identical result: *"The decline in the labor share since 1980 has been much more pronounced in Europe and Japan (about 10%) than in Anglo-Saxon countries, including the United States (about 3-4%)."* IMF, 2007a, p168.

Unsurprisingly, given its dramatic proportions, falling labour's share has attracted increasing attention from academia, governments and IFIs. Summarising these findings and corroborating them with its own analysis, the ILO's *Global Wage Report 2008-9* reports that between 1995 and 2007 the wages share of national income fell in 49 of a total panel of 71 countries, rose in 21 and remained unchanged in one country, and it concludes that "the decline in the wage share remains a predominant trend even after controlling for cyclical fluctuations." [41] It also reported that, for 83 'developed' and 'developing' nations between 1995 and 2006, the 'wage elasticity to GDP'—in other words, the rate by which wages increase for each 1% increase or decrease in GDP per capita—was just 0.65 during periods of positive GDP growth. [42]

Further evidence supporting the important finding that, throughout the last three decades of neoliberal globalisation, labour's share of GDP has tended to decline faster in the global South than in the 'developed nations', was provided by Nomaan Majid, who concluded that median real wages in 'developed' countries during the 1990s were 36.2% higher than in the 1980s, while the increase in 'developing countries' was just 6.12%. Yet "real GDP per capita growth has been similar across developing and developed economies." [43]

In *The Effect of Neoliberal Globalization on Labor's Share in Developing Countries*, Özlem Onaran compares the mean labour's share of GDP in ten 'major developing countries' between 1980 and 2003 with their mean during 1970-1979. Her central finding: the 'wages share of GDP' in 'developing nations' "is lower in the post-1980s compared to the 1970s in all countries by significant margins, with the exception of Korea, the Philippines, and Thailand. In most countries, the volatility of the wage share has increased over time, and the decline continues in the 1990s." [44]

Declining labour share of national income, and the corresponding rise in the share captured by capital (i.e. by the owners of economic assets), starkly and unambiguously expresses the changing relative fortunes of labour and capital during the era of neoliberal globalisation. No-one disputes that this is happening, but controversy rages over the causes of this phenomenon—how much of it is due to increased global economic integration/competition, and how much is due to

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41 ILO, 2008, p19

42 A sign of the limitations caused by extensive gaps in the data is that the best the ILO could do in the direction of generating a time series was to estimate an average for the 1995 – 2000 period and another for the 2001 – 2007 period and compare the two.

43 Majid, 2004, p6. His actual periods were 1983-1989 and 1990-1998, and his source was the ILO October Inquiry.

44 Özlem Onaran, 2005, *The Effect of Neoliberal Globalization on Labor's Share in Developing Countries.* Association for Heterodox Economics 7th Annual Conference City University, London, 15–17 July 2005 p14. (http://personal.lse.ac.uk/denisa/papers/onaran.pdf, accessed 14/08/2005). Her ten 'major developing countries' were Argentina, Brazil, Chile, Mexico, Turkey, Indonesia, Korea, Malaysia, the Philippines, Thailand.

technological advances that reduce demand for labour. The debate has centred on the impact of globalisation on labour in the imperialist countries. The ILO has summarised the opposing views as follows: "it has been considered that technical progress has been responsible for the decline in wages relative to profits. This is the explanation apparently favoured by the IMF. Our own statistical analysis suggests that globalization may also have played a part […] the intensification of competition – particularly the presence of large low-wage exporters in the market for labour-intensive products – has worked as a wage moderation factor." [45]

The IMF's view is that "[b]oth labor globalization and technological progress have acted to reduce the labor share, with the impact of technological progress being somewhat larger." [46] However, 'technology vs. trade?' is far too simplistic a question to yield interesting answers. The ILO and IMF attempt to quantify the contribution of technology and 'trade' (which here denotes competition between workers in high-wage countries and low-wage countries) impacts on wages and employment, yet much is lost in the reduction of the qualitatively different effects of technology and trade into a simple fraction. 'Technology vs. trade' also ignores how inseparably intertwined they are, the powerful synergy that exists between them. IT, for example, has not only made possible vast labour-saving at home, it has played a key role in facilitating the integration of markets and the fragmentation of production, and the IT sector has itself been both a pioneer and one of the biggest beneficiaries of production outsourcing to low-wage countries.

Harrison attempts to assess the relative contribution of 'exchange rate crises', the absence of trade unions and the degree of a nation's global integration (the ratio of FDI and trade to GDP), to the fall in labour's share, finding that an increase in "trade shares are associated with a decline in labor shares. The effect is large and statistically significant […] Exchange rate crisis lead to declining labor shares, suggesting that labor pays disproportionately the price when there are large swings in exchange rates […] foreign investment inflows are associated with a fall in labor's share. These results point to a systematic negative relationship between various measures of globalization and labor's share." [47]

On the other hand, she found that union organisation, or 'collective bargaining', increases labour's share, a finding supported by the ILO: "in countries where collective bargaining covered more than 30 percent of employees, any additional 1% of economic growth was accompanied by a 0.87% growth in wages, compared with only 0.65% wage growth in countries with lower coverage […] our analysis shows that collective bargaining contributed to lower overall wage

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45 ILO, 2008, p22.

46 IMF, 2007a, p172

47 Harrison, 2002, pp24-26

inequality." [48] A different perspective on this was given by Majid, who found that "[i]n developing economies [...] greater bargaining rights in parts of the organized economy may lead to depression in the overall wage regime because it may constitute investment disincentives," resulting in a "depressing impact on the wages of all workers taken together. This finding seems to be valid in both the developing and the developed economies," [49] a clear case of 'heads we win, tails you lose'.

4.4 Growing wage inequality

'Labour's share', like 'average wage', takes no account of the degree of inequality in the distribution of labour's share between high and low paid workers. Yet growing wage inequality is powerful enough to qualitatively change the picture that is conjured by published data on 'labour's share' and the changes in average real wages. A small increase in the average 'real wage' might show the result of stagnant or declining real wages for the middle and poorest layers masked by bumper wage rises for the best paid workers. Corley et al find abundant evidence that this is exactly what has been happening: "[s]ince the 1980s, evidence from cross-country studies has shown the existence of rising inequality in wages and earnings. In many high- and low/middle-income countries, the wages of high-skilled workers have increased, while those of low-skilled workers have grown relatively more slowly, fallen or remained stagnant [...] in the United States, real earnings of low-wage workers have fallen while the earnings of high-wage workers have grown significantly. In Latin America and much of Asia, the same scenario exists." [50]

Income to capital masquerading as income to labour, considered in the previous section, is one of the factors involved in this. Another factor driving wage inequality in southern nations was pointed out by Alan Freeman: "a country that fails to pay global rates [...] will find its skilled workforce systematically evaporating to the places in the world that are content pay for it, and whose objections to immigration mysteriously evaporate confronted with a skilled workforce whose education they never had to pay for." [51]

Confirmation of rising wage inequality within nations was provided by the ILO's *Global Wage Report, 2008-2009*, which concludes that "one of the most important developments in recent

48 ILO, 2008, p60

49 Majid, 2004, p19

50 Corley et al, 2005, p1

51 Alan Freeman. 2004, p83.

years is that wage inequality has increased in many countries, irrespective of their national income levels."[52] *Changing Patterns in the World of Work*, an ILO survey published in 2006, reported that "[o]f the 73 countries for which data are available, 53 (with more than 80% of the world's population) have seen inequality rise, while only nine (with 4% of the population) have seen it narrow. This holds true in both high- and low-growth situations (such as China in the first case and Bolivia in the second) and across all regions."[53]

Another well-established fact is that, according to the ILO, "on average, wage inequality is higher in countries with a lower GDP per capita."[54] Freeman and Oostendorp also find that the poorer the country the higher the wage inequality, a fact already "well known from more limited country comparisons."[55] However, this does not mean that, when GDP increases, wage inequality get smaller, since "[w]ithin the same country, greater growth of GDP was associated with only slightly reduced inequality of wages."[56] In other words, the low labour's share characteristic of poor countries continues to characterise these countries even as their GDP increases. This important finding adds to the evidence that, in the era of neoliberal globalisation, rising GDP in 'developing countries' does not signify convergence with 'advanced countries'; instead, globalisation feeds a major expansion in the numerical size of the middle class and in the wealth of the owners of capital, while the majority of workers, in the words of the US labour hymn 'Solidarity Forever', 'stand like outcasts midst the wonders we have made.'

Not only is wage inequality higher in poor countries, detailed analysis of growing wage inequality in the ILO's *Global Wage Report, 2008/9* provides evidence that their increasing trend is being driven in particular by falling wages of the lowest-paid workers, in contrast to rich countries where the driver is the increasing wages of the highest-paid. The ILO identified "three different types of increase in wage inequality. The first – the 'collapsing bottom' – refers to the situation where wage inequality is growing as a result of deterioration in the lowest wages. The second – the 'flying top' – presents the opposite case, where top wage earnings are increasing faster than in other wage groups. The final type is the case where both changes are taking place simultaneously, which results in a 'polarization' of wage earnings."[57] Comparing the years 1995–2000 with the years 2001–06, the report found that "the more developed countries such as

52 ILO, 2008, p29.

53 ILO, 2006a, p4.

54 ILO, 2008, p29

55 Freeman & Oostendorp, 2001, p392. As measured by the Gini Index, income inequality in Latin America (57.1) and sub-Saharan Africa (72.2) is higher than in East Asia and the Pacific (52.0), South Asia (33.4) and in 'high income developed countries' (36.8).

56 Ibid., p396

57 ILO, 2008, p25

the United Kingdom and the United States mainly fall into the category of ‘flying top’ wages, with the exception of Germany which falls into the category of ‘collapsing bottom’ wages [...] The countries from developing regions are predominantly close to the scenario of ‘collapsing bottom’ wages [...] [i.e.] growing inequality between the median and lowest wages.” [58]

Their findings confirm the different trajectory being followed by wages in ‘developed’ and ‘developing’ countries, and reflect the weight of the ‘relative surplus population’ desperate for work in the global South. As Corley et al put it, rising wage inequality “may be due to the surplus of labour in developing economies, whereby the initial impact from globalization (and growth) may be to bring previously underemployed or unemployed people into the formal labour market” [59]

4.5 Wages in times of crisis

A very significant and striking finding in the ILO’s Global Wage Report 2008-09 is the steepness of the decline in real wages during periods of contraction of per capita GDP—which, in the global South, is anything less than 1.3% per annum, the rate at which its population is growing. [60] The ILO reports that the ‘wage elasticity to GDP’(the amount by which wages increase for each 1% increase or decrease in GDP per capita) for 83 ‘developed’ and ‘developing’ nations between 1995 and 2006 was just 0.65 during periods of positive GDP growth, but leapt to 1.55 during periods of negative GDP growth. In other words, for each 1% decline in per capita GDP, real wages declined by more than 1½%, supporting Harrison’s conclusion that “[e]xchange rate crisis lead to declining labor shares, suggesting that labor pays disproportionately the price when there are large swings in exchange rates.” [61] Onaran carries out case studies of 10 ‘developing nations’, finding that “in Korea [...] a 1% decrease in production leads to a 1.2% decrease in the wage share. The effects are much stronger in Turkey and Mexico.” [62] She also finds that “[t]he crises of the post-1990s have had a clear and long lasting effect in all countries. The percentage decrease in the wage share by far exceeds the rate of decline in economic activity.” [63]

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58 Ibid., p26

59 Corley et al, 2005, p26

60 Population growth in the imperialist nations is 0.6% per annum.

61 Harrison, 2002, p26

62 Özlem Onaran, 2007, *Wage Share, Globalization, and Crisis: The Case of the Manufacturing Industry in Korea, Mexico, and Turkey.* Political Economy Research Institute PERI Working Paper Series #132 (p29). (http://www.peri.umass.edu/fileadmin/pdf)/working_papers/working_papers_101-150/WP132.pdf, accessed 14/06/2008).

63 Onaran, 2005, p14

The overall picture, according to the ILO, is "whereas in times of economic expansion wages are less than fully responsive to changes in GDP per capita, during the economic downturns wages tend to become overly responsive and fall faster than GDP," [64] adding that the "countries which recorded the largest increases in wage inequality are those that were hit by severe economic crises, such as Argentina, the Republic of Korea and Thailand, as well as former transition countries such as Bulgaria, Hungary and Poland." [65]

Left obscured by this very significant ILO finding are differences in the experience of 'developed' and 'developing' nations. The results of the ILO's global analysis must largely reflect the experiences of the global South, since the great majority of the periods of declining GDP recorded during these years were experienced by 'developing' nations.[66]. Stark though the results are, they are *diluted* by the inclusion of 'developed nations', since—with the notable exception of the USA—employers and governments in these nations have been much more hesitant about cutting the wages of the lowest paid; as a result economic retrenchment in these countries is more likely to be reflected in rising unemployment than in wage cuts. Thus, in continental Europe, "the deteriorating position of low-skilled workers is exemplified more through rising unemployment than growing wage gaps." [67] Meanwhile, in many countries of the global South, real wages in periods of falling GDP decline so steeply that "in many of the countries that suffered from an economic crisis in the late 1990s (in particular some South Asian and Latin American countries) real wages have not fully recovered to pre-crisis levels despite significant economic recovery over recent years." [68] An indication of the deleterious social consequences of these crises is given by the World Bank's finding that "countries that suffered economic contractions of 10 percent or more between 1980 and 2004 experienced [...] more than one million excess infant deaths." [69]

The findings of Onaran and the ILO on the extreme downward pressure on labour's share of GDP during times when this GDP itself is falling confirm earlier research by Ishac Diwan, who recorded 216 crises in 'developing nations' between 1975 and 'the mid-90s' (he defined a crisis

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64 ILO, 2008, p15. This confirms Onaran's observation that *"although labor's share does not respond to growth in good years, it decreases as the economy contracts"* (Onaran, 2005, p25).

65 ILO, 2008, p24-25

66 For a detailed chronology, see Carmen M. Reinhart & Kenneth S. Rogoff, 2008, *Banking Crises: an Equal Opportunity Menace*. NBER Working Paper 14587. (http://www.nber.org/papers/w14587, accessed 23/6/2009).

67 Corley et al, 2005, p1.

68 ILO, 2008, p15.

69 World Bank, 2009, *Swimming against the Tide: How Developing Countries Are Coping with the Global Crisis.* Background paper prepared by World Bank staff for the G20 Finance Ministers and Central Bank Governors meeting, UK, March 13-14, 2009, p10.

to be when a national currency declines by more than 25% against the dollar – during a year, to eliminate temporary fluctuations). 67 crises provided sufficient data for analysis. He found that, in all cases, these crises resulted in a sharp and sometimes precipitous fall in labour's share of national income, beginning a slide which typically continued for five years. During recovery periods, only a small portion of what was lost is recaptured. And the cake itself had shrunk. Diwan finds that, during these 67 crises, on average, "GDP per capita drop[ped…] by 4.7% during the year of the crisis, 7.3% in years 2 and 3, before stabilising in year 4." [70] He described the "transfer of assets away from labor during the crisis period" as "staggering, which goes a long way in explaining why workers fear financial crises so much. The world average is 33.7% of GDP per financial crisis." [71] Diwan further comments that "more recent crises have tended to hurt labor more than older ones, as if the mobility of capital has increased over time […] causing a larger share of the losses to be shifted to labor" [72]

The so-called 'Tequila crisis', the December 1994 collapse of Mexico's peso, provides an excellent example of the sort of crisis that Diwan is talking about. A *Financial Times* editorial a few months after the crash observed approvingly that "devaluations improve a country's competitive position by bringing about a reduction in real wages […] four-fifths of pay settlements have not exceeded 7.5%, compared with officially forecast inflation of 42% this year." [73] Looking back on the Tequila crisis more than a decade later, Onaran reported that "[i]n Mexico […] the wage share has declined 29.5% as of 1996 compared to 1993, and indeed has still not returned to its pre-crisis level ten years after the crisis."[74] Before Mexican wages could fully recover from the 1994 crisis, the next one hit: "the post 2001 recession in the manufacturing industry of Mexico has triggered a new declining trend in the wage share." [75] Onaran reports similar declines in labour's share in Turkey: the 1994 crisis led to a "24.8% cumulative decline in the wage share" while another crisis in 2001 saw Turkey's wage share decline by 32.2%, taking two years and three years respectively before it began a slow recovery. In Korea, "the wage share has continued to decline for three years following the 1997 crisis, and was 21.6% lower in 1999 compared to 1996." [76]

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70 Ishac Diwan, 2001, *Debt as Sweat: Labor, Financial Crises, and the Globalization of Capital*. World Bank Working Paper (p27). (http://info.worldbank.org/etools/docs/voddocs/150/332/diwan.pdf, accessed 14/07/05).

71 Ibid., p10.

72 Ibid., p24.

73 Financial Times, 1995, unsigned editorial in *Financial Times*, 28 April 1995.

74 Onaran, 2007, p14-15

75 Onaran, 2007, p14-15

76 Onaran, 2007, p14-15

What 'implications' does Diwan, a World Bank economist, derives from this? "As capital becomes more mobile, and labor more focussed on reducing the occurrence of crises, cooperative behavior becomes crucial [...] [it is] in labor's own interest to take losses when they occur [...] Since currency devaluation and inflation are important mechanisms to reduce real wages in the short term, then small and vulnerable economies would want to retain the ability to devalue." [77]

♦ ♦ ♦

Frequent wrenching crises during the past three decades in dozens of nations in the global South have played a key role in breaking resistance to casualisation and downwardly-mobile wages. They have also wrecked bourgeois nationalist dreams of independent development—the pre-neoliberal globalisation projects of orienting national economies to meet local needs rather than foreign consumers—and have created the emergency shock conditions in which southern governments were brought to heel, trade unions broken and labour protection were swept away.

The extreme sensitivity displayed by real wages and labour's share of aggregate income to economic shocks and declines in GDP augurs ill for the new period opened by the global banking crisis, in which not only are periods of falling GDP likely to become more frequent, but the whole strategy of export-oriented development has been thrown into disarray.

Conclusion

This chapter has examined one of the most striking features of the past three decades—the sharp decline in labour's share of GDP on both sides of the North-South divide. Whether or not wages in real terms have increased at all depends on where in the global South that you live; nowhere are they rising as fast as GDP. The chapter examined the tendentious methodology used by official bodies to estimate labour's share of GDP, which include City bonuses and the cost of the war in Afghanistan. It reported some of the reasons why official data on average wages should be treated with great caution, especially the fact that average wage data make no account of increased wage inequality within nations, with the result that stagnant or falling wages for the majority are masked by large increases for the highest-paid, *i.e.* those with much greater access to northern labour markets. Finally, the chapter cites evidence of the extreme vulnerability of wages and labour's share of GDP in times of crisis, whose frequency and intensity in southern

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77 Diwan, 2001, p26.

nations is set to increase, now that 'global imbalances' are blocking the road of export-oriented industrialisation.

The next chapter completes this survey by examining the most significant way of all in which a true picture is both revealed and obscured by statistics: *the purchasing power parity adjustment*.

♦ ♦ ♦

Chapter 5—The Productivity Paradox and the Purchasing Power Anomaly

In the early 1990s, the World Bank and IMF started using PPP exchange rates—hypothetical exchange rates that equalise the prices of goods and services between economies—to make international comparisons of wages, output, per capita GDP, spending on health. The size of the required adjustment to market exchange rates is very substantial, and a great deal rests on the validity and accuracy of the PPP conversion—quite simply, without PPP exchange rates we would have no measuring-stick with which to compare economic activity in different nations. It is therefore all the more important that the theory and the methodology behind PPP exchange rate conversion be closely examined.

Two aspects of this form the subjects for this chapter's two sections. The first section examines how the conversion to PPP exchange rates is made, particularly with regard to accurate international comparison of wages, and the ways in which its accuracy and reliability is affected by the continuing presence of biases and distortions. This section discovers further effects and biases which together have a major softening effect on widely-cited data on international wage differentials and on international disparities in per capita GDP, and therefore compliments and completes the survey of global wage trends presented in chapter 4. It concludes with a review of two radical critiques of PPP that open up additional questions about the methodologies used to calculate PPP and the relation between the purchasing power anomaly and *unequal exchange*.

The second section of this chapter examines why this major distortion exists in the first place, discovering that themes central to this overall thesis are also at the heart of the purchasing power anomaly, namely restrictions on the free movement of labour across borders and the relation between wages, productivity and the rate of exploitation. Examination of the empirical and theoretical basis for orthodox explanations of the purchasing power anomaly introduces the critique of core tenets of mainstream economic theory to be developed in the final chapter, which will argue that GDP and 'value-added' are fetishised categories, masquerading as objective raw data, that are better understood as projections of fallacies and tautologies lying at the heart of neoclassical economics.

5.1 'Real wages' and Purchasing Power Parity

The purchasing power anomaly and the North-South divide

When a dollar, or a pound, a yen, a euro, a Swedish krona or a Swiss franc—in a word, a unit of 'hard currency'—is converted into the national currency of just about any southern nation, it will buy more goods and services in that country than it would at home. To correct for this distortion, wages denominated in local currency must be converted into a common *'numeraire'* currency, almost always based on the domestic purchasing power of the US dollar: the PPP$. The big discrepancy in the purchasing power of hard and soft currencies violates the Purchasing Power Parity (PPP) hypothesis, first advanced by Gustav Cassel in the 1920s,[1] which predicted that the exchange rate between any two currencies will tend towards an equilibrium which equalises the prices of similar goods and services between nations (or what is the same thing, that it equalises the purchasing power of the two currencies). If PPP pertained between say, Haiti and the USA, one dollar converted into Haitian Gourds would give its holder the same purchasing power in Port-au-Prince as in Pennsylvania. As it is, in 2006, $0.43 converted into Haitian Gourds bought the same in Haiti as one dollar spent in the USA. Haiti's PPP conversion index, according to the World Bank figures cited here, is therefore 0.43. The smaller a nation's per capita GDP, the greater tends to be the deviation of its currency from purchasing power parity with the dollar, as is clearly evident in Figure 5.1.[2]

Out of all the nations of the global South included in the WDI dataset, only Fiji and Cape Verde recorded a PPP conversion index greater than 0.8; in 2006 the average of the PPP indices (weighted for GDP) for 154 Southern nations stood at 0.53—in other words, 53¢ converted into the average soft currency would buy the same as one dollar spent in the USA. In contrast, the PPP conversion index for all Triad countries lies between 0.8 and 1.4, with Greece, Portugal and Spain at the lower end of the spectrum and the famously-expensive Nordic countries at the higher end.

Assessing the complex effects and overall impact of the purchasing power anomaly on hard-currency and soft-currency nations is beyond the scope of this investigation. Our concern is first

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1 *"[O]ur valuation of a foreign currency in terms of our own [...] mainly depends on the relative purchasing power of the two currencies in their respective countries,"* Gustav Cassel, 1922, Money and Foreign Exchange after 1914. New York: Macmillan, p139.

2 If the PPP hypotheses held for all countries, each country's marker would lie along a horizontal line drawn through 1.0 on the left-hand y-axis.

of all with the reliability of the PPP dollar as a measuring device; in the next section we turn our attention to the causes of this phenomenon.

Figure 5.1 The Purchasing Power Anomaly vs. per capita GDP

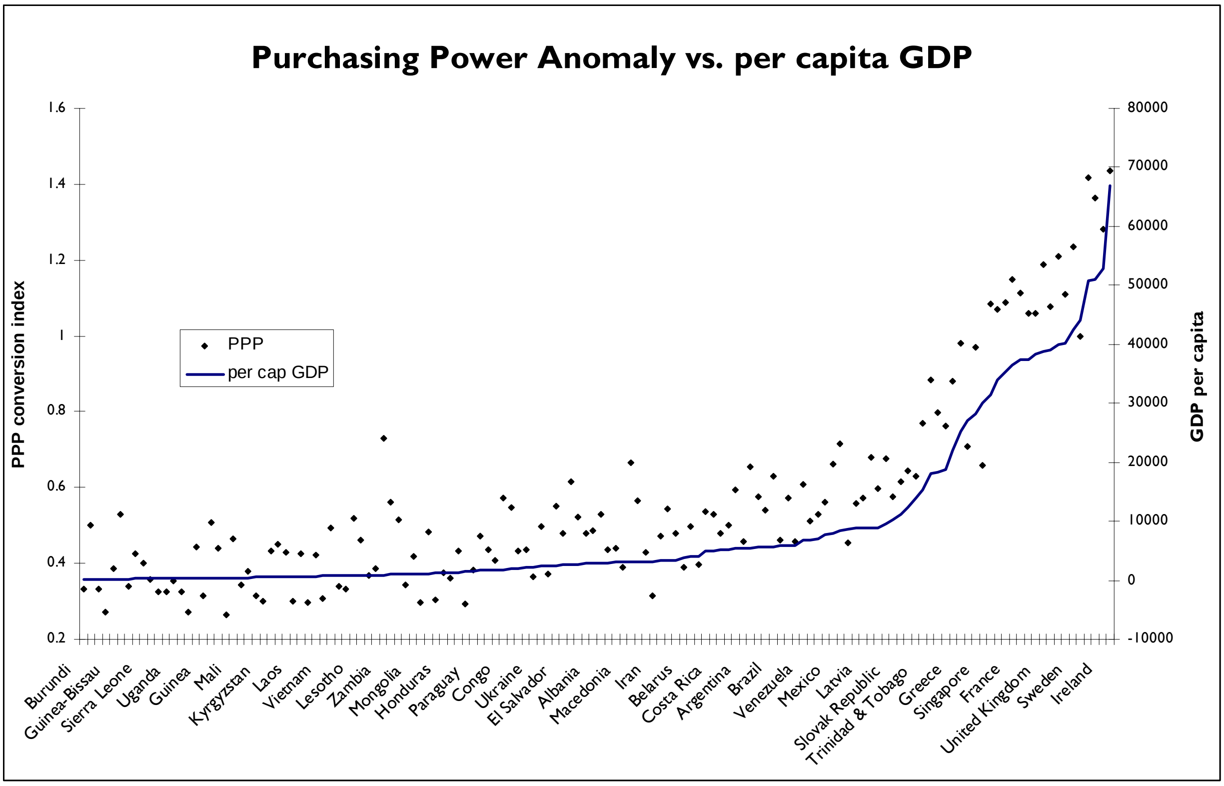

Figure 5.2 The Purchasing Power Anomaly, 1980 – 2006

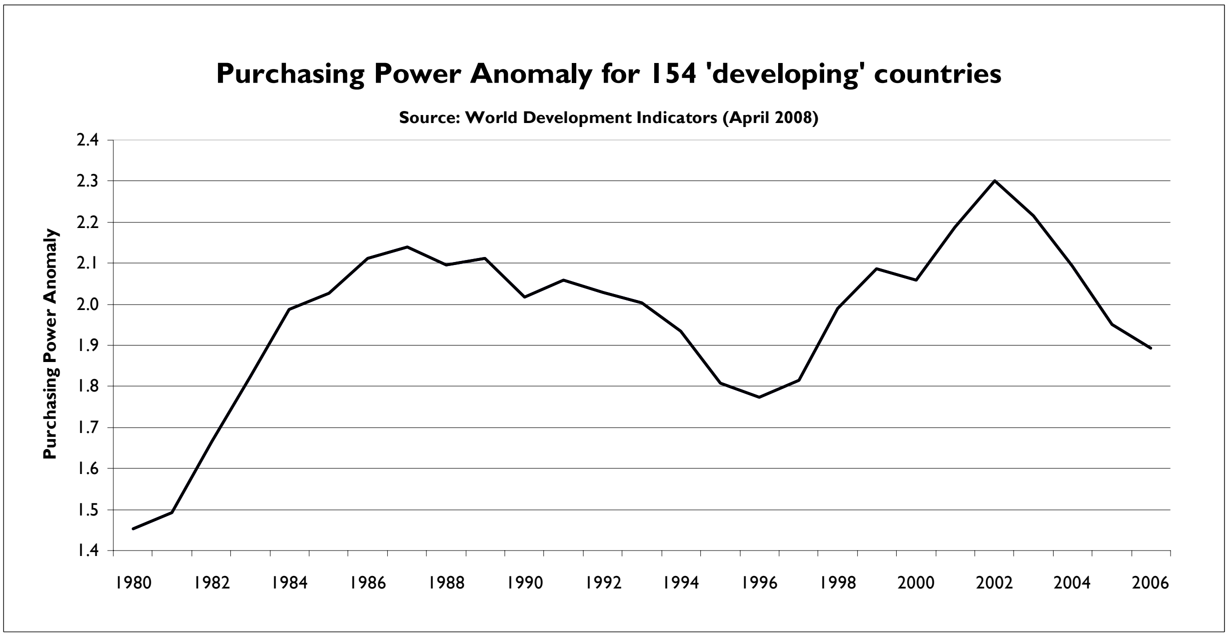

Figure 5.2 shows how the purchasing power anomaly for 154 'developing'countries, weighted for GDP, has evolved since 1980 (the purchasing power anomaly is defined here as the inverse of the PPP conversion index shown in Figure 5.1). Thus the lower the PPP index for a given country, the higher the anomaly. Clearly, the anomaly is large, it is persistent, and it fluctuates wildly. Whether the long-term trend of the anomaly is increasing or is flat depends on the exact period chosen—a trend line fitted between 1983 and 2006 is almost flat, while a trend line fitted between 1980 and 2002 shows a steep upward gradient. Nevertheless, it is widely believed that the purchasing power anomaly has tended to increase over time. Thus Alan Freeman argues that "the divergence of PPP and current-exchange measures is universal throughout the non-advanced countries,"[3] while Alan Taylor and Mark Taylor conclude, from their data analysis and literature review, that the purchasing power anomaly "has been intensifying since 1950."[4] Similarly ambiguous is the apparently cyclical movement of the trace, which may be nothing more than a random walk.

One way to investigate this is to consider the fact, to be established in the second part of this chapter, that the purchasing power anomaly is mostly the result of price differences in the non-traded sector. This suggests that an expansion of this sector relative to the tradeable goods sector, as occurs in Southern nations during periods of slow GDP growth, could be expected to increase the anomaly. Figure 5.3 investigates this by using the waged share of EAP in the global South as an indicator of changes in the relative sizes of the trade and non-traded goods sectors, alongside a weighted index of the purchasing power anomaly that affects soft currencies. The result is far from conclusive, but suggests that there is a relation, albeit complex and mediated. In particular, from the mid-1980s to 2005, the purchasing power anomaly does appear to rise and fall with the rise and fall of the non-waged shared of EAP—with a lag of around three to five years, reflecting the time it takes for Forex rates to adjust to domestic inflation rates.[5]

Much more can be gleaned by interpreting the trajectory of the purchasing power anomaly in the context of the waves of economic crisis sweeping through the global South during these decades. Figure 5.2 reveals the existence of four distinct periods—two periods when the anomaly was rising fast, 1980-1986 and 1997-2002; and two periods, 1987-1996 and 2002-2006, when it fell back. The two rising periods correspond to the tsunami waves of debt-induced currency crises that swept the global South, first following the global hike in interest rates and ensuing Third

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3 Alan Freeman. 2004. 'The Inequality of Nations', in *The Politics of Empire: Globalisation in Crisis.* Alan Freeman and Boris Kagarlitsky (eds.), 46-83. London: Pluto Press. (p67)

4 Alan M. Taylor & Mark P. Taylor, 2004, 'The Purchasing Power Parity Debate', in *Journal of Economic Perspectives*, 18.4, 135–158 (p152).

5 Three to five years corresponds to estimates of the 'half life' of exchange-rate disruptions—the average time it takes for misaligned currencies to revert halfway to an exchange rate equalising price levels.

World debt crisis resulting from the 'Volcker shock' in October 1979, and again following the crisis of the Asian 'tiger economies' that began with the devaluation of the Thai bhat in August 1997. In both periods, collapsing currencies caused the purchasing power anomaly to jump upwards. The first spike was then eroded as inflation raised domestic prices, while the sharp decline following 2002 reflected the appreciation of many soft currencies against the dollar and other hard currencies, as surging growth rates in the global South and lower interest rates in the North resulted in a large flows of finance capital from the imperialist countries into 'emerging nations' stocks, government bonds and real estate, in addition to soaring FDI flows.

