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Imperialism and the Law of Value[1]

John Smith[2]

Introduction

> 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. Ellen Meiksins Wood. [3]

What contribution do the 300,000 workers employed by Foxconn International in Shenzhen, China who assemble Dell's laptops and Apple's iPhones—and of the myriad of other 'arm's length' firms in other low-wage countries producing cheap intermediate inputs and consumer goods for western markets—make to the profits of Dell & Apple, and of the service industries that provide their premises, retail their goods etc? According to mainstream economic theory, none whatsoever. According to radical and Marxist critiques of neoliberal globalisation and theories of its current crisis, none worth mentioning. Yet what Foxconn epitomises, namely the global shift of manufacturing production to low-wage countries, is neo-liberal globalisation's *cardinal transformation*, expressed in a dramatic increase in the importance to firms in all sectors of the imperialist economies of super-profits extracted from southern living labour, or as Morgan Stanley economist Stephen Roach put it, the "extract[ion of] product from relatively low-wage workers in the developing world has become an increasingly urgent survival tactic for companies in the developed economies." [4] Here is the principal driver of the vertiginous growth of the global South's industrial

[1] I wish to acknowledge the major contribution Andy Higginbottom has made to core theoretical concepts presented in part one of this paper, and in particular his intellectual authorship of key concepts concerning the relationship between capitalism and national oppression, and the reasons why concepts developed by Marx in Capital cannot be immediately applied to analysis of the contemporary imperialist world economy. Citations alone cannot do justice to this contribution, since much of it was rendered during our conversations over many years.

[2] This paper is drawn from my PhD thesis, *Imperialism & the Globalisation of Production,* (completed in 2010 at Sheffield University). It can be downloaded from http://www.mediafire.com/?5r339mnn4zmubq7. I am currently teaching at Kingston University. Comments, questions, criticism are welcome: please send them to johncsmith@btinternet.com.

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

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

proletariat, rising from approximate parity with its counterpart in the 'industrialised' nations in 1980 to its current ratio of 4:1.

The refusal of mainstream economists to countenance any such contribution is understandable—exploitation of labour by capital and of southern labour by northern capital is impossible according to marginalist theory rules, but the reticence of the Marxists is harder to explain. It reflects the absence of a theory of how the law of value expresses itself in today's imperialist world economy, but this absence itself needs to be explained. This absence in many cases results in an explicit or implicit acceptance of the bourgeois economists' definition of 'productivity'—that is, 'value-added'/worker—in which the low wages of Foxconn workers reflect their supposedly low productivity, even though they are working flat out with state-of-the-art technology.

This paper attempts to outline an answer to this question of questions, developing its argument in two stages. In part one, it subjects essential concepts and premises within Marx's theory of value to the criticism of facts, testing their congruence with outstanding features of the contemporary global economy. It argues that to understand the imperialist evolution of the value relation, further development of these concepts is necessary, in particular to the central importance of differences in the rate of exploitation and the value of labour power between. In part two, it subjects the basic data of analysis—statistics on 'value-added', GDP and trade—to theoretical criticism, arguing that 'value-added' must be reinterpreted to mean *value captured*, and that part of the value that is captured by US, European and Japanese firms, thereby inflating their own profits and their nations' GDP, was actually produced by Foxconn workers and their sisters and brothers in other low-wage countries.

To establish this argument, this paper will skate through countless controversies and touch on many dimensions of historical and contemporary political economy, each of which deserves and requires a much more careful and detailed. Yet we have no choice but to attempt to develop at least in outline a concept of the total system. This is because the question asked at the beginning cannot be answered without a concept of the whole, without a theory of the current stage of capitalist development; and existing theories haven't answered this question, they have not explained how northern firms reap profits from southern workers who produce their goods but whom they don't employ, and why in recent times this has become so important.

The paper is arranged as follows. 'Capitalism's imperialist trajectory' considers the transformations wrought by neoliberal globalisation and their continuity and discontinuity with earlier phases of capitalist development, thereby establishing the overall conceptual framework within which the paper's argument will be developed: that *neoliberal globalisation signifies not the supersession of capitalism's imperialist stage but its culmination, the unfolding of capitalist imperialism's fully evolved, final form*. Restated in terms of Marx's theory of value, the globalisation of production and its southwards shift signifies a *new, qualitative stage in the globalisation of the capital/labour relation*, a new stage in the historical evolution of the capitalist form of the value relation.

'Marx's *Capital* and neoliberal globalisation' examines fundamental ways in which contemporary capitalism departs from the theoretical model developed by

Marx, arguing in particular that to understand capitalism's fully-evolved imperialist form we must relax Marx's exclusion of international differences in the rate of exploitation and the assumption upon which this is predicated: the free mobility, and therefore equality, of living labour. It emphasises the growing economic necessity of borders and the role they play in creating a global labour market so racially and nationally stratified it can be fairly characterised as *global apartheid*.[5]
'Exploitation and super-exploitation in Marx's *Capital*' retrieves and develops essential conceptual tools provided by Marx's theory and considers how they help us to understand the latest stage in capitalism's imperialist development.

After subjecting theory to the criticism of facts, the final section submits facts, or rather, the way they are represented and understood in GDP and trade data, to the criticism of theory. 'The GDP illusion' considers distortions in the data used to measure and compare economic activity, arguing that statistics on GDP and trade are not uncontaminated raw data, as is widely believed; they are projections of core premises of neoclassical economic theory, in particular of its tautological presumption that the 'value-added' captured by a firm is identical to the value it creates through its own productive activity. A brief conclusion summarises the main arguments and considers some consequences.

Part 1 - Capitalism's imperialist trajectory and Marx's Capital

1.1 - Capitalism's imperialist trajectory

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. As capitalism began, so it has continued. Throughout their two centuries of global dominance, a handful of capitalist great powers have been unceasingly predatory and imperialistic towards the nations and peoples of the global South. The 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".[6] Twice in the past century they have plunged the world into global war, in large part to resolve their rival claims over subject nations.

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[5] *"Global apartheid is more than a metaphor. The concept captures fundamental characteristics of the current world order"* Africa Action, 2009, *Global Apartheid* (http://apic.igc.org/resources/globalapartheid.php). 'Global apartheid' is an appropriate term—it implies a racial hierarchy, a system whose raison d'être is wealth extraction and super-exploitation, one where the violent repression of the free movement of labour plays a central role. It defines an essential, unavoidable and irrefutable aspect of contemporary reality—as Jan Nederveen Pieterse says, *"global apartheid and global integration… are being practised simultaneously"*. Jan Nederveen Pieterse, ,2002, 'Global inequality: bringing politics back in', in *Third World Quarterly*, 23:6, 1023–1046. (p1039)

[6] 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 Stephen Hobden & John M Hobson, (eds.), 2001, *Historical sociology of international relations*. 244-264. Cambridge: Cambridge University Press (p255). Although national bourgeoisies throughout the global South aspire to membership of this select club, only three small nations—Singapore, South Korea and Taiwan—could be considered candidate members. On the other hand, some of the 'peripheral' members of the European club of imperialist nations are threatened with relegation.

Since World War II, and especially during the era of neoliberal globalisation, North American, European and Japanese imperialists have modified the forms of their economic and political domination over southern nations and have devised new ways to plunder their human and natural wealth. Prior to the transformations of the neoliberal era, the first major modification of the imperialist relation came with the dismantling of the colonial empires and the attainment of formal sovereignty, 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 the 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.

The end of colonialism and the attainment of formal sovereignty signified the emancipation of the national bourgeoisies, but those who live by their labour—in a word the *peoples* of these countries—still await their emancipation. Lenin's definition —"the division of nations into oppressor and oppressed forms the essence of imperialism" [7]—remains valid, and now, moreover, this division of the world is now an integral part of the global(ised) relation between (northern) capitalists and (southern) labour.