Figure 5.3   PPP conversion index vs. waged share of EAP

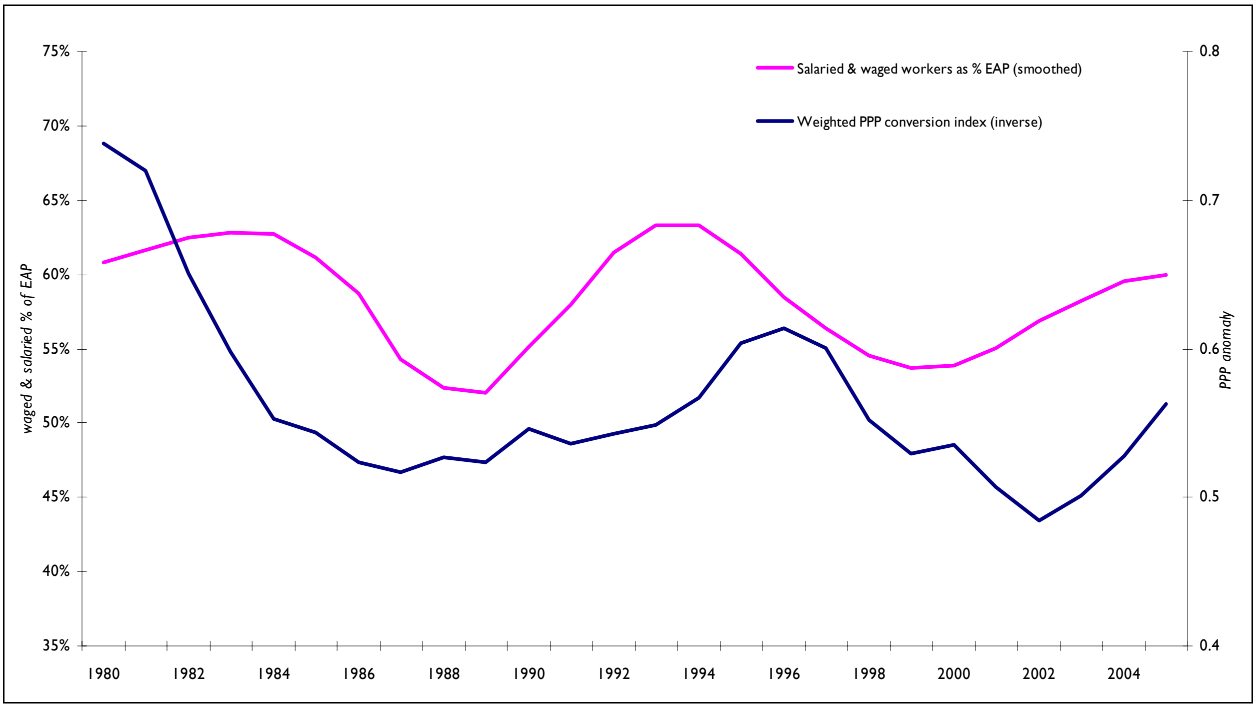
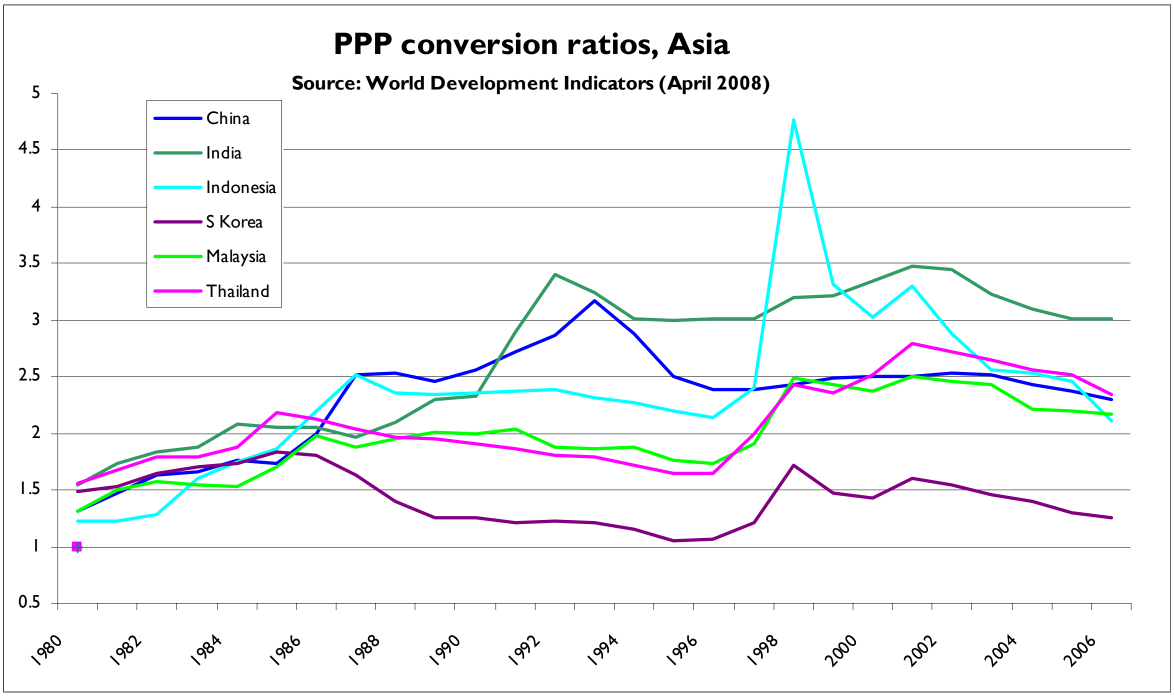


Figure 5.4   PPP conversion indices, Asia and Latin America



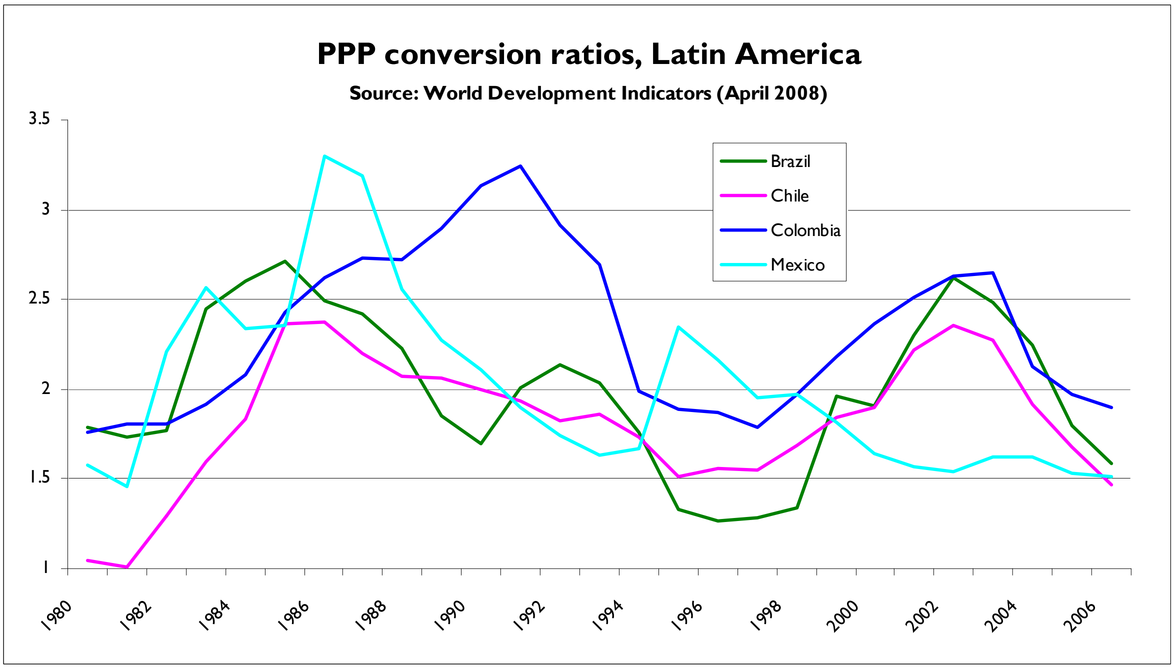


Figure 5.4, which shows the evolution of the purchasing power anomaly for individual Asian and Latin American countries, adds further details. Comparison with Figure 5.2 reveals that the first spike seen in Figure 5.2, 1980-86, was driven by a sharp rise in the purchasing power anomaly in Latin America, the epicentre of the 'Third World debt crisis', the second, 1997-2002, was more broadly based, reflecting the currency crises and economic crashes in Thailand, Indonesia, S

Korea and other SE Asian countries and the renewed outbreak of crises in Latin America. The sharp spike in Mexico's trace in 1995 shows the impact of the 'Tequila crisis' in December 1994, which saw an almost overnight 42% devaluation of the Mexican peso, described by IMF head Michel Camdessus at the time as "the first major crisis of our new world of globalised financial markets."[6]

Purchasing Power Parity pitfalls

The United Nations Statistical Commission's International Comparison Program (ICP) is responsible for producing the PPP conversion indices used to convert Forex dollars into PPP dollars. Their computation requires intricate methodologies and the collection of vast amounts of raw data, since to be of any use they must be sensitive to wide differences in consumption patterns between and within nations. As the Eurostat-OECD's 'Methodological Manual on Purchasing Power Parities' explains, this means constructing different baskets of goods for each country, reflecting "differences in tastes, cultures, climates, price structures, product availability and income levels," with the essential aim that each nation's basket should "provide equivalent satisfaction or utility,"[7] a seemingly impossible task when the countries to be compared are as dissimilar as Norway and Rwanda. In addition, the ICP has also to deal with urban-rural price differences, seasonal variations in prices and government subsidies for essential commodities, though the last of these are nowadays far less prevalent, having been frowned on as 'market distorting' by the IMF and World Bank. Just how complex is the ICP's task, and how meticulous it must be, can be seen in the Asian Development Bank's report on its contribution to the 2005 global benchmarking: "[p]recisely specifying the price-determining characteristics of products often required expert knowledge specific to the products in each particular field. For example, knowledge of milling processes and the different types of outputs produced was needed in the area of cereals."[8]

Apart from the logistical problems associated with the task of collecting and aligning data on consumption patterns and prices in all corners of the earth, there are three pitfalls, in particular, that plague the production of purchasing power parity indices. These are sporadic benchmarking; substitution bias—caused by deviation from the standard basket caused by

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6 Julio A. de Quesada, 2000, 'Reflections on the Mexican Crisis', in *Capital Markets, Growth and Economic Policy in Latin America*, Antonio Jorge, Jorge Salazar-Carrillo, Bernadette West (eds.). Westport: Praeger Publishers, p67.

7 OECD, 2006, p29.

8 Asian Development Bank, 2007, *Purchasing Power Parities and Real Expenditures*. Manila: Asian Development Bank, p63.

changing consumer behaviour; and the myth of the 'average consumer'—the deviation between a nation's average basket of goods and what is actually consumed by workers, farmers and small producers. A fourth could be added: the provenance and probity of price and inflation statistics, in other words the deliberate manipulation of data by national governments tempted for political or commercial reasons to conceal the prevalence of illegally low wages or to massage the inflation rate.

Infrequent benchmarking

The ICP only benchmarks its product categories and methodologies every five to ten years (most recently in 2005, before that in 1993-6), while price data within each country is only gathered every two to five years, with gaps being filled by extrapolation using reported domestic inflation rates and changes in Forex exchange rates. The 2005 benchmarking, in which the ICP implemented many methodological refinements, caused revised estimates of 'real' (PPP-adjusted) GDP per capita to be issued. The revisions are startlingly large. For Asia/Pacific nations, 'real' per capita GDP in 2005 turned out to be 30% lower than previous World Bank's estimates, with China's per capita GDP being 39% lower and India's 38% lower.[9] In contrast, Africa's per capita GDP was 10% higher than previous estimates, though this average conceals big reductions for the majority of African nations, balanced by a large upward correction for the two most populous African nations, Nigeria and Egypt. In Latin America, large individual swings in both directions cancelled each other out.

An indication of the problems that can result from sporadic benchmarking can be seen in a detail in Figure 5.4. The increase in Mexico's reported purchasing power anomaly in 1995 (41%) almost exactly matched the size of the Mexican peso's devaluation; the anomaly then fell back to its previous level over the next seven years, as inflation raised domestic prices. This illustrates how exchange-rate movements and domestic inflation are used to extrapolate PPP indices, used to calculate changes in real GDP that is not distorted by turbulence in the currency markets. But they say nothing about changes in relative prices within Mexico, in particular of the price of labour; these can only be discovered through the collection of real data. The *Financial Times* editorialised in April 1995 that "[f[ear of unemployment has dampened union militancy and pay demands [...] there have been few strikes, and four-fifths of pay settlements have not exceeded 7.5 per cent, compared with officially forecast inflation of 42 per cent this year."[10]

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9 See ICP, 2008a for the corrections in detail.

10 Financial Times, 1995, unsigned editorial in in *Financial Times*, April 28 1995.

Substitution bias

'Substitution bias' occurs when the weights of the different components items in the 'standard basket' remain unaltered, despite relative price movements that cause consumers to increase consumption of goods that are becoming relatively cheaper. The resulting increase in consumption is misinterpreted as an increase in purchasing power, thus overstating the income level in the country whose currency is being converted. This can become a big problem because data is collected only periodically and the bias can accumulate from one year to the next. It is likely that a significant part of the ICP's 2005 revision was caused by correction for substitution bias.

The direction of the bias, whether it causes the per capita income of poor countries to be overestimated or underestimated, is determined by which currency is being used as the *numeraire*. This is invariably the PPP dollar, and the result of the bias is an overestimation of the purchasing power of the poor nation's currency, making real wages appear to be higher than they are. To understand the nature of this bias, consider what would happen if the poor nation's currency was used as the *numeraire* and dollars were converted into, say, PPP pesos or PPP renminbi. As before, substitution bias would occur, overstating the purchasing power of the currency being converted, causing real wages in the USA and wage differentials between the USA and Mexico, China etc to appear larger than they actually are—the opposite of what happens when the dollar is taken as the *numeraire*.[11]

The ICP does not dispute the existence of substitution bias, and has even supplied a health warning of its own: "Extrapolating one benchmark year value to another benchmark year [...] will fail to capture any changes in the composition of the quantity, which may result from changes in relative prices and interplay of supply and demand of complementary and substitute products. This is a well-known effect in international comparisons and it could lead to significant differences over a short period of time"[12]

Despite such health warnings, the existence of this bias is routinely ignored by journalists and social scientists commenting on global inequality. Yet, as research by Robert Ackland, Steve Dowrick and Benoit Freyens demonstrates, 'substitution bias' dramatically affects calculations of the number of people living in poverty. They report that, correcting for this bias, estimates of the

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11 For a more detailed explanation, practical examples and mathematical proof of this, see Dowrick, Steve and Muhammad Akmal, 2005, 'Contradictory Trends in Global Income Inequality: A Tale of Two Biases', in *Review of Income and Wealth,* 51:2, 201-229; and Robert Ackland, Steve Dowrick & Benoit Freyens, 2007, *Measuring Global Poverty: Why PPP Methods Matter*. (http://adsri.anu.edu.au/pubs/Ackland/GlobalPoverty_14Aug2007.pdf, accessed 26/09/2009).

12 ICP (International Comparison Program), 2008a, *Global Purchasing Power Parities and Real Expenditures: 2005 International Comparison Program, Appendix G (revised).* Washington: World Bank. (http://siteresources.worldbank.org/ICPINT/Resources/AppendixGrevised.pdf, accessed 23/05/2009), p3.

number of people in the world surviving on less than $2 per day increase by 29%, and the number in 'extreme poverty' (<$1 per day) increase by an astonishing 44%, with the biggest jump in East and South Asia, results which indicate "that there is significant bunching of the population in East and South Asia just above the $1/day poverty line."[13]

The myth of the 'standard basket'

'Substitution bias' is about how the composition of the 'standard basket' may drift away from the actual basket, i.e. the real consumption patterns of a nation's population. This is not the only potentially significant way that the 'standard basket' departs from real life. Another is the discrepancy between the actual contents of the meagre basket of goods purchased by low-wage workers and those in the 'standard basket' consumed by the mythical average citizen used to calculate the PPP index.[14] The very sharp increases in food and fuel prices beginning in 2002 (see Figure 5.5), items which consume a larger fraction of the incomes of working people than they do of elites, mean that currently-used PPP indices significantly exaggerate the real purchasing power exercised by low-wage workers in both rich and poor countries.[15] As senior World Bank economist Martin Ravallion acknowledged, "it would be better to have PPPs designed for poverty measurement, weighted to the consumption bundle of people near the poverty line."[16]

The rise in the prices of necessities may also be masked by falls in the relative prices of imported luxury goods, and of manufactured imports in general, which have tended to fall in southern nations as import tariffs have been reduced and as the growth of the middle class has expanded previously narrow markets.

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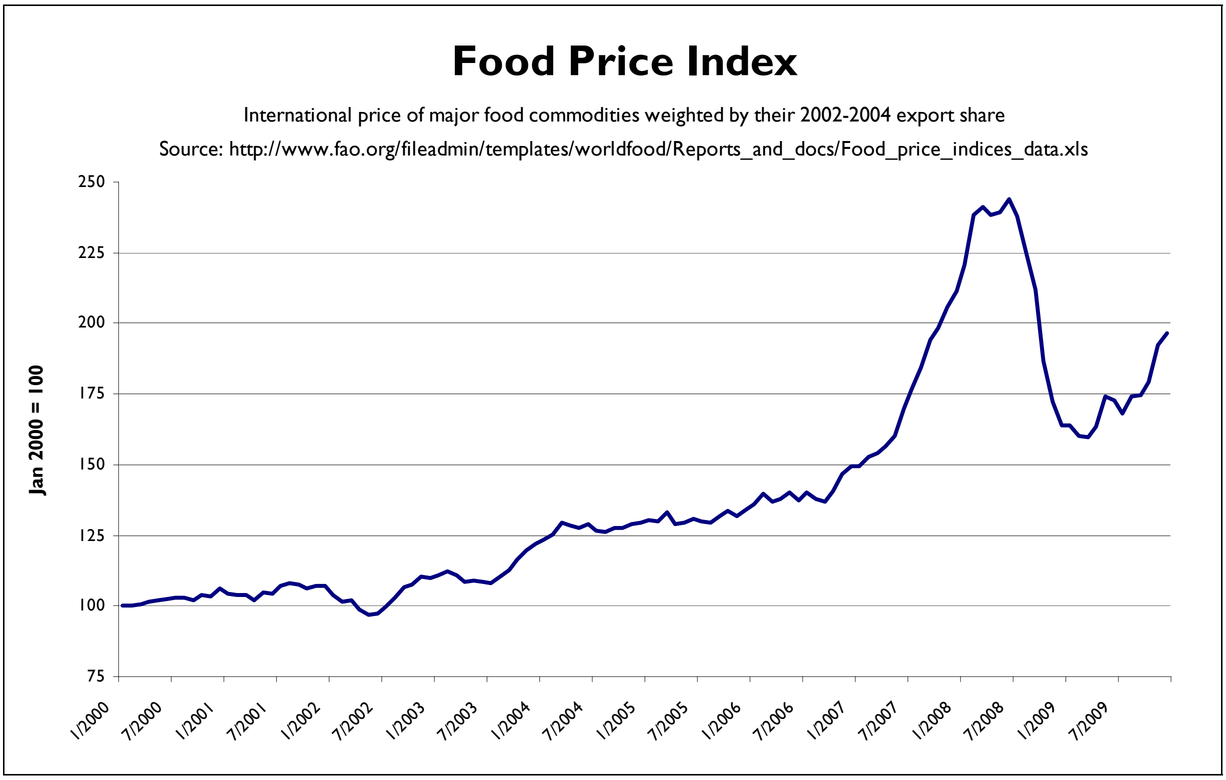
13 Ackland et al, p14.

14 In contrast, the Consumer Price Index in the USA is based on the consumption habits of industrial workers, though various dubious adjustments are made that cause it to underestimate the actual rate of inflation confronted by US workers.

15 The ILO reports that *"in advanced economies (Denmark, the Netherlands and Switzerland), food expenditure is less than 20 per cent of total expenditure, but [...] is more than 60 per cent in many developing countries. The ratio even exceeds 70 per cent in some countries, such as Armenia, Niger and Romania."* ILO, 2008, p17.

16 Martin Ravallion, 2008, How Not to Count the Poor? A Reply to Reddy and Pogge, p6. He notes, in continuation, that "[a]n effort is underway at the Bank to estimate 'PPPs for the poor,' by reweighting the 2005 ICP prices to accord more closely with consumption patterns of poor people."

Figure 5.5 World Food Price Index, 2000-2008



To conclude this section: considering the huge number of parameters that must be processed in order to produce PPP indices, and the methodological problems and pitfalls that must be surmounted on the way, PPP indices should be considered as nothing more than rough approximations. As Dowrick and Akmal say, those "who want to compare real income levels across countries need to be wary of the label 'purchasing power parity'." [17] Furthermore, the continued biases and distortions resulting from infrequent data collection, 'substitution bias', and the use of a basket of goods that reflects the consumption patterns of the mythical average citizen, not the average worker, are each likely to result in exaggerated estimates of real wage levels in the global South. This raises the question as to whether these distortions are innocent or the result of conscious manipulation by supposedly objective UN statistical agencies. Alan Freeman, Robert Wade and Thomas Pogge are among those scholars who believe that the latter is the case.[18] What is beyond reasonable doubt, however, is that taken together with factors considered in the previous chapter (in particular, systematic underreporting of wage levels in the 'informal economy' and increased intra-national wage inequality) also tending to overestimate southern

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17 Dowrick & Akmal, 2005, p224

18 See Alan Freeman, 2004; Robert Hunter Wade, 2003, 'Poverty and income distribution: what is the evidence?,' in *Real World Economic Outlook*, ed. Anne Pettifor, 138-151. Basingstoke: Palgrave Macmillan; Thomas Pogge, 2001, 'Priorities of global justice,'in *Metaphilosophy* 32:1-2, 6–24.

real wages, the claims by globalisation's apologists that southern real wage are trending upwards and are converging with wages received by workers in imperialist countries lack credibility.

Marxist political economists on PPP

The only attempts to theorise the purchasing power anomaly from anywhere in the broadly-defined Marxist tradition have been made by Alan Freeman, a Marxist economist who has written extensively on value theory and global inequality, although not necessarily at the same time, and by Gernot Köhler, Cem Somel and other adherents of the 'world-system' school, whose luminaries include Emmanuel Wallerstein, Samir Amin and Giovanni Arrighi.

In '*The Poverty of Statistics and the Statistics of Poverty'* Alan Freeman notes that "the concept of Purchasing Power Parity [has] made a rapid journey from the unrecognised work of a coterie of enthusiasts to a near-universal standard", charging that "the marriage of political expediency and unrequited expertise [...] proved a potent antidote to professional caution. PPP statistics, in a nutshell, made globalisation look good. More specifically, they made the World Bank and the IMF look good." [19] To substantiate this, Freeman argues that not only do the global South's output and GDP growth measured in PPP$ result in a very much rosier picture than when measured in Forex$—but one that is also highly one-sided and misleading. This one-sidedness, he argues, results from the prices of consumption goods being systematically lower in the global South than in the 'First World', while in contrast firms in poor nations are actually charged more for capital and intermediate inputs than their counterparts in rich countries. PPP indices calculated from the relative prices of consumption goods—such as the 'consumption PPPs' used to compare wages and living standards—take no account of the very different price relativities encountered in capital and intermediate inputs. These matter, because the ability to purchase these goods determines a country's ability to *develop* and to raise the living standards of its citizens; in Freeman's words, "successful attainment in the sphere of consumption in fact depends on prior success in production." [20]

Freeman is on less firm ground when he claims that the PPP indices used to compare GDP are also "a consumption standard of price, systematically understating the importance of production costs for the Third World", [21] since PPP indices used for this purpose are a weighted composite of conversion indices for household consumption, government investment, and private sector fixed

[19] Alan Freeman, 2009, 'The Poverty of Statistics and the Statistics of Poverty', *Third World Quarterly*, 30:8, 1427-1448 (p1433)

[20] Ibid., p1441

[21] Ibid., p1441

capital formation, these being the three different components of GDP (more exactly, the three different ways a nation's GDP is consumed).[22] There is indeed an inherent bias towards the relative prices of consumption goods: in most nations personal consumption accounts for between two thirds and three quarters of GDP, with China at one extreme, where it accounts for just 43% of GDP (reflecting this country's exceptionally high level of investment in infrastructure and means of production), and the UK at the other, where consumption accounts for 80% of GDP (reflecting this country's abnormally low level of investment in infrastructure and new production).[23]

Perhaps the most significant contribution of Freeman's paper is its discovery of an important category of prices that are entirely omitted from the ICP's calculations. Since GDP aggregates the net value-added of all firms in that nation's economy, the costs of intermediate inputs are stripped out, since these costs, along with wages, are subtracted from each firm's gross output to produce its value-added. Wages do come back into the picture, as a major component of household consumption, but intermediate inputs make no further appearance and remain hidden within the 'black box' of production. Yet "[i]ndustry relies not just on labour and capital equipment to keep going, but must also purchase the steady stream of components and raw materials that are needed simply to keep the production lines running. The more complex the manufacturing process, the more sophisticated the inputs required. The publisher requires paper and ink, the computer manufacturer the printed circuits, metal cases, power supplies, fans, screens and so on."[24] Since these intermediate goods are typically more expensive in the global South than in the 'developed' countries, their omission from the ICP's calculations does contribute, as Freeman argues, to a distorted picture of 'Third World' progress—but the biggest questions raised by this concern how 'GDP' measures value generated in a national economy, and have little relevance to the use of PPP$ to international comparisons of personal consumption.

Freeman concludes that the PPP$ and Forex$ yardsticks "reveal different aspects of every aggregate of transactions, whether this be GDP, exports or industrial output. Therefore they should both be used in every concrete analysis."[25] This is persuasive—but with the proviso that

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22 As the ICP states, "The global ICP report used values for GDP and its components submitted by the economies to their regional coordinators" (ICP, 2008a, p3).

23 Calculated from Tables 3 & 4 in ICP, 2008. According to these tables, in nominal prices 69% of global production is devoted to personal consumption, or 68% in PPP prices.

24 Alan Freeman, 2009, 'The Poverty of Statistics and the Statistics of Poverty', *Third World Quarterly*, 30:8, 1427-1448 (p1443). He argues, in continuation, that *"GDP, a measure of consumption, omits these costs."* But, though it is often used as if it is synonymous with consumption, GDP is a measure of production, of the net value-added produced by a national economy.

25 Ibid., p1445.

the two yardsticks must be given very different emphases depending on exactly what is being compared. To make international comparisons of wages and living standards all that matters are the relative prices of consumption goods, even if interpreting and drawing conclusions from this data requires the use of both yardsticks. Perhaps out of eagerness to criticise the excessive zeal with which the IFIs have adopted PPP$, Freeman resists this: "the 'horses for courses' concept—each statistic should be used to study a different problem [...] is as attractive as it is trite, but it is wrong... both [are] required to study every problem [...] It is no more correct to omit MEPP ['Monetarily Effective Purchasing Power', i.e. purchasing power measured using current prices at market exchange rates] aggregations from a rounded study of living standards than it is to omit PPP indicators from a rounded study of trade," [26] Yet this doesn't quite close the door on the possibility that, depending on what we are comparing, one measure may be much more important in the generation of valid statistics than the other.

Further development of a critique of the concept and the application of PPP requires progress in two directions. First, to examine in detail both the quality of the raw data and the statistical methodologies used to arrive at PPP indices, important aspects of which have been surveyed in this and the previous chapter. Second, to ask *why* consumer prices are lower in the global South than in the 'First World'. This requires evaluation of the mainstream economists' theoretical explanation for the existence of the purchasing power anomaly, and, if informed by a Marxist perspective, leads to a rejection of its cornerstone: that low wages in the global South are a mere index of low labour productivities. Freeman appears to close off this path with his argument that *"[t]he division between First and Third Worlds, reduced to its economic essence, is a division of the world into zones of low wages and low productivity on the one hand, and high wages and high productivity on the other."* [27]

Gernot Köhler, a prominent representative of the 'world-system' school, whose roots lie in 'dependency theory' discussed in chapter 1 and elsewhere, has nothing to say about the methodologies used to calculate and apply PPP conversion, the subject of this chapter so far. Consideration of his ideas allows a change to a much longer focal length, to see the purchasing power anomaly in its relation to international financial flows and to the globalisation of production. Examination of Köhler's thesis also serves to introduce concepts that will be

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26 Ibid., p1445. Earlier, he argued that *"PPP-denominated indicators are [...] neither fish nor fowl. They record neither actual economic activity nor tangible social welfare"* (ibid., p1428).

27 Ibid., p1437. The central argument of this thesis is that the 'economic essence' of the relation between the 'First and Third Worlds' is the multiform exploitation of southern labour by northern capital.

important in the next stages of this inquiry, in particular the concepts of 'value-transfer' and 'unequal exchange'.

'World-system' theory has been widely criticised by 'orthodox' Marxists on many grounds, not least for its identification of capitalism with the world market rather than with the exploitation of wage labour, resulting in mercantilist theories of unequal exchange which had no need of or place for the relation between absolute and relative surplus value, *i.e.* for capitalism's production relations. Unfortunately, the theory advanced by Gernot Köhler represents a further regression. Now, even the commodity markets are beyond the horizon; this new form of 'unequal exchange' is caused by conditions in currency markets alone.

Köhler argues that "Global currency markets are biased so that the currencies of the poorer countries are undervalued, which leads to unfair trade between periphery and center countries," calling this a "form of unequal exchange."[28] In his view, the 'undervaluing' of the currencies of the poorer countries results in 'unfair exchange rates' and an "unrecorded transfer […] equal to the difference between the fair value of the export and the unfair (actual) value of the export."[29]

The 'fair value' of the export—its 'real value', according to Köhler—is its measure in PPP-adjusted dollars, not in the 'overvalued dollars' poor countries are paid for their exports. Köhler proceeds to calculate the magnitude of S-N value transfers directly from trade data and PPP indices. The result: enormous 'unrecorded transfers', draining countries in the 'periphery' of trillions of dollars per year to the benefit of countries in the 'core'. To illustrate the size of the alleged effect, Bangladesh's merchandise exports in 2004 earned it \$8.15bn. In that year, its PPP index stood at 2.63. According to Köhler, the real value of Bangladesh's exports was not the \$8.15bn it actually received but 2.63 times this amount, or \$21.34bn. Bangladesh was thus shortchanged to the tune of \$13.28bn in 2006.

Perhaps the most obvious, if trivial, objection is that if importing nations had to pay 2.63 times more for the products of Bangladesh's factories they would buy far less of them. More importantly, it is not at all clear why domestic prices should be a more accurate measure of the value of commodities than their measure in dollars at actual exchange rates. Indeed, do these exported goods even have 'domestic prices'?—in many cases there is no domestic market for these products; they were produced for export to the 'hard currency' nations, in anticipation of being sold for Forex dollars, not PPP dollars. This is another reason why Köhler's thesis does

28 Gernot Köhler, 2004, *Global Wage System – 2004: A Study of International Wage Differences*. New York: Nova Science Publishers, (pp58-59).

29 Gernot Köhler, 1998, 'The Structure of Global Money and World Tables of Unequal Exchange.' *Journal of World-Systems Research* 4: 145-168, (p155).

not make sense: the southern exporters are actually paid in 'overvalued' dollars, they therefore enjoy the full domestic benefits of the dollar's greater domestic purchasing power.

Köhler provides flimsy theoretical support for his thesis: "Topdog countries tend to have 'hard' or 'strong' currencies (i.e. valuable currencies); underdog countries tend to have 'soft' or 'weak' currencies (i.e. less valuable currencies). The general power/wealth gradient in the world system can thus be found [...] in the value structure of global money." [30] This explanation is tautological, since the 'value structure of world money' is just another way of describing the system of 'hard' and 'soft' currencies. Once invoked, the 'value structure of world money' becomes reified into an autonomous structure with its own agency; no attempt is made to investigate the internal connections between 'world money' and global production. Thus he states, "[i]n terms of causality, it may be asked whether the global power/wealth structure determines the global money structure or vice versa. I assume that both causalities exist." [31] Having discovered the 'global money structure' responsible for fleecing southern nations of the lion's share of the value of their exports, Köhler calls for "a reform of the global exchange rate system in the direction of purchasing power parity (PPP) rates," [32] but leaves it to others to work out how this may be done.

In a series of papers that are more important for their insights into the political economy of Turkey and other major 'developing economies', Cem Somel attempts to strengthen Köhler's thesis by introducing the concept of an 'economic surplus', defined as "the real income exceeding the essential consumption necessary for the reproduction of the labour force in our society, i.e. the flow of goods and services that is available for capital formation." [33] Part of this "is transferred abroad through unrequited real transfers resulting from market exchange rates that undervalue the value of exports of underdeveloped countries." [34]

Agreeing with Köhler that 'unfair' market exchange rates are the problem, Somel asks "[w]hat drives the currency undervaluation in peripheral countries?" [35] Unfortunately, he looks no further than the conditions in currency markets for an explanation. Financial deregulation, according to Somel, causes the 'undervaluation' of soft currencies, and it does so in two ways. First, "[c]apital

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30 Ibid., p152.

31 Ibid., p152.

32 Ibid., p155.

33 Cem Somel, 2003. 'Estimating the surplus in the periphery: an application to Turkey', in *Cambridge Journal of Economics*, 27, 919-933, (p919).

34 Ibid., p920.

35 Cem Somel, 2005. *Surplus Allocation and Development under Global Capitalism.* ERC Working Papers in Economics 05/05, (p13).

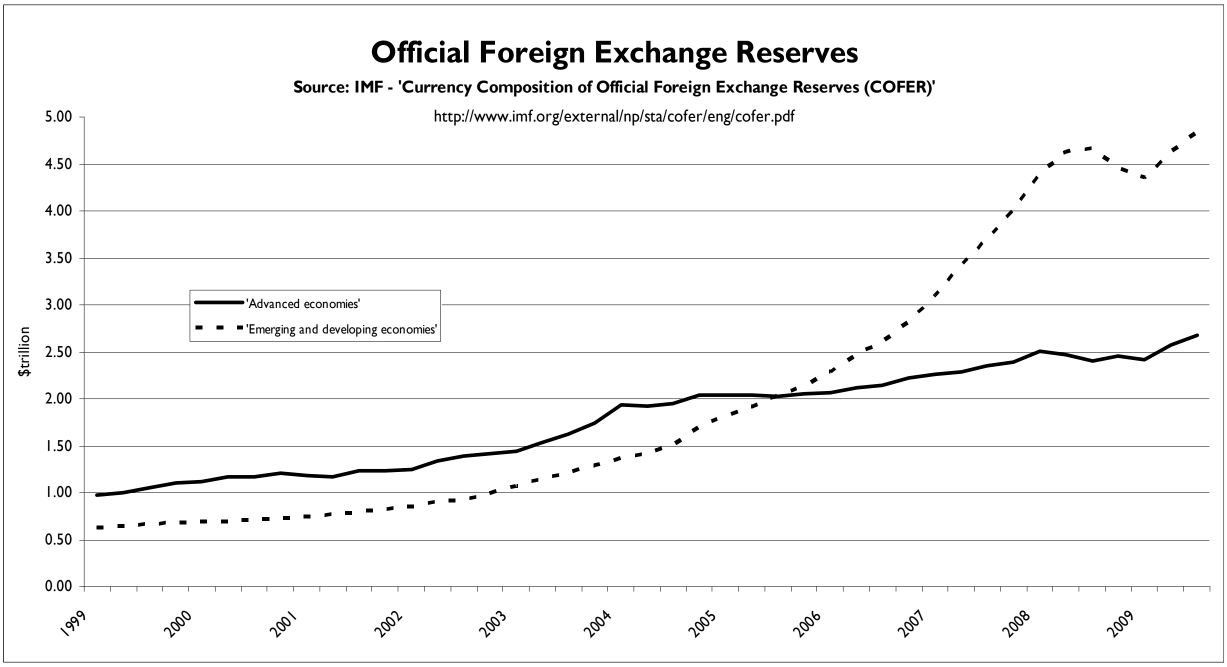
account convertibility in peripheral countries instigates a private demand for dollars and for other reserve currencies as a store of savings and for capital flight." But capital account convertibility, i.e. the end of exchange controls, has not 'instigated' capital flight. The national bourgeoisies are merely enjoying the same freedom to move their money around as foreign investors, and if it is rational behaviour for foreign investors to store their wealth in London, Paris or the Caymans, we should not expect the newly-emancipated national bourgeoisies to behave differently. Somel suggests that capital flight causes 'soft' currencies to be soft—but a more plausible hypothesis is that the causes of both capital flight from southern nations and the softness of their national currencies are to be found in the exploitative and oppressive relations between imperialist and semi-colonial nations. The most we can say is that capital flight aggravates softness of the south's currencies, and vice versa.

Somel's second reason is that "volatile international capital flows unleashed by this convertibility compel central banks to accumulate large reserves in order to prevent currency crises, generating a rising official demand for reserve currencies [...] a source of downward pressure on the exchange rates of peripheral national currencies against the reserve currencies."[36] However, crisis prevention is a secondary factor in explaining the South's accumulation of hard currency reserves. The principal reason for the accumulation of trillions of dollars in the central banks of China and other southern exporting nations is the N-S structural deficit in manufactured trade resulting from the southward global shift in production processes. Far from exerting a 'downward pressure on the exchange rates of peripheral national currencies', this trade surplus results in an unwelcome upward pressure on their exchange rates; unwelcome, because appreciation would raise their export prices and so undermine their 'export-oriented industrialisation' strategy. For this very reason, southern exporters, China in particular, have spent a lot of treasure trying to prevent their currencies from appreciating against the dollar. Lawrence Summers, appointed by President Obama as Director of the National Economic Council, commented: "[i]t is striking to estimate the cost to developing countries of reserve holding that goes beyond what is necessary for financial stability, even if we used a standard more rigorous than any that has been proposed [...] these reserves represent almost $1.5 trillion and are growing at several hundred billion dollars per year while earning what is likely to be a zero real return measured in domestic terms [because US Treasuries yield is close to US inflation]. This represents a substantial cost."[37]

36 Somel, 2005, p13

37 Lawrence H. Summers, 2006, *Reflections on Global Account Imbalances and Emerging Markets Reserve Accumulation*. L.K. Jha Memorial Lecture, Reserve Bank of India. March 24, 2006 (http://ksghome.harvard.edu/~lsummer/speeches/2006/0324_rbi.html, accessed 22/07/2009). Martin Wolf

Figure 5.6   Hard currency reserves



China, South Korea and others, in a perverse reversal of the Marshall Plan, are lending the US the cash it needs to purchase the products of their burgeoning export industries. They dare not do anything else with their money or the US government would be obliged to replace the free capital loaned to them by southern governments with borrowing from (domestic and foreign) private capital. The certain result of this would be to drive up interest rates and precipitate a global recession, decimating northern demand for the South's exports and derailing their export-dependent economies.

The South's hard currency reserves represent the accumulated export surpluses of private capitalist firms, who deposit their hard currency export receipts in the central bank who in return credited their accounts the equivalent in domestic currency. To prevent this issuance of large quantities of domestic currency from sparking runaway inflation, central banks must 'sterilise' it—i.e. borrow an equivalent amount, taking it out of circulation—and they do this by selling domestic government bonds to soak up the 'excess liquidity'. To persuade finance capitalists, investment funds etc to buy these bonds (instead of, say, taking their wealth offshore) governments must offer premium interest rates—and must then reinvest this money they've just borrowed in order to service these domestic debts. The big problem is, as the Financial Times pointed out, "[t]he interest rate paid on these bonds can exceed what the central bank earns on

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reports that in the six years from January 2000 '*the world as a whole accumulated $2,780bn in additional foreign currency reserves. Three-fifths of the reserves accumulated since the dawn of time have been accumulated over this brief period.'* Martin Wolf, 2006, 'Bad news for the IMF is good for its clients', in *Financial Times*, September 12 2006.

the dollars or euros it has bought. So there is a running cost to sterilisation." [38] Summers estimates that this interest rate mismatch costs the top ten 10 holders of excess reserves $100bn per annum, or 1.85 percent of their combined GDP. [39]

Köhler and Somel's attempt to derive the scale of value transfers directly from the purchasing power anomaly holds no water. However, though they fail to explain the nature of the purchasing power anomaly, they deserve credit for sensing its importance. Notwithstanding the inadequacies of Köhler's explanation of the huge purchasing power anomaly, he is quite right to regard as significant the 'observed correlation' between "a country's socio-economic status in the world system and the relative value of the country's money within the world system." [40] He and Somel are right to believe that the values created in the production of the South's exports are not measured by the prices received for them; they are right that, to the extent these values and prices diverge, a flow of value is generated from the 'peripheral' nations, and they are right to suspect that this is connected to the curious purchasing power anomaly. But they are wrong to imagine that the magnitude of this flow can be read off from PPP and trade statistics, and they are wrong to assume that PPP$ are any more accurate and reliable as a measure than Forex dollars, or that such a thing could even exist in such a skewed and polarised world.

As can be seen, once again it is the globalisation of production, and not autonomous changes in the realm of high finance, that is at the root of the phenomenal accumulation of hard currency reserves by many of the world's poorest nations, providing further evidence in support of this thesis, that the globalisation of production driven by the desire to make super-profits from the expanded exploitation of low-wage labour in the global South is the key transformative process driving neoliberal globalisation forward.

38 Tina Vandersteel, 2008, 'Time to pounce on currency mispricings', in *Financial Times*, January 8 2008.

39 Summers, 2006.

40 Köhler, 2004, pp61-62.

5.2 *Why do market exchange rates undervalue 'soft' currencies?*

How to correct for the purchasing power anomaly is an unavoidable and complex practical question. Of a different order entirely is the question: *why* does the purchasing power anomaly exist between hard-currency and soft-currency nations? The ubiquity and persistence of this anomaly indicates that it cannot be explained by contingent causes such as protectionism, movements of hot money, government deficits and so forth, and that its causes must be sought in structural characteristics concerning the way in which southern nations are inserted into the global economy. As we shall see, investigation of the purchasing power anomaly provides persuasive reasons to question the fundamental premises of the mainstream doctrine that international wage differentials are mere reflections of international differences in labour productivity.

Before turning our attention to the mainstream explanations for this glaring violation of market efficiency in exchanges between hard and soft currencies, we must first consider whether, and if so to what extent, the Purchasing Power Parity hypothesis is valid for exchanges between hard currencies.

The Purchasing Power Parity hypothesis

Reviewing "an enormous and evergrowing empirical literature on PPP"[41] Kenneth Rogoff noted in 1996 that "for many years researchers found it difficult to [...] prove that there was any convergence toward PPP in the long run [...] [this] was something of an embarrassment. Every reasonable theoretical model suggests that there should be at least some temporary component to PPP deviations."[42]

Wider and more detailed data coverage and the arrival of faster computers and more powerful statistical techniques have combined to spare the economists' blushes. As Rogoff remarked "at long last, a number of recent studies have weighed in with fairly persuasive evidence that real exchange rates [...] tend toward purchasing power parity in the very long run."[43] More than a

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41 Kenneth Rogoff, 1996, 'The Purchasing Power Parity Puzzle', in *Journal of Economic Literature*, 34:2, 647-668 (p647). For recent reviews of the extensive literature on PPP, see Bahmani-Oskooee, Mohsen & A.B.M. Nasir, 2005, 'Productivity Bias Hypothesis and the Purchasing Power Parity: A Review Article', in *Journal of Economic Surveys*, 19:4, 671-696; Imed Drine & Christophe Rault, 2008, 'Purchasing Power Parity for Developing and Developed Countries: What can we Learn from Non-Stationary Panel Data Models?' in *Journal of Economic Surveys*, Volume 22:4, 752-773; Taylor & Taylor, 2004.

42 Rogoff, 1996, p655

43 Ibid., p647

decade later and more of the picture has come into focus—and it is not kind to the PPP hypothesis. In their analysis of the long-run behaviour of exchange rates of 80 'developed' and 'developing' countries and an extensive review of research to date, Imed Drine and Christophe Rault found that what they call 'strong PPP'—i.e. a tendency for exchange rates to equalise price levels—was verified for OECD countries, but neither 'strong' nor 'weak' PPP (a tendency towards a stable rate of exchange which is nevertheless displaced from purchasing power parity by some unknown factor or factors) could be validated for developing countries. Instead, they discovered "the absence of an equilibrium relationship between national prices, foreign prices and the exchange rate for developing countries, hence confirming that the PPP theory is empirically rejected. This result also confirms that PPP deviations are permanent."[44]

However, even between hard currencies 'strong PPP' is a feeble force. Robert Blecker notes that "[r]elative PPP [as opposed to absolute PPP, or the instantaneous price-equalising adjustment of exchange rates] is routinely violated [...] There are some exceptional cases in which PPP appears to hold [...] at least for the few major currencies for which such long time series are available, real exchange rates [...] do not persistently drift away from their mean levels over extremely long time horizons (periods of a century or more)"[45] Kenneth Rogoff observes that "[c]onsensus estimates for the rate at which PPP deviations damp [...] suggest a half-life of three to five years, seemingly far too long to be explained by nominal rigidities."[46] This leads him to ask "[h]ow can one reconcile the enormous short-term volatility of real exchange rates with the extremely slow rate at which shocks appear to damp out?"[47] Rogoff calls this the "purchasing power parity puzzle", and concludes "there is no really satisfactory alternative explanation."[48] To underline just how weakly the PPP hypothesis applies, Rogoff cites studies which show that "the relative prices of very similar goods across the U.S. and Canada are much more volatile than the relative prices of very different goods within either country."[49]

This, of course, is all very discomfiting to mainstream economists ideologically committed to to the 'efficient market hypothesis'—especially so since, as we saw in the last section, there is no sign that, during the past three decades of increased global integration, deviations from PPP among hard-currency nations have lessened or that the North-South purchasing power anomaly have eroded. This poses serious question-marks against dominant theories of globalisation based

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44 Drine & Rault, 2008, p761.

45 Robert A. Blecker, 2005. 'Financial Globalisation, Exchange Rates and International Trade', 183-209 in *Financialization and the World Economy*, Gerald A. Epstein (ed). Cheltenham: Edward Elgar, (pp193-4).

46 Rogoff, 1996, p648

47 Ibid., p647

48 Ibid., p665

49 Ibid., p653

on notions of global integration of markets, instead of being based on what is essential about neoliberal globalisation, namely the globalisation of production processes and production relations.

Whether or not the PPP hypothesis holds for exchanges between hard-currency nations, its failure in North-South exchanges is unambiguous and undisputed. The North-South purchasing power anomaly is sometimes called the Penn effect, after the 'Penn World Table' which has gathered comparative price data from most countries in the world since 1950; and is inversely correlated with per-capita GDP—as Figure 5.1 clearly shows, the poorer the nation, the bigger the gap.

Mainstream neoclassical economics advances two chief explanations for this anomaly, the Balassa-Samuelson hypothesis,[50] which hinges on differences in labour productivity between rich and poor countries; and an alternative model, proposed by Jagdish Bhagwati, Irving Kravis, Richard Lipsey and others, which claims to circumvent differences in labour productivity, and accounts for the anomaly as the consequence of differences in 'factor endowments', i.e. of the relative abundance of capital and labour in the two countries. Both maintain that equilibrium exchange rates equalise the prices of internationally tradable goods but not of nontradable services—in other words, they assume that strong PPP holds in the tradable goods sector. According to both approaches, the purchasing power anomaly arises because of the low wages of workers providing services (e.g. a bus journey or a hair cut), resulting in the prices of these services being typically much lower in, say, Bangladesh than in Belgium.[51] But why are service sector wages so low in Bangladesh? Because wage levels in the service sector are determined by wage levels in the tradable goods sector. Why are they so determined? Because labour is intersectorally mobile but not internationally mobile; in other words, workers can freely move between the tradable and non-tradable sectors within nations, equalising wages between them, but cannot freely move across the borders between nations, especially those between hard-currency and soft-currency nations. It turns out that the suppression of the free international movement of labour, the great exception to the principle of globalisation and whose cardinal importance is stressed in this thesis, is also at the heart of the purchasing power anomaly!

50 Named after Béla Balassa and Paul Samuelson, who independently and simultaneously advanced the hypothesis in 1964. It is sometimes called the Harrod-Balassa-Samuelson hypothesis, recognising the contribution of Roy Harrod in 1933; and sometimes the Ricardo-Harrod-Balassa-Samuelson hypothesis, because of the Ricardian comparative advantage model of international trade which the hypothesis deploys.

51 To simplify this narrative, we ignore the fact that not all those working in the service sector are capitalistically-employed waged workers. Except where specified, 'wages' includes the incomes of self-employed producers of goods and services.

At this point, the neoclassical accounts diverge. According to the Balassa-Samuelson hypothesis, wages in southern nations' industry and agriculture (the 'tradable goods' sector) are so miserably low because the productivity of these workers is a tiny fraction of that achieved by workers in 'developed' countries like Belgium, thus reaffirming the core tenet of mainstream theory. The strong consensus among mainstream economists is typified by this statement from *The Economist*: "differences in wages reflect differences in productivity. Low wages in emerging economies go hand-in-hand with low productivity"[52] According to the verdict of the markets and of the economists, the productivity of Bangladeshi manufacturing workers, who produce more than 90% of Bangladesh's exports, is only a tiny fraction of Belgian workers' productivity, and this is why their wages are so divergent.

Yet the vast productivity differences alleged to exist in the tradable goods sector do not exist in the non-tradable sector. Compared to the tradable goods sector, there is much less scope for technology-driven productivity differences in the non-tradable goods sector, many services being inherently labour-intensive. It is not easy for mainstream economists to argue that bus drivers and barbers in Bangladesh are so much less productive than their Belgian counterparts. Indeed, if Bangladesh's buses are more crowded or its barbers snip faster, they may well be more productive. However, in accordance with their nature as services, there is no connection between markets for haircuts in Bangladesh and in Belgium, no common process of price discovery. Only if Bangladeshi barbers and bus drivers were free to offer their services in Belgium, in other words if their living labour had the same freedom to move as all other commodities, would these two markets be connected; only this would give rise to a process of wage and price equalisation. In the circumstances created by the suppression of free mobility of labour, wages between Bangladesh and Belgium can therefore, according to the Balassa-Samuelson hypothesis, only be determined by relative productivities in the tradable sector.

In sum, the Balassa-Samuelson hypothesis says that the purchasing power anomaly results from the lack of correspondence between the similar levels of productivity of service workers in Belgium and Bangladesh and the vast differences in their wages. This thesis argues, to the contrary, that the purchasing power anomaly results not only or mainly from conditions in goods and Forex markets but is fundamentally the product of conditions in labour markets and in the production processes where this labour is put to work. The enormous growth in the relative surplus population combines with suppression of international labour mobility to exert a tremendous downward pressure on all wages and on the incomes of small producers, maintaining

[52] The Economist, 1995, 'Not so absolutely fabulous,' in *The Economist*, Nov 4th 1995.

or widening still further the distance between real wages in the imperialist nations and in the global South.

Wages of service providers and incomes of petty entrepreneurs are kept low not by the allegedly so much lower productivity of workers in the tradeable goods sector, as mainstream theory has it, but by the destitution of a large part of the working population; *this* is why a haircut or a bus journey in Dhaka is so much cheaper than in Amsterdam, even though a pair of scissors or a bus may cost the same in both countries, and may even have come off the same production line. It is the oversupply of labour, not its productivity, that is the prime determinant of southern wage levels. Furthermore, local capitalists are not the prime beneficiaries of the super-profits generated by this expanded employment of low-wage labour. Instead, intense competition among southern exporters leaves them with only a minor share of the proceeds, the rest is passed on to their northern customers through ever-lower export prices.

The productivity paradox

The Balassa-Samuelson hypothesis attempts to give an explanation for the purchasing power anomaly between high-wage and low-wage nations that is consistent with the central neoclassical doctrine that markets (and therefore currency markets) equalise wages with the marginal productivity of labour. Applied to the global economy, this theory prescribes that currencies tend to exchange with each other at rates that cause wage differentials between production workers in 'advanced' and 'developing' nations to be equalised with the differences in their labour productivity. But the picture generated by the standard theory contains some interesting paradoxes: service workers in Bangladesh and Belgium are paid vastly different wages despite their 'physical' productivities being similar; while a standard haircut or 5km bus journey delivered in Brussels adds much more to Belgium's GDP than the same service delivered in Dhaka.

The fatal flaw at the heart of the mainstream explanation for the purchasing power anomaly is to be found in the economists' conception of 'productivity'. Labour productivity in capitalist society can be defined in two antithetical, mutually-exclusive ways; in terms of its productivity of use-values and of exchange-values, or to use the term and concept that stands for this in the neoclassical pantheon, 'value-added'. The former is a universal definition of labour productivity that applies in all societies and modes of production, the latter is specific to commodity-producing societies and becomes supreme in capitalism. Capitalists and neoclassical economists have no use for or interest in the 'use value' or 'volume' definition of productivity—the rate at which living labour transforms nature to satisfy a social need. Only the value or value-added definition matters—the rate at which living labour satisfies the private needs of capitalists to make profits.

Occasionally, practical economists acknowledge the contradictory nature of productivity, as in this passage from the ILO's World Employment Report 2004-5:

"Productivity can be understood in terms of <u>value</u> as well as <u>volume</u>. For example, if for whatever reason the value of the final product increases (an increase in its price with no increase in the cost of inputs), this in money terms is an increase in productivity. It can even be imagined that productivity could increase in volume terms, (e.g. more coffee beans picked with the same number of workers), but decline in value terms through plummeting market prices, as has indeed happened in the case of coffee. Thus, higher physical productivity can result in lower earnings and incomes rather than higher ones." [53]

The first sentence in this quote from the ILO provokes two comments. Where the ILO speaks of productivity measured in terms of 'value' they mean in terms of 'value-added'. To the neoclassical mainstream, the two are synonymous; through the lens of Marxist value theory these are seen to be two distinct categories, the first signifying value created, the second signifying value captured. The complexities of labour productivity defined in value terms will be considered later in this chapter; for the moment, we are interested in the primary distinction between the use-value and value definitions.

The second is to appreciate the *chutzpah* of the ILO's statement that productivity 'can be' understood in terms of value as well as volume. The only definition of value that matters to capitalists, and the only one that is ever used by governments and IFIs to measure productivity, is the 'value-added' definition. For all practical purposes, from compiling GDP data to making investment decisions, the 'value-added' definition of productivity is universally taken to be correct while the 'volume' definition is discarded. In other words, the incompatible yet inseparable definitions of productivity are conflated in the neoclassical account, subordinated to a measure exclusively based on the ability to attract money in the marketplace. This is as we might expect, since the satisfaction of human needs is entirely incidental to the drive to make profits and accumulate capital. Yet, from the point of view of society as a whole, what matters is the 'volume' definition, i.e. the quantity of infinitely various use-values created in an hour, day or year of living labour.

In terms of its productivity of use-values, the labour of Bangladeshi barbers and bus drivers is no less productive than that of their Belgian counterparts. But when we consider the exchange-value

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53 ILO WER 2004-5, p5.

of their product, i.e. the quantity of money with which haircuts or bus journeys in Belgium and in Bangladesh are equated, we obtain a very different result—barbers and bus drivers in Belgium produce far more ‘value-added’ than in Bangladesh. Which of these two definitions of productivity is true? The answer, of course, is both of them are, even though they contradict each other, even though, according to the formal logic that captivates bourgeois economists, one of them must be false.

This allows us to see a glaring inconsistency at the heart of the Balassa-Samuelson hypothesis. It uses a ‘value-added’ definition of productivity to reach its conclusion that the productivity of workers in the tradable goods sector in Bangladesh etc is so lamentably low, while it switches to a ‘volume’ definition of productivity to rationalise its perception that the productivity of Bangladeshi service workers is similar to that of their Belgian counterparts, forgetting that these are incompatible, mutually exclusive definitions of labour productivity.

From within the mainstream, Jagdish Bhagwati, Irving Kravis, Richard Lipsey and others have advanced an alternative model which claims to explain the purchasing power anomaly without any reference to differences in labour productivity. Instead, the anomaly results from differences in ‘factor endowments’.[54] The relative scarcity of capital and abundance of labour in poor countries give them a natural advantage in the production of labour-intensive services, lowering their prices relative to prices of manufactured goods. As in Balassa-Samuelson, the prices of manufactured goods are equalised through international competition, but not so the prices of services—hence the title of Bhagwati’s seminal paper, *Why are services cheaper in poor countries?* They both agree that, because labour is mobile between sectors but not between nations, wages in services are determined by wages in the tradable goods sector, and in particular by manufacturing industry which provides the bulk of traded goods. They both implicitly accept that PPP holds in the traded goods sector. They both implement a ‘comparative advantage’ framework that rests on two invalid assumptions: market-clearing (‘Say’s Law’) and immobility between countries of capital as well as labour. The main difference between the two is that Bhagwati et al seek to go “beyond the excessively limiting Ricardian framework of a single factor, labour”, and introduce capital as a separate factor of production with a productivity all of its own.[55]

In essence, Bhagwati et al’s ‘factor endowment’ theory is a reformulation of the ‘differential productivity’ theory: the abundance of capital in rich nations and the abundance of labour in poor

54 See Kravis and Lipsey, 1983; Bhagwati, 1984.

55 Bhagwati, 1984, p281.

nations is reflected in a difference in the capital/labour ratio, rich nations being capital-intensive and poor nations being labour-intensive. The capital/labour ratio, at this level of abstraction, is merely a different a way of expressing the productivity of labour. However, Bhagwati et al's emphasis on 'factor endowments' opens the interesting possibility that Bangladesh may be over-endowed with a limitless supply of people desperate for work, and that it is this oversupply that explains why wages are so low, not the productivity of those in work. This would imply that wages are depressed far below marginal productivity, and give rise to a notion of exploitation, since it would mean that Bangladeshi workers are not fully compensated for their product. Bhagwati et al are rescued from this dangerous notion by their impressive faith in the power of markets to draw more and more workers into employment until, at equilibrium, the rewards to factors are equalised with their marginal productivities.

Productivity and 'unit labour cost'

The reign of capital superimposes upon the universal definition of labour productivity, *i.e.* its fecundity, its capacity to produce use-values, a new and antithetical definition: productivity is now the 'value-added' per worker, calculated by dividing the total 'value-added' produced by that firm, industry or country by its total workforce. This observation needs to be further refined by recognising that what matters to the capitalist is not so much the *amount* of labour per unit of output, which remains the universal measure of social productivity, but its *cost*; in a phrase, its 'unit labour cost'. 'Labour productivity', from the capitalist's perspective, is the amount of 'value-added' that can be harvested for each unit of value paid in wages. If wages are cut and everything else remains the same, labour becomes more productive—more productive, that is, of capital, despite being no more productive of use-values.

At this level of abstraction (abstracting, for instance, from the distinction insisted on by Marx but denied by neoclassical theory—between productive and non-productive labour, on which more later) and considering the economy as a whole, the ratio of value created to value received as wages is nothing else and nothing less than the rate of exploitation. 'Productivity', in the only definition that is of interest and capital, is therefore a euphemism for exploitation. The more workers are exploited, the more 'productive' they are. Marx explained this, and placed it within an historical materialist framework, in this passage from *Capital*: "Capitalist production is not merely the production of commodities, it is essentially the production of surplus-value. The worker produces, not for himself, but for capital. It no longer suffices, therefore, that he should simply produce. He must produce surplus-value. That worker alone is productive, who produces surplus-value for the capitalist, and thus works for the self-expansion of capital. [...]

Hence the notion of a productive worker implies not merely a relation between work and useful effect, between worker and product of labour, but also a specific, social relation of production, a relation that has sprung up historically and stamps the worker as the direct means of creating surplus-value." [56]

Investigation of the purchasing power anomaly reveals much about the relationship between the imperialist nations and the global South, and also helps to reveal the existence of two contradictory dimensions of labour productivity. When it comes to industrial production, mainstream neoclassical economics is able to ignore the contradictory nature of labour productivity by ascribing value-creating powers to machines, but in labour-intensive services this is not possible. The technologies utilised by barbers and bus drivers, namely scissors and diesel engines, are similar in both countries. Things get considerably more complex when we turn to analyse the productivity of industrial workers in the two countries, whose relative capacities to produce both use-values and exchange-values are significantly affected by differences in the technologies available to them. But the same contradictory definition of productivity applies to the labour of industrial workers as it does to service workers.

'Unit labour cost' is premised on a 'value-added' definition of productivity and shares all of its fallacies. According to neoclassical theory and various authorities cited above, the correlation between wages and marginal product means that ULCs in rich and poor countries are broadly the same. Should they be found to be systematically lower, the neoclassical paradigm would have a mega-anomaly on its hands. A lot is therefore riding on the answer. For now, however, we will accept 'unit labour costs' claim on its own terms, as an objective measure of labour productivity, and show that even before its underlying theory is tested, it must be rejected because of the absence of supporting evidence.

Robert Blecker noted that "[c]omplaints about low-wage labour (sometimes referred to as the 'sweatshop labour argument') are routinely dismissed as illogical because, if trade follows comparative advantages à la Ricardo, relative wages merely track relative productivities, and therefore no country can gain an overall competitive advantage in average unit labour costs." [57] An example of such a routine dismissal was provided by Martin Wolf, who argues in *Why Globalisation Works* that "the evidence on the relationship between productivity and wages is overwhelming." [58] Despite the sweeping certainty of this statement, Mehrene Larudee and

56 Marx, [1867] 1976, p644.

57 Blecker, 2005, p186.

58 Wolf, 2005, p175

Timothy Koechlin point out that, "data cited in [its] support [...] are remarkably weak and ambiguous."[59] The only evidence Wolf cites to justify his belief that workers north and south only get what they deserve is research by Stephen Golub, a US economics professor who has played an important role in developing the IMF's theoretical and methodological approach to labour productivity and labour's share of GDP. Disputing Golub's claim that unit labour costs in rich and poor countries are more or less equal,[60] Larudee et al point out that "the data—much of it gathered and published by Golub and his co-authors—simply do not support these conclusions. The available evidence indicates quite clearly that average ULCs [unit labour costs] are *not* equal across countries. Indeed, labour cost gaps among countries appear to be quite common. In some cases these gaps are quite large."[61] Reviewing this evidence, these researchers find that unit labour costs in low-wage countries are often less than half of those in rich countries, and provisionally conclude that "there is a correlation between GDP per capita and low ULCs; that is, ULCs in poor countries tend to be lower than ULCs in rich countries"[62]—contradicting Golub's much-cited assertion that "low wages are a symptom of low productivity, not an independent source of international competitiveness."[63] Indeed, in a staff study for the IMF co-written with Anthony Turner, Golub appears to contradict himself: "to the extent that capital and intermediate goods are traded in international markets, whereas labor remains largely immobile internationally, labor costs are likely to diverge much more across countries than other costs of production, and therefore play a disproportionately important role in competitiveness."[64]

So, the raw data on unit labour costs does not provide 'overwhelming proof' that differences in labour compensation between high wage and low-wage countries are in line with differences in their productivity of value-added. Figure 5.7 displays World Bank data which shows that, in the matter of unit labour costs as so much else, the earth is not flat. But the case against Wolf and other proponents of mainstream orthodoxy does not stop there. There are many reasons to suspect that official data overestimates unit labour costs in 'developing' countries, and that the discrepancies reported by Larudee et al are much wider. In the first place, this data suffers from

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59 Larudee et al, 2008, p229

60 In the first of a series of papers on this subject, Golub stated that he is *"unaware of any previous studies that have attempted to carry out such comparisons [of unit labour costs] for a wide range of countries. Perhaps this is because economists accept as an article of faith that real wages reflect productivity."* Stephen Golub, 1995a, Comparative and Absolute Advantage in the Asia-Pacific Region. Federal Reserve Bank of San Francisco: Centre for Pacific Basin Monetary and Economic Studies, Working paper No. PB95-09, p11.

61 Larudee et al, 2008, p230

62 Larudee et al, 2008, p230

63 Stephen Golub, 1995b, 'Productivity and labor costs in newly industrializing countries', in *Pacific Basin Notes*, 95:27, 1-3, (p3).

64 Anthony G. Turner, & Stephen Golub, 1997, 'Multilateral Unit-Labour-Cost-based Competitiveness Indicators for Advanced, Developing, and Transition Countries', in *Staff Studies for the World Economic Outlook*, by the Research Department of the International Monetary Fund, 47-60, pp48-49

the biases and distortions investigated previously: reported wage levels are likely to exaggerate real wages since governments are prone to turning a blind eye to illegally low wage levels; reported average real wages take no account of sharply increasing wage inequality; 'real wages' are obtained by converting wages denominated in local currencies into PPP$ with all the attendant problems discussed above. Larudee et al also argue that the TNCs' widespread practice of using "transfer pricing to reduce their tax liability [...] means productivity in low-wage countries is likely to be substantially understated."[65]

A final reason, on its own enough to refute the mainstream view that unit labour costs in the global South are not substantially out of line with unit labour costs in the imperialist countries, is Wolf et al's implicit, utterly implausible assumption that the productivity of workers in a TNC subsidiary operating in a low-wage economy is no different from the average productivity of workers in that country. As Larudee et al emphasise, "there is abundant empirical evidence that multinational firms productivity levels often exceed those of local firms in underdeveloped countries [...] firms carry a considerable share of their productivity with them."[66] In other words, TNCs can take advantage of low wages but do not need to accept prevailing productivity levels, enabling them to reap super-profits. The fact that productivity is, to a considerable extent, 'firm-specific' fatally undermines Martin Wolf's strident assertion that "an irresistibly competitive China is a figment of the fevered imagination, since the real cost of labour will tend to remain in line with its productivity."[67] Wolf justifies this statement by referring to Golub's research—yet in the matter of the productivity of Chinese workers, Golub flatly contradicts Wolf: "given the attention focused on Chinese wages, RULC [relative unit labour costs] are a very prominent candidate for explaining China's booming exports of manufactures;"[68] and concludes, "[o]ur measures indicate that [...] Chinese unit labor costs in manufacturing are very low relative to a wide range of other countries."[69]

To deny that Chinese workers are exploited by US, UK TNCs is to affirm that the relation between workers and TNCs is an equal one. Thus Wolf argues "[i]t is right to say that transnational companies exploit their Chinese workers in the hope of making profits. It is equally right to say that Chinese workers are exploiting transnationals in the (almost universally fulfilled)

65 Larudee et al, 2008, p231

66 Larudee et al, 2008, p232

67 Wolf, 2005, p183.

68 Janet Ceglowski & Stephen Golub, 2005, *Just How Low are China's Labor Costs?* (pp2-3) (http://www.swarthmore.edu/SocSci/sgolub1/chinaslaborcosts11_7_2005.pdf, accessed September 27, 2009).