Accompanying and underlying this post-WWII political reconfiguration, capitalist economic and social relations accelerated their spread throughout what were, in 1914 and in 1939, predominantly precapitalist societies. Interaction between imperialist nations and the global South is now, in Ellen Wood's words, 'internal to capitalism and governed by capitalist imperatives.' They are, in other words, *internal* to the capital/labour relation; this has become, to a qualitatively greater extent than before, a global relation between imperialist capital and southern labour.[8]

The violation of equality between proletarians invalidates a central premise of the Marx's 'general theory' of capital, and is, quite obviously, closely related to violation of equality between nations. Apart from tangential asides, considerations of how all this modifies the law of value were not included in *Capital* because, while imperialism was a condition for the development of capitalism and, in the form of naked plunder, sustained its continued growth, it was not internal to the capital/labour relation. Both were, however, emphasised by Lenin, for whom the division of the world into a 'handful of oppressor nations and the great majority of oppressed nations' was the *essence* of imperialism. But in Lenin's time capitalist relations had only begun to penetrate the subject nations; the globalisation of the capital/labour relation was incipient, principally manifested in agriculture and resource extraction, and was only to invade modern industry six decades later. This circumstance has resulted in the persistence to this day of what was, at least to begin with, an inevitable

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[7] Vladimir Illich Lenin, 1915, 'The Revolutionary Proletariat and the Right of Nations to Self-Determination'. Pp 407-411, in *Collected Works, Volume 21*. Moscow: Progress Publishers, p407.

[8] *"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 than by the same coercive force that had always determined relations between colonial masters and subject territories."* Wood, [2003] 2005, p125.

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disconnection between Lenin's theory of imperialism and the theory of value developed in *Capital*. The 'systematic theory of imperialism' called for by Ellen Wood can only be achieved by overcoming this disjunction, by achieving a new synthesis of Marxist value theory and Leninist theory of imperialism: a theory of the imperialist form of the law of value.

Most strands of western Marxism, including many of those who claim adherence to Lenin's legacy, have ignored or rejected Lenin's emphasis on the division of the world into oppressed and oppressor nations (and on the reactionary 'labour aristocracy' in the imperialist nations spawned by it), dwelling instead on Lenin's argument that 'in its economic essence imperialism is monopoly capitalism.'[9] Taken on its own, this can become the basis for rejecting the continued validity of the law of value. As Anwar Shaikh points out, [10]

> It has become a Marxist commonplace to assert that capitalism has entered its monopoly stage... [in which] 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... The law of value, like competitive capitalism itself, fades into history.

Despite Ellen Wood's extremely important insight (and many others in her interesting book), two things limit her further progress towards the 'systematic theory' she quests for. First, though her "purpose is [...] to define the essence of capitalist imperialism", she decides not "to go into the intricacies of value theory".[11] 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'. Second, she judges that the colonies' attainment of formal sovereignty means that "new imperialism [is] no longer [...] a relationship between imperial masters and colonial subjects but a complex interaction between moreorless sovereign states."[12] The value relation having already been excluded from her enquiries, Wood is only interested in this question in so far as it affects state theory and imperialist exploitation disappears from her concept.

Although the principal regulator of economic relations between imperialist and oppressed nations is no longer military force but market forces, the exercise of military power by states continues, as Wood recognises, to play a central and active role in constituting the imperialist world order, policing it and violently removing

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[9] Vladimir Illich Lenin, [1916] 1963, ' Imperialism, the High Stage of Capitalism,'in *Selected Works*, Progress Publishers, 1963, Moscow, Volume 1, pp. 667–766 (p761)

[10] 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).

[11] Ibid, p7. William Robinson also recognises that *"globalization [is] the near culmination of a centurieslong 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)—except that not all precapitalist relations have been displaced, some have been internalised.

[12] Wood, [2003] 2005, p129

obstacles in its way, whether these be forest dwellers, insubordinate despots, rebellious social movements or radical governments. In this context, she notes,[13]

[O]ne 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… The global movements of capital require... a kind of economic and social fragmentation that enhances profitability by differentiating the costs and conditions of production... deterring a kind and degree of integration that might go too far in levelling social conditions among the workers throughout the world.

Thus "[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."[14] The next step towards a 'systematic theory' of imperialism is to ask how this violation of the principle of globalisation is related to the massive relocation of production processes to the global South, the extent to which this has redirected the source of northern firms' profits, but Wood leaves such questions undisturbed.

William Robinson, another theorist of 'global capitalism', notes that, "[n]either 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"[15] In *Latin America and Global Capitalism*, he reports in detail on the struggles by immigrant workers in the USA and commendably gives the issue of labour migration the prominence it is due, noting that "capital and goods move freely across national borders in the new global economy; labour, however, cannot." [16] This attention is in sharp contrast to most authors defending variants of the 'transnational capitalist class' thesis—for example, Ronaldo Munck manages to write an entire book on 'Globalisation and Labour' without once mentioning immigration controls (nor, for that matter, international wage differentials or production outsourcing).[17]

However, Robinson's attempts to integrate border controls into his theory of transnational, deterritorialised capitalism are unconvincing: "[n]ational 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." [18] But the reinforcement of territorial national borders against the free movement of labour renders invalid the notion 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

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[13] Ibid., pp135-6

[14] Ibid., p137

[15] William Robinson, 2008, *Latin America and Global Capitalism - a Critical Globalisation Perspective.* Baltimore: Johns Hopkins University Press, p313.

[16] Ibid, 2008, p204.

[17] Ronaldo Munck, 2002, *Globalisation and Labour - The New 'Great Transformation'*. London: Zed Books.

[18] Robinson, 2008, p203.

transnational migration",[19] as if labour can flow freely around the 'global pool', and that "[t]he global labour supply is, in the main, no longer coerced... but its movement is juridically controlled,"[20]—but what are mass deportations, electrified fences, militarised borders etc, if not coercion? 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."[21]

Robinson does not make the conceptual connection between the migration of workers in the migration of production processes, and resists accepting that super-exploitation has a territorial North-South dimension; arguing instead that the concept of imperialism, *i.e.* of one part of the world oppressing and exploiting another part, has become outdated:[22]

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.

However, far from signifying that the age of imperialism is receding into history, the transformations carried out under the banner of 'neoliberal globalisation' should instead be seen 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),[23] so it is unreasonable to expect to find, in the writings of Marx, or indeed of Lenin and others writing at the time of the dawn of capitalism's imperialist stage, a theory able to explain its modern fully-evolved form—it is an axiom of materialist dialectics that a system of interaction must itself be fully concrete and developed before there can be a concrete concept of it.

1.2 - Marx's Capital and neoliberal globalisation

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:

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[19] Ibid., p314. Here, as in all quotes, emphasis is in the original.

[20] Robinson, 2008, p204

[21] Ibid., p313

[22] Ibid., p42

[23] *"No period of modern society is so favourable for the study of capitalist accumulation as the period of the last 20 years... but of all countries England again provides the classical example, because it holds the foremost place in the world market, because capitalist production is fully developed only in England, and finally because the introduction of the free-trade millennium since 1846 has cut off the last retreat of vulgar economics."* Karl Marx, [1867] 1976, *Capital, Volume 1*. London: Penguin, p802.

the globalisation of the capital/labour relation, in the context of and on the foundation of a pre-existing division of the world into oppressed and oppressor nations, *entails the internalisation of this division and with it the unfolding of the imperialist form of the capital relation*. In other words, the imperialist division of the world was *inherited* by capitalism; *it is now inherent*, part of its own nature. This has been most clearly articulated by Andy Higginbottom, who has argued that holding "(southern) wages ... below the value of (northern) labour power is a structurally central characteristic of globalised, imperialist capitalism... Imperialism is a system for the production of surplus value that structurally combines national oppression with class exploitation." [24]

As a result, this latest stage of capitalist development has been leading not to convergence of the oppressed nations 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, and where the 'global labour market' takes the form of a racial and national hierarchy. 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 increasingly 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 the globalisation of the capital/labour relation has taken place on the basis of inherited imperialist division of the world. In the neoliberal era, capitalism has fully sublated the old colonial division of the world; discarding all that is inimical to it and preserving and making its own all that is necessary to its continued dominion. The centrality of systematically higher rates of exploitation in the global South is a new fact that is not included in the theory of value developed by Marx in the three volumes of *Capital*. Marx's magnum opus was tasked with comprehending the capital relation, *i.e.* the capitalist form of the value relation. For this purpose he assumed an idealised, unitary capitalist economy, in which both labour and capital is perfectly mobile; consistent with this aim, he explicitly and deliberately abstracted from international differences in the rate of exploitation. It follows that attempts to comprehend the contemporary world economy by applying Marxist concepts can only be successful if these concepts are themselves subject to the criticism of facts about capitalism's imperialist evolution.

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

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[24] Andy Higginbottom, 2009, *The Third Form of Surplus Value Increase*, conference paper, Historical Materialism Conference, 2009. Elsewhere he has written, *"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*, conference paper, Historical Materialism 'Conference, 2008, p11.

between workers, an equality predicated on their autonomy and free mobility, and showed 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 global economy it is necessary to radically reconstruct a fundamental premise of Marx's analysis. 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.* 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.

1.3 - Wages, productivity and the rate of exploitation

Frederick Engels stated that "communism is not a doctrine but a movement; it proceeds not from principles but from facts." [25] Analysis of contemporary imperialism must proceed from, and attempt to explain, a fact of transcendental importance: *the systematic international divergence in the rate of exploitation between nations*, in particular between the imperialist nations (*a.k.a.* the 'advanced' or 'industrialised' countries) and the allegedly 'emerging' nations of the global South. That workers in Bangladesh or China endure much more intense exploitation than in the UK or USA is not a conjecture or a hypothesis, it is something that can be observed, experienced, and understood as a social fact, especially by Bangladeshi, Chinese etc workers, even without the benefit of a theory able to explain its nature or measure its specific magnitude. There is nothing new about international differences in the value of labour-power and the existence of super-exploitation. What is new is the *centrality* these phenomena have attained during the past three decades of 'neoliberal globalisation' (and they have played a key, but hardly acknowledged, role in the gestation and development of the global economic crisis).

One reason to discount the widespread belief that international wage differences merely or mainly reflect differences in productivity (others will be considered below) was given by Mehrene Larudee and Timothy Koechlin: "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." [26] 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'

[25] Frederick Engels, 1847, *The Communists and Karl Heinzen,* MECW Volume 6. Moscow: Progress Publishers, p291.

[26] Mehrene Larudee & Timothy Koechlin, 2008, 'Low-wage Labor and the Geography of Production: A Qualified Defense of the 'Pauper Labor Argument'', in *Review of Radical Political Economics,* 40: 228-236 (p232).

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fatally undermines Martin Wolf's assertion that "the real cost of labour tend[s] to remain in line with its productivity." [27] Wolf ridicules the notion that Chinese workers are exploited by US, UK TNCs is to affirm that the relation between workers and TNCs: "[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."[28] Wolf says this of, in the words of an ICFTU report, "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". [29]

Capitalist exploitation, from the perspective of Marx's theory of value, can be simply defined. If the working day comprises two parts, necessary labour-time (the time a worker takes to replace the values consumed by the proletarian household) and surplus labour-time (the time spent producing *surplus value* for the capitalist), the *rate of exploitation* is the ratio between them. For the purposes of this paper, *super-exploitation* signifies a higher rate of exploitation than the prevailing average domestic rate of exploitation within the imperialist economies.

One very important implication of this is that the rate of exploitation endured by a capitalistically employed worker is wholly independent of his or her productivity; it depends instead on the productivity of workers producing consumption goods,[30] thus "an increase in the productivity of labour in those branches of industry which supply neither the necessary means of subsistence nor the means by which they are produced leaves the value of labour power undisturbed." [31]

Marxist critics of dependency theory also used to argue that wage differentials reflected productivity differentials. Indeed, many went further, arguing that workers in the imperialist nations may even be subject to a higher rate of exploitation than in the global South, despite their much higher levels of consumption. This occurs, so the argument goes, because the productivity of labour in branches of the economy producing consumption goods is so much higher than in the oppressed nations, and so workers in imperialist countries and enjoy higher consumption levels and yet be more

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[27] Wolf, 2005, p183.

[28] Ibid., p230.

[29] 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).

[30] Here I abstract from differences in the intensity of labour and in the complexity of labour, both of which alter the quantity of value generated by a given amount of labour-time. Making the same abstractions, Marx argues that *"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."* Marx, [1867] 1976, p137.

[31] Marx, [1867] 1976, p432

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 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" [32] 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." [33]

Dubious when it was first advanced, the globalisation of production has fatally undermined the argument of the Marxist critics of dependency theory concerning productivity: *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, therefore, is *their* productivity, *their* wages. 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 significance of high levels of labour productivity in the advanced economies;" [34] 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." [35]

Ernest Mandel uncomfortably straddled the dependency thesis and its 'Marxist' antithesis, but his attempt at a synthesis fails because of his equivocation concerning the existence of super-exploitation. This is evident in his major economic work, *Late Capitalism*, where 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,"[36] implying that its value is also lower, that these workers therefore endure a higher rate of exploitation. Later, in the chapter on 'Unequal Exchange', he appears to reiterate this,

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[32] John Weeks and Elizabeth Dore, 1979a, 'International Exchange and the Causes of Backwardness', in *Latin American Perspectives*, 6:2 62-87, 1979a, p71.

[33] Nigel Harris, 1986, 'Theories of unequal exchange', in *International Socialism*, 2/33 pp119-20. See also Charles Bettelheim: *"the more the productive forces are developed, the more the proletarians are exploited"*. Charles Bettelheim, 1972, 'Some Theoretical Comments by Charles Bettelheim', pp271-322 in *Unequal Exchange, A Study in the Imperialism of Trade*, by Arghiri Emmanuel, London: NLB 1972 (p302).

[34] Alex Callinicos, 2009, *Imperialism and Global Political Economy*. Cambridge: Polity Press, pp179-80.

[35] Joseph Choonara, 2009, *Unravelling Capitalism*, London: Bookmarks, p34.

[36] Ibid., p68.

referring to "vast international differences in the value and the price of the commodity labour-power"—but on the next page he argues the opposite, that there "exists in underdeveloped countries… a lower rate of surplus value",[37] spending 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. Neither the vast differences in the value of labour power nor of its price makes it into the 10 features defining 'the structure of the world market' that concludes his analysis.