69 Ibid., p16.

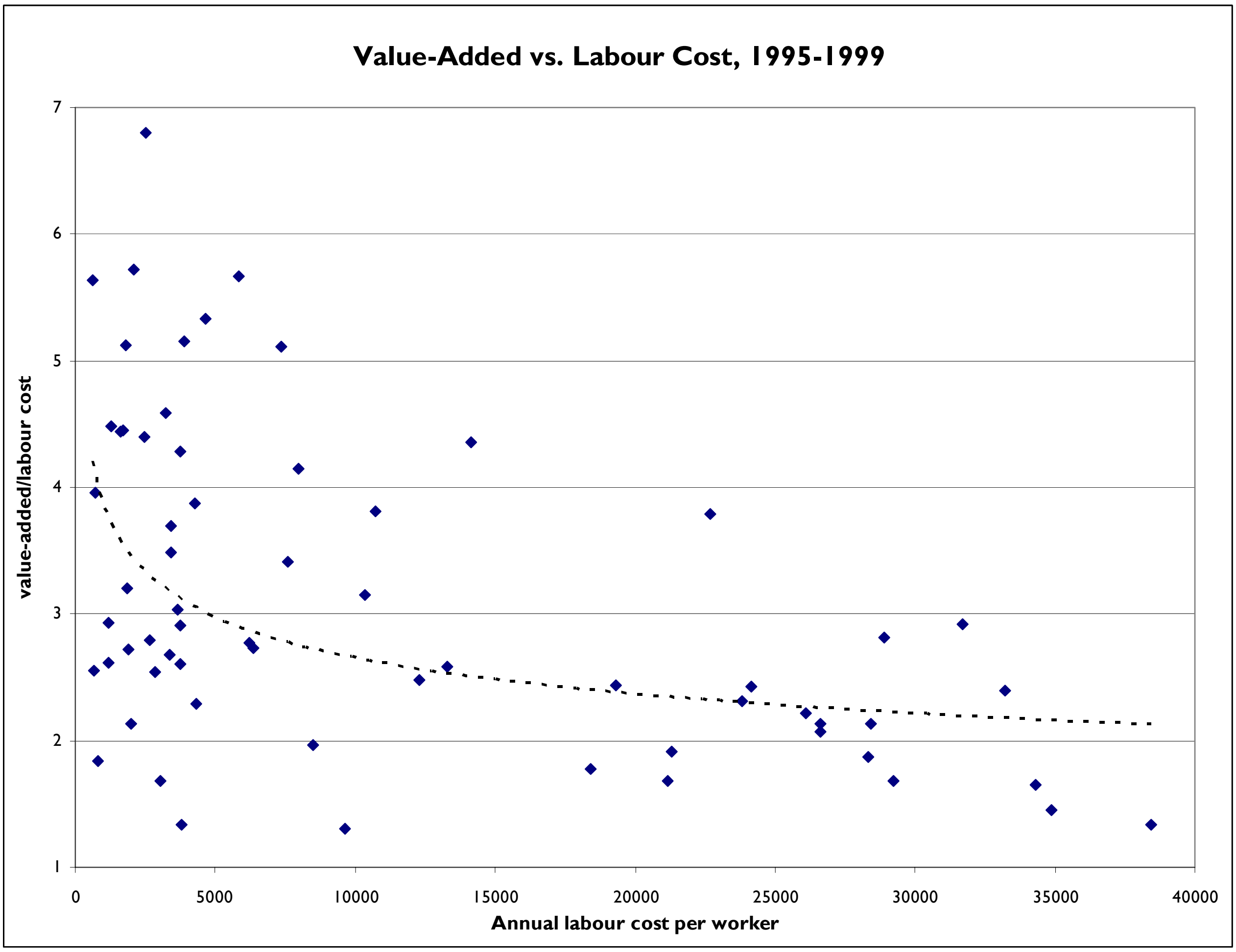
hope of obtaining higher pay, better training and more opportunities…”.[70] He says this of “the people who provide everything from T-shirts to DVD players to the world’s consumers [,who] often have 60-70 hour working weeks, live in dormitories with eight to 16 people in each room, earn less than the minimum wages that go as low as $44 per month, and have unemployment as the only prospect if they should get injured in the factories”. [71]

As we have argued, the definition of productivity that really matters to capitalists is not ‘labour productivity’, obtained by dividing the total value-added by the total workforce, it is ‘unit labour cost’, obtained by dividing the total value-added by the cost of the total workforce. The reigning definition of productivity can therefore be expressed as how much ‘value-added’ is obtained per unit of labour. ‘Unit labour cost’, the format preferred by practical economists, is the inverse of this, i.e. how much labour must be purchased to obtain a one unit increase of ‘output’, meaning value-added.

70 Wolf, 2005, p230.

71 International Committee of Free Trade Unions (ICFTU). 2005. *Whose Miracle? How China’s workers are paying the price for its economic boom.* (http://www.workersvoiceatwto.org/www/pdf/WhoseMiracleChinaReport.pdf, accessed 18/05/2007).

Figure 5.7 Labour productivity and labour cost



Source: World Development Indicators 2006.

Figure 5.6 explores the relationship between value-added per worker in manufacturing and labour cost per worker in manufacturing over a five-year period for the 64 countries covered by the World Bank's WDI data.[72] Table 5.1 presents this data in tabular form. 'Labour cost' is wages plus other costs associated with employment (e.g. national insurance contributions). In Figure 5.6, each marker represents a country. The x-axis is the annual labour cost per worker; the y-axis is the unit labour cost: the ratio of value-added per worker to labour cost per worker.

72 I have excluded one country from the dataset: Iran, which the WDI reports to have a value-added per worker that is second only to Japan. This was the most egregious single example of the poor data quality which is part of the reason for the dispersion of the markers.

Table 5.1 Value-added vs. Labour Cost 1995-1999

	Labour cost per worker in manufacturing	*'Productivity', i.e. Value added/Labour cost*		*Labour cost per worker in manufacturing*	*'Productivity', i.e. Value added/Labour cost*
Sri Lanka	604	5.64	Chile	5822	5.66
Bangladesh	671	2.55	Portugal	6237	2.77
China	729	3.96	Panama	6351	2.73
Kenya	810	1.84	Argentina	7338	5.11
Romania	1190	2.93	Mexico	7607	3.41
India	1192	2.62	Turkey	7958	4.14
Yemen, Rep.	1291	4.48	South Africa	8475	1.96
Ethiopia	1596	4.44	Slovenia	9632	1.30
Poland	1714	4.46	Hong Kong	10353	3.15
Guatemala	1802	5.12	Korea, Rep.	10743	3.81
Egypt	1863	3.21	Greece	12296	2.47
Slovakia	1876	2.72	Iraq	13288	2.58
Mauritius	1973	2.14	Brazil	14134	4.36
Jordan	2082	5.72	New Zealand	18419	1.78
Philippines	2450	4.40	Spain	19329	2.43
Colombia	2507	6.81	Israel	21150	1.68
Honduras	2658	2.79	Singapore	21317	1.91
Costa Rica	2829	2.54	Ireland	22681	3.79
Indonesia	3054	1.68	United Kingdom	23843	2.31
Paraguay	3241	4.59	Belgium	24132	2.43
Morocco	3391	2.68	Australia	26087	2.22
Zimbabwe	3422	3.49	Sweden	26601	2.13
Malaysia	3429	3.69	Finland	26615	2.07
Jamaica	3655	3.03	Austria	28342	1.87
Ecuador	3738	2.61	Canada	28424	2.14
Uruguay	3738	4.29	United States	28907	2.81
Hungary	3755	2.91	Denmark	29235	1.69
Czech Republic	3815	1.34	Japan	31687	2.92
Thailand	3868	5.16	Germany	33226	2.40
Zambia	4292	3.87	Netherlands	34326	1.65
Syria	4338	2.29	Italy	34859	1.46
Venezuela	4667	5.33	Norway	38415	1.34

If it was true that the labour is rewarded in proportion to its contribution to value-added, then the trend-line should be at least be flat, if not upward-sloping. We would expect the trend line to be flat if we assume that capital-labour ratio to be the same in rich and poor countries. To the extent that labour costs are a smaller fraction of total production costs in the capital-intensive industries typical of 'developed countries', one would expect 'value-added per worker' to increase faster than labour cost per worker, and therefore the 'value-added per worker'/'labour cost per worker' ratio would rise as we move along the x-axis towards countries with more expensive labour. Instead, as Figure 5.6 shows, the opposite is the case.

The evidence presented in Figure 5.6 confirms the findings of Stephen Golub reported above and confound the dogmatic assertions of Martin Wolf and others, who wish to deny the existence of exploitation between or within nations.

In the light of all these considerations, the consensus view that international differentials in real wages reflect international differentials in productivity is, in Golub's own words, "an article of faith" at odds with empirical evidence. It also conflicts with reason. If unit labour costs in China, Bangladesh and Morocco are in line with those of Belgium, Japan and the USA, why would TNCs based in imperialist countries go to such trouble to relocate production to these low-wage countries? The conclusion is clear: the reigning 'flat earth' paradigm advocated by Wolf and other prominent proponents of neoliberal globalisation must be rejected.

♦ ♦ ♦

In the first part of this chapter, examination of the methodologies used to correct for the purchasing power anomaly between hard currency and soft currency nations provided further substantial reasons to question the accuracy of reported data on real wage and per capita GDP estimates. Together with the biases and distortions investigated in chapter 4, these findings enable a more accurate and focussed picture of real wage levels in the global South, their trends, and the dynamic forces acting on them to be obtained.

The second part of this chapter investigated why the purchasing power anomaly exists in the first place, why it has survived and even grown in the era of neoliberal globalisation and the much-vaunted integration of markets. Further interest was aroused by the discovery that suppression of the free international movement of labour—a recurring theme in this thesis—is one of its key determinants. On investigation, it is found that this anomaly exposes contradictions and fallacies in the way the dominant paradigm understands 'productivity'. Developing this critique, concepts central to Marx's theory of value are stood up and made operational, laying the ground for the discussion in the final chapter.

However, to achieve the synthesis that is necessary in the final chapter, we must resume and conclude chapter 2's investigation into global outsourcing.

Chapter 6—Mysteries of Outsourcing

This chapter completes the study of global outsourcing presented in chapter 2, following an extensive study of the empirics of the imperialist capital-labour relation that focussed on the living labour that brings global production processes to life. This study showed conditions in Southern labour markets to be an extremely important dimension of global outsourcing; a dimension completely absent from mainstream accounts, which exclusively focus on capital and goods markets. But it is to these markets that we now return, with, it is hoped, a heightened sense of the human drama embodied in each package and each dollar.

The first section, *Interpreting GDP, trade data,* examines some of the practical difficulties entailed in the unavoidable reliance on GDP and trade data in the analysis of globalised production processes, and calls into question the conclusions reached by the IMF and OECD in recent studies of the scale of the outsourcing phenomenon.

The second section, *The South's increasing share of world exports of manufactures,* gathers further evidence in support of a central argument of this thesis—that the imperialist economies have become ever more dependent on southern manufacturing production, belying the 'capital is shunning the global South' thesis and the arguments of liberal globalisation paradigms that marginalise the contribution of southern labour to the production of global wealth .

The third section, *Slow growth in the South's share of global MVA,* reports on a key measure of the contribution of export-oriented industrialisation to GDP and social development: manufacturing value-added. MVA data tell a very different and much less optimistic story than trade data, and indicate that the same declining terms of trade which robbed the global south of the value of their primary commodity exports are doing the same to their manufactured exports, impelling a 'race to the bottom'.

The fourth section, *Outsourcing outpacing offshoring*, looks more closely at the two distinct forms that globalised production processes take: in-house foreign direct investment and arm's length outsourcing to independent subcontractors, asking the question: how can arm's length outsourcing be more profitable than in-house FDI, given the absence in the former of any visible S-N flows of value or profits?

6.1 *Interpreting GDP, trade data*

Data on N-S trade is plentiful, but interpreting it is very far from straightforward. As Grossman and Rossi-Hansberg argue,

"The measurement of trade as gross values of imports and exports was perhaps appropriate at a time when trade flows comprised mostly finished goods. But such measures are inadequate to the task of measuring the extent of a country's international integration in a world with global supply chains and internationally dispersed production processes."[1]

Trade and GDP data are very closely related. Every single foreign trade transaction is counted in both sets of data: in trade data as additions to gross imports and exports, and in GDP data towards the sum of the net 'value-added' that is generated by (according to the dominant neoclassical paradigm), or captured by (according to its Marxist critique), all firms active in that national economy.[2]

While very closely related, GDP and trade data are different in kind. Trade data take no account of the fact that a part of the values being exported have not been added in domestic production processes, for example, imported components assembled domestically and then re-exported. The more that production processes become more globalised, the more that trade statistics are vitiated in this way. As Grossman et al point out, "[t]o measure task trade that generates shipments of goods, we would like to know the sources of the value added embodied in the goods and the uses to which the goods are eventually put. But, the statistical agencies have no way to know the national content of goods that are traded, nor do they track the uses of these goods; that is, whether they are destined for further processing or for sale to final consumers."[3] This distortion is particularly severe in relation to the exports of low-wage countries, since the 'value-added' by these countries to imported inputs is often only a small fraction of the price of their exports—and it is this price, not the net value-added, which appears in the trade data, hence Unctad's warning that "much of the increase in South-South trade in manufactures, as shown in trade statistics, is due to double-counting."[4]

The globalisation of production processes means that components and precursors of commodities may cross borders and incur tariffs several times before they are finally exported as finished

1 Grossman & Rossi-Hansberg, 2006, p6-7.

2 In this sentence 'net' is superfluous, since 'value-added' is already net, but it is included to emphasise the important distinction between 'gross' and 'net' statistics.

3 Grossman & Rossi-Hansberg, 2006, p6-7.

4 Unctad, 2005a, *Trade and Development Report, 2005 – New Features of Global Independence.* Geneva, Unctad. (p136).

goods. This is why, as Kei-Mu Yi has shown, a small reduction in tariffs on the import of manufactures—which he calculates fell by only 11% between 1962 and 1999—could have stimulated a much bigger increase in international trade in manufactures, which quadrupled in size during this period.[5] Exemplifying this, China's export performance, though still impressive, is not quite so spectacular when full account is made of its export-processing regime, which allows imports to enter duty-free if they are destined for processing and re-export. This trade accounts for more than half of China's exports, and most of it is conducted by US, European and Asian TNCs. As Ari Van Assche, Chang Hong and Veerle Slootmaekers comment, "China has turned into a global assembly platform that sources its processing inputs from its East Asian neighbors while sending its final goods to high-income countries. Since China is often only responsible for the final assembly of its export products, this puts into question China's responsibility for the growing U.S. trade deficit."[6] This important study found that, in 2005, processed imports made up 90% of the value of China's high-tech exports, compared to 50% in the medium-high-tech category and 30% in the low-tech category. In other words, the greater the sophistication of the goods being exported, the smaller is the fraction of their export value that is actually added in China.[7] Correcting for this distortion, these researchers estimate that China's 'adjusted' share of world trade in 2005 was 4.9%, not the 7.7% reported in World Bank and IMF data.

'Double counting' therefore tends to exaggerate measures of the monetary value of exports from the global South to the Triad nations, and this needs to be borne in mind in the analysis presented in this and the next section. In the final chapter we will explore a much more fundamental distortion which acts in the opposite direction, causing trade data to dramatically underestimate the values generated in the production of the South's exports.

Exactly how 'intermediate goods' is defined makes a big difference to how much their increase in overall international trade shows up in trade data. The IMF's 2007 World Economic Outlook, for example, attempts to measure 'offshoring intensity' by using a narrow definition of intermediate inputs—the 'share of offshored inputs in gross output'. It reports that "contrary to

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5 Kei-Mu Yi, 2003, 'Can Vertical Specialization Explain the Growth of World Trade?', in *Journal of Political Economy,* 111:1, 52-102 (p90). Manufacturing trade led the growth of overall trade, which 'only' tripled during this period. Yi doesn't take account of the fact that tariff reductions in North-South manufacturing trade have been much higher than overall tariff reductions in manufacturing trade.

6 Van Assche et al, 2008, p13

7 This sharply contrasts with the earlier experiences of the so-called 'newly industrialising countries' of Taiwan and South Korea, which (thanks to licences granted by ITT, Sun Microsystems and other TNCs at the centre of the US military-industrial complex, actively promoted by the US government because of the strategic importance of these countries) were much less reliant on the performance of menial, low value-added production tasks.

some popular perceptions, offshored inputs, which account for about half of total imports (the rest being imports of final products), have grown somewhat more slowly than total trade. Moreover, the scale of offshoring is still quite limited in the overall economy. Imports of intermediate manufacturing and services inputs (excluding energy) accounted for about 5 percent of gross output and about 10 percent of total intermediate inputs in advanced economies in 2003, the latest year for which data are available. These shares have increased only moderately since the early 1980s. The share of offshored inputs in gross output ranges from 12 percent in the Netherlands to about 2–3 percent in the United States and Japan."[8]

These estimates are based on an exceedingly narrow definition of 'offshoring intensity'. They omit the export of intermediate inputs by 'advanced economies' to low-wage nations for final assembly before being reimported as finished goods or sold on to a third nation; they exclude finished goods destined for use as inputs by northern firms, including computers and other IT hardware; they also exclude finished goods destined for consumption by workers. As argued in chapter 2, these must be included in our picture since the 'final goods' issuing from fields and factories in low-wage nations for export to the mass consumer markets of rich nations are also intermediate inputs in the production of labour power. The IMF researchers themselves admit that, "goods traditionally produced in unskilled sectors (e.g., textiles) are more likely to be imported as final goods rather than intermediates,"[9] but they nonetheless exclude this category of S-N trade from their calculations. The result: WEO 2007 reports that the US and Japan is minimally involved in outsourcing, stating for instance that "[i]n 2003, the offshoring intensity in manufacturing ranged from 4% in Japan to a high of about 25% in Canada."[10]

These are highly dubious results, as Japan's experience demonstrates. Japanese manufacturers responded to the sharp decline in competitiveness following the Plaza Accords in 1985 by offshoring labour-intensive production processes to neighbouring low-wage countries, which became, in Richard Baldwin's words, "a source of Japan's comparative advantage in US and EU markets," which he called "the world's most spectacular second unbundling."[11] Such a striking

8 IMF 2007, pp164-5. In this WEO quote, 'imported intermediate inputs' are denominated not by total imports but by 'gross output', shaving a few more percentage points from the result. WEO 2007's estimates of 'offshoring intensity' are lowered still further by its decision to scale imported intermediaries against total inputs rather than against total intermediate inputs: *"it seems more appropriate to scale imported intermediates by total inputs (including labor and capital), since imported intermediates can substitute not only for domestic intermediate inputs but also for in-house labor and capital"* (IMF, 2007a, p164fn). But, can imported intermediates be substituted *as readily* for capital and labour as they can for domestically produced intermediates?

9 IMF, 2007, p165

10 Ibid., p165

11 Baldwin, 2006 p22. *"The first unbundling allowed the spatial separation of factories and consumers"* (ibid, p7), which appears to refer to the advent of industrial capitalism.

example of outsourcing appears, to IMF's WEO 2007, to be so limited in scope because it excludes Japan's signature form of outsourcing, often termed 'triangular trade', whereby "Japanese firms headquartered in Japan produce certain hi-tech parts in Japan, ship them to factories in East Asian nations for labour-intensive stages of production including assembly and then ship the final products to Western markets or back to Japan."[12]

The OECD follows the IMF's approach in adopting a narrow definition of production outsourcing and intermediate trade, and draws similar conclusions. Three OECD researchers, Margit Molnar, Nigel Pain and Daria Taglioni, report that "the share of OECD manufacturing imports accounted for by intermediate goods, parts and components has hardly changed at all between 1992 and 2004."[13] However, unlike WEO 2007, Molnar et al have the grace to point out that "[i]mportant limitations of this approach are that the measures relate only to trade in goods [i.e., it ignores services outsourcing], and also that they omit four particular types of outsourcing: imports of final goods used in domestic production; imports of final goods that are sold under the brand-name of a domestic firm; imports of final goods that could potentially be produced domestically but are not; and imports of goods that could potentially be produced domestically for export purposes, but are produced abroad and exported to third markets."[14]

The IMF and OECD both attempt to measure the magnitude of outsourcing by tracking intermediate inputs. An alternative approach is to focus on 'intra-firm' trade, i.e. in-house trade between a TNC and its affiliate and ignore 'arm's length' outsourcing, in other words, to see what can be seen through the 'FDI lens', and ignore whether these manufactured imports are intermediate inputs or finished goods. Peter Dicken comments that "unfortunately there are no comprehensive and reliable statistics on intra-firm trade. The 'ballpark' figure is that approximately one-third of total world trade is intra-firm although [...] that could well be a substantial underestimate."[15] Grossman et al are more helpful, reporting that, "[i]n 2005, related party [i.e. intra-firm] trade accounted for 47% of US imports [...] this fraction has risen only modestly since 1992, when it was already 45%." These headline figures conceal a dramatic reorientation of this trade towards low-wage economies: "[i]mports from related parties accounted for 27% of total US imports from Korea in 1992, and 11% of total US imports from

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12 Baldwin, 2006, p23

13 Margit Molnar, Nigel Pain and Daria Taglioni, 2007, *The Internationalisation of Production, International Outsourcing and Employment in the OECD.* Economics Department Working Papers No. 561, p11.

14 Ibid., p61.

15 Dicken, 2007, p38.

China. By 2005, these figures had risen to 58% and 26%, respectively."[16] These findings coincide with those of Molnar et al: "[w]hilst intermediate imports into the OECD as a whole from China and the ASEAN have risen sharply (as a share of total manufacturing imports), this has been offset by reductions in intermediate imports from other countries,"[17] 'other countries' being other rich nations in the OECD.

These findings highlight another defect in the IMF and OECD calculations of the magnitude of the outsourcing phenomenon. By looking at the global picture, in which N-N and N-S trade is merged, the dramatically increased importance of southern manufacturing for Northern TNCs and northern economies is submerged. It is to this that we now turn.

6.2 The South's increasing share of world exports of manufactures

In a 2007 paper, William Milberg argued that "most attempts to measure the magnitude of the phenomenon of vertical disintegration [i.e., 'outsourcing'] have captured only parts of the process. Some analysts focus on intra-firm imports [i.e. between a TNC parent company and its subsidiary] and others on the import of intermediate goods whether these are intra-firm or arm's-length."[18] Searching for a concept and a research strategy broad enough to capture the totality of this phenomenon, Milberg makes a startling proposal:

"Many of the imports within U.S.-led global value chains are fully finished goods with labels of U.S. corporations attached. Many 'manufacturing' firms now do no manufacturing at all, providing only brand design, marketing and supply chain and financial management services. Thus a better measure of offshore outsourcing may simply be imports from low-wage countries."[19]

Milberg speaks specifically of 'U.S.-led global value chains', but given that EU- and Japanese-led global value chains behave similarly, S-N merchandise trade as a whole can be considered a composite of, and therefore an indicator of, multifarious outsourcing and offshoring relationships. As Milberg says, "[t]his measure [...] overcomes the problem of looking only at intermediates or only at intra-firm trade." He notes that this measure "leaves out offshoring

16 Grossman & Rossi-Hansberg, 2006, pp8-9. 'Related party' imports include those to US subsidiaries of non-US firms. Latin America has remained characterised by resource extraction rather than outsourcing, with the important exception of the US-Mexican maquiladora program: *"related party imports [...] accounted for more than 60% of total US imports from Mexico in 1992."*

17 Molnar et al, 2007, p11.

18 Milberg, 2007 p9. 'Vertical disintegration', or 'deverticalisation' are terms sometimes used to denote the outsourcing of previously in-house production tasks. Here, Milberg seems to use the term to signify the globalisation of production, or 'global production sharing', whether it is in-house or arm's length.

19 Ibid., p9

activity among industrialized countries"—but this is not the drawback he suggests it is: offshoring activity among 'industrialised countries' is not primarily driven by the quest for lower production wages. Its exclusion from the picture only enhances the usefulness of N-S merchandise trade as an indicator of the globalisation of production processes.

The implication is that N-S trade has not only grown greatly during the globalisation era, but that it has become something different, that the global transformation of production has resulted in a qualitative change in the nature of N-S trade.

It is significant that Milberg specifies imports from low-wage economies. The global South is much more important to imperialist economies as a source of manufactured imports than as a destination for manufactured exports. Over a third (in terms of their market price) of the manufactured products consumed in the United States are imported, more than double their share in 1980—which suggests that this trade is a good deal more important to the USA than would appear from the often-cited ratio of total imports to total GDP, which has been running at less than 10% in recent years. As Robert Feenstra commented in an influential 1998 paper, "the modest share of trade in total national income hides the fact that merchandise trade as a share of merchandise value-added is quite high for the United States and the OECD, and has been growing dramatically. In fact, if one focuses on merchandise trade relative to value-added, the world is much more integrated today than at any time during the past century." [20]

What is particularly striking is just how important the expansion of export-oriented manufacturing production in the global South has become to the economies of the imperialist countries. 53% of the increase in the flow of manufactured imports between 1990 and 2002 came from low-wage nations, half of it from China, which in 2006 provided 16% of total US imports and a market for 5% of its exports. 'Developing countries' as a whole provided the USA with 57% of its total imports in 2006 (sharply increased from 44% in 2002, 30% in 1990 and 21% in 1980), while the corresponding figures for the EU were 30% and 25%.[21] 48% of the USA's 2006 exports were to 'developing countries.'

These figures for S-N trade are all the more impressive when we consider that the manufactured goods being exported by the global South in ever greater volume are suffering declining terms of trade and dwindling returns for the producers.

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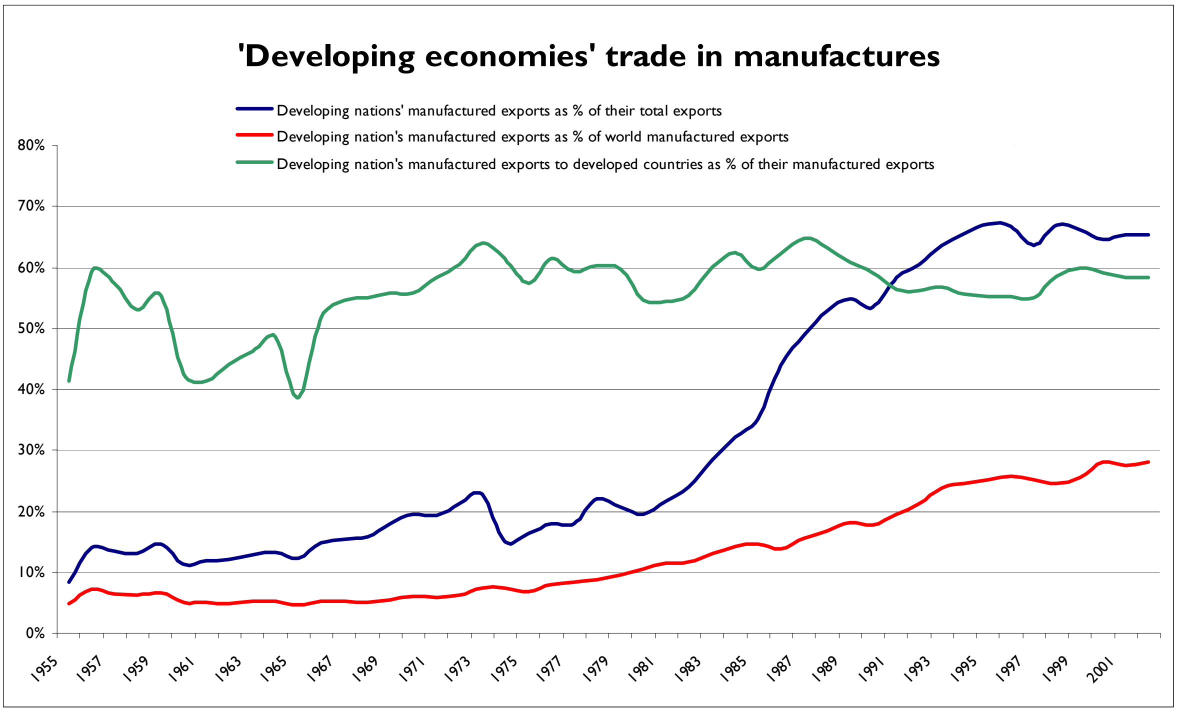
20 Robert C. Feenstra, 1998, 'Integration of Trade and Disintegration of Production in the Global Economy', in *Journal of Economic Perspectives.* 12:4 31-50 (p31).

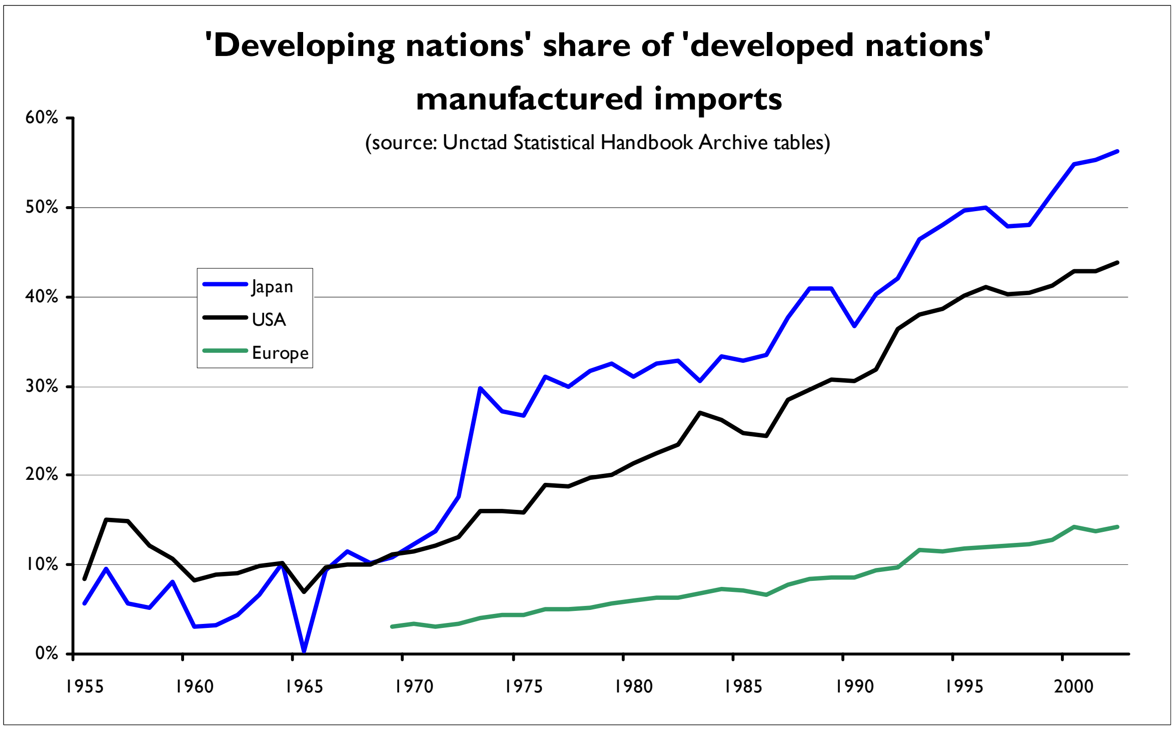
21 Source: Unctad, *'Network of exports by region and commodity group - historical series'* and IFS DOTS (Direction of Trade Statistics). (http://stats.unctad.org/Handbook.) The Unctad database only continues to 2002; DOTS provides data up to the present, but only for aggregate trade and does not separate trade in manufactured goods from trade in services, raw materials etc.

Figure 6.1 'Developing economies' trade in manufactures



Source: Unctad Statistical Handbook

Figure 6.2 Share of 'developed nations' manufactured imports from 'developing nations'



Source: Unctad, Handbook of Statistics - Archive: Network of exports by region and commodity group - historical series (http://stats.unctad.org/handbook/ReportFolders/ReportFolders.aspx).

Figures 6.1 and 6.2 provide compelling evidence of the greatly-enhanced weight of southern nations manufactured exports in 'developed nations' imports. Figure 6.1 allows the era of neoliberal globalisation to be seen in a broad timeframe, through the perspective of international trade in manufactures. It displays three traces. One shows that, since the early 1970s, the portion of 'developing nations' manufactured exports sold to 'developed' countries stayed within a few percentage points of 60% over these three decades. This does not tell the full story, however. It takes no account of what in East Asia is called 'triangular trade', where one 'developing country' exports components or semifinished goods to another for assembly, to be subsequently exported as finished goods to a 'developed country'. To the significant extent that this has grown during the decades of globalisation, the apparently constant share of the South's manufactured exports that are destined for Triad nations obscures an ever-deeper dependence on northern final demand. In the same way, triangular trade also helps explain why the share of intermediate inputs within the Triad nations' total manufactured imports might appear to be static, as in the IMF and OECD reports cited above, but to in fact be experiencing dynamic growth—an optical illusion caused by more or more of the final assembly of these intermediate inputs being relocated to low-wage nations.

The second trace in Figure 6.1 shows that a steady rise in the share of manufactures in 'developing nations' total exports was sharply reversed in the first half of the 1970s, coinciding with the first globally synchronised economic recession since World War II. It made a partial recovery during the rest of the decade, before commencing its vertiginous ascent, increasing from 20% in 1981 to 60% barely 10 years later, and then stabilising at this much higher level in the most recent decade.

The third trace in Figure 6.1 shows that Southern nations' share of Triad nations' manufactured imports began its steady rise in the late 1960s. Its ascent steepened in the second half of the 1970s, raising its share from 5-7% in the pre-globalisation period to close on 30% in the first decade of the 21st century.

This final trace is decomposed in Figure 6.2, which shows 'developing nations' share of the manufactured goods imported by each of the three legs of the Triad. It shows that the trace shown in Figure 5.2 of overall S-N trade in manufactured goods is dragged down by Europe's apparently much lower degree of reliance on imports of manufactures from South, partly a statistical artefact caused by trade between European states being counted as international trade while trade between the states of the USA or the regions of Japan is counted as internal trade. Nevertheless, the South's share of Europe's manufactured imports are shown to have tripled during the globalisation period. The traces for Japan and the USA show a dramatic increase in their manufactured imports from the global South, rising from around 10% to 45% in the case of the USA and nearly 60% in the case of Japan, results which make the IMF and OECD estimates, cited above, of static 'outsourcing intensity' appear ridiculous. It should also be noted that the rising trend began in the early 1970s, coinciding with the first waves of outsourcing, but almost a full decade before the Paul Volcker fired the starting pistol to mark the official launch of neo-liberal globalisation.[22]

6.3 Slow growth in the South's share of global MVA

Much more can be learned about global production through analysis of MVA. This presents many technical, conceptual and theoretical problems, only some of which are broached here. The discussion in this section adds another dimension to our review of data on the globalisation of production and helps prepare the ground for the critique of 'value-added' and GDP in the next chapter.

The World Bank's World Development Indicators provide data on MVA growth (for 1990 and 2002) and on growth in export of manufactures (for 1990 and 2004) for 55 "low and middle income' nations and 16 'high-income' nations." [23] Manufactured exports from the 55 low-wage nations increased by 329% between 1990 and 2004 (434% if China is included), while their combined MVA grew by just 46.3%.[24] During this decade and a half of intense globalisation, the 16 'high-income' nations increased their exports of manufactures by 127.4%, while their combined MVA grew by 14.2%, and by just 1% if the United States is omitted. The USA's 40.6% growth in MVA accounted for nearly all of the MVA growth of 'high-income' nations, boosting its share of all 71 nations' MVA from 29% to 34%. The continuing 'global shift' in production is indicated by WDI data reporting that between 1996 and 2005 'high-income'

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22 According to Naomi Klein, the 'Volcker shock' was not so much a starting pistol but "a giant Taser gun fired from Washington, sending the developing world into convulsions". Its immediate consequence was *"[s]oaring interest rates [that] meant higher interest payments on foreign debts, and often the higher payments could only be met by taking on more loans. The debt spiral was born."* Naomi Klein, The Shock Doctrine, 2007, p198.

23 'High-income' nations: Australia, Austria, Canada, Denmark, Finland, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Switzerland, United Kingdom, United States.

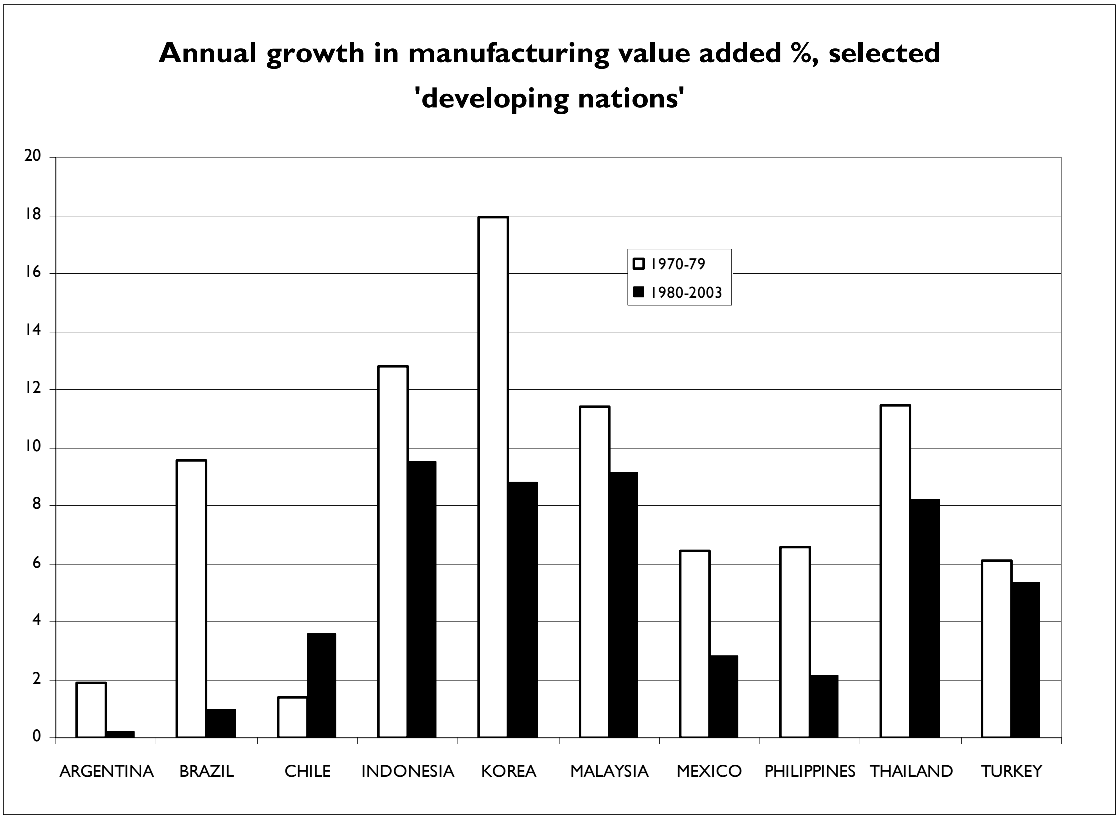
'Low and middle income' nations: Algeria, Argentina, Bangladesh, Benin, Bolivia, Brazil, Cameroon, Central African Republic, Chile, Colombia, Costa Rica, Croatia, Ecuador, Egypt, Arab Rep., El Salvador, Ghana, Guatemala, Honduras, Hong Kong, Hungary, India, Indonesia, Jamaica, Jordan, Kenya, S Korea, Madagascar, Malawi, Malaysia, Mauritius, Mexico, Morocco, Nepal, Nicaragua, Nigeria, Oman, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Romania, Saudi Arabia, Senegal, Slovenia, Sri Lanka, Thailand, Togo, Trinidad and Tobago, Tunisia, Turkey, Uruguay, Venezuela, Yemen, Zimbabwe.

24 The WDI doesn't provide a value for Chinese MVA in 2002. Including China, total trade of 'low and middle income' nations increased by 434.3%. In 2001, these 55 nations produced 61.2% of the combined GDP of all 156 'low and middle income' nations listed in the WDI tables; 79.4% including China.

nations' share in global MVA declined from 80% to 74%, with the share of 'low- and middle-income' nations rising from 20% to 26%.

When interpreting MVA data, it is important to note that part of the MVA that it counts as produced in the global South is produced in TNC subsidiaries, of which some is repatriated as profits to their parent companies. As Unctad noted in 2002, "in countries that participate extensively in international production networks through FDI, an important part of the value added in TNCs accrues to foreign firms as profits."[25] How big a part it does not venture to say, in keeping with the general reticence shown by IFIs on such matters.

Figure 6.3 Growth in manufacturing value added, 1970-79 & 1980-2003



Source: Özlem Onaran - 'The Effect of Neoliberal Globalization on Labor's Share in Developing Countries' Table 1 (p31).

The contribution of manufacturing to GDP has been declining in the imperialist economies and increasing in many southern nations, yet the increase in the South's share of global manufacturing trade is not reflected in its share of global MVA, which has increased by a much smaller amount. While this is to some extent expected, given the qualitative advances in the globalisation of production, it also reflects the shrinking share of the value of the final product that is retained as MVA by the southern producer. Thus, in 1990, the MVA of the 55 'low and middle income'

25 Unctad, 2002, *Trade and Development Report, 2002.* Geneva, Unctad (p81)

nations was 1.8 times the value of its exports of manufactures; by 2002 this had sharply fallen, to 0.6. Mexico offers the most extreme example—its manufactured exports increased nearly ten-fold between 1990 and 1998, but total value-added in its manufacturing sector increased by barely 50% while its share of world MVA actually fell. 'High-income' nations present a mirror image: their ratio of MVA to manufactured exports doubled, from par in 1990 to 2.0 in 2002. Thus Unctad's conclusion that, "in relative terms, industrial countries appear to be trading less but earning more in manufacturing activity," [26] and its damning verdict on the results of export-oriented industrialisation for most of the participating nations: "of the economies examined here, none of those which pursued rapid liberalization of trade and investment over the past two decades achieved a significant increase in its share in world manufacturing income, although some of them experienced a rapid growth in manufacturing exports." [27]

Despite the enormous increase in the global south's manufactured exports from 1980 onwards, the rate of growth of MVA in these nations slowed down compared to the pre-globalisation period, as shown in Figure 6.3 for ten Latin American and Asian nations.

The pronounced tendency of 'emerging nations' MVA to decline relative to the value of their manufactured exports, a strong indication of the existence of a 'race to the bottom' among southern manufactures-exporting nations, is revealed in Figure 6.4, which shows the ratio of MVA to manufactured exports between 1990 and 2007 for six major southern manufacturing exporters. [28]

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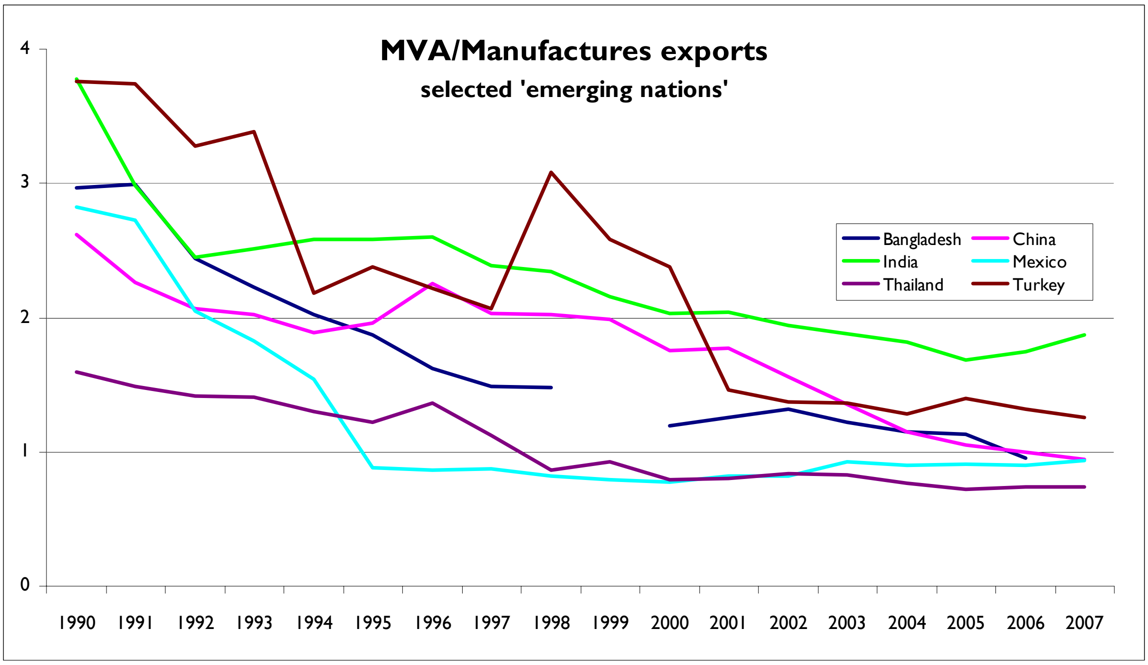
26 Ibid., p80.

27 Ibid., p80.

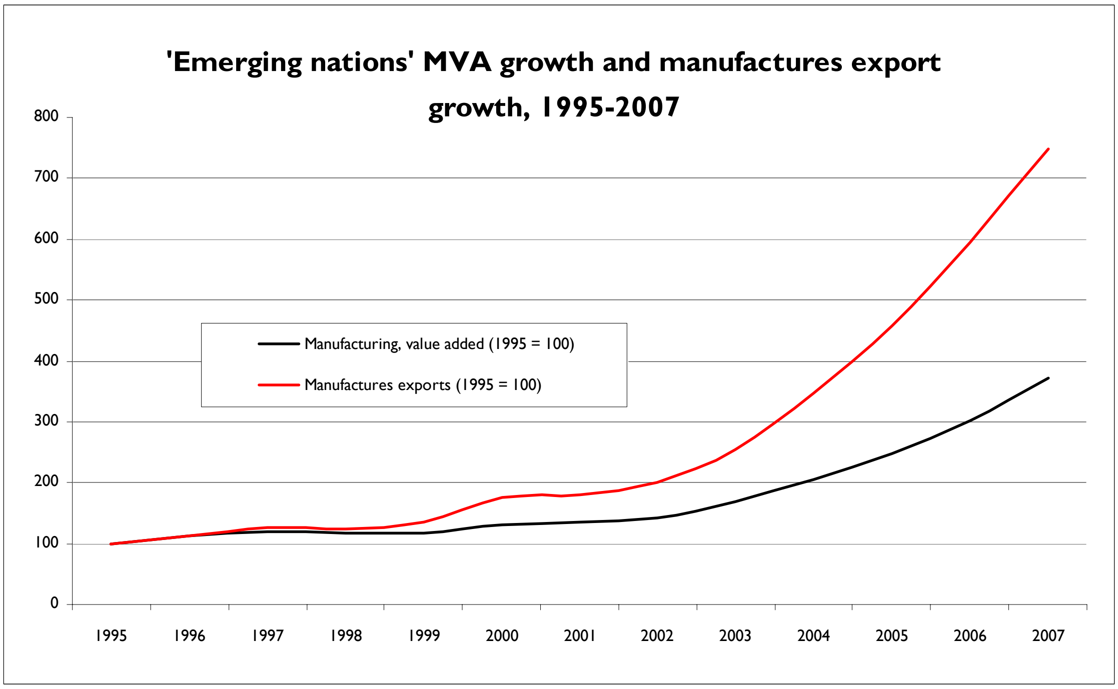
28 *"Terms-of-trade losses are no longer confined to commodity exporters. Many manufactures exported by developing countries are now beginning to behave more like primary commodities as a growing number of countries simultaneously attempt to raise their exports in the relatively stagnant and protected markets of industrial countries. For example, the prices of manufactures exported by developing countries fell relative to those exported by the European Union by 2.2 per cent per annum from 1979 to 1994."* Unctad, 1999, Trade & *Investment Report 1999*, Unctad: Geneva. (pvi)

Figure 6.4 MVA versus manufactured exports, 1990-2007

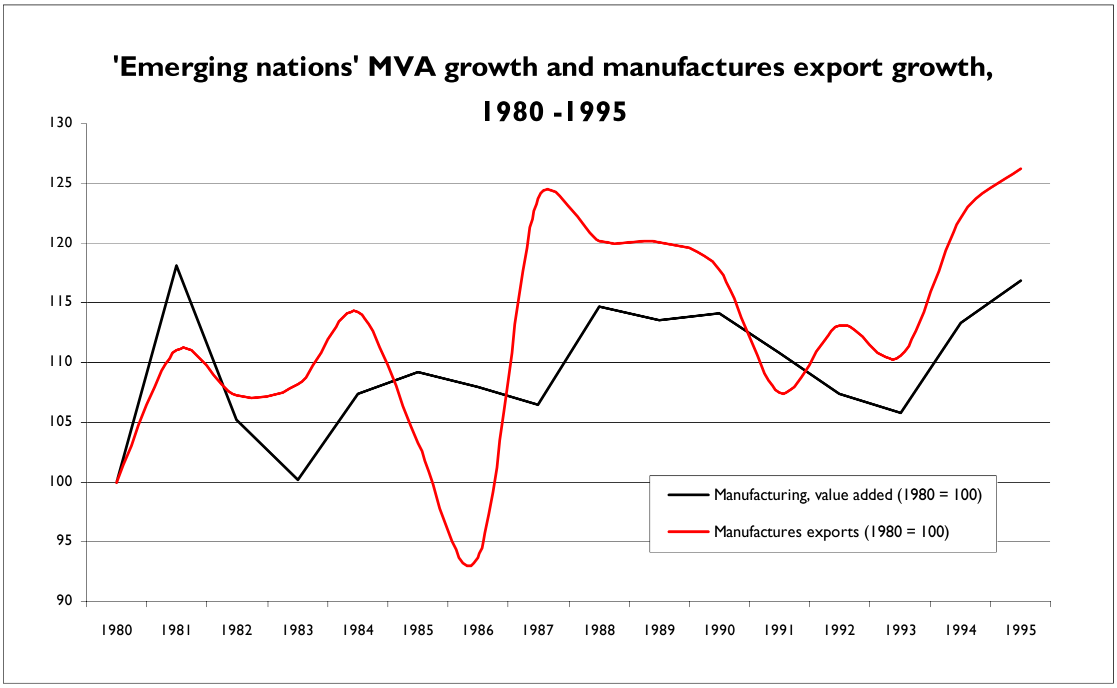


Source: World Development Indicators (Edition: September 2009 http://esds80.mcc.ac.uk/wds_wb).

Figure 6.5 'Emerging nations' MVA growth and export growth



Source: World Development Indicators (Edition: September 2009 http://esds80.mcc.ac.uk/wds_wb)



Source: World Development Indicators (Edition: September 2009 http://esds80.mcc.ac.uk/wds_wb); three-year rolling average.

Figure 6.5 depicts the evolution of this tendency for all reporting 'low and middle income' countries, revealing a sharp contrast between the 'early globalisation' period of 1980-1995 and the 'late globalisation' period from 1995 to the onset of the global financvial crisis in 2007. Close inspection of these graphics reveals that the sharp divergence between MVA and manufactures-exports growth rates began in the early 1990s and accelerated in the early 2000s, this acceleration coinciding with evidence presented in chapter 2 of a major acceleration of outsourcing in the first years of the new millennium.

An outstanding feature of the entire post-war period is the relative decline of manufacturing as a contributor to the GDP of the dominant nations and to global GDP. In the USA, for example, the major imperialist country where it has held up best, manufacturing industry accounted for 65% of GDP and 38% of employment in 1939, falling to 54% of GDP in 28% of employment by 1979, and to 43% of GDP and 17% of employment by 2004.[29]

Imperialist nations have been cushioned from MVA stagnation by the stellar rise in 'services', and in particular the contribution made by finance and other non-production activities to profits and GDP. For 'newly industrialising' nations, however, the relative decline of manufacturing means their relative decline, that they have joined in a 'race to the bottom'.

29 NIPA Table 1.2.5, http://www.bea.doc.gov; Bureau of Labor Statistics, http://www.bls.gov/ces/home.htm#data

The secular decline in MVA's share of GDP is widely interpreted in both the mainstream and heterodox literature to signify a corresponding decline in the importance of manufacturing production, and has given rise to concepts and theories of a transition to a 'post-industrial society', the rise of the 'knowledge economy', and other such notions. However, MVA, or 'manufacturing value-added', shares all of the defects of 'value-added': it presumes that the value that is added, measured as the difference between the value of the inputs and the value of the output, is entirely the result of activities taking place within that firm, and not the result of the ability of that firm (i.e. individual capital) to capture a share of the value created by all of the capitals competing in that market. This thesis argues that part of the value captured by Northern firms as MVA or as 'services' value-added, either way boosting the GDP of the nations of the North, represents value created by living labour in southern production processes. The large-scale relocation of production processes to low-wage nations does not in the slightest signify that manufacturing production has ceased to be a prime source of surplus-value and profits for the supposedly 'post-industrial' capitalisms of the North.

MVA's decline, financialisation's rise

Martin Wolf noted that "Between its low in the first quarter of 1982 and its high in the second quarter of 2007, the share of the financial sector's profits in US gross domestic product rose more than six-fold. Behind this boom was an economy-wide rise in leverage. Leverage was the philosopher's stone that turned economic lead into financial gold. Attempts to reduce it now risk turning the gold back into lead again."[30]

Finance capital has indeed indulged in alchemy, using debt to inflate asset values, with the perversity that the more readily an asset can be 'stripped' and turned into an income flow the more valuable that asset becomes, the more it is cannibalised the more flesh it seems to have on it. However, as well as creating value out of thin air, the financial sector also captures value created in productive sectors of the economy, including that part of it which it has helped to outsource to low-wage nations. Thus 'financialisation' and outsourcing have not only proceeded in parallel and influenced each other, these two processes are internally connected. As Milberg suggests in a recent paper, the growing 'financialisation' of the imperialist economies is the flipside of the "rapid expansion of manufacturing productive capacity in low-wage countries,"

30 Martin Wolf, 2007, 'Fear makes a welcome return,' in *Financial Times,* August 14, 2007.

since this gives rise to "capital flows from the low-wage to the industrialized countries [...] supporting asset values in the industrialized countries and especially the U.S." [31]

William Milberg draws attention to two symmetrical gaps in the literature on global value chains and on 'financialisation'. With regard to the former, he states "to date the value chain literature has not considered in any detail the implications of globalized production for the flow of funds or what has become widely known as 'financialization'," [32] while "studies of financialization tend to leave as implicit the link to production and investment [...] many analysts [...] fail to consider the changes in the structure of production, and specifically the rise of global value chains that have provided the continued capacity of the major industrialized countries to sustain profit growth"[33]

Milberg is at the head of all fields in making this crucial connection between so-called 'financialisation' and the globalisation of production processes,which he explained as follows: "the enormous expansion of global value chains has [...] coincided with a decline in manufacturing in most countries, and thus has permitted companies to return a greater share of net revenues to shareholders rather than reinvesting these revenues in new productive capacity." [34] Fleeting references to outsourcing in the financialisation literature treat these two processes as if they were completely unrelated. Beverly Silver and Giovanni Arrighi, for example, argued that "the great relocation of capital of the 1980s and 1990s from trade and production to financial intermediation and speculation [...] rather than the incomparably smaller relocation of industrial activities from North to South, has been the main cause of whatever worsening of working and living conditions Northern and Southern workers have been experiencing over the past twenty years."[35]

The fallacy at the centre of Silver et al's thesis was most clearly exposed in a passage from '*What the 1987 Stock Market Crash Foretold'* a resolution adopted by US communists in 1998: "The capitalists are not refraining from major new capacity-expanding investment because they are choosing to divert too much capital into securities markets, real estate speculation, loan sharking, and speeding up production in outmoded factories. The cause and effect are the other way around. The exploiters are sinking their capital into 'labor-saving' retooling and speculative paper claims on values because they can get a better rate of return there than from investments in

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31 William Milberg, 2008, 'Shifting Sources and Uses of Profits: Sustaining U.S. Financialization with Global Value Chains', *Economy and Society*, 37:3, 420-451 (http://milbergw.files.wordpress.com/2008/09/milberg-ec-and-soc-2008.pdf, accessed 14/07/2009) (p421).

32 Milberg, 2008, p421

33 Ibid, p445

34 Milberg, 2004b p3

35 Silver, Beverly.J. & Giovanni Arrighi, 2000, 'Workers North and South', in L.Panitch and C.Leys (eds) *The Socialist Register 2001*, London: Merlin Press. (http://www.wildcat-www.de/dossiers/forcesoflabor/workers_north_and_south.pdf, accessed 23/09/2009) (p10).

building new factories, installing major new technologies, and hiring on large amounts of additional labor power."[36]

Just one thing needs adding to this: 'labor-saving retooling' must also include the outsourcing of production processes.

'Financialisation' and its attendant asset bubbles are the products of a complex interaction between two highly reactive and dynamic processes: increasing levels of government, corporate and household debt, and a massive recourse to offshoring and outsourcing. Both of these result from the efforts of imperialist finance capital to counter the falling rate of industrial profit and the threat of an overproduction crisis.

The crucial questions are why did northern finance capitalists divert capital from production towards financial intermediation and speculation? To what extent have offshoring and outsourcing functioned as a substitute for investing in expanded production at home? How does outsourcing boost the profits of northern firms? How important to the imperialist economies as a whole are the profits derived one way or another from outsourcing production processes to low-wage countries?

6.4 Outsourcing outpacing offshoring

As we saw in chapter 2, the relation between northern capitalist and southern wage-labourer takes two forms: offshoring, when the production process is offshored but kept in-house, i.e 'foreign direct investment', and outsourcing, when a firm outsources the production process to an independent supplier, even though the outsourcing firm may retain effective control over the production process and continue to capture the largest share of the proceeds. According to the conventional definition, only the first type of firm is a 'transnational corporation'. Yet, Gene Grossman and his fellow Princeton economists point out, "it does not matter much whether the firm opens a subsidiary in a foreign country and employs workers there to undertake certain tasks within its corporate boundaries, or whether it contracts with a foreign purveyor under an outsourcing arrangement…. in either case the effects on production, wages and prices [in the US] will be roughly the same."[37]

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36 SWP, [1998] 2004, p146

37 Grossman et al, 2006, p13. '*The effects on production, wages and prices*', according to the authors, is that US production will become more concentrated in capital-intensive activities; the wages of workers engaged in

This is an extremely significant finding, but it suffers from an omission: the Princeton Professors list the beneficial effects of outsourcing on production, wages and prices but neglect to mention the all-important effect of offshoring and outsourcing on *profits*. They are also mistaken on one crucial point: it *does* matter whether the firm opens a subsidiary or outsources to a 'foreign purveyor': it is increasingly evident that transnational corporations increasingly favour outsourcing relationships over in-house offshoring. As William Milberg points out, "despite the stunning increase in the transnational activity of large firms […] such firms find it increasingly desirable to outsource internationally in an arm's length rather than non-arm's length (intra-firm) relation […] increasingly, efficiency-seeking foreign direct investment is being substituted with arm's length subcontracting." [38]

Gary Gereffi has reached the same conclusion: "While companies regularly decide whether they wish to produce goods and services 'in-house' or buy them from outside members, the tendency in recent years has shifted in the direction of 'buy.'" [39] Timothy Sturgeon, another leading researcher into global value chains, has also "detected a shift in the organization of global production toward external networks," [40] adding extremely interesting insights that point to an important but little-noticed connection between outsourcing and financialisation. Drawing on his own "recent research findings, as well as the findings of others", he reports that "[a]n outsourcing wave was breaking over producer-driven chains, and as a result 'manufacturers' in producer-driven chains were becoming more buyer-like. Deverticalization was being driven, not only by the rise of powerful retailers, but later, in the 1990s, by a broader effort on the part of branded manufacturing firms to increase shareholder value by shifting fixed assets (like factories) and risk to suppliers." [41]

Peter Dicken also notes the "increasing trend for firms to outsource some of their major functions, thus providing opportunities for supplier firms to fill the gap […] the logic is that costs will be reduced and profits enhanced through such concentration on core activities […] the potential benefits, as well as the costs, of outsourcing are even greater where it occurs across national boundaries." [42] He adds an important rider to this: "the trend towards outsourcing, though very strong at present, is not inevitable or irreversible… the boundaries between

labour-intensive tasks will come under pressure while skilled workers' wages will rise; and the prices in the US of offshored or outsourced goods will fall relative to those produced domestically.

38 Milberg, 2004, p15 *"The role of FDI and TNC activity in the global economy continues to grow, as reflected in the sales, assets, value-added (gross product), employment and exports foreign affiliates."* Unctad, 2004, World Investment Report 2004—The Shift Towards Services. Geneva, Unctad (p8).

39 Gereffi, 2005, p4.

40 Milberg, 2004b p7.

41 Sturgeon, 2008, p8.

42 Dicken, 2007, p164.

externalisation and internalisation is continuously shifting, and not always in predictable directions"

Why are Milberg, Gereffi and other observers so sure that arm's length relations are increasingly favoured and increasingly preponderant, despite the evidence presented in chapter 2 of the increasing magnitude of N-S FDI and its increasing weight in the totality of the TNCs' direct investments? For Milberg, clinching evidence is to be found in the fact that intra-firm trade is only growing in line with world trade while trade in intermediate inputs is increasing faster than it: "the share of trade that is intra-firm has been relatively constant for the past 25 years [...] With outsourcing increasing and intra-firm trade constant, the rise in the share of trade in intermediates must be the result of arms-length transactions, that is international subcontracting outside the confines of the transnational corporation." [43]

Once again, China provides an eloquent illustration. Grossman and Rossi-Hansberg report that intra-firm trade, as a proportion of total US imports from China, has risen from 11% in 1992 to 26% in 2005,[44] apparently contradicting Milberg and others' belief in the relative growth of outsourcing. But in 1992 the doors were only beginning to open for US TNCs; since then they have built a giant exporting platform almost from scratch, resulting in annual imports into the USA from US-owned TNC subsidiaries in China leaping from $3bn to $63bn, a 30-fold increase. On the other hand, imports from independent suppliers in China increased 'only' nine-fold, from $22bn to $180bn.[45] Thus, while intra-firm trade has increased its share from a very small base, arm's-length outsourcing by US companies in China has greatly increased its absolute lead over direct US investments in that country and continues to account for three-quarters of total China-US trade.

The preference for an arm's-length relationship is particularly pronounced in low-tech industries, most notably those producing consumer goods, while production outsourcing in high-tech industries has been more likely to remain in-house, though processes of competition and concentration are very intense, creating a very dynamic picture. The investigation by van Assche et al cited above into China's 'high-tech' export processing industries provides a vivid example of the continued importance of direct investments to many outsourcing TNCs—this sector remains dominated by the subsidiaries of US TNCs; in other words outsourcing in the 'high-tech' sector

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43 Milberg, 2004b p7. *"US intra-firm trade as a share of total US exports and imports for the period 1977 to 1998 has been remarkably flat. A similar pattern is found in the intra-firm trade from Japan and Sweden, the only two other countries for whom reliable intra-firm trade data exist."*

44 Grossman & Rossi-Hansberg, 2006, pp8-9.

45 Foreign trade statistics from http://www.census.gov/foreign-trade/balance/c5700.html#2005

has not, or not yet, established its overwhelming predominance, in contrast to China's low-tech exports, e.g. clothing, toys etc.

Théodore Moran reports that, in 1997, "[t]he flow of foreign direct investment to the more advanced industrial sectors in developing countries—including electrical equipment, electronics, semiconductors, auto parts, chemicals, medical equipment and pharmaceuticals—is roughly twenty-five time larger than the flow to low-skill, labour-intensive operations. If accumulated stock is used as the basis for comparison, the ratio [...] is more than ten to one." [46] Moran forgets that TNCs operating in the advanced technology sector typically offshore precisely the 'low-skill, labour-intensive' parts of their production processes, and not their advanced technology, yet he provides striking evidence that it is nevertheless these high-tech sectors which concentrate flows of FDI.

This conclusion is supported by the findings of three Unctad economists, Jörg Mayer, Arunas Butkevicius & Ali Kadri, who analysed trade data since 1980 to discover the 'most dynamic products in world markets', i.e. those that had shown the most sustained growth over the period. They report that "developing country exports tend to be increasingly concentrated in computers and office equipment, communications equipment and semiconductors, and clothing. All of these products involve labour-intensive production processes." This concentration of exports in a relatively narrow band of products raises the "risk that the simultaneous drive in a great number of developing countries, including in particular those with a large economy, to export such dynamic products may cause the benefits of any increased volume of exports to be more than offset by losses due to lower export prices." [47] The only reservation one might have with this is its suggestion that in 2002 (the year of publication of this research) the 'fallacy of composition' was still an impending threat, not already a palpable reality.

According to Mayer et al, the three 'most dynamic' product groups are precisely the ones "whose export values and market shares have grown most rapidly and whose growth rates have been least volatile [...] These are also the products found in earlier studies to have been affected most by two phenomena of the world trading system that have rapidly gained in importance over the past few years, namely the horizontal and vertical fragmentation of production processes at the international level." [48] This important study also found that "[s]trikingly, the growth rates of exports from developing countries exceed those of world exports by a higher margin the greater is the skill and technology intensity of the product category [...]. However, this does not

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46 Theodore H. Moran, 2002, *Beyond sweatshops: foreign direct investment and globalization in developing countries.* Washington, DC: The Brookings Institution Press.

47 Mayer et al, 2002, p20

48 Mayer et al, 2002, p8

necessarily imply that there has been a rapid and sustained technological upgrading in the exports of developing countries."[49] In part, this is because 'developing countries' exports in high-tech sectors started from a very low base, but the main reason is that "the involvement of developing countries is usually limited to the labour-intensive stages in the production process of these goods in the context of international production sharing."[50] Thus, whether in-house or arm's length, the most 'dynamic products' are those issuing from labour-intensive production processes, providing further evidence for the centrality of global labour arbitrage-driven globalisation of production processes to the modern imperialist economy.

The mysteries of outsourcing

Milberg's recognition of outsourcing's growing preponderance leads him to ask some extremely important questions: "Why should arm's-length outsourcing be of increasing importance in a world where transnational corporations play such a large role?... Why should cost reductions be increasingly prevalent externally rather than within firms?"[51] He argues that the only possible explanation is that TNCs find arm's length outsourcing to be more profitable than keeping production in-house; or as he himself puts it, "[t]he growing tendency towards externalization implies that the return on external outsourcing—implied by the cost reduction it brings to the buyer firm—must exceed that on internal vertical operations".[52] This leads him to a crucial insight: "these cost savings constitute rents accruing abroad in the same sense that internal profit generation does for a multinational enterprise." Before we consider the massive implications of this, we should look at why this may be so.

One reason why outsourcing may be more profitable is that, as Martin Wolf notes, "transnational companies pay more—and treat their workers better—than local companies do".[53] Transferring production to independent local companies thus implies a reduction in labour costs and thus

49 Mayer et al, 2002, p20

50 Mayer et al, 2002, p20

51 Milberg, 2004b p7-8

52 Milberg, 2004a, p34

53 Wolf, 2005, p235. Referring to a study showing that TNC subsidiaries in Indonesia pay higher wages than local companies, Wolf reports that '*detailed econometric evaluation [...] allow[ing] for the educational levels of employees, plant size, location, and capital- and energy-intensity [...] [reveals that] the premium is 12% for 'blue-collar' workers and about 22% for the 'white-collar' workers.'* (op cit, p236). Jagdish Bhagwati (2004, p172) argues that '*several empirical studies do find that multinationals pay what economists now call a 'wage premium': they pay an average wage that exceeds the going rate, mostly up to 10% and exceeding it in some cases.'* Dicken (2007, pp470-1) cites Clive Crook, who gives much higher estimates: he claims that wages in the affiliates of TNC s in 'middle-income countries' are 80% higher than local employers, and in 'low-income countries' their wages are 100% higher. See Clive Crook, 2001, 'Globalisation and Its Critics: a Survey of Globalisation', in *The Economist*, 29th September 2001.

cheaper products. A further incentive to 'deverticalise' is that 'arm's-length' also means 'hands clean'—the outsourcing firm 'externalises' not only commercial risk and low 'value-added' production processes, they also externalise direct responsibility for pollution, poverty wages and suppression of trade unions. Perhaps the most notorious example of this is Coca-Cola's operations in Colombia, the hub of its Latin American soft drinks empire, where 88% of the 10,000-strong workforce are employed by labour contractors on temporary contracts, many working for $80 per month with no sick-pay, holiday-pay, pensions or insurance; and where the food workers' union, SINALTRAINAL, accuses company management of colluding with death squads who have assassinated nine union members and leaders since 1990 and forced many others into exile. Coca-Cola's Atlanta, Georgia-based international directors wash their hands of any responsibility for both the exploitation and the violent oppression, on the grounds that its Colombian bottling plants are independent companies operating under a franchise, allowing its spokesman Rafael Fernandez to make the legally precise claim that "Coca-Cola does not own or operate any bottling plants in Colombia."[54] Mark Thomas, an investigative journalist, commented "[t]his is the standard use of the 'Coca-Cola system', operating as an entity but claiming no legal lines of accountability to the Coca-Cola Company [...] the case here is similar to that of Gap and Nike in the 90s [...] [who] outsourced their production to factories in the developing world that operated sweatshop conditions. It was not Nike or Gap that forced the workers to do long hours for poor pay, it was the contractors."[55]

While the arm's length relationship may have political or PR benefits, the bottom line is its effect on TNC profits and asset values. TNCs increasingly prefer to 'externalise' their operations because forcing outsourced producers into intense competition with each other is a more effective way of driving down wages and intensifying labour than doing so in-house through appointed managers. Another potent incentive favouring arm's length relationships is that they allow the TNCs to offload many of the costs and risks associated with fluctuations in demand and with larger disruptions in world markets. This also has a political as well as economic aspects: the 'Coca-Cola system' not only distances TNCs from direct responsibility for super-exploitation, pollution etc, it absolves them of the task of declaring mass redundancies during times of crisis.