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 direct relevance of the dependency debates to today is limited because it rose and fell when the neoliberal globalisation of production was still in the egg—in fact the hatching of this egg, with the rapid increase of exported-oriented industrial production in South Korea and Taiwan in the late 70s, was one of the main reasons why in Gary Howe's words, "dependency theory itself began to flounder",[38] since it appeared to refute the dependentistas' insistence that imperialist domination blocked industrial development in the South. One of the most prominent protagonists in the dependency debate, Samir Amin, has recently published *The Law of Worldwide Value,* an updated version of his 1978 treatise *The Law of Value and Historical Materialism.* In its introduction he claims,[39]

> My major contribution concerns the *passage from the law of value to the law of globalized value*, based on the hierarchical structuring—itself globalized—of the prices of labor-power around its value. Linked to the management practices governing access to natural resources, this globalization of value constitutes the basis for *imperialist rent.*

Amin makes an important contribution—'a law of globalized value, based on the hierarchical structuring… of labor-power' is exactly what we need—but his theory suffers from three weaknesses. First, he asserts that "labor-power has but a single value, that which is associated with the level of development of the productive forces taken globally"—but there is no 'global value of labour power',[40] this is a meaningless abstraction—not just the price but also the value of labour power varies widely within, and especially between, nations. Second, Amin treats the value *of* labour power and the value *generated by it* as if they were the same thing, as is evident in the algebraic formulae he develops to model the 'law of globalized value', and it follows that not only does labour power have a global value, one hour of labour

[37] Ernest Mandel, [1972] 1975, *Late Capitalism.* Trans. Joris de Bres. London: NLB, p353.

[38] 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).

[39] Samir Amin, 2010, *The Law of Worldwide Value*, New York: Monthly Review Press (p11)

[40] Ibid., p84.

expended anywhere in the world generates an identical value.[41] Thus his rhetorical question,[42]

> How can one compare the value of an hour of work in the Congo to that of labour power in the United States?... just as one compares the value of an hour's work by a New York hairdresser to that of an hour of labor by a worker in Detroit.

'Just as'?? The third problem in Amin's approach is that Marx developed his concept of value and of the capital relation at a certain level of abstraction—he abstracted, as we have seen, from national differences in the rate of exploitation, and also from monopoly in all its forms (a condition for all commodities to sell at their value). Amin takes this concept—or rather, a certain interpretation of it—and stretches it across the world. But this concept itself must be criticised, and several of its premises and simplifying abstractions have to be modified or dropped altogether, if we are to achieve a concrete concept of capitalism's imperialist stage of evolution.

Addressing the absence of a theory of imperialism in Marx's *Capital*, Samir Amin comments that, to the "central question, that of the 'underdevelopment' of contemporary Asian and African societies… I found no answer in Marx...Marx had not finished the opus that he had set out to complete, and that included not integrating the 'global dimension' of capitalism into his analysis."[43] But Marx didn't so much run out of time, he was a man of his time, and could only analyse capitalism at an earlier, pre-imperialist stage of its development. And the 'global dimension' was always intrinsic to his analysis—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".[44]

Having examined various attempts to deny their significance, it is worth reminding ourselves just how extremely wide these international wage differences are. Despite decades of wage stagnation in the USA and of wage increases in China, the ratio between the two, adjusted for purchasing power parity, is presently around 16:1,

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[41] *"Since all products are international commodities, the same quantity of labor used up in different parts of the world and incorporated in the products, also gives rise to a single world value."* Samir Amin, from a paper he presented to a conference in Dakar in 1973, quoted in John Weeks & Elizabeth Dore, 1979, 'International Exchange and the Causes of Backwardness', in *Latin American Perspectives*, 6:2 62-87 (p86).

[42] Ibid., p89

[43] Samir Amin, 2010, *The Law of Worldwide Value*, New York: Monthly Review Press (p11)

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

or 37:1 when prevailing exchange rates are used to make the comparison—which is what matters to US firms considering whether to outsource their production.[45]

Thanks to research by Greg Linden, Jason Dedrick and Kenneth L. Kraemer, the Apple iPod can serve as a vivid illustration of these international wage differentials and of the broader argument developed in this paper.[46] Linden et al decomposed the costs of production of the Apple iPod into the 'value-added' by managers, designers and retailers in the United States and the 'value-added' by workers employed in the overseas production of its components and their assembly into the finished good. At their time of writing, the 30Gb Apple iPod retailed at $299, while the total cost of production was $144.40. The other $154.60, 52% of the final sale price, represents what the authors call 'gross profits', *i.e.* revenues, to be divided between retailers, distributors and Apple itself—all of which, it should be noted, counts as 'value-added' generated within the USA and is counted towards US GDP,[47] there is no sign of any cross-border value transfers affecting to the distribution of profits to Apple and its various suppliers. From the perspective of Marx's law of value, most of these activities are non-productive and their revenues represent surplus value extracted from the actual producers of these commodities (more accurately, they are a fraction of the surplus-value generated across the global economy captured by capitalists involved in the production and sale of iPods).[48]

Linden et al also provide valuable data on the wages and numbers employed of all those involved in the production and distribution of the iPod. They report that "the

[45] These ratios are based on data from China's National Bureau of Statistics, cited in Álvaro J. de Regil, 2010, *A comparative approximation into China's living-wage gap* (http://www.jussemper.org/Resources/Economic%20Data/Resources/China_LW_gap.pdf). There is good reason to believe that official Chinese data on real wages considerably exaggerate real wages and real wage growth in China, thus making the discrepancy between Chinese and US wages appear to be smaller than they actually are. The ILO's *Global Wage Report 2010-11* notes that official Chinese data largely reflects the situation in state-owned enterprises, and that wage growth (and, by implication, wage levels) is substantially lower in the private sector. Furthermore, in China as elsewhere, data on average wages and average wage growth obscures very sharp increases in wage inequality, in which rapid rises in the wages of the highest-paid workers (including the salaries paid to managers, etc) occurs simultaneously with stagnant or even falling wages for low-paid workers, appearing in the data as steady growth in average real wages. Another major source of obfuscation is the consumer price index used to deflate nominal wages and thus calculate real wages. Since the price of food, fuel and other basic necessities are generally rising faster than overall inflation, and since these basic necessities consume a far larger part of workers' income than they do of the highly-paid, widely-cited data on real wages and real wage growth suffer from a further systematic upward bias. For a more detailed discussion of these issues, see Smith, 2010, especially *Chapter 4—Wage trends in the era of globalisation*.

[46] See also Yuqing Xing and Neal Detert, 2010, *How the iPhone Widens the United States Trade Deficit with the People's Republic of China*. Asian Development Bank Institute, Working Paper Series No. 257 (http://www.adbi.org/files/2010.12.14.wp257.iphone.widens.us.trade.deficit.prc.pdf). This paper does not collect data on wages and numbers employed.

[47] Greg Linden, Kenneth L. Kraemer & Jason Dedrick, 2007, *Who Captures Value in a Global Innovation System? The case of Apple's iPod.* Personal Computing Industry Center, UC Irvine, p7. The authors omit from their study the portion captured by the US state through direct and indirect taxation of Apple etc and their employees.

[48] This assumes that all labour expended by workers in retailing and distribution is non-production labour. However, some of this labour, particularly that expended in transportation, should be considered part of the production process. On this, see Anwar M. Shaikh, & E. Ahmet Tonak, 1994, *Measuring the Wealth of Nations*. Cambridge University Press, 1994, pp23-4

iPod and its components accounted for about 41,000 jobs worldwide in 2006, of which about 27,000 were outside the U.S. and 14,000 in the U.S. The offshore jobs are mostly in low-wage manufacturing, while the jobs in the U.S. are more evenly divided between high wage engineers and managers and lower wage retail and non-professional workers."[49] They add that just 30 of the 13,920 US workers were production workers (receiving, on average, $47,640 per annum) while 7,789 were 'retail and other non-professional' workers (average wages, $25,580 per annum), and 6101 were 'professional' workers, *i.e.* managers and engineers involved in research and development (who captured more than two-thirds of the total US wage bill, receiving, on average, $85,000 per annum). Meanwhile, production workers in China received $1,540 per annum, or $30 per week—just 6% of the average wages of US workers in retail, 3.2% of the wages of US production workers, and 1.8% of the salaries of US professional workers.[50] As a result "the iPod supports nearly twice as many jobs offshore as in the U.S., yet wages paid in the U.S. are over twice as much as those paid overseas." [51]

1.4 - Neoliberalism and the 'global shift' of production

The enormous international wage differences (or rather, the divergent rates of exploitation they reflect) seen here in microcosm, are the main driver of the single-most dynamic and transformational process associated with neo-liberal globalisation—*the globalisation of production processes*, as reflected in the proliferation of global 'value-chains' connecting the fields and factories of the global South with corporations and private consumers in the North. 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. 23 of these nations, home to 76% of the entire population of the global South and including eight of the ten most populous southern nations, in 2004 received more than half of their export earnings from manufactured goods.[52] In addition, many other smaller nations have made a brave effort to reorient their economies to the export of manufactures, playing host to manufacturing enclaves that exert a powerful and distorting influence on their national

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[49] Greg Linden, Jason Dedrick & Kenneth L. Kraemer, 2009, *Innovation and Job Creation in a Global Economy: The Case of Apple's iPod.* Personal Computing Industry Center, UC Irvine, p2. http://pcic.merage.uci.edu/papers/2008/InnovationAndJobCreation.pdf (accessed 14/06/2010). It should be noted that Japanese firms have outsourced much of the production of these key components to China and other low-wage countries.

[50] Analysis of the production of the Apple iPod and of the distribution of the resulting profits brings to mind words written by Lenin more than a century ago: *"[t]he British bourgeoisie… derives more profit from the many millions of the population of India and other colonies than from the British workers. In certain countries this provides the material and economic basis for infecting the proletariat with colonial chauvinism."* Lenin, Vladimir Illich,, 1907 'The International Socialist Congress in Stuttgart', in *Lenin's Fight for a Revolutionary International*, John Riddell (ed.), New York: Pathfinder, pp76-77.

[51] Linden et al., 2009, p3.

[52] World Bank, World Development Indicators. The 23 nations are Argentina, Bangladesh, Brazil, China (including Hong Kong), Egypt, India, Indonesia, Malaysia, Malta, Mauritius, Mexico, Morocco, Pakistan, Philippines, Singapore, South Africa, South Korea, Sri Lanka, Taiwan, Thailand, Tunisia, Turkey, Vietnam.

economies. While industrial development in the global South may be very unevenly distributed, the proliferation of export processing zones (EPZs), driven by 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",[53] indicates that it is nevertheless very widespread. In 2006, the latest year for which there are statistics, more than 63 million workers (almost triple the EPZ workforce in 1996) were employed in 2,700 EPZs in more than 130 countries, producing goods mainly for final consumption in Triad markets (to put this in perspective, at the same time 150 million industrial workers were employed in the Triad countries).[54]

The transformation of capitalist production that has resulted from what Stephen Roach, senior economist at Morgan Stanley has called 'global labour arbitrage'— the replacement of "high-wage workers here with like-quality, low-wage workers abroad"—can be appreciated by noting that, until 1980, international trade consisted almost entirely of raw materials and final goods. [55] Neoliberal globalisation, by extending the links in the chain of production and value-creation across national borders, has transformed this picture. William Milberg, a leading researcher into production outsourcing, explains that "because of the globalization of production, industrialization today is different from the final goods, export-led process of just 20 years ago".[56] 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." [57]

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[53] Dostani Madani, 1999, *A review of the role and impact of export processing zones*. Policy Research Working Paper #2238. World Bank, Washington, DC.Madani, 1999, p44

[54]ILO, *EPZ Employment Statistics* http://www.ilo.org/public/english/dialogue /sector/themes/epz/stats.htm, accessed 28/01/2011. What is an 'export processing zone'? "[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." (World Bank, 1998, Export processing zones. PremNotes #11, p1. http://www1.worldbank.org/prem/ PREMNotes/premnote11.pdf, accessed 12 July, 2009). Two well-known features of EPZs are conspicuously absent from this list: the widespread prohibition of trade unions, and the predilection for female labour displayed by the tourist TNCs setting themselves up in 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."* (ILO, 2003, Employment and social policy in respect of export processing zones (EPZs). ILO: Geneva, p6)

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

[56] William Milberg, 2004, *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). Pascal Lamy, Director-General of the World Trade Organization, made the same point: *"As recently as 30 years ago, products were assembled in one country, using inputs from that same country. Measuring trade was thus easy. 2011 is very different. Manufacturing is driven by global supply chains… most imports should be stamped "made globally", not "made in China", or similar."* Pascal Lamy, 2011, 'Made in China' tells us little about global trade, in *Financial Times*, January 24 2011

[57] Milberg, 2009, p9

'Global labour arbitrage', or the substitution of relatively highly paid domestic labour by low-wage southern labour takes two forms: the shifting of production processes to low-wage countries and the importation of migrant labour from low-wage countries, 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".[58] This connection between outsourcing and immigration was presciently noted by Karl Marx in 1867:

> [I]n order to oppose their workers, the [English] 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.[59]

Here, Marx perceived the beginning of a dynamic that was only to become dominant and world-transforming in our own times, and the quotation shows how clearly Marx perceived its great significance for the proletarian movement. Two things should be noted, however. First, Marx was writing a time when international wage differentials were much smaller, and, related to this, when, as ILO economist Deepak Nayyar points out, "there were no restrictions on the mobility of people across national boundaries—passports were seldom needed and immigrants were granted citizenship with ease."[60] In contrast, an outstanding feature of 'neoliberal globalisation' is 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; this coercive suppression of free international labour mobility helps to explain why international divergence in real wages and in the rate of exploitation have grown to be so wide. Second, as we shall see when we revisit these themes later in this paper, Marx excluded these international divergences from his 'general analysis of capital' in the three published volumes of *Capital*, and they have been largely neglected ever since.

More than a century after the Lausanne congress the arrival of Information Technology and dramatically faster transportation of commodities around the world, along with the political/institutional changes that compelled southern nations to

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[58] International Monetary Fund (IMF), 2007, *World Economic Outlook 2007—Spillovers and Cycles in the Global Economy.* International Monetary Fund, Washington, D.C., p180

[59] Karl Marx, 1867, *On The Lausanne Congress*. (http://www.marxists.org/archive/marx/iwma/documents/1867/lausanne-call.htm - downloaded 17/01/2010). 1867 was also the year of the publication of *Capital* volume 1.

[60] 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.

remove barriers to cross-border flows of commodities and capital, provided the necessary conditions for the full potential of outsourcing to be unleashed. But these institutional changes and technological advances have only *facilitated* the 'global shift' of production; what *motivated* this was capital's voracious appetite for cheap labour; and what has *necessitated* this global shift in production was, in the final analysis, the relation of class forces within the imperialist nations. To have exacted savage cost-cutting, required to reverse the declining rate of profit in the imperialist countries, exclusively against their 'own' workers would have provoked a mammoth social and political crisis, a frontal assault on the 'social contract' that for more than a century has bound workers in the imperialist countries into an alliance with their rulers against the peoples of the rest of the world.

Perhaps the most spectacular consequence of this transformation has been the rapid growth in the industrial proletariat in low-wage countries and a decline, both relative and absolute, in their number in the increasingly service-dominated 'industrialised' economies. As Figure 1 indicates, while in 1980 approximately as many industrial workers lived in 'industrialised nations' as in 'emerging nations', in the span of a single generation the global South has become home to four-fifths of the world's industrial workers,[61] who are, moreover, very much more integrated into the global economy. This massive growth has occurred under the aegis of export-oriented industrialisation—or 'outsourcing' as it is called in the North.