The outsourcing wave is being driven by the desire to cut costs, outsource risk and focus competitive pressures on the independent producers in the southern end of the chain. Unlike FDI, the outsourcing relationship does not involve any N-S capital flows. The outsourcing firm is

54 Julian Borger, 2001, 'Coca-Cola sued over bottling plant 'terror campaign'', in *The Guardian,* Saturday 21 July 2001.

55 Mark Thomas, 2008, *Belching Out The Devil: Global Adventures With Coca-Cola*. London: Ebury Press.

free to concentrate on its 'core competencies', which, as in so-called 'fab-less firms', often no longer involve actually making anything, and to divert investment funds into what Silver et al. call "financial intermediation and speculation".[56] In other words, the increased profits delivered by outsourcing are not invested in production either at home or abroad and can be entirely devoted to financial engineering aimed at leveraging asset values and reaping speculative profits, feeding the 'financialisation' of the imperialist economies.

There is nothing especially mysterious about this—except for one important detail. The foreign direct investments of northern TNCs generate a gigantic S-N flow of repatriated profits. In complete contrast to this, between southern firms and northern outsourcers there is, in the data on financial flows, neither sign nor shadow of any S-N profit flows or value transfers. And yet transnational corporations increasingly find the arm's length relationship to be more profitable than in-house FDI! [57] Does the fact that the S-N flow of profits is no longer visible mean that this flow has ceased to exist? If not, what exactly happens to the profit-flows which are visible in the case of an in-house relationship but which completely disappear when this is replaced by an outsourcing relationship?

This conundrum cannot be resolved within the neoclassical framework, which presumes markets to be the 'ultimate arbiter of value',[58] precluding the possibility of hidden flows or transfers of values between capitals prior to their condensation as prices. To unravel it, one key analytical step that must be made is to regard offshoring and outsourcing as two different manifestations of a single phenomenon, this being the social relation of exploitation between capitals headquartered in imperialist nations and workers in low-wage nations. From this perspective, the repatriated profits from TNC subsidiaries and the 'rents' captured by northern outsourcers are two different ways that northern capitalists profit from the super-exploitation of southern labour. It also follows that the visible flow of profits from FDI is only a surface manifestation of a larger underlying phenomenon, in other words that S-N value transfers effected by FDI are very much larger than repatriated profits.

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56 B.J.Silver & Giovanni Arrighi, 2000, 'Workers North and South', in L.Panitch and C.Leys (eds) *The Socialist Register 2001*, London: Merlin Press (p10).
(http://www.wildcat-www.de/dossiers/forcesoflabor/workers_north_and_south.pdf, accessed 23/09/2009).

57 Furthermore, the various subterfuges indulged in by transnational corporations to conceal part of this flow from tax authorities (transfer pricing, under-invoicing etc,) are not available in arms-length relationships. These are large benefits to forego (see p75).

58 Shaikh & Tonak, 1994:229

Having identified FDI and arm's-length outsourcing as two forms of this global labour/capital relation, the next step is to abstract from their differences and analyse what they have in common.

It is possible to imagine a TNC converting a direct in-house relation with a subsidiary into an arm's length relation with an independent supplier, doing so without making any changes to the work regimes or to the labour processes, or to the price of inputs, or to the profits realised upon the sale of the output. The actual process of production and value extraction would then be identical in every respect. Nothing has changed except titles of ownership. Yet surface appearances would show a profound change: a visible S-N flow of repatriated profits between TNC subsidiary and TNC HQ has vanished, without leaving a trace in the data on capital flows, yet this new relationship causes costs, including labour costs and operating profits, to be squeezed in these now 'arm's length' links in the value chain, helping 'lead firms', i.e. imperialist TNCs, to increase their ability to capture more of the total value added. This is suggestive of the physical phenomenon known as sublimation—when the application of heat to a visible solid turns it into an invisible vapour, only for it to rematerialise as a visible solid in a different part of the apparatus. In the outsourcing relationship, the S-N flow of value continues, but in a different form, invisible to the naked eye—that is, there's no sign of it in standard data on global capital and commodity flows. To the 'Positive Economics' of the neoclassical mainstream,[59] however, if it's not visible it doesn't exist; and since value can only appear in the form of price, this is naturally its only form of existence. This, the central premise of neoclassical economics, precludes the possibility that value is transferred or redistributed between capitals in order to achieve equilibrium prices which equalise profits. Conversely, to recognise the existence of such flows is to dislodge the keystone of the ruling economic theory, causing the entire edifice to collapse.

Renaming 'profit' as 'rent', as do Milberg, Kaplinsky, Gereffi and others studying this phenomenon, does not clarify this question. Milberg's notion of 'rents accruing abroad' implies that the South-North flow continues; simply calling it 'rent' says nothing about a really interesting implication of this. These 'rents accruing abroad' appear in the GDP of the importing nation—even though they were 'accrued abroad'. This sets the scene for the final chapter of this thesis, *The GDP Illusion*.

♦ ♦ ♦

[59] *Positive Economics* is the title of a widely used economics textbook by Paul Samuelson.

Chapter 7 The GDP illusion

As explained in chapter 1, the aim of this thesis is threefold—to prove that southern living labour is massively more important to 'global capitalism' than it is given credit for in mainstream, heterodox or Marxist accounts, to show why there must be a return to value theory to understand capitalism's latest stage of development and to make a contribution towards the elaboration of this theory. These three tasks are brought to a conclusion in this chapter.

This chapter develops the critique of core tenets of neoclassical economic theory begun in the last chapter, showing that the supposedly raw and objective data on GDP, trade and 'value-added', universally accepted as such by mainstream and critical social science, are in fact fetishised categories that obscure as much as they reveal.

The first section, '*What is 'GDP'?*', examines GDP's claim to be an ideal measure of the amount of wealth *produced* by economic activity within a nation, arguing that it should be understood instead as that part of the global product that is *captured* by its firms.

The second section, '*GDP, 'value-added' and the theory of the firm',* dissects 'GDP', exposing and critically evaluating the highly contestable core precepts of mainstream marginalist economics that are at its core, in particular, the concept of 'value-added'.

The third section, '*The 'value-chain' concept',* develops this critique by examining the theoretical models developed by new schools of research that have recognised the central importance of the globalisation of production processes and have broken with some aspects of or to some degree with the ruling economic ideas.

The fourth section, '*Value chains and value theory*', considers some recent contributions to the development of a Marxist critique of value chain analysis.

The fifth section, '*Three elements of the GDP illusion*', outlining three distinct ways in which GDP data obscures the exploitative and parasitic relations between imperialist nations and the global South.

The sixth Section, *'GDP in the era of globalised production'* concludes this chapter and this thesis.

7.1 *What is 'GDP'?*

GDP and trade data are universally seen as objective raw data whose accuracy may be questioned on technical grounds but whose measurements have the same scientific validity as those of other empirical processes such as ocean currents or the speed of light.[60] This thesis argues that, to the contrary, GDP and trade data are artifices conjured from the fundamental premises and precepts of mainstream marginalist economic theory. These walk through the door every time we uncritically report GDP and trade data, each time implicitly accepting that 'Gross Domestic Product' does indeed measure the wealth produced by a nation and that world trade statistics do serve as a more-or-less accurate measure of the exchange of wealth between nations. But if GDP is a true measure of a nation's product then the residents of Bermuda, which in 2006 boasted the world's highest per capita GDP, are among the most productive members of humanity.[61] This tax haven, a 'British overseas territory',[62] leapt above Luxemburg to take the top spot after becoming a favourite destination for hedge funds needing a new home following the destruction of the World Trade Centre on September 11th 2001, and after receiving a further leg-up from hurricane Katrina. The *Financial Times* reported that "Bermuda's reinsurance business has exploded in scale. The rapid growth started after the September 11 attacks in 2001 and gathered pace following 2005's terrible hurricane season – which included the devastating Hurricane Katrina. These disasters [...] pushed up the cost of insurance premiums [...]. prompt[ing] hedge funds and private equity groups to dash into the sector, hoping to reap fat profits if premiums stay high. Bermuda became their favoured location."[63]

60 'GDI', or Gross Domestic Income, also exists in the economists' lexicon: *"Gross Domestic Income (GDI) is analytically equivalent to gross domestic product: both measure the level of economic activity in the US economy. GDP measures the product side of the economy (the value of final sales) while GDI measures in the income side (labor compensation, profits, rent, and proprietors' incomes). In theory GDP always exactly equals GDI, but, due to measurement error there are slight differences between the two. When assessing profits' share, GDI is the more appropriate metric because they are measured directly through the GDI accounts."* L. Josh Bivens, 2006, Gross domestic income: profit growth swamps labor income, Economic Policy Institute, Washington D.C. (http://www.epi.org/economic_snapshots/entry/webfeatures_snapshots_20060330/, accessed 14/11/09).

'In theory GDP always exactly equals GDI'—since both are price data, a record of transactions in the market place, and since for each purchase there is a sale and for each buyer there is a seller, a nation's 'income' is tautologically equated with its 'product'.

61 Bermuda's per capita GDP (in PPP$) in 2006 stood at $69,900 (more than 90% of it contributed by financial services), 60% greater than that of the USA, according to the CIA factbook (http://www.indexmundi.com/g/r.aspx?c=bd&v=67, accessed 15/5/2009).

62 Bermuda is one of six 'British overseas territories' in the Caribbean/North Atlantic region: the other five are Anguilla, Cayman Islands, British Virgin Islands and the Turks and Caicos Islands. The other eight 'territories' elsewhere in the world over which the UK exercises sovereignty include Gibraltar and the Falkland islands.

63 Andrea Felsted and Gillian Tett , 2007, 'Hedge funds find Bermuda a favourable climate', in *Financial Times*, July 4 2007.

Apart from cocktails in its beach bars and other luxury tourist services, and the output of some 1500 Bermudans employed in agriculture and fishing, Bermuda produces very little. Bermuda thus owes its official status as the 'world's most productive nation' to the supposedly extraordinary productivity of its expatriate community of hedge-fund traders and offshore bankers.

Another way of seeing through the 'GDP illusion'—the falsity of GDP's claim to be a measure of a nation's product—is suggested by an oft-cited passage from a seminal paper by Robert Feenstra. "As an example of outsourcing, consider the Barbie doll. The raw materials for the doll (plastic and hair) are obtained from Taiwan and Japan. Assembly [...] has now migrated to lower-cost locations in Indonesia, Malaysia, and China. The molds themselves come from the United States [...] Other than labor, China supplies only the cotton cloth used for dresses. Of the $2 export value for the dolls when they leave Hong Kong for the United States, about 35¢ covers Chinese labor, 65¢ covers the cost of materials, and the remainder covers transportation and overheads, including profits earned in Hong Kong. The dolls sell for about $10 in the United States [...] The dolls sell worldwide at the rate of two dolls every second, and this product alone accounted for $1.4bn in sales for Mattel in 1995." [64]

We learn from this that the GDP of China and of all other countries where the doll is made is increased by between a tenth and a fifth of the doll's final selling price; the rest appears in the GDP of the nation *where it is consumed*, or—as Feenstra puts it, "[t]he majority of value-added is [...] from U.S. activity". Similarly, Raphael Kaplinsky cites the example of footwear industry in the Dominican Republic, whose per capita GDP in 2006 stood at PPP$5,549, just 8% of Bermuda's, or 3% at market exchange rates. In this nation, which shares the island of Hispaniola with Haiti,[65] 150,000 mostly female workers toil long hours in 57 export processing zones,[66] making shoes out of imported components,wrapping them in imported components, and thereby adding, according to GDP and trade data, 30¢—just 2% of the shoes' final selling price—to the Dominican Republic's GDP, to be shared between the state, the capitalists owners of the shoe factory, and the workers.[67] "Yet, in international trade statistics, the unit value of shoe exports was not the added value of 30¢ but the gross value of the final product, which was more like

64 Robert Feenstra, 1998, p35-6

65 The pre-Columbian name for the island is unknown.

66 In 2006, 154,000 Dominicans worked in EPZs, producing 80% of the Dominican Republic's total exports (Singa Boyenge, 2007), 95% of which, in 2001, were exported to the United States. (Shelburne, 2004, p23).

67 Some of the state's share, received in the form of taxes, will then be used to service the Dominican Republic's external debts. The OECD reports that, in 2004, debt servicing consumed around 5% of GDP, *"a percentage that altogether surpasses the resources assigned by the government to the sectors of health and education, which represented only 3.6%"* (OECD, 2008, p90); while a large portion of the capitalists' profits will likewise be expatriated through capital flight.

\$15."[68] This begs the question, which of these is a true measure of the Dominican Republic's product? It can't be \$15, since account must be made for imported inputs and for production tasks (e.g. transport) carried out in the consuming countries. But is it the 30¢ reported in the raw trade and GDP data?

This is the same question that is begged by Van Assche et al's comment that "For a country that heavily relies on imported inputs to produce their exports, its export value [...] may significantly exceed the value that it really produces in its export sector."[69] But, just what is the value 'really produced' by southern producers? Van Assche and his fellow researchers do not evince any doubt—they assume, in complete accordance with the ruling marginalist doctrine, that the prices these commodities are exchanged for in the world market provides a perfect measure of the value created by Dominican workers. But as soon as it is recognised that the 'financial services' that Bermuda 'exports' are nonproduction activities that consist of teeming and lading wealth produced in countries like the Dominican Republic, a very different perception is formed of which of these two island nations contributes more to global wealth, and of where their relative position would be if 'GDP per capita' was a true measure of the contribution of hedge fund traders and workers in Caribbean shoe factories to social wealth.

'GDP' is frequently criticised for what is omitted from its measure of domestic product—so-called 'externalities', e.g. pollution, the depletion of non-renewable resources, destruction of traditional societies; and for where it draws the 'production boundary', excluding all those productive activities that take place outside of the commodity economy, especially household labour.[70] Yet 'GDP' has never been systematically criticised for what it claims to measure, not even by Marxist and other heterodox critics of the mainstream.[71] Part of the explanation for the reticence of the Marxists lies in the fact that marginalist and Marxist value theory coincides at one point: while Marxist value theory reveals that individual prices of commodities systematically

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68 Kaplinsky, 2005:164.

69 Van Assche et al, 2008, p3

70 The UK's Office for National Statistics (ONS, 1998, p11) reports that *"domestic and personal services produced and consumed by members of the same household are omitted [from the UK's national accounting system]. Subject to this one major exception, GDP is intended to be a comprehensive measure of the total gross value added in production by all resident institutional units."* See chapter one of Shaikh & Tonak, 1994, for a lucid and insightful discussion of attempts to extend the coverage of national production accounts to include domestic labour and other activities.

71 In September 2009 two Nobel economics laureates, Joseph Stiglitz and Amartya Sen, proposed a *"broader, more encompassing measures of well-being"* that would augment traditional measures of domestic product with measures of popular access to *"health, education, security and social connectedness".* Joseph Stiglitz, 2009, 'Towards a better measure of well-being,' in *Financial Times*, September 13, 2009.

In the Financial Times article presenting his proposal, Stiglitz makes the interesting statement that *"GDP will, of course, continue to be used as a measure of market activity"*—tacitly or unwittingly conceding that what GDP is *not* is a measure of value created or 'added' in production processes.

diverge from the values created in their production, at the aggregate level all these individual divergences cancel out. In the aggregate, total value is equal to total price, [72] or as Marx put it, "the distinction between value and prices of production [...] disappears whenever we are concerned with the value of labour's total annual product, i.e. the value of the product of the total social capital." [73]

The problem facing anyone seeking to use GDP data to analyse the international political economy is that in the era of globalised production the nation and the national economy can less than ever serve as the aggregate level. Furthermore, as the examples of Bermuda and the Dominican Republic indicate, the primary reasons for the distance separating 'GDP' from being an objective measure of a nation's output are to be found in the political-economic relations between imperialist nations and the global South. Recognition that the 'total social capital' encompasses all capitals participating in the global economy only gets us to the threshold of wisdom. This 'total social capital' is not a theoretical abstraction but a concrete social relation, and it must be conceived in its relation with the global working class. Moreover, this is an *internal* relation since part of 'total social capital' is exchanged for the living labour of the global working class, and through this exchange becomes a property, de facto and de jure, of capital.[74] The globalisation of the capital/labour relation, on the basis of a pre-existing division of the world into oppressed and oppressor nations, *entails the internalisation of this division and the emergence of the imperialist form of the capital relation*.

To put this another way, the imperialist division of the world was *inherited* by ascendant finance capital; *it is now inherent*, part of its own nature. This is essence of so-called 'neoliberal globalisation', and has been most clearly articulated by Andrew Higginbottom, who has argued that holding "(southern) wages [...] below the value of (northern) labour power is a structurally central characteristic of globalised, imperialist capitalism. These social relations require a re-working of *Capital* to incorporate systemically the additional surplus value extracted from

72 This considers only the relations internal to capitalism, and abstracts from profits arising from 'accumulation by dispossession', that is, the interaction between capitalism and procapitalist or noncapitalist forms. Shaikh & Tonak (1994, p35) point out that *"it is often forgotten that profit can … arise from transfers between the circuit of capital and other spheres of social life. Marx calls this latter form of profit on alienation, which—unlike a profit on surplus value—is fundamentally dependent on some sort of unequal exchange. Its existence enables us to solve the famous puzzle of the difference between the sum of profits and sum of surplus values brought about by the transformation from values to prices of production."*

73 Marx, [1894] 1991, p971.

74 *"Capital's sole driving force [is] the drive to valorise itself, to create surplus-value… Capital is dead labour which, vampire-like, only lives by sucking living labour, and lives the more, the more labour it sucks."* Marx, [1867] 1976, p342.

oppressed workers, or 'super-exploitation' […] Imperialism is a system for the production of surplus value that structurally combines national oppression with class exploitation."[75]

What is needed is a more concrete concept of 'total social capital', one that goes beyond the timeless category of Marx's concept of capital in general and is much closer to its real contemporary form of existence. The task is to comprehend this form, to identify it as the imperialist form of the capital relation, and in so doing, in the words of Evald Ilyenkov, 'to ascend from the abstract to the concrete'.

7.2 GDP, 'value-added' and the theory of the firm

Despite its claim to be a measure of 'product', GDP measures the results of transactions in the market-place. Yet nothing is produced in marketplaces, the world of the exchange of money and titles of ownership; production takes place elsewhere, behind high walls, on private property, in production processes.

To assess the validity of GDP's claim to be an objective measure of a nation's wealth production, we must examine the premises on which it stakes this claim. The essential concept within GDP is 'value-added'—GDP being the aggregate of the 'value-added' produced by all firms within a national economy.[76] 'Value-added' itself is the net addition to value considered to result from the productive activity of that firm, obtained by subtracting the cost of all inputs from the proceeds of the sale of the outputs.[77] But all this price data tells us is the price of what goes in and the price of what comes out; this is the only information about the production process that is relevant to the concept, and so the production process remains hidden away inside its 'black box'. Before moving on to evaluate the false premises and invalid assumptions contained in the 'value-added' concept, we should note its one entirely valid implication: *that value is created (or 'added') in production processes, prior to the realisation of this value in market-place transactions*. However, cognition of this elementary fact is confounded by the neoclassical economists' dogmatic

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75 Higginbottom, 2009, *The Third Form of Surplus Value Increase*, paper presented to the Sixth Annual Historical Materialism Conference, 2009.

76 This deconstruction of GDP leaves a host of secondary but important issues to one side, e.g. the method of accounting for the production of goods and services by governments.

77 According to the Oxford English Dictionary, value added is *"the amount by which the value of an article is increased at each stage of its production by the firm or firms producing it, exclusive of the cost of materials and bought-in parts and services", and its etymology states that, apart from earlier usage in connection with taxation, the term was minted by Paul Samuelson in 1951, in the second edition of his Economics, in this sentence: "[i]f we insist upon decomposing the 10 cents of final product represented by the bread into the contributions of the different stages of production, we can always do so by concentrating on the so-called 'value-added' at each stage of production."*

insistence that value is determined in the marketplace and has no independent, even transitory, existence from price. As Marx said of this highly fetishised notion, "[b]oth the restoration of the values advanced in production, and particularly the surplus value contained in the commodities, seem not just to be realised only in circulation but actually to arise from it."[78]

According to this metaphysical theory of value, the marginal product of any one factor is derived by extrapolating the residual 'value-added' backwards onto the production process. The contribution made by each factor, including 'labour', is conceptualised by retrospectively apportioning slices of the residual value-added to the various factors of production; to labour, capital, R&D etc., and is calculated by estimating the difference a unit increase in any one of them makes to the value of the total output.[79] This is a pure tautology—a complex relationship between value and price is replaced by a simple 'equals' sign; what is more, the arrow of time is reversed: unable to deny the elementary fact that values are created in production processes, the marginalist doctrine nevertheless insists that the magnitudes of these values are determined retrospectively by 'the subjective evaluations of consumers'. As Anwar Shaikh and E Ahmet Tonak explain, "the orthodox argument turns on the notion that marketability is equivalent to production. But [...] marketability is only a measure of the ability to attract money."[80]

The value–price identity does not stop at mere tautology, *i.e.* a forced equation of two separately-existing phenomena; the two are conflated, the very existence of 'value' as something distinct from price is excluded out of hand. Yet—the marginalists cannot get around this stubborn fact—*value is 'added' in production processes.* The conflation of value with price collapses the time between them, allowing the marginalist concept to evade the contradiction, but creating a looking-glass world where relationships are inverted and processes reversed. Evasion of this contradiction is only made possible by an arbitrary and far-fetched assumption. Even though the various firms and their production functions proceed simultaneously, and as part of an organic whole, the marginalist 'theory of the firm' does not permit them to influence each other—no 'value added' is allowed to leak between them. Instead, the quantity of 'value-added' that remains after subtracting the price of inputs from the price of the outputs *is assumed to be entirely and solely the result of the production process taking place within that firm*. No leak or transfer is allowed between 'boxes', or else it would violate the forced identity of price with value. The famous 'black boxes', it turns out, are not only 'black', in that all that's visible is what goes in and what comes out, *they are also hermetically sealed from each other.*

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78 Marx, [1894] 1991, p966.

79 The factors are, essentially, labour and capital, the latter decomposed into as many elements (R&D, machinery, material inputs etc) as there are different versions of the production function.

80 Shaikh & Tonak, 1994, p33

Financial Times columnist Michael Prowse provides a good example of the economists' fetishised view of value creation: "what determines the value of goods and services? The correct answer is our subjective valuations as consumers. A good is valuable only to the extent that people demonstrate a desire to purchase it rather than something else. If our tastes change even a good that is scarce will cease to command a high price. Such a theory of value ought to be intuitively obvious; after all what could confer value on inanimate objects but the decisions of valuing individuals?"[81]

In this schema, the production process is completely off-stage, the only actors are buyers and sellers, and the only activity is buying and selling. The marginalist counter-revolution of the 19th century, succinctly articulated by Prowse, replaced a complexity (the transformation of values into prices) with an absurdity (that no such transformation takes place because value and price are the same thing), a counter-revolution made permanent by the post-World War II 'neoclassical synthesis'.[82] The economists' 'production function', in its many variants, mathematically expresses this unconditional identity: inputs multiplied by their factoral productivity are placed on one side of an 'equals' sign, 'output' on the other. Anything still unexplained can be lumped together and called 'total factor productivity' and inserted into the equation in order to ensure identity. As Lance Taylor sardonically comments, "despite the fact that TFP and similar constructs basically boil down to manipulation of accounting identities, they are viewed as engines of great analytical power by the mainstream."[83]

The Marxist concept of value is diametrically opposed to this. Values are not disaggregated prices, according to Marx, *prices are transformed values*. In this approach, time is not forced to go backwards and 'value' is not seen as a mere number or quantity of money, but as the expression of a complex, living social relation between each individual capital and all other capitals, what Marx called 'the total social capital'. However difficult it may be to conceptualise or 'solve' what has come to be called the 'transformation problem', [84] values, which are prior to prices, *must be transformed into them in a really existing process*. The consequences of this are profound.

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81 Michael Prowse, 1996, *Financial Times*, 8 September 1996.

82 Mark Blaug comments, *"The publication of the Arrow-Debreu paper of 1954, proving the existence of general equilibrium, and Samuelson's announcement of 'the neoclassical synthesis' in the third edition of his Economics: An Introduction (1955) marks the true birth of what has ever since been called 'neoclassical economics'."* Mark Blaug, 2001, 'No History of Ideas, Please, We're Economists', in Journal of Economic Perspectives, 15,1: 145-164. (p161).

83 Lance Taylor 2004, *Reconstructing Macroeconomics: Structuralist Proposals and Critiques of the Mainstream.* Cambridge, Massachusetts:Harvard University Press (p351).

84 *"That which needs to be clear, and which also contains a moment of real difficulty, is that the labour objectified in the exchange-value of a commodity does not correspond to the quantity of labour immediately spent in its production. Instead, it is the fruit of a mediation with socially allocated labour."* Massimiliano Tomba, 2007, "Differentials of Surplus-Value In The Contemporary Forms of Exploitation," in The Commoner, 12, pp23-37 (p29)

Allowing the transfer or reassignment of value between competing capitals requires a radical redefinition of 'value-added': a firm's 'value-added' must now be seen to represent not the value that *it* has added but *its share of the total value created by all firms* competing within the economy as a whole. And 'the economy as a whole' is the *global* capitalist economy, not the national economy.

This overturns universally-held notions of what is meant by 'GDP'. Standard WB/IMF data on GDP, trade etc. are compiled by adding up the 'value-added' contributed by each firm in a nation's economy. They are therefore projections of the tautological fallacy that forms the keystone of marginalist economics: the value-price identity, and its corollary, that what a firm actually adds to total value in the whole economy is the same thing as its 'value-added'.

The globalisation of production processes signifies that the process of value-production itself, and the transformation of these values into prices, now takes place, to a qualitatively greater extent than before neoliberal globalisation, at an international level. If value can be produced by one firm in one production process and condense in the prices paid for commodities produced in other firms within a national economy, then it is irrefutable that, in the era of globalised production processes, this also occurs between firms in the global economy. In other words, as David Harvey surmised, "the geographical production of surplus value [may] diverge from its geographical distribution ."[85] To the extent that it does, GDP departs ever further from being an objective, more-or-less accurate measure of a nation's product and instead becomes a veil concealing not just the extent and the very existence of North-South exploitation.

7.3 The 'value-chain' concept

The critique of 'value-added' developed in the preceding section can be used to inform a critical evaluation of new and highly active areas of multi-disciplinary research into what its exponents variously call 'global value-chains', 'value-added chains', 'global commodity chains' or 'global production networks'—collectively referred to here as *GVC/GPN theory*. These related heterodox schools have emerged in response to the same transformative phenomenon that is the focus of this thesis; namely the globalisation of production processes—"global outsourcing has given rise to a new set of economic structures in the world economy that we refer to as 'global value chains',"[86] proclaims Gary Gereffi—and have contributed many insights and ideas as is indicated by the many references to this literature in various parts of this thesis. Furthermore,

85 Harvey, [1982] 2006a, pp441-2

86 Gereffi, 2005 p2

both the 'in-house' and 'arm's length' form of TNC activity are included in their field of vision, and indeed, the GVC/GPN concepts are particularly suited to imparting visibility to the multiform 'arm's length' relationships, and in this are a big improvement on the obsolete 'FDI lens' discussed in chapter 2, which only recognises direct investment and leaves the increasingly important 'arm's-length' relations with independently-owned suppliers out of the picture.

Gary Gereffi, John Humphrey, and Timothy Sturgeon, three prominent GVC theorists, stated that "for us, the starting point for understanding the changing nature of international trade and industrial organisation is contained in the notion of a value-added chain, as developed by international business scholars who have focused on the strategies of both firms and countries in the global economy."[87] Raphael Kaplinsky, another scholar who has made a major contribution to this school, explains the basic concept like this: "The value chain describes the full range of activities that are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services) delivery to final consumers, and disposal after use."[88] A compatible definition was published under the imprimatur of the World Bank, entitled '*Moving Toward Competitiveness: A Value Chain Approach*'. It states: "[v]alue chain analysis is a method for accounting and presenting the value that is created in a product or service as it is transformed from raw inputs to a final product consumed by end users. Value chain analysis typically involves identifying and mapping the relationships of four types of features: (i) the activities performed during each stage of processing; (ii) the value of inputs, processing time, outputs and value-added; (iii) the spatial relationships, such as distance and logistics [...] and, (iv) the structure of economic agents, such as suppliers, the producer, and the wholesaler."[89]

Jeffrey Henderson, Peter Dicken, Martin Hess, Neil Coe and Henry Wai-Chung Yeung counterpose to this the concept of the 'production network', arguing that a "major weakness of the 'chain' approach is its conceptualization of production and distribution processes as being essentially vertical and linear. In fact, such processes are better conceptualized as being highly complex network structures in which there are intricate links—horizontal, diagonal, as well as vertical—forming multi-dimensional, multi-layered lattices of economic activity."[90]

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87 Gary Gereffi, John Humphrey, and Timothy Sturgeon, 2004, 'The Governance of Global Value Chains', in *Review of International Political Economy, 12:1 78-104* (p79).

88 Raphael Kaplinsky (2005) p101. Not included in this concept is the fact that these 'value chains' are only being studied because they cross borders, in particular the borders between the North and South.

89 World Bank/FIAS, 2007, *Moving Toward Competitiveness: A Value Chain Approach*. (http://vle.worldbank.org/bnpp/en/publications/capacity-building-gender/moving-towards-competitiveness-a-value-chain-approach, accessed 14/04/2009), ppix-x

90 Henderson, Dicken, Hess, Coe & Yeung. 2002, p442

The difference in emphasis between the GVC and GPN approaches partly owe to their respective origins in sociology and geography, and—to not a small degree—to the rivalry between academic schools anxious to differentiate their approach from the others. Henderson et al, for instance, argue that "[t]he value chain or value-adding chain is an old-established concept in industrial economics and in the business studies literature [...] [with] little relevance for the study of economic development."[91] However, far more unites the GVC and GPN paradigms than divides them—indeed there is a great deal of creative collaboration and cross-fertilisation between these schools—and the critique of GVC theory developed in the next pages applies equally to both.

A great deal of debate and research has been inspired by Gary Gereffi's observation that global commodity chains come in two basic types: 'producer-led' chains, whose 'lead firms' are industrial producers outsourcing labour-intensive production tasks; and 'buyer-led' chains, whose 'lead firms' are commercial capitalists, like Wal-Mart and Tesco, who outsource production of mass consumer goods and low-tech intermediate inputs to independent southern producers. Research has since discovered a multiplicity of hybrid forms between these polar ideal types. In this schema, what determines the type of chain is the nature of the final link in the chain of production, between the 'lead firm' typically headquartered in one or other imperialist nation and its suppliers, typically located in low-wage countries. How does this basic typology correspond to the in-house/arm's-length distinction analysed in this thesis? Producer-led chains may themselves be in-house or arm's-length, while buyer-led chains are composed exclusively of 'lead firms' connected to their suppliers by arm's length relationships. *But whether the value chains are buyer-driven or producer-driven, the lead firms are headquartered, overwhelmingly, in the imperialist nations while more and more of the production takes place in the South.* As Gary Gereffi argues, "It is important to recognise the fundamental asymmetry in the organisation of the global economy between more and less developed nations. To a great extent, the concentrated higher-value-added portion of the value chain is located in developed countries, while the lower-value-added portion of the value chain is in developing economies."[92]

GVC theory has given a great deal of attention to the producer-led and buyer-led typology, analysing their contrasting dynamics and myriad hybrid forms, but, notwithstanding the acuity of Gereffi's just-cited observation, it has given much less attention to the striking, North-South asymmetry that is common to both. GVC theorists take as their starting point not the concrete

91 Henderson, Dicken, Hess, Coe & Yeung. 2002, p439

92 Gereffi, 2005, pp46-7. Gereffi adds *"A similar pattern is apparent in agricultural production. Although it is true that there has long been a global production system in agriculture, today production is much more controlled by a limited number of TNCs located in the developed world."*

world economy but the abstract value chain. However much they might euphemistically refer to 'global asymmetries' in the course of their analyses, the imperialist North-South divide is not part of the core concept of the value chain; such 'asymmetries' rather appear as contingent factors that prevent value chains from producing more equitable outcomes. At the root of this is a concession to the dominant theories of development, trade etc, which regard 'developing' countries to be differentiated from 'developed' countries only by their degree of development, and not by a relation of oppression and exploitation. Yet there would be no value-chains as we know them, nor any GVC/GPN theories, were it not for the wage arbitrage-driven relocation of labour-intensive production processes to low-wage nations, by 'lead firms' overwhelmingly concentrated in USA, Europe and Japan. Florence Palpacuer's comments are as accurate as they are damning:

"If the top of [...] a chain is [...] situated in the transnational elite of lead firms' owners, analysts and executives, then the bottom [is comprised of] millions of predominantly young women workers who contribute manual labour under deeply oppressive conditions in component production and assembly, mostly—but not exclusively—in developing countries. Mainstream GCC/GVC research has barely ventured into the world of these women workers." [93]

To both GPN and GVC theory, the desire to gain 'access' to low-wage labour is just one determinant on a long list including such diverse factors as the communication revolution, reduced transport costs, infrastructure, skills and other qualities of the local workforce. Their project attempts to explicate the different factors determining the relation *between* capitals participating in the chain; the relations *internal to each capital* are beyond its field of vision. Not only is GPN/GVC theory theoretical concept not founded on the labour capital relation, it sidelines it altogether. The result is a chaotic concept, founded on what Marcus Taylor called the "fetish of labour as simply a factor of production." [94]

Taylor notes that the explanatory power of value-chain analysis lies "particularly [in] the way the approach highlights how commodity chains are structured around significant power imbalances through which lead firms seek to control market access, shape the technical organisation of production, and influence the distribution of costs [...] so as to maximise their control over the appropriation of value across the chain as a whole." [95] This succinct summary attracts attention to

93 Palpacuer, p402
94 Taylor, 2007, p538
95 Taylor, 2007, p534

the central implication of the value chain concept, that 'lead firms' wield different forms of monopoly power in order to 'maximise their appropriation of value' produced by firms lower down the chain. However, instead of shedding light on this important system of interaction, GVC/GPN theory mystifies it and assigns it to the sphere of 'governance', and in doing so it excludes two essential elements from its core 'value-chain' concept. The first is *how workers produce this value*—in other words, the exploitation of living labour in production processes, about which, as Taylor says, GVC theory is 'curiously silent' *value* (GVC/GPN theory is exclusively preoccupied with how capitalists capture it in transactions in the marketplace). The second is *the imperialist North-South divide,responsible for bringing value chains into being.*

Taylor astutely criticises GVC theory for its impoverished and undeveloped concept of production, highlighting three lapses in particular: "Production is left as an unopened 'black box', similarly to the neoclassical and institutional economics conceptualisations [...] [T]he specific social relations through which local and national labour forces are produced, reproduced, and deployed to create value within the production process are marginalised. Labour is handled as a static factor of production, sidelining important questions about power and subjectivity both in the labour process and within the wider context of the creation and reproduction of labour forces. The fetish of labour as simply a factor of production [...] must be shed."[96]

However, Taylor calls for the 'black box' to be opened but does not himself attempt to open it, and what he means by 'specific social relations' are the social relations specific to each unique setting, thereby excluding what is most essential about global value chains, namely the very dynamic 'specific social relation' that exists between imperialist TNCs and southern labour. Thus he argues that value chains are "shaped by struggles across a range of social institutions including: (1) the institutional environment established by national and regional state bodies [...] (2) the hiring and labour control strategies of employers [...] (3) practices of exclusion or inclusion that structure workforces based on social origin, age, gender, or ethnicity; and (4) social relationships within the family,"[97] with no mention of how value chains are also shaped by such 'social institutions' as international borders that are open to everything and everyone except working people, the 'planet of slums', and all else that goes with the imperialist North-South division of the world.

Thus, on the second silence mentioned above, Taylor too is mute, criticising GVC theory for ignoring "social relations and institutional contexts that shape global production and mediate its

96 Taylor, 2007, p535
97 Taylor, 2007, p539

developmental impacts," but treating 'social relations and institutional contexts' as subjects for micro studies, forgetting they include *international* social relations and *international* institutions.[98]

7.4 *Value chains and value theory*

Jennifer Bair, in a lucid review of the different strands of GVC research, argues that the 'principal task' of GVC analysts must be 'to understand where, how, and by whom value is created and distributed' in 'global industries'.[99] The strong implication of this is that values may be 'created' in some of the links in the chain (say, the South's fields and factories), and 'distributed' to others (say, retail giants, TNC parent companies)—in other words that values created in one link condense as prices received elsewhere, by other links in the chain, even though these separate 'links' are different firms operating in different continents. They have hesitated (perhaps explained by their reluctance to engage with Marxism—or of being accused of it) to consider the far-reaching implications of this, preferring to talk of 'rents' rather than 'value transfers', or instead they ignore the problem altogether, worshipfully accepting the sanctity of the market's determination of value. Raphael Kaplinsky, who regards all income received by a firm above break-even as 'rent', is an exemplar of the former approach, and all of them lapse into the latter.

In a later paper, Jennifer Bair followed up her call with a general plea for fellow GVC researchers to pay "closer attention to the role of workers as chain participants [...] [for] more serious attention to labor than it has been given to date", and, even more promisingly, that "beyond looking at the extent to which workers benefit from processes of upgrading [...] discussions of upgrading also need to examine how workers contribute to the creation of value in terms of the labor process."[100] Unfortunately, her call for GVC theory to examine how workers 'contribute' to the creation of value is tacked on and is not reflected in the 'research agenda for the second generation of GVC research' which concludes her paper, and she avoids asking an obvious question—why has GVC theory so far had so little to say about this?

For all of its insights and empirical research into the forms and functions of value chains, GVC theory fails Bair's test; it is unable to explain "where, how, and by whom value is created and

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98 In a more recent contribution to the very different field of 'security studies', Marcus Taylor does, at first glance, directly address the devastating impact of the 'endless accumulation of capital' on the global South. But his framework is that of deterritorialised 'global capitalism', not imperialism. Thus he speaks of *"a global apparatus of market rule through which the human and natural resources necessary for the endless accumulation of capital can be incorporated under the power of world money"* (Taylor, 2009, p149).

99 Bair, 2004 p5

100 Bair, 2005, p167

distributed along a commodity chain".[101] The root of this is its refusal to break with the neoclassical identification of value with 'value-added'. This is failure is compounded by another of similar proportions: it has nothing to say about how value, once captured by a firm, is then divided between capital and labour. As Carr et al. comment, "[f]ew of the global value-chain studies focus on who is employed, under what types of employment relations, and for what returns." [102]

GPN theory arrives at exactly the same juncture as GVC theory, its leading proponents uneasily and hesitantly admitting the "possibilities that exist for value to be captured. It is one thing for value to be created and enhanced in given locations, but it may be quite another for it to be captured for the benefit of those locations." [103] GVC/GPN theorists claim to "explicitly recognize that [...] input-output structures within the networks are centrally important, not least because it is these that constitute the sites where value is generated and where [...] enormous variations in working conditions [...] exist around the world." [104] But, without a theory of value, no further progress can be made, and about this they just cannot make up their minds: "by 'value' we mean both Marxian notions of surplus value and more orthodox ones associated with economic rent." [105]

To the same degree that it causes unsolvable problems to orthodox economics, Marxist value theory is completely at ease with the idea that the prices received by a link in a value chain (or, if you prefer, a node in a production network) typically diverges greatly from its contribution to the value generated in the chain as a whole. And it does not hesitate to take the next step: if such divergences and corresponding value-transfers can occur within value chains, they must also occur between value chains. From this perspective, GVC/GPN theory makes the same error that neoclassical economics make with its hermetically-sealed production functions, but here the error is transferred from the level of the individual firm to the level of the entire chain. Before, no leaks of value between firms. Now, no leaks of value between chains. While orthodox economics rules out regular, large-scale transfers of value between firms, the value chain concept implies that this does happen, yet it excludes a priori that such transfers might take place between chains. Here we see the limited scope of its heterodoxy. The radical implication of GVC/GPN theory is that individual firms within the chain may leak of value to other links or absorb value

101 Bair, 2005 p157

102 Carr et al., 2000, p129-130

103 Henderson, Dicken, Hess, Coe & Yeung. 2002, p449

104 Ibid, p446

105 Ibid. 2002, p448.

from them, thus destroying (implicitly, at any rate) the value/value-added identity, it is now the chains themselves that are hermetically sealed from each other. The value-chain approach effectively regards the total value-added created in the entire value chain as a pie to be sliced up and retrospectively assigned to each link—exactly the same tautological procedure we identified in our examination of the neoclassical production function. Recognising that value is enclosed neither by firms nor by value chains, that *all* of what bourgeois economists call 'value-added' is actually *value captured*, is the logical next step, but one which would signify a decisive and explicit break with the premises of neoclassical economics and necessitate a re-engagement with Marxist value theory.

The consequence of GVC theory's failure to carry through the logic of their hesitant critique of the ruling marginalist doctrine of value and 'value-added' is that it has become conceptually bound by this doctrine. This is only natural, since its most influential authors (Gereffi, Kaplinsky etc) explicitly approach global commodity chains from the standpoint of capitalist entrepreneurs in 'developing nations' and with their interests in mind, seeking to discover how they may 'upgrade', that is, improve on their meagre ration of the profits cake. It is therefore not so surprising that GVC theory's focus on the distribution of value between the links of the chain says nothing about how these proceeds are distributed within these links, in particular between capital and labour. There is no sense in the GVC literature that, in studying global commodity chains, we are studying relations of exploitation, that this is a terrain not just of competition between capitals but of struggle between classes.

The recent move by some of the leading researchers in the field to favour the term value chain over commodity chain indicates their progress towards adopting an explicit theory of value. Unfortunately, however, it is the mainstream, neoclassical concept of value with which they are more openly aligning themselves:

"We […] chose to replace the term 'commodity' with 'value' because of popular connotations of the word 'commodity' […] and because the term 'value' captured both the concept of 'value added,' which fit well with the chain metaphor we were using, and focused attention on the main source of economic development: the application of human effort, often amplified by machines, to generate returns on invested capital." [106]

Sturgeon, the author of these words, succeeds in identifying the generation of 'returns on invested capital' to be the overriding aim and main-spring of capitalist 'economic development',

106 Sturgeon, 2008, p10

but uncritically, as if nothing could be more natural. Aligning value chain analysis with the bourgeois economists' concept of 'value-added' aids efforts to get value chain analysis into the mainstream. But is this where it belongs? Acceptance of the mainstream concept of 'value-added' deprives Sturgeon and others moving in this direction of the conceptual tools they need to understand this phenomenon, with the result that the most important discovery unearthed by value chain analysis—the transfer of value between different 'black boxes', different firms or links in the chain—is left in the ground for others to disinter.

The paucity of literature attempting to apply Marxist analysis to the proliferation of global value chains is striking, considering the centrality of this phenomenon to global political economy in the neoliberal globalisation era. This may well be about to change. In two forthcoming papers, Guido Starosta makes an important contribution to filling this gap and opening up an area of research with great promise.[107]

Starosta observes that "value is not simply created within each chain or network of firms and then contingently captured in different degrees by each participant, as implied by GCC analysts. Instead, value is created by the living labour of workers in the economy as a whole and appropriated through the objective process of formation of the general rate of profit by each individual capital."[108]

In Starosta's view, the differentiation of firms participating in commodity chains—into 'lead' firms able to capture what GVC theorists call the 'primary economic rents' and outsourced producers who receive a small and shrinking slice of the total value-added pie—is the outcome of competition between 'normal' and 'small' capitals. 'Small' capitals are those which do not attain the specific magnitude needed to be turned into normal capitals; that is, they do not reach the 'definite minimum of capital [that] is required in each line of business to produce commodities at their price of production' (Marx)," and thereby participate in the formation of the average rate of profit. [109] Instead, their "valorisation capacity is determined by the rate of interest that those capitals of restricted magnitude could yield if they closed down business and were turned into interest-bearing capitals [...] at first sight, some small capitals can look impressively 'big'. The result, Starosta argues, is that "a hierarchy of individual capitals with differential valorisation

107 Guido Starosta, 2009, 'The outsourcing of manufacturing and the rise of giant global contractors: a Marxian approach to some recent transformations of global value chains', in *New Political Economy* (forthcoming) ; ——2010, 'Global Commodity Chains and the Marxian Law of Value', in *Antipode*, 42:2, pp 433–465.

108 Starosta, 2009, p25.

109 Starosta, 2010, p445.

powers emerges out of the immanent dynamics of competition," [110] stressing that this hierarchy of profit rates is a result of unrestrained competition and does not involve the exercise of monopoly power.

According to Starosta, the reproduction of a category of small capitals unable to sell their commodities at a price which would provide them with a normal rate of profit entails a phenomenon of critical importance to understanding the proliferation of global value chains. This is "the release of surplus-value by small capitals in the sphere of circulation." Thus he argues, "[a]ssuming, for the sake of argument, that small capitals are suppliers of inputs for those normal capitals, the latter will benefit from a permanent flow of extra surplus-value derived from the purchase of inputs at prices below their normal price of production. In turn, this means that those successful normal capitals that end up monopolising the market relation with small suppliers will systematically obtain a *higher than normal* rate of profit." [111]

The outcome of this is that "the unfolding of the intra-capitalist competitive battle generates a three-fold differentiation among individual capitals. First, there are *normal or average capitals* whose rate of profit is tendentially equalised at the level of the general rate of profit. Secondly, there are *small capitals*, the losers in the competitive war that nonetheless manage to extend their life-span through systematic valorisation at a rate of profit below the general one. Thirdly, there are some normal capitals that, through the appropriation of the surplus profit freed up by small capitals, systematically valorise at higher than average concrete rates of profit. I shall term this latter kind of individual capital *enhanced normal capital*." [112]

This is a discovery of great significance: 'lead firms' or 'normal capitals' are valorised in part by surplus value extracted from living labour in 'small capitals'. The question that must be asked is whether this is sufficient on its own to explain the outsourcing phenomenon. Starosta cites authority for his argument in Marx's discussion of the genesis of capitalist ground-rent in Volume 3 of *Capital*, where he introduces the notion of normal and small agricultural capitals that Starosta generalises with great effect to the global value chains. In the passage cited by Starosta, Marx reached the point of relaxing one of the abstractions made in his presentation of the capitalist evolution of the law of value. Up to that point, Marx assumed that all capitals, large or small, equally participated in the competitive struggle for profits and in the resulting formation of an average rate of industrial profit, and he showed that this entails the divergence of values from prices to the extent that the organic composition of capital varies within and between branches of

110 Ibid., p447.
111 Starosta, 2009, p23.
112 Starosta, 2009, p24.

industry. But now, for the first time in his analysis of the capital relation, Marx introduces a concrete instance where this law of equality between capitals is violated, showing how agricultural capitals can attract a surplus profit if their land is naturally more fertile, thus giving rise to hierarchy of profit rates created by possession of a natural monopoly, a redistribution of surplus value from industry and agricultural capitals with normal fertility. In the course of this discussion, Marx briefly refers to another instance of differential profit rates—the emergence, through competition, of a category of 'small capitals'—and it is to this that Starosta harnesses his theory: "[t]he key to these more concrete determinations [...] can be found [...] in volume 3 of *Capital*. Specifically, Marx hints at this problem in the context of his discussion of the genesis of capitalist ground rent when he is unfolding the peculiarities of small-scale peasant ownership (Marx 1981:940ff). There Marx unfolds the category of "small capital" and shows that its valorisation is not regulated in the same form as normal capitals. [...] [This] will prove of paramount importance for the explanation of GCCs on the basis of the law of value." [113] But the 'context' of Marx's discussion—an investigation into a specific form of monopoly i.e. a factor impeding the competitive equalisation of profits, one that arises not from human activity but is bequeathed by nature (in the form of a ready source of water or exceptionally fertile soil)—is also highly relevant to the study of global value chains, yet it is not to this that Starosta seeks to make a connection, but to a specific case where monopolistic suppression of competitive equalisation of profit rates is seemingly absent. Starosta's connection is unduly narrow, closing off investigation into other forms of differentiation between capitals, but allowing him to assert that the concept of monopoly is irrelevant to the analysis of global value chains.

Marx explores how the concrete form in which the value relation expresses itself is modified, in this case by the existence of different classes of property-owners. Thus his theory of rent in Volume 3 of *Capital* should be seen not so much an addendum to his theory of the capital relation, as it has commonly been viewed, but *a first step towards a more concrete reformulation of it,* another stage in what Ilyenkov calls the 'ascent from the abstract to the concrete'. There are many more steps which Marx did not have time (or did not live in the right time) to address, including one which this thesis argues is of central importance to understanding capitalism's imperialist development: suppression of the free movement of labour and the resulting national/racial hierarchy this imposes on the global working class, and the ensuing international divergence in the rate of exploitation.

The limited nature of Starosta's becomes clear when it is noted that everything he says about the hierarchy of profit rates generated by the reproduction of small capitals applies as much to

113 Starosta, 2010, p444.

capitals competing within a national economy as to capitals competing within the global economy. The hierarchy of profit rates discovered by Starosta can occur even with a uniform rate of exploitation in the enhanced, normal and small capitals, as indeed there would be if we supplement Starosta's assumption of perfect competition among capitals with an assumption of perfect competition amongst workers.

These considerations give rise to two criticisms of Starosta's thesis.

First, there is a methodological problem in Starosta's approach. His starting point is provided by the arbitrary selection of a specific instance of differentiation between capitals that does not result from monopolistic suppression of competition. If instead we choose as our starting point is the fact of the proliferation of global value chains, the concrete form taken by the globalisation of production, analysis reveals that this is driven not by the differentiation between 'normal' and 'small' capitals, but by the differentiation in rates of exploitation determined by the suppression of the international mobility of living labour and the consequent extreme differences in the conditions in internationally segmented labour markets.

It is of course true that these differential rates of exploitation cannot simply be read off from the international divergence in real wages, but to ignore or deny the existence of this differentiation severely diminishes the theoretical concept and, worse still, implicitly accepts the neoclassical dogma that international wage differentials merely reflect different levels of productivity. This thesis argues, in contrast, that it is this global divergences in the rate of exploitation, rather than differentiation according to the size of the competing capitals, that provides the primary explanation of the forces producing the global shift of production to low-wage countries. This is a methodological difference, since the different concepts result from different starting points; a hypothesis deduced from theoretical principles, on the one hand, a concept derived from the identification of new empirical facts not anticipated by theory, on the other (imperialist borders, global labour arbitrage etc).

Second, it is one thing to abstract from monopolistic distortions which both hinder and obscure the operation of the capitalist law of value on a global scale, it is another thing entirely to deny their existence. Competition and monopoly are two mutually-negating, mutually-presupposing poles, collapsing into each other and reproducing themselves in new forms. 'Normal capitals' fiercely compete with one another while at the same time exercising monopolistic power against outsourced producers—indeed, it is only through doing this that they can stay in the ring. Monopolistic barriers to the competitive struggle for profits are constantly being eroded by this very competition, just as the international borders which obstruct the competition between workers are being eroded by outsourcing and illegal immigration—but this erosion is a more or less protracted process not an instantaneous event. Anwar Shaikh, whose assertion of the primacy of the law of value versus structuralist conceptions of monopoly capitalism has much in common with Starosta's approach, provides luminous insights into the continuing relevance of monopoly to comprehension of today's concrete reality: "[t]o some Marxists [...] concentration and centralization imply monopoly [...] the opposite of free competition [...] this notion of monopoly is inadequate; it stems largely from orthodox theory, whose analysis is located in the sphere of circulation [...] [whereas] Marxian analysis is located primarily in production and reproduction; as such, it is not a question of the will of individual capitalists, but of the limits imposed upon them [...] the competition of capitals is not to be understood as the opposite of monopoly, and the era of monopoly capital need not be severed from the law of value."[114]

Starosta persuasively argues that "[t]he deeper *immanent purpose* and *prime-mover* of the outsourcing of manufacturing is [...] the multiplication of the sources of extra surplus value released by small capitals in the sphere of circulation."[115] But when these 'small capitals' are concentrated in low-wage countries, and the capitals driving this process in order to capture these sources of extra surplus value are located almost exclusively in the Triad nations, for whom these resultant flows of surplus value have become ever more crucial to the maintenance of profit rates and continued accumulation, then it is obligatory that we go beyond abstractions such as 'global capitalism' and 'total social capital', and call this by its true name, *imperialism*.

7.5 Three elements of the GDP illusion

Bermuda serves as a spectacular example of how data on GDP, whether in forex$ or in PPP$, can depart very far from being a measure of a nation's contribution to global wealth.[116] But it highlights just one of three distinct ways in which GDP departs from being what it claims to be: a measure of how much value is added by economic activity within a nation's borders. Taken together, they make it necessary to reinterpret 'GDP', to see it not as a measure of how much value is generated within a country, but how much it captures.

The first dimension, incarnated in an extreme and pure form by Bermuda (and other 'offshore financial centres' including the largest of them all, the City of London), results from the distance separating global financial markets from the sphere of production, while the second and third

114 Shaikh,1980, p232

115 Starosta, 2010, p451.

116 Three other 'offshore financial centres'—Jersey, Cayman Islands and the British Virgin Islands—made it into the top 10 nations in the world for per capita GDP in 2006.

dimensions—differences in the organic composition of capital and differences in the rate of exploitation—spring from globalised production itself.

The example of Bermuda draws attention to one of the distorting lens that create the GDP illusion, arising from the real-life distinction between production and nonproduction economic activity—the financial sector, where titles are traded and claims enforced but no wealth is created, being the clearest possible example of the latter. As will be discussed later in this chapter, nonproduction activities also include security, administration, advertising, activities which may be no less necessary than production activities but in themselves do not add to social wealth and should instead be regarded as forms of social consumption. Nonproduction activities have grown both absolutely and relatively as a component of the GDP of all imperialist countries, much more so than in the nations of the South, to whom increasingly befalls the task of production. This growing asymmetry therefore implies that northern capitals operating in nonproduction sectors are valorised in part by the living labour expended in southern production activities.

The second distortion comprising the GDP illusion results from the higher degree of capital-intensity of capitals in imperialist nations than in the southern nations, that is, investment in fixed capital forms a higher proportion of total investment, with proportionally less invested in wages (in Marxist terms, the organic composition of capital is higher in the imperialist nations). Capital-intensive capitals can only harvest a relatively small amount of fresh surplus value from their own relatively small workforce, the rest they capture in circulation. The capital invested in their more expensive means of production is therefore valorised by value transfers from capitals of lower intensity. This process was summarised by Marx in an oft-cited passage from volume 3 of *Capital:*

"If the commodities are sold at their values [...] very different rates of profit arise in the various spheres of production [...] But capital withdraws from a sphere with a low rate of profit and invades others which yield a higher profit. Through this incessant outflow and influx [...] it creates a ratio of supply and demand that the average profit in the various spheres of production becomes the same, and values are, therefore, converted into prices of production. It follows [...] that in each particular sphere of production the individual capitalist... takes direct part in the exploitation of the total working class by the totality of capital." [117].

This effect takes place whether or not the competing capitals are operating within the borders of a single economy, and even if we assume perfect competition among capitals and a uniform rate

117 Karl Marx, [1894] 1991, p193-194.

of exploitation of living labour. To the considerable extent that capital-intensive capitals are concentrated in Triad nations and labour-intensive capitals in southern nations, this N-S difference in organic composition directly implies a S-N transfer or redistribution of value that is not captured in GDP data. This, the only basis of 'unequal exchange' accepted by dependency theory's 'orthodox' critics, therefore points to a second way that northern capitals may be valorised by southern labour.

The third, least acknowledged but most important of all, are the distortions to 'GDP' produced by *international differences in the rate of exploitation*. The evidence collected in chapters 2-5 on the condition of the emergent southern working class and the strenuous efforts of northern firms to 'extract value' from them strongly suggests that these differences exist, and that the notion that international wage differentials reflect international differences in labour productivity is fallacious, tautological and contradicted by empirical data.

Having briefly introduced the three elements of the GDP illusion we will now examine them in some more detail.

Productive and non-productive labour.

The economists' tautological equation of value with 'value-added' not only makes exploitation disappear, it also obliterates the classical distinction between productive and non-productive labour. If every price is by definition a value, then any activity that results in a sale is by definition 'productive'. "To the practical economist…If it is sold, or could be sold, then it is defined as production. Thus - within orthodox accounts - commodity traders, private guards, and even private armies are all deemed to be producers of social output, because someone is paying for their services."[118] Marxist value theory maintains that economic activities which are not integral but contingent to the production process, e.g. banking and finance, police and security services, government bureaucracies and so forth, are not value-producing activities and should instead be regarded as nonproduction activities, *as forms of social consumption* of values produced them elsewhere.

The distinction between productive and non-productive labour exists in all modes of production and is not specific to commodity exchange, let alone to capitalism. What's specific to capitalism is that this distinction is veiled by universal commodification, and by the capitalists' new criterion for productivity, *profitability*.

118 Shaikh & Tonak, 1994, p33

It may be asked, *are not these 'non-productive activities' providing 'common goods' necessary for the reproduction of society?* Shaikh and Tonak provide a cogent response: "[t]o say that these labors indirectly result in the creation of this wealth is only another way of saying that they are necessary. Consumption also indirectly results in production, as production indirectly results in consumption. But this hardly obviates the need for distinguishing between the two."[119] To see the veracity of this conception, consider an economy made up of labourers and security guards.[120] The labourers produce all of the goods that both they and the security guards need to live on; the security guards provide a 'common good', security. It is plain that the higher the ratio of security guards to labourers, all other things being equal, the lower is the total product, and it is therefore logical to regard this economic activity as unproductive labour, a form of social consumption. Once this distinction is established for one category of economic activity, the door is opened for more additions to the list. Suppose, for instance, our imaginary community finds it necessary to allocate part of its social labour to weighing and recording the output of the production workers, and that the only available means of doing this is to carve the data into stone tablets, a slow process requiring many labourers. Their labour is non-productive in exactly the same way as is that of the security guards. These stones are not in themselves additions to social wealth, they are merely representations of the wealth created by production labour. Were a technological advance to replace chisel and stone with pen and paper, much of this nonproduction labour could be released for production, thereby increasing total social wealth, or redeployed as security guards, resulting in no change to social wealth (assuming that security guards consume the same quantity of resources as account-keepers). Designation of security and administrative functions as 'nonproduction' activities does not at all imply that they are unnecessary—in our simple model, both the security guards and the stone-carvers perform necessary functions.

This simple model can also be used to introduce another important concept. The social wealth that is consumed by the nonproduction labourers derives from the *surplus labour* of the production labourers, that is, the labour they perform in excess of that required to replace their own consumption, what Marx calls *necessary labour*. Just as with the distinction between productive

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119 Shaikh & Tonak, 1994, p25

120 Since the distinction between productive and nonproductive labour exists in all modes of production, we do not need to begin with the assumption of a capitalist economy. This agrees with Anwar Shaikh: "*all economic theory contains an elementary distinction between production and nonproduction activities. What distinguishes the classical/ Marxian tradition from the neoclassical / Keynesian one is the location of the dividing line. The former places distribution and social maintenance activities in the sphere of nonproduction activities, whereas the latter places them in production.*" Shaikh & Tonak, 1994, p25. It disagrees with Ben Fine and Alfredo Saad-Filho's assertion that *"[t]he productive-unproductive distinction is specific to capitalist labour"*. Ben Fine & Alfredo Saad-Filho, 2004, *Marx's Capital*, London: Pluto Press (p47). The difference could be overcome if the words "form taken by" were inserted after *"[t]he"*.

and non-productive labour, the division of labour time into surplus labour time and necessary labour time exists in all modes of production.

In capitalist society, surplus labour takes the form of surplus value. In the Marxist framework, the ratio of surplus labour to necessary labour, or 'the rate of surplus value' is synonymous with the rate of exploitation. It is important to note that even though nonproduction wage labour produces no value, and it is therefore inappropriate in their case to talk of a 'rate of surplus value', these workers endure the (nationally-prevailing) rate of exploitation in common with production labour. According to Marx, 'exploitation' signifies that workers are obliged to work for longer and produce more values than is necessary to replace the quantity of labour required for their reproduction, and this is independent of the specific way their labour is employed. Thus, if a nonproduction worker works an eight-hour day but receives a wage that represents four hours of socially necessary labour, he or she endures a 100% rate of exploitation.

It follows that surplus value is the origin of profit in all its forms but is much greater than it, since it also includes the wages of nonproduction workers and the values consumed in the course of their work. The rate of surplus value can be ramped up, for instance by holding down wages, and yet the rate of profit may still decline, if more and more social labour is employed non-productively, in commerce, finance, security, legal services, etc—exactly as has been happening on an accelerated scale in the imperialist economies during the neoliberal globalisation period.

International differences in technology and organic composition.

"The workings of the world capitalist market bring about an enormous, and unconscionable, transfer to the imperialist countries of the wealth produced by the workers and peasants of Africa, the Middle East, Latin America, and most of Asia and Pacific. That extortion is guaranteed not primarily by 'unfair' terms of trade imposed from outside on world markets. It is guaranteed above all by the differential value of labour power and the gap in productivity of labour between the imperialist countries in one hand, and those oppressed and exploited by imperialism on the other—a differential that not only underlies unequal exchange but relentlessly reproduces and increases it." [121]

There is much wisdom compressed into these words by Jack Barnes, their power enhanced by plain speaking. But the 'differential value of labour power and the gap in productivity of labour' are in fact two very different dimensions of the imperialist capital-labour relation. They must be strictly and rigorously separated, or else the door is opened to marginalist conceptions of

121 Barnes, 2005b, p35.

productivity and associated notions that wage differentials reflect productivity differences. Marx was very clear that the value of labour power is independent of its productivity, since productivity is a quality of its concrete usefulness and has no bearing on its commodity value: "[b]y 'productivity', of course, we always mean the productivity of concrete useful labour. [...] Useful labour becomes [...] a more or less abundant source of products in direct proportion as its productivity rises or falls. As against this, however, variations in productivity have no impact whatever on the labour itself represented in value. As productivity is an attribute of labour in its concrete useful form, it naturally ceases to have any bearing on that labour as soon as we abstract from its concrete useful form. The same labour, therefore, performed for the same length of time, always yields the same amount of value, independently of any variations in productivity. But it provides different quantities of use-values during equal periods of time..." [122]

The value of labour power is related to productivity only through its determination by the productivity of labour in branches of production producing workers consumption goods, but then we are confronted with the fact that these consumption goods are increasingly produced by our Third World brothers and sisters. Barnes' statement does not explicitly recognise that Chinese etc workers endure a higher rate of exploitation than their sisters and brothers in the Triad nations. When we do we are forced to relax Marx's assumption of a uniform rate of exploitation... but this we must do, since the object of our investigation is not capitalism in general but its imperialist form.

Note on technological advances in IT/transportation

This thesis singled out the desire to exploit low-wage labour as the driver of the globalisation of production processes, and treats technological advances in IT and transportation as facilitators rather than motivators, their role being to open up more and more production tasks to outsourcing. For the purposes of this thesis it was necessary to abstract from all those aspects of advances in IT and transportation technology that do not directly pertain to production outsourcing. A value theory of imperialism, however, requires a much richer concept of the many-sided impact of these technologies some of the issues to be addressed are outlined here.

The impact of innovations in IT and transportation on outsourcing, important as it is, is only one of the ways these technological advances affect the rate of profit and the trajectory of the economy. As well as facilitating outsourcing they have accelerated the turnover time of capital, providing a crucial prop to the sagging rate of profit that defined the systemic crisis in the

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122 Marx *Capital* Vol.I p137.

1970s.[123] Most of the literature reviewed here regards labour costs as one factor among many, and often gives priority to technological changes in general and 'revolutions' in IT/transportation in particular. On one thing, however, perhaps all could agree: there are no technological innovations on the horizon that are capable of repeating the impact of the IT/transport revolution on turnover times and profit rates. Efforts to squeeze more drops from these quantum leaps in technology will continue: cost pressures driving outsourcing are becoming even more intense, and there is considerable unrealised potential for services outsourcing. But most of their benefits have already been realised, and new outsourcing waves will collide with managed or crisis-imposed reductions in N-S 'global imbalances'.

Here we will briefly consider transportation and IT technology separately, and look at the distinct role of each in the individual phases of the overall circuit of capital. This, following Marx in volume 2 of *Capital,* can be schematically represented as M – C – C' – M',[124] where M represents the capitalist's initial capital, in the form of a sum of money used to purchase C, a set of commodities including means of production, raw materials and labour power. The ensuing process of production results in a new set of commodities, C', which are sold and turned into a new, larger sum of money, M'. The difference between M and M' is gross profit, and corresponds to the marginalist concept of 'value-added'. Advances in transportation primarily effect the first and last elements of this circuit, in other words M – C and C' – M', both of which correspond to the circulation of commodities.[125] Technological advances in transportation, by speeding up M – C and C' – M', have had an unambiguously positive effect on the rate of profit,

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123 If an initial investment reaps the same return in half the time, its rate of profit is effectively doubled.

124 The difference between the marginalist and Marxist concept is particularly to be found in the final part of the circuit, C' – M'. According to the marginalist doctrine, M' is merely the monetary expression of C'; Marxist value theory argues to the contrary, that the increase in M, (*i.e.* a firm's gross profits) does *not* reflect the new value created in this firm's production process (C – C'), it represents instead the share of total commodity value *captured* by this firm through the sale of its commodities. In the ruling economic doctrine, price, expressed as M', the sum of output prices, is tautologically conflated with C', the values generated in production. In the Marxist conception, values generated in production processes are *transformed* into prices of production, a process involving the redistribution of value between capitals, from which it follows that, for any individual firm, the amount by which M increases (the difference between M' and M) does *not* correspond to the value created in its own production process (i.e., the difference between C' and C).

125 Transportation is also a part of the production process, e.g. in the movement of intermediate inputs, and the disintegration and dispersal of production processes implies a big expansion of this role. A much more detailed empirical and theoretical analysis is required into the role of transportation in the era of globalised production, in particular, when the labour of transportation workers should be regarded as value producing and when it is purely a charge on revenues from production labour. Some of the issues involved in this are elucidating by Anwar Shaikh and Ahmet Tonak: " *[b]y shipping oranges from their point of production to their point of consumption, a trucker transforms a useful objective property of these oranges (their location in space) which is crucial to them as objects of consumption. To be consumed, an orange must not merely be an orange somewhere, it must be an orange where the consumer is. Transportation from the orange grove to the consumption region is therefore productive transformation, […] it is internal to the process of production. It is important to understand that not all transportation constitutes production activity. [...] Suppose our oranges are produced in California to be sold in New York, but are stored in New Jersey because of cheaper warehouse facilities.[...] The loop through New Jersey has no (positive) effect on the useful properties of the orange as an object of consumption [...] this loop is internal to the distribution system […] a nonproduction activity."* Shaikh & Tonak, 1994, pp23-4

exerting their main effect through the compression of the time required to complete this phase of capital's circuit, rather than through cutting the costs of transport in absolute terms. [126] Advances in IT technology, by speeding up the time needed to complete a sale, enabling just-in-time inventory management and in other ways, also directly affects circulation time and therefore profit rates. But IT technology has its most profound effects on the process of production, i.e. on C – C'. The application of IT to production processes has, in a word, accelerated advances in the social productivity of living labour. According to Marx's theory of value, it is precisely this increased social productivity of living labour that finds its ultimate expression in the tendency for the rate of profit to fall, as Marx emphasised: *"[t]he rate of profit does not fall because labour becomes less productive, but because it becomes more productive. Both the rise in the rate of surplus value and the fall in the rate of profit are but specific forms through which growing productivity of labour is expressed under capitalism."* [127] The so-called IT/transport revolution provided a permanent boost to capital's turnover-time, but only a temporary boost to the overall rate of profit, since competition erodes gains made by individual firms while the overall increase in the mass of profits is transmuted into higher asset values, supporting and feeding a greater mass of capital. It is therefore not enough for capital that its advances be permanent; it must be permanently advancing.