Figure 2 portrays another dimension of this dramatic global shift. In 1980, manufactured exports comprised some 20% of 'developing nations' total exports, having drifted upwards from around 15% during the 1950s, with primary commodities making up most of the rest. But in just 15 years, between 1980 and 1995, manufactured goods more than tripled their share of the South's total exports to over 65%, around which it has since hovered, holding its own against surging primary commodity exports.[62] This radically breaks with the global capitalism analysed by Marx, in which "the colonisation of foreign lands... converts one part of the globe into a chiefly agricultural field of production for supplying the other part, which remains a pre-eminently industrial field,"[63] a pattern which was to remain basically unchanged for more than a century, until the period depicted in Figures 1 & 2. As with all trade statistics, they portray the gross value of exports, as measured by their price, and therefore include the value of any imported inputs. As we shall see in *The GDP illusion* below, this is not the only distortion skewing trade data each of the three traces in figure 2 must be interpreted with care. 'Developing nations manufactured exports to developed countries as % of their manufactured exports' has hovered around 60% since the 1970s, but within the other 40% is an increasing component of

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[61] The ILO's KILM (Key Indicators of the Labour Market) dataset classifies the economically active population into three basic sectors: industry, agriculture and services. 'Industry ' 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'.

[62] Data source: for 1980-2002, Unctad, Handbook *of Statistics - Archive: Network of exports by region and commodity group - historical series* (http://stats.unctad.org/handbook/ReportFolders/ReportFolders.aspx); for 2002-2009, Unctad, merchandise trade matrix. (http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en).

[63] Marx, [1867] 1976, pp579-580

'triangular trade', in which manufactured components are moved between different low-wage countries before their final export to the North as a finished good.

Figure 1[64]

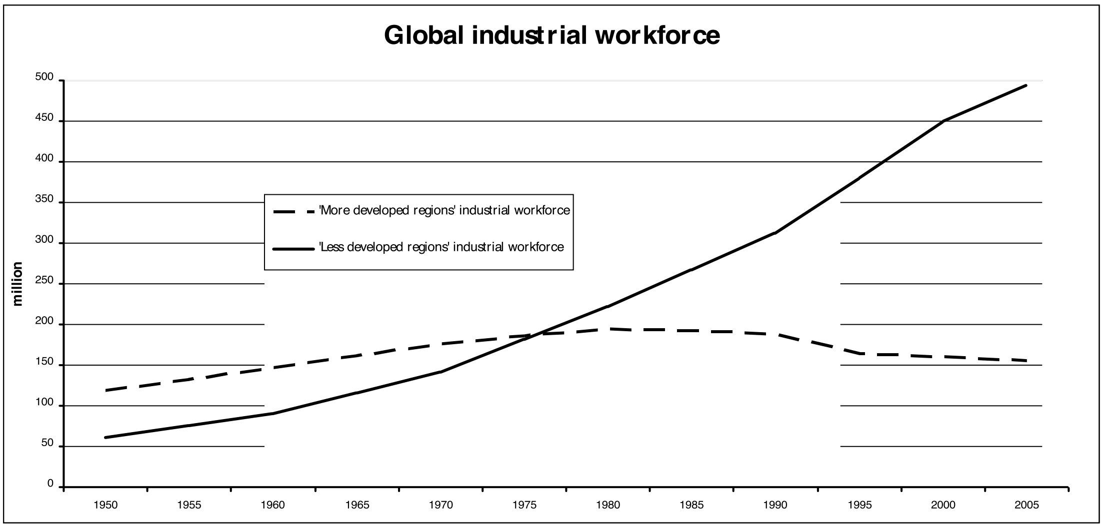
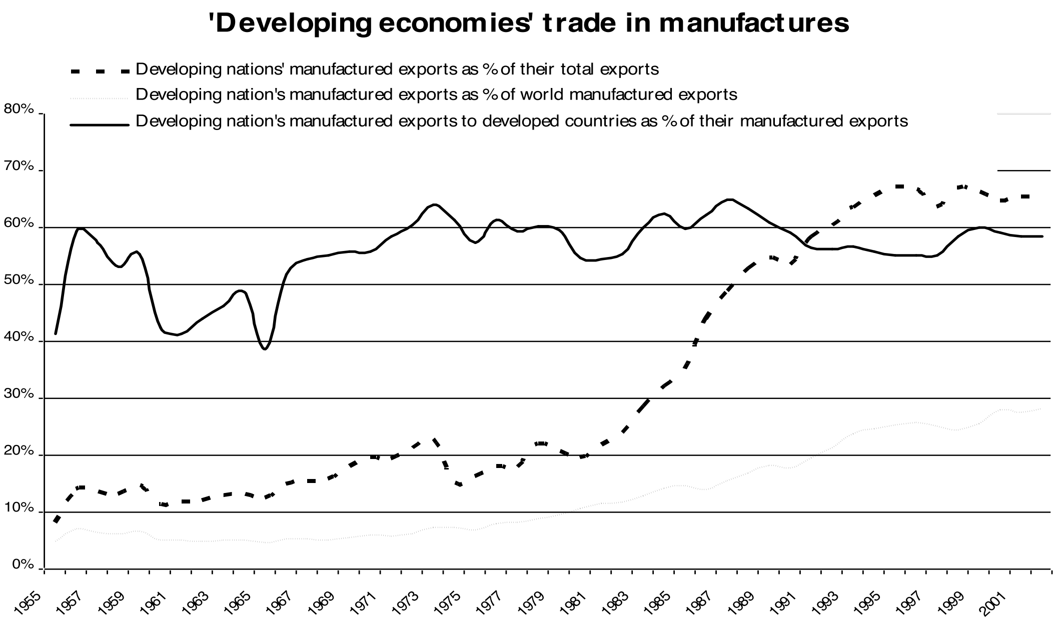


Figure 2[65]



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64 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 'less developed nations' industrial workforce for 1995, 2000 & 2005 was extrapolated from KILM 5th edition Box 4b data for 1996 & 2006. This publication has been discontinued and is no longer available from ILO's website. After 2004, ILO data on world employment by sector is contained in annex tables to annual editions of 'Global Employment Trends'.

65 Source: Unctad, Handbook of Statistics - Archive: Network of exports by region and commodity group - historical series.

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 for a myriad of 'service' tasks. Richard Baldwin, in *Globalisation: the great unbundling(s),* argues this has given rise to 'a new paradigm', which he calls 'task trading': "international competition—which used to be primarily between firms and sectors in different nations—now occurs between individual workers performing similar tasks in different nations." [66] This points to another important aspect of the evolution of capitalist imperialism that was not anticipated by Marx in *Capital*. Contrasting simple commodity production with capitalism, Marx argued,

> What is it that forms the bond between independent labours of the cattle-breeder, the tanner and the shoemaker? It is the fact that their respective products are commodities. What, on the other hand, characterises the division of labour in manufacture? The fact that the specialised worker produces no commodities. It is only the common product of all the specialised workers that becomes a commodity.[67]

This division of labour continued to characterise production as manufacturing becomes mechanised, *i.e.* into the era of 'modern industry'. The modern 'outsourcing' phenomenon, however, signifies a partial re-commodification of the links between different steps in the production of final commodities. This is a complex process, requiring a detailed analysis that is beyond the scope of this paper. Nevertheless, one major difference between Marx's theoretical concept and the reality before us must be noted. Whereas, for Marx, increasing the productivity of labour through the application of more and more advanced labour-saving means of production was the sole driving force and determinant of the division of labour, neoliberal globalisation provides capitalists with another way to boost profits: relocating production overseas in order to exploit cheap labour. This is often an *alternative* to investment in labour-saving, productivity-enhancing means of production. As a result of three frenzied decades of this, capitalists in North America, Europe and Japan have become vastly more dependent on surplus value extracted from super-exploited workers and farmers in low-wage countries. *This* is what has shaped the global shift of production. This is what's new about 'new imperialism'.