International differences in the rate of exploitation.

Critics of dependency theory used to argue that, if there were differences in the rate of exploitation between imperialist and semicolonial countries, the much higher productivity of labour in the former means that workers in imperialist nations may even be subject to a higher rate of exploitation than in the Third World, despite their much higher levels of consumption. This occurs, so the argument goes, since the productivity of labour in branches of the economy producing consumption goods was so much higher than in the oppressed nations that workers in imperialist countries could enjoy higher consumption levels and yet be more intensely exploited than their much poorer sisters and brothers in low-wage countries. Thus, in their 1979 exchange with Samir Amin, John Weeks and Elizabeth Dore argued that "[s]ince it is in the developed

126 *"Ocean shipping, which constitutes 99 percent of world trade by weight and a majority of world trade by value, also experienced a technological revolution in the form of container shipping, but dramatic price declines are not in evidence."* David Hummels, 2007, 'Transportation Costs and International Trade in the Second Era of Globalization', in Journal of Economic Perspectives 21 (3) pp. 131-154 (p152). What has become both faster and much cheaper is air transport: *"even after these improvements, ocean shipping is still a slow process. Shipping containers from Europe to the U.S. Midwest requires 2–3 weeks; from Europe to Asia requires five weeks. In contrast, air shipping requires a day or less to most destinations. Consequently, the ten-fold decline in air shipping prices since the late 1950s means that the cost of speed has fallen dramatically."*

127 Marx, [1894] 1991, p240. These brief notes on productivity and the rate of profit received further development in chapter 7, in the discussion of the contrasting marginalist and Marxist concepts of productivity.

capitalist countries that labor productivity is higher, it is not obvious that a high standard of living of workers in such countries implies that the exchange value of the commodities making up that standard of living is also higher" [128] Nigel Harris put forward essentially the same argument: "other things being equal, the higher the productivity of labour, the higher the income paid to the worker (since his or her reproduction costs are higher) and the more exploited he or she is—that is, the greater the proportion of the workers output [that] is appropriated by the employer." [129]

Ernest Mandel uncomfortably straddled the dependency thesis and its 'Marxist' antithesis, without achieving anything in the way of synthesis. This equivocation is evident in his major economic work, *Late Capitalism*. In the chapter entitled 'The Structure of the World Market', Ernest Mandel admits that "the existence of a much lower price for labour-power in the dependent, semicolonial countries than in the imperialist countries undoubtedly allows a higher world average rate of profit," [130] implying that its value is also lower, that it endures a higher rate of exploitation. Later, in the chapter on unequal exchange he appears to reinforce this, preferring to "vast international differences in the value and the price of the commodity labour-power".[131] Clearly, there are vast international differences in the price of labour-power; what's significant here Mandel's acceptance that the value of labour power also exhibits 'vast international differences'. On the next page he changes his mind, now asserting that there "exists in underdeveloped countries… a lower rate of surplus value", and then spends several pages developing a numerical example in which the oppressed-nation workers endure a *lower* rate of exploitation than in the imperialist countries—with no explanation or justification. Either way, vast differences in the value and the price of labour-power does not make it into the 10 features defining 'the structure of the world market' that concludes his analysis.

The globalisation of production processes has fatally undermines the argument of the Marxist critics of dependency theory: the consumption goods consumed by workers in the North are no longer produced solely or mainly in the North. To an ever-greater extent, they are produced by low-wage labour in the global South; what matters is their productivity, their wages.[132] Nevertheless, these arguments continue to be advanced to the present day ; thus Alex Callinicos argues that "[f]rom the perspective of Marx's value theory, the critical error [of 'theorists of unequal exchange such as of Arghiri Emmanuel and Samir Amin'] is not to take into account the

128 John Weeks and Elizabeth Dore, 1979a, 'International Exchange and the Causes of Backwardness', in *Latin American Perspectives*, 6:2 62-87, 1979a, p71.

129 Harris, 1986, pp119-20.

130 Ibid., p68.

131 Ernest Mandel, [1972] 1975, *Late Capitalism.* Trans. Joris de Bres. London: NLB, p353.

132 See 'Outsourcing and the reproduction of labour power in Triad nations' above (p90).

significance of high levels of labour productivity in the advanced economies;" [133] while Joseph Choonara believes that "it is a misconception that workers in countries such as India or China are more exploited than those in countries such as the US or Britain. This is not necessarily the case. They probably have worse pay and conditions, and face greater repression and degradation than workers in the most developed industrial countries. But it is also possible that workers in the US or Britain generate more surplus value for every pound that they are paid in wages." [134]

Weeks & Dore and other 'orthodox' Marxist critics of dependency theory accept that profit-equalising value-transfers take place *within* countries—between branches of production with differing organic compositions, and towards the most efficient producers within each branch, and deny that there is anything qualitatively new or different about the 'transfers of surplus profits' resulting from its change between capitals located in rich and poor countries. With nothing new to explain, the task is to interpret and apply the concepts derived by Marx from his analysis of capitalist competition. But a condition of fundamental importance assumed by Marx no longer holds: the equality of proletarians. The equality of proletarians is predicated on the ability of each to sell their labour power on equal terms to the rest. Equalisation of wages and the equality between proletarians within a national economy is predicated on the free movement of labour. At an international level, this essential attribute of the proletarian condition is massively restricted by immigration controls and further violated by racism and segregation experienced by southern workers in imperialist nations. The violation of this condition means that the equalisation of wages that takes place between individual employers and branches of production within a national economy does not occur between nations.

7.6 GDP in the era of globalised production

Our analysis of global outsourcing, of the 'asymmetries' between southern sweatshops and the 'lead firms' headquartered in the imperialist nations, of the forces driving and shaping the rapid growth of the southern proletariat and dictate the terms on which it can sell its labour power, has provided many reasons to question the universal acceptance of 'GDP' as a measure of the wealth produced by a national economy. [135] The case for a radical reinterpretation of GDP is further

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133 Callinicos, 2009, pp179-80.

134 Joseph Choonara, 2009, *Unravelling Capitalism*, p34.

135 Here, 'wealth' is used in preference to 'value' to emphasise that the social product consists of a mass of use-values. Of course, the social product necessarily takes the form of prices, i.e. transformed exchange values, and it is only in this form that value makes its appearance and different values can be measured and compared.

supported by our examination of some paradoxes and anomalies thrown up by this data, such as the relative GDP of Bermuda and the Dominican Republic, and the intriguing mystery of why an arm's length relationship might be more profitable to the outsourcing TNC than an in-house relationship even though there are no visible flows of profits. Our investigation of how GDP actually measures what it claims to measure exposed the highly contestable neoclassical premises on which it stakes its claim. Closer examination of these ruling neoclassical ideas, of their explanation of how value is created in production processes, and of heterodox theories that partially break with some of these ideas but embrace the rest, leads us to reject these explanations and the core assumptions that underlie them. And it causes us to redefine GDP as a measure of the wealth captured or appropriated by a nation, not a measure of a nation's product.

To the extent that that GDP exaggerates or diminishes the real contribution of a nation to global wealth, this nation is either a net consumer of wealth produced by the living labour of other nations, or it is a net contributor, producing more wealth than it consumes. This thesis argues that just this is what happens, routinely, systematically, and—thanks to 'globalisation'—on a greater scale than ever before. The 'GDP illusion' is the failure of the data to capture this, instead reporting that nations consume only what they produce and produce only what they consume—as in the Financial Times editorial which stated that "the richest fifth of the world's population generates – and enjoys – 85 percent of world output. The poorest fifth produces – and struggles to survive on – just 1.4%." [136]. Correcting for the GDP illusion gives us a more accurate and more objective picture of the global economy, in which citizens of Triad nations are now seen as appropriators and consumers of wealth produced by workers and small producers in the nations of the global South. A picture, in other words, of the emergent, fully-evolved form of capitalism's imperialist stage of development.

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136 Editorial, *Financial Times*, 2 June 1994.

Conclusion

"The moment the workers resolve to be bought and sold no longer.......at that moment the whole of the Political Economy of to-day is at an end."[137]

Introduction

This conclusion reflects on the main findings of this thesis, affirms its relevance and significance to the theory of political economy and to human agency, and discusses some of the questions and research paths that it opens up. The object of analysis of this thesis could scarcely be bigger: the global political economy in its current 'neoliberal' stage of development. For its research question it singled out the most dynamic force driving its most important transformation, namely 'global labour arbitrage'. To investigate this phenomenon it has combined analysis of financial markets, production processes and the fast-changing physiognomy of the global workforce, integrating into its empirical analyses a critical evaluation of diametrically opposed Marxist and marginalist theoretical concepts of value and productivity. To implement this research project it has been necessary to sacrifice depth for brevity at many points in the argument, and many important but subsidiary questions have been dealt with in summary form or omitted altogether. This conclusion will not attempt to enumerate all of them.

The three most important elements or qualities of this thesis that give it significance are, first, its relevance to attempts to comprehend the nature of the current global economic crisis; second, the 'GDP illusion', its contention that standard interpretations of GDP and trade data seriously distort perception of the relative contribution of Triad nations and southern nations to global wealth; and third, its contribution to a much bigger research agenda: developing a value theory of imperialism.

The concept of the GDP illusion is only elaborated in its barest essentials. The GDP illusion, which pertains to the relations between Triad nations and the global South, can be understood as a result of the interaction between financialisation and outsourcing. One line of research suggested by this is to correlate the changing contributions of finance, services and manufacturing to the GDP of imperialist nations with the changing composition of their trade flows with 'emerging' nations. The theory also needs to be extended by a study of the evolution of global

137 Frederick Engels 1845, *The Condition of the Working Class in England.*

MVA, of the relative contribution of industry in the North and South to it, and into its apparently declining importance in the global economy as reported by its much-reduced share of global GDP and its shrinking contribution to total profits.

The concept of the GDP illusion rests on a critique of the fundamental principles of mainstream marginalist economic theory and a validation and critical application of core concepts of Marxist theory of value. This, too, needs considerable development and the critical assimilation of a very large literature. In particular, to deepen the essential connection between Marx's theory of value and Lenin's theory of imperialism with the aim of developing a 'new synthesis'; to study the history of super-exploitation and of concepts of it; to revisit the debate on dependency theory, the last time that theories of value and of imperialism were brought together in any serious way; and to deepen the critique of the fundamental principles of dominant marginalist theory and of their application to the analysis of GDP, globalised production and international trade.

1 – main findings and relevance

This thesis has enquired into the economic aspects of low-wage-driven outsourcing: its role in supporting continued profitability and capital accumulation in the imperialist nations, its contradictory effects on workers' in those nations, its role in shaping the world political economy and transforming the international working class, the conditions in which southern workers sell their labour power, and whether export oriented industrialisation provides a viable route to development for southern nations.[138] The pivotal importance of 'global labour arbitrage' is also evident in the political arena. Its two channels—migration and outsourcing—are increasingly central to politics within and between countries on both sides of the North-South divide, as can be seen from a cursory examination of US–China relations, the resurgence of ultra-nationalist and fascist movements in the imperialist nations, the tensions and debates surrounding migrant workers in South Africa, Malaysia, Thailand and a host of other southern nations, and the formation of NAFTA and the eastward expansion of the European Union—whose principal objective, from the point of view of US and EU TNCs, was to expand their access to cheap labour.[139]

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138 While the study of conditions in southern labour markets could be deepened in many ways, the focus on the global South has resulted in only the briefest attention being given to the large subject of the effects of global outsourcing on workers in the imperialist countries. Here is another area in which this thesis can be extended.

139 Once again, in its economic competition with the USA and Japan, Germany finds it needs a hinterland of its own, this time more than ever as a source of cheap labour, and once again it has looked to the central Europe. But Hungary, Poland, Slovakia etc are not 'emerging nations' in the global South, they are

The political reactivity, not to say radioactivity, of outsourcing and of migration further underlines the importance of the subjects and themes discussed in this thesis. Even more relevant to its substance is the profound yet largely unacknowledged connection between outsourcing and the global economic crisis that began in 2007. This thesis studies the period from 1980 to 2007, and its research and writing occupied two years on either side of the momentous and portentous year of 2007. At the outset, I was guided by a certain belief that neoliberal globalisation has only bought some more time for the imperialist world order, that it would, sooner or later, end in crises of overproduction and asset destruction. The questions then were what role has outsourcing played in helping Japan, W Europe and the United States to escape from the crises of the 1970s? How is it helping to postpone recession and sustain profits and growth in these countries? What are its internal contradictions; what new ones has it created?

The crisis was inevitable, but its form of appearance and its timing could not be predicted. Outsourcing is part of the explanation of why it took so long. As with any crisis, there is a large element of contingency. Even more importantly, we needed the crisis itself to cast light on hidden vulnerabilities, obscure processes and latent linkages. Though it is not the subject of this thesis, the global economic crisis has helped shape how it has been written and presented, and will certainly affect how it is read and received.

Neoliberal globalisation—a new stage in capitalism's imperialist development

In a 2005 address to the ILO, Gary Gereffi noted that in just twenty five years "the centre of gravity of much of the world's industrial production has shifted from the North to the South of the global economy."[140] Far from opening the way to convergence, "[t]hese shifts reveal a sobering globalisation paradox: the dramatic expansion of production capabilities reflected in global outsourcing across a wide range of industries does not necessarily increase sustainable development, generate adequate numbers of jobs, or contribute to poverty reduction in the exporting nations."[141] This thesis finds copious evidence to support these conclusions. It has applied and developed theoretical concepts that help explain why this is so. A severe limitation of mainstream conceptions of neoliberal globalisation and of their evaluations of its contribution to social and economic progress is that they are formed by extrapolating trends that correspond

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workers' states—where capitalists and landlords have been dispossessed and capitalist property relations overturned—that are now attempting to reinstate capitalism and recreate a capitalist class, a process which this author believes is far from an accomplished fact. This is one reason why the production-outsourcing dimension of relations between East and West Europe deserves special study.

140 Gary Gereffi, 2005, *The New Offshoring of Jobs and Global Development.* ILO Social Policy Lectures. Geneva: ILO Publications (p5).

141 Gereffi, 2005 p40

only to the dynamic growth phase of this particular cycle of capitalist development. For this reason alone they are bound to mislead, since phases of asset destruction, deflation and global disintegration are just as intrinsic a phase of each evolutionary stage in capitalism's development as the economic expansion and global integration that preceded it. But even in its ascending phase, definitively ended by the global crisis beginning in 2007, analysis reveals that at its heart is an antagonistic and exploitative relationship that reproduces and reinforces the accumulation of wealth at the imperialist 'North' pole, and immiseration, now called 'the race to the bottom', in the global South.

2 – Implications and ramifications

Outsourcing and the crisis

The financial heart-attack that struck in 2007 not only signified the end of the ascent phase of neoliberal globalisation, it also finally brought to an end what George Soros has called the '60-year super-boom' that came out of World War II. [142] This long ascent phase threatened to run aground in the 1970s, was given a new lease of life by the neoliberal counterrevolution that took the helm at the end of that decade, and has now finally run out of road. Even more so than Hiroshima three days earlier, the atomic destruction of Nagasaki on August 9, 1945 marks to the day the end of World War II and the beginning of a new cycle of (anything but) peaceful accumulation of capital. It is entirely apt, therefore, that the sub-prime debt bomb exploded on the 62nd anniversary of this diabolical act—on August 9, 2007, when the European Central Bank, followed a few hours later by the US Federal Reserve, made emergency transfusions of 'liquidity' into an international banking system whose banks had suddenly stopped lending to each other. What happened on that day and has unfolded since is not so much the bursting of a bubble but the first stages in the break-up of an immense dam. The sub-prime debt bomb was the first of a series of direct hits that have sent deep cracks into its deepest foundations. The entire human population lives downstream.

To understand the nature and dynamics of the global economic crisis it is necessary to comprehend the relationship between neoliberal globalisation's two most important transformations: outsourcing and 'financialisation'. Financialisation is usually defined as the increased weight of finance, insurance and real estate in the GDPs of the US, EU and Japan, and of their financial markets as a source of profits, but a more fundamental definition emphasises the

[142] George Soros, 2008, 'The worst market crisis in 60 years', in the *Financial Times*, January 22 2008

separation of profit-making from production that is implied by these phenomena. Profit-making in the increasingly financialised imperialist countries has indeed become more 'separate' from production, but this is not at all a disconnection, as is presumed by attempts to understand this phenomenon in isolation from outsourcing. These two transformations have evolved simultaneously and mutually interact with each other, neither can be understood separately, they are in reality different aspects of a single process, the cardinal points of this complex concrete system interaction. TNCs pioneered the use of offshore financial centres and international money markets to handle their increasingly global operations—thus the globalisation of production played a major role in forcing open the doors to international financial integration. Conversely and subsequently, financial engineering aimed at boosting 'shareholder value' has combined with the pressures of fierce competition to compel northern firms to cut production costs by outsourcing production to low-wage countries. Outsourcing has not only given a major support to the rate of profit in the imperialist countries,[143] it has also provided an increasingly-favoured alternative to investing in new productivity-enhancing and capacity-expanding technology, possessing as it does the great advantage that operating profits can be diverted into financial speculation and to finance mergers and acquisitions. The result is that "capital flows from the low-wage to the industrialized countries [...] support asset values in the industrialized countries and especially the U.S." [144] Or to put it another way, *outsourcing has fuelled financialisation*.

An important consequence of the tidal wave of outsourcing has been the development of a structural trade imbalance between the US and Europe on one of the hand and China and other export-oriented low-wage economies on the other, resulting in the accumulation of trillions of dollars of hard currency reserves in the central banks of these countries,[145] much of which is then lent back to the United States so that it can continue to purchase the products of their export industries—a reverse, perverse 'Marshall Plan' in which some of the poorest countries in the world finance the overconsumption of the richest.[146] Today's low-wage exporting nations have

143 Or as one analyst put it, *"[a]t the TNC level, the cost savings from offshoring are considerable and coincide with historic highs in profit shares"* Elisa Parisi-Capone, 2006, Offshore Outsourcing: What is the Impact on Domestic Productivity? RGE Analysis http://www.roubini.com/analysis/38534.php

144 Milberg, 2007, p3. The problem Milberg points to but does not resolve is that these 'capital flows' are mostly invisible in GDP, trade and financial flow data.

145 Germany and Japan are often listed as surplus countries along with China, Brazil etc. But unlike the 'emerging nations', Germany and Japan are major outsourcers; their ability to sustain a major trade surplus with the USA and the rest of Europe critically rests on their in-house and arm's-length production relationships with 'emerging economies'. To put this differently, Germany's manufactured exports, like those of Japan, combine high levels of inputs from low-wage suppliers with the transformations rendered by German workers, and a significant part of the value-added attributed to Germany and to German GDP represents value that was actually added by the employees of their low-wage suppliers.

146 The 'Marshall Plan' refers to the cheap loans extended by the USA to war-devastated Europe to enable it to purchase US industrial exports.

little choice but to use their trade surpluses in this way: by doing so they stop their national currencies appreciating against the dollar, which would make their exports more expensive and scupper their export-led growth.[147] And if they had at any point stopped providing zero-interest loans to the US government, the USA would have been forced to turn to private investors, causing interest rates to leap, credit defaults, the bursting of asset bubbles, and a much earlier descent into global crisis. [148]

And so, huge flows of capital from the central banks of China, Brazil and other countries into US government bonds have kept interest rates in the USA and across the world at historically low levels for more than a decade, inflating asset bubbles to ever greater proportions and postponing their inevitable implosion. These S-N capital flows are fundamentally the result of global 'financial imbalances' produced by wage arbitrage-driven production outsourcing.[149] They have profoundly affected the timing, the shape and the dynamics of the global financial crisis, in at least three ways. First, historically low interest rates encouraged US and European consumers to increase debt-financed consumption and investors to borrow money to finance speculation. Second, these same low interest rates have pushed private investors—along with banks, pension funds and corporate treasury departments—into an increasingly frenzied 'hunt for yield', a search for higher rates of interest from riskier, higher yielding financial investments… such as assets backed by sub-prime mortgages. Last but not least, low interest rates and low volatility—what

147 The significance of the huge quantities of hard currency accumulating in the central banks of some of the world's poorest nations is widely misunderstood. On the face of it, countries once synonymous with hard currency debt are now in possession of fabulous wealth. The reality is very different. Much can be learned from examining the precise mechanisms by which the receipts of outsourcing are recycled into US Treasury bonds. Southern firms receiving dollars for their exports of clothes, TVs etc to the USA and Europe deposit them in their nations' central banks and are credited with the equivalent in national currency. The quantity of national currency in circulation is therefore increased; to avoid this having an inflationary effect, central banks must 'sterilise' this currency emission by removing an equivalent amount from circulation. They do this by selling government bonds to domestic investors. To persuade domestic investors to buy these bonds the government must offer an attractive rate of interest.

The result of a trade surplus, therefore, is an accumulation of hard currency in the vaults of the central bank, and a corresponding increase in domestic public debt, often at very high rates of interests—much higher than they receive from their investments in US government bonds. Far from signifying that these governments are rolling in money, the accumulation of hard currency reserves in the central banks results in an increasing charge on public finances; balanced to one degree or another by increased tax revenues from those whose incomes are boosted by the export activity—but tax them too much and the dollars earned from exports would disappear into offshore tax havens.

148 'Zero interest' because the interest rate on US Treasury bonds is approximately cancelled by the US inflation rate, i.e. a zero real rate of return. Lawrence Summers, who was recently appointed Chair of the Council of Economic Advisors by President Obama, said in 2006 that *"it is hard not to imagine that there are geopolitical risks associated with reliance on what might be called a financial balance of terror to assure continued financial flows to the United States*." Lawrence H Summers, 2006, *Reflections on Global Account Imbalances and Emerging Markets Reserve Accumulation*. L.K. Jha Memorial Lecture, Reserve Bank of India. March 24, 2006 (http://ksghome.harvard.edu/~lsummer/speeches/2006/0324_rbi.html, accessed 22/07/2009).

149 A significant, but minor, part of the global South's structural hard currency surplus results from oil exports. Oil is a special case in a broader category of natural resource extraction, an important dimension that is not examined in this thesis but which must be included in a comprehensive theory of capitalism's current stage of development.

used to be called, before the arrival of the bears, the 'Goldilocks economy' [150]– ‘not too hot, not too cold’— provided the essential conditions and the stimulus for the plethora of derivatives, securitisation and other means by which financial alchemists converted debts into assets. In other words, the factors pointed to by superficial observers as the *causes* of crisis—excessive debt, excessive risk-taking, financial hocus pocus—are themselves to a very large extent the *effects* of the global imbalances resulting from global outsourcing.

As the global character of the crisis has become more pronounced so has awareness grown of the centrality of global imbalances, of their contribution to the conditions which gave rise to the crisis, and of even bigger dangers down the road should they continue to grow, as can be seen in the increasing prominence of this issue at successive G-7 and G-20 summits. But neither Martin Wolf nor any of other mainstream economists pointing to the dangers of the global imbalances have explained that US, EU and Japanese TNCs created these imbalances in the first place by shifting production to low-wage countries, and they haven’t asked what it was that compelled them to do this.

To see these N-S ‘global imbalances’ in the context of broader capital flows, and to see how they are embroiled in the unfolding crisis, we turn to Martin Wolf, who, citing data provided by the Institute for International Finance, reports that “the net flow of private funds from advanced countries to emerging countries will be close to $700bn this year [2010]. But that will be almost entirely offset by an official outflow, in the form of foreign currency reserves, of close to $600bn [mostly into US Treasury bonds].” [151] With an additional $400bn flowing North in debt servicing and profit repatriation, ‘emerging countries’ are net providers of capital to the ‘advanced’ countries; their overall surplus currently running at around $300bn per year.[152] The result, in Martin Wolf's words, is that “the private sectors of the advanced countries accumulate net claims on the private sectors of emerging countries, while the governments of emerging countries accumulate offsetting claims on the governments of advanced countries”. Wolf omits two important sides of this parallelogram of forces: the private sectors of both 'advanced' and ‘emerging countries’ are accumulating claims on their own governments in the form of ballooning domestic debt.

150 This term was coined in 1992 by David Shulman of Salomon Brothers; it was a fairytale, of course, just like the English children's story that inspired the term.

151 Martin Wolf, 2010, ‘Demand shortfall casts doubt on early austerity’, in *Financial Times*, July 6 2010

152 This takes no account of illegal flows: *“illegal cross-border financial transactions [...]ignoring or skirting customs, tax, financial and money laundering laws. [... re]moves some $500bn a year illegally out of developing and transitional economies into western coffers.”* Raymond Baker & Jennifer Nordin, 2005, ‘How dirty money thwarts capitalism’s true course’, in *Financial Times*, 10 October, 2005.

This extraordinary configuration, involving the interaction of hard and soft currencies, state power, and the industrial and finance capitalists of imperialist and oppressed nations, merits deep analysis. Nevertheless, one of many things that have become much clear since 2007 is that not only did the global South's external surplus with Triad nations helped spawn the crisis, it has now become an aggravating, destabilising factor in its own right. All this indicates that global outsourcing has, just like ever-expanding debt, turned from being an attenuating factor countering the tendential fall of the rate of profit into a new source of instability. This is serious enough, but the underlying overproduction crisis which debt and outsourcing helped capitalism to contain is now set to return with a vengeance.[153]

The internationalisation of production and inter-imperialist rivalry

A widely held view amongst contemporary Marxist and heterodox scholars, extending far beyond those who believe that a transnationalised, deterritorialised capitalism has come into being, is that the internationalisation of production and finance precludes, or at least makes much less likely, a major recurrence of the inter-imperialist rivalry that characterised the last period of global capitalist depression in the 1930s.[154] The proliferation of global production networks, it is held, means that few if any important sectors of capital now have any interest in protectionism or 'deglobalisation', and every interest in blocking moves in this direction.

Giving wage arbitrage-driven production outsourcing the central place that is due to it in our theoretical conception of neoliberal globalisation obliges a re-evaluation of the prospects for renewed inter-imperialist rivalry. The globalisation of production processes, as this thesis has shown, takes the primary form of *value chains and production networks that span the North-South divide*. Japan hollowed out its industry in the 1990s, moving labour-intensive production processes to low-wage neighbours, so as to more effectively compete against its North American and European rivals. The US government fostered export-oriented industrialisation in Taiwan and South Korea in order to counter the growing Japanese threat to the dominance of US TNCs

153 *"Very often (much more often than the empiricist believes) the genuine objective cause of a phenomenon appears on the surface of the historical process later than its own consequence. For instance, the general crisis of overproduction in the capitalist world is empirically manifested first of all in the form of disturbances in the sphere of bank credits, as a financial crisis, later it involves commerce and only at the very end does it reveal itself in the sphere of direct production as a real general crisis of overproduction. The superficial observer, who takes succession in time for the only historical principle, concludes from this that misunderstandings and conflicts in bank clearances are the cause, the basis, and the source of the general crisis."* Ilyenkov, 1960, p217.

154 Alex Callinicos is one of those challenging this majority view: *"[o]ne important dimension of this crisis is the division of advanced capitalism between three competing centres of economic and political power, the so-called triad of Western Europe, North America and East Asia [...] significant conflicts of interest [...] are likely, in the context of the continuing 'long downturn', to give rise to geopolitical struggles."* Alex Callinicos, 2009, Imperialism and Global Political Economy. Cambridge: Polity Press (p17). So, after taking issue with his views on FDI, imperialism and super-exploitation in the first two chapters, on this we coincide.

in the electronics industry (as well as to boost two key frontline states during the Cold War). Under pressure of competition from the USA and Japan, Germany and France pushed hard for the EU to admit former Comecon countries in Central Europe in order to give their firms access to the much lower wages in those countries. Thus inter-imperialist rivalry has itself been a major factor promoting global outsourcing, and the form it has taken—production networks and value chains spanning the North-South divide, with 'lead firms' continue to be headquartered in one or other imperialist country—means that the concrete form taken by the internationalisation of production provides no grounds for believing that the logic of inter-imperialist rivalry has been replaced by a new supra-national logic.

It is certainly true that global economic integration implies that a return to economic warfare between the major imperialist powers would be even more damaging and destructive than it was 75 years ago. But capitalism's irrationality does not spring from the brains of capitalists and politicians, it is only reflected there; its source is to be found in the objective contradictions of the capitalist value-relation. Economists, politicians and industrialists in the 1930s were also well aware of the extreme dangers of protectionism, competitive devaluation and other such beggar-thy-neighbour policies, yet went down that road anyway. There are clear signs today that capitalist states large and small are once again lurching down this road. In conditions of stagnant global GDP, export-oriented growth strategies face a basic 'adding up' problem. Fred Bergsten, director of the Peterson Institute for International Economics in Washington, cites OECD estimates "that the sharp decline in the exchange rate of the euro, along with tepid European growth, will produce eurozone surpluses of at least $300bn annually within the next few years." [155] Since both Japan and the 'emerging nations' already have net external surpluses, gigantic pressure is being focused on the US dollar and the U.S. economy. Bergsten offers this urgent advice to Barrack Obama, who has already pledged to double US exports in five years: "the US must convince the world it is unwilling again to become the consumer and borrower of last resort. Only then will other countries stop relying on rising trade surpluses and become serious about generating domestic demand." [156] Just how Germany and China are going to generate domestic demand, on a scale sufficient to stop the world sliding further into depression, Bergsten does not say. In reality his advice is a recipe for economic warfare between the world's main 'trading partners', as is forcibly argued by Martin Wolf, who argues that a 'global game of pass the parcel' is already in full swing,[157] while others speak of a 'new mercantilism' and fret

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155 Fred Bergsten, 2010, 'New imbalances will threaten global recovery', in *Financial Times*, June 10 2010

156 Ibid.

157 Martin Wolf, 2010, 'This global game of 'pass the parcel' cannot end well', in *Financial Times*, June 29 2010

about a return to stagflation.[158] What is also written into the plot is an extremely aggressive attack on the wages, including the 'social wage' of workers in the imperialist countries, an attack that has already begun. US and European plans to massively expand their net exports will come to nought if they cannot radically reduce their collective deficit with China and other low-wage manufactures-exporting economies—but their structural trade surplus is the result of a winning combination of low wages and high productivity, in other words, of the higher rate of exploitation that exists in those countries. Just to stop the continuing outflow of production processes, let alone to put the colossal outsourcing momentum into reverse, will require radical cuts in unit labour costs within the imperialist countries, with all that implies.

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At the close of an international gathering of economists in Havana in 1998, Fidel Castro summed up the consensus of the meeting with a series of questions and answers: "What type of globalization do we have today? A neoliberal globalization; that is what many of us are calling it. Is it sustainable? No. Can it survive for much time? Absolutely not. A matter of centuries? Categorically not. Will it only last a few decades? Yes, only decades. But sooner or later it will have to come to an end [...] How is the transition going to come about? We don't know. Through widespread violent revolutions or great wars? That would seem improbable, irrational and suicidal. Through profound and catastrophic crises? Unfortunately that seems the most likely, almost inevitable outcome [...] What kind of globalization will it be? It couldn't be any other than jointly shared, socialist, communist, or whatever you want to call it. Does nature and, with it, the human species, have much time to survive the absence of such a change? Very little." [159]

Far from being synonymous with globalisation, capitalism is the biggest obstacle standing in its way. Capitalism can only produce a mutant form of globalisation not just because it now, more than ever, relies on the super exploitation of workers in the global South, but also because its hegemony over its own overwhelmingly proletarianised populations increasingly depends upon

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158 But this time, 'stagflation' stagnation elides not with inflation but with deflation. Bergsten (ibid) rails against the *"overt steps taken by [...] major countries to enhance their trade competitiveness. The most extreme case is the massive intervention by China and surrounding countries to keep their currencies severely undervalued. Other emerging markets are likewise seeking to expand further their war chests of foreign exchange by running large external surpluses. Switzerland has intervened substantially to hold its currency down. The eurozone has joined this "new mercantilism" and the result will be a sharp rise in global imbalances."* Ibid.

159 Fidel Castro, 1998, *Speech to the Non-Aligned Movement.* Durban, South Africa, 2nd September 1998 (translated by author) (http://www.cuba.cu/gobierno/discursos/1998/esp/f020998e.htm, accessed 14/11/2002).

His last three questions: *"Who will be the creators of that new world? The men and women who people our planet. What will be the essential weapons? Ideas; minds. Who will sow them, cultivate them and make them invincible? You!"*

fanning national hatreds and reinforcing national and ethnic divisions. The globalisation of production means that nationalist-reformist attempts to protect workers living standards and access to social services behind protectionist barriers, including border controls on the free movement of labour, are not only reactionary, they are also futile. If US and European workers do not wish to compete with their sisters and brothers in Mexico, China etc, they must join with them in the struggle to abolish the racial hierarchy of nations and the tremendous disparities associated with it, and to achieve an authentic globalisation—a world without borders—in which no one has any more right to a job, an education or a life than anyone else. The path to socialism goes through, not around, the eradication of the gigantic differences in living standards and life chances that violate the principle of equality between proletarians. As Malcolm X said, "Freedom for everybody, or freedom for nobody."

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