It is striking the extent to which the debate on 'new imperialism' is disconnected from research into Marx's theory of value, a disconnection epitomised by the work of David Harvey, whose *Limits to Capital* presents a sophisticated exposition of Marxist value theory but has virtually nothing to say about imperialism, while his later works, e.g. *The New Imperialism* and *A Brief History of Neoliberalism*, made little attempt to connect with the contents of *Limits to Capital*. In the first of these later works, Harvey argues that 'new imperialism' is characterised by "a shift in

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[66]Richard Baldwin, 2006, *Globalisation: the great unbundling(s)*. (http://www.vnk.fi/hankkeet/talousneuvosto/tyo- kokoukset/globalisaatioselvitys-9-2006/artikkelit/Baldwin_06-09-20.pdf, accessed 13/06/2009), p5

[67] Marx, [1867] 1976, p475

emphasis from accumulation through expanded reproduction to accumulation through dispossession"—the latter being diverse, non-capitalist forms of plunder from confiscation of communal property to privatisation of welfare, and that this is now "the primary contradiction to be confronted".[68] Yet the prime purpose and effect of 'accumulation through dispossession', he argues, is to create more and more wage-labourers available for capitalist exploitation (especially, we would add, through outsourcing to low-wage countries). He gives no reasons why the *means* ('accumulation through dispossession') should be elevated above this *end* (expanded exploitation of wage labour) to become 'the primary contradiction'. Harvey has helped increase awareness of the continuing and even increasing importance of old and new forms of 'accumulation by dispossession', but imperialism's primary contradiction is not between capitalism and the Commons, but between capital and labour, and in the neoliberal era its 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, unlike 'accumulation through dispossession', is entirely internal to the realm of the capital relation.

1.5 - Exploitation and super-exploitation in Marx's Capital

The notion of a direct relationship between wages and productivity has no basis in Marx's theory of value and has much more in common with mainstream marginalist economics,[69] which argues that market forces equalise the worker's wage with her/his marginal product. From this premise it directly follows that wide international differences in real wages reflect wide international differences in labour productivity and not wide international differences in the rate of exploitation. This paper argues, to the contrary, that international wage differentials provide a distorted reflection of *international differences in the rate of exploitation*, and that northern capitalists can increase their profits by relocating production to nations where the rate of exploitation is higher than that prevailing in their domestic economies, *i.e.* where living labour can be *super-exploited*.

Endemic and chronic structural unemployment and underemployment, afflicting the great majority of so-called emerging nations with far greater severity than in any 'developed' nation, profoundly affect the terms on which workers in the global South sell their labour-power and therefore provides prima facie evidence for the existence of higher rates of exploitation in the oppressed nations. Between 1995 and 2005 southern industrial workers' share of total southern employment grew only very slightly, from 19.4% to 20.2% (in 'industrial countries' during these years it fell, from 28.7% to 24.8%). As Nomaan Majid, a senior ILO economist, points out: "the commerce sector... is the main employment growth sector in both low and middle-

[68] David Harvey, 2003, *The New Imperialism*. Oxford, Oxford University Press, pp176-7.

[69] *"H. Carey tries to prove that differences in national wage-levels are directly proportional to the degree of productivity of the working day of each nation, in order to draw from this international ratio the deduction that wages everywhere rise and fall in proportion to the productivity of labour. The whole of our analysis of the production of surplus-value shows that this deduction would be absurd."* Marx, [1867] 1976, p705.

income groups... [this] shows that the expectation on manufacturing leading employment growth is unwarranted."[70] The 'commerce sector' refers to the petty trading characteristic of the burgeoning informal economy. Despite its rapid expansion in many parts of the global South, manufacturing has failed to absorb the swelling numbers seeking jobs. This was underlined by the ILO, who pointed out 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."[71]

Marx talks about the "section of the working class... [that,] rendered superfluous by machinery… swamps the labour-market, and makes the price of labour-power fall below its value."[72] The much greater severity of structural unemployment in the global South implies that, over a prolonged period, this has exerted a much greater downward force on southern wages, creating the conditions not only for the 'planet of slums' but also for the outsourcing boom, as northern firms sought en masse to relocate labour-intensive production to low-wage countries. Here, then, is a major determinant of wages that has nothing to do with productivity, however defined, and is a reason for believing that super-exploitation now plays an important role in the global economy.

This is one of the few asides in *Capital* where Marx mentions circumstance causing 'the price of labour to fall below its value'. As we shall see, Marx also excluded international differences in the rate of exploitation from his concept of the capitalist form of the value relation. However, in a number of brief excursions he does consider the possibility of such international differences. Our next step is to analyse the most important of these.

Marx devotes a chapter of volume 1 of *Capital* to 'National Differences in Wages', in which he showed that lower productivity in Germany and Russia meant that high wages in the more advanced country is consistent with a higher rate of exploitation in that country: "in spite of lower wages and much longer hours work, Continental labour is, in proportion to the product, dearer than English."[73] One reason why this cannot be applied without modification to today's imperialist world economy is that it is premised upon workers' consumption goods in England and in its European rivals being produced within their respective countries. This premise has been swept away by the outsourcing of their production to low-wage countries. Indeed, the outsourcing of the production of workers' consumption goods *tends to lower the value of labour-power, i.e. to increase the rate of exploitation* within the imperialist countries—but how much the cheapening of workers consumption goods actually results in a lower value of labour-power, and how much it instead allows for

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[70] 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, pp3-4

[71] International Labour Office (ILO), 2006, *Report of the Director General: Changing Patterns in the World of Work.* Geneva: ILO, p28

[72] Marx, [1867] 1976, p557

[73] Ibid., p703.

an increase in consumption, is determined by the class struggle within those countries.[74]

Another reason why these comments on national differences in wages are not directly relevant to understanding the imperialist form of the value relation is that each of the nations used by Marx for his case studies possessed, or were in the process of acquiring, extensive colonial empires. Marx was not writing about wages and the conditions of labour within these subject nations—or about how the law of value regulated their relationship with their rulers, because at that time, it didn't.

The question is, are the formally-free nations of the global South of today merely to be regarded as 'less developed' capitalist nations, analogous to Germany and Russia in the 19th century?—or do they and their position in the world reveal the continuation in old and new forms of an imperialist relationship between a ‘handful of oppressor nations and a great majority of oppressed nations’? This paper argues that northern firms’ increased reliance upon the proceeds of super-exploitation of living labour in the global South provides powerful evidence that the answer to the second question is yes.

In Volume 1 of *Capital*, Marx analysed in detail two ways in which capitalists could increase the rate of exploitation, which he called *absolute surplus value* and *relative surplus value*,[75] the first of these achieved by lengthening the working day, the second by reducing necessary labour time through increasing the productivity of workers *in the branches of production that produce workers’ consumption goods*. He gives just one brief mention of a third:[76]

> The duration of the surplus labour… [could be extended] by pushing the wage the worker down below the value of whose labour-power…. Despite the important part which this method plays in practice, we are excluded from considering it here by our assumption that all commodities, including labour-power, are bought and sold at their full value.

Throughout the rest of *Capita,l* Marx holds to the assumption that “the price of labour-power occasionally rises above its value, but never sinks below it.” [77]

In *Capital* volume 3, Marx makes another fleeting reference to this third way to increase surplus value, describing the “Reduction of Wages Below their Value” as “one of the most important factors in stemming the tendency for the rate of profit to fall.” Yet, as before, he excluded it from his analysis: like many other things that

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[74] See Christian Broda and 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).

[75] Marx, [1867] 1976, p432.

[76] Ibid., pp430-431

[77] Ibid., p655

might be brought in, it has nothing to do with the general analysis of capital, but has its place in an account of competition, which is not dealt with in this work." [78]

Furthermore, making another abstraction necessary for the 'general analysis of capital', Marx excluded the possibility that the value of labour power may be forced down in one country but not in another: "[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." [79] As a result of these two abstractions, the theory of value in *Capital* no longer immediately connects with the capitalism of today, it does not account for the imperialist evolution of the value relation.

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 Marx's concept—namely, (international) differences in the value of labour power, in the rate of exploitation. This corresponds neither to absolute surplus value (the length of the working day is not the TNCs' main attractor) nor relative surplus value (necessary labour is not reduced 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" 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 conclusion to be drawn from analysis of wage arbitrage-driven globalisation of production processes is that this *third form of surplus value is the driver of the global shift of production to low-wage nations*.

As we have seen, each time Marx mentions super-exploitation he stresses its real importance—and then excludes it from further analysis. Perhaps the most interesting of these brief appearances is contained in volume 3, in the midst of four dense paragraphs making up 'foreign trade'—the fifth 'counteracting factor' restraining the fall in the rate of profit. In these paragraphs, Marx specifies or alludes to no less than four different ways in which "capital invested in foreign trade, and colonial trade in particular" can increase the rate of profit in the metropolitan country. [80]

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[78] Marx, [1894] 1991, p342. This was also a premise of Marx's analysis of capitalist exploitation in Capital Volume 1: *"I assume that commodities are sold at their value, [and] that the price of labour-power occasionally rises above its value, but never sinks below it. On these assumptions... the relative magnitudes of surplus-value and price of labour-power are determined by three circumstances: (1) the length of the working day, or the extensive magnitude of labour, (2) the normal intensity of labour, or its intensive magnitude, whereby a given quantity of labour is expended in a given time and (3) the productivity of labour, whereby the same quantity of labour yields, in a given time, a greater or smaller quantity of the product, depending on the degree of development attained by the conditions of production."* Marx, [1867] 1976, p655.

[79] Marx, [1894] 1991, *Capital*, Volume III. London: Penguin, p242

[80] Marx, [1894] 1991, 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.

First, Marx says, “foreign trade cheapens on the one hand the elements of constant capital and on the other the necessary means of subsistence into which variable capital is converted”—in other words, it lowers both the price of raw materials (‘elements of constant capital’) and also of workers consumption goods (and therefore the value of labour power, which corresponds to ‘variable capital’).

Second, “the more advanced country sells its goods above their value” because its labour is more productive and more intensively exploited. Trade with less advanced countries allows its capitalists to reap a surplus profit.

The third and fourth way in which foreign trade can support to the rate of profit in the ‘advanced’ country are contained in the following remarkable sentence: “as far as capital invested in colonies, etc is concerned, however, the reason why this can yield higher rates of profit is that the profit rate is generally higher there on account of the lower degree of development, and so too is the exploitation of labour, through the use of slaves and coolies, etc.” [81] Here, Marx lists two modifications of the law of value, the first, trade with countries with a ‘lower degree of development,’ corresponds to the one discussed in ‘National differences in wages’ above. But Marx also says that “the profit rate is generally higher there… and so too is the exploitation of labour, through the use of slaves and coolies, etc.” I interpret this to mean that, *in the colonies, as distinct from Russia and Germany and other less-developed rival capitalist states,* the rate of exploitation is *higher*. Differences in productivity cannot explain this—other things being equal, low productivity lowers the rate of exploitation, since lower productivity means that the labour time required to produce workers’ consumption goods is higher and the ‘necessary’ portion of the working day is therefore longer. There are only two possible explanations for the ‘higher exploitation’ of coolie labour: either their levels of consumption are much lower than in the metropolitan country, or much of the consumption goods that sustain them are not commodities, *i.e.* they are provided by unpaid domestic labour, subsistence farming etc—in other words, elements of ‘primitive accumulation’. In reality, both of these factors are involved.

These few words in this single sentence are the only place in the whole of *Capital’s* three volumes where Marx considers the positive effect of ‘higher exploitation’ in subject nations on the rate of profit in the imperialist nations.

Finally, it is noteworthy that here Marx talks about the ‘exploitation of labour’, not the ‘rate of exploitation’, and ‘labour’ not ‘labour power’. This might be because of the provisional, draft form of the original, but it is more likely that he deliberately chose not to use the developed capitalist form of these categories, because in the colonies, in Marx’s day, the commodification of labour and the capital/wage labour relation was not yet fully developed. This again underlies the great distance separating neoliberal globalisation from the stage of capitalist development observed and analysed by Marx.

Having tested basic elements of the theory of value presented in Marx's *Capital* against outstanding facts of the contemporary imperialist reality, we shall now

[81] Marx, [1894] 1991, 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.

proceed to test these facts, or rather the way they are communicated by standard data on GDP, trade etc, to the test of theory.

Part 2 - The GDP illusion

2.1 - Lies, damn lies and GDP statistics

"The challenge for economists is… profound. In the old days, they typically measured the output of an economy by watching where goods were "made"; but which country should claim the "value" for an iPhone (or an Italian suit or an American Girl doll)? Where does the real "output" come, in a world where companies can shift profits around?" [82]

Good questions! But Gillian Tett sidesteps the highly salient fact that certain countries succeed in exercising their claim to the lion's share of this value—wherever the 'value' actually came from, it ends up in *their* GDP. We have no choice but to use GDP and trade data if we are to analyse the global economy. The task would be much easier if GDP and trade statistics were what they claim to be and what they are universally believed to be —objective raw data, whose accuracy may be questioned on technical grounds but which should be accorded the same scientific validity as data on any other empirically-occurring process. It is argued here that, to the contrary, GDP and trade data are artifices conjured from fundamental precepts of mainstream marginalist economic theory, and that they obscure at least as much as they reveal about the real relations between 'developing' and 'developed' economies. These marginalist precepts 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 within nations 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 2005 boasted the world's highest per capita GDP, are among the most productive members of humanity.[83] 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 owed its official status as the 'world's most productive nation' to the alleged extraordinary productivity of its expatriate community of hedge-fund traders and offshore bankers, and yet to most people the only notable things being produced in Bermuda are cocktails in beach bars and other ingredients of luxury tourism. Not so far away, in the Dominican Republic, 154,000 workers, mostly young and female, toil for a pittance in 57 export processing zones, filling boats with shoes and clothing

[82] Gillian Tett, 2011, 'Manufacturing is all over the place,' in *Financial Times*, March 18 2011.

[83] Bermuda's per capita GDP (in PPP$) in 2005 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). New versions of this table have not updated Bermuda's per capita GDP since 2005, as a consequence it has been overtaken by Luxembourg, Lichtenstein and Qatar.

destined mainly for the North American market.[84] Its per capita GDP in 2006 stood at PPP$5,549, just 8% of Bermuda's,[85] 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?

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." [86]

We learn from this that the GDP of China and of all other countries where the doll is actually 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". Only an economist could think there is nothing fishy about this! Similarly, Raphael Kaplinsky cites the example of footwear industry in the Dominican Republic, whose workers make shoes out of imported components, wrap them in imported components, 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.[87] "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 $15." [88] This begs the question, which of these is the truer measure of the Dominican Republic's product?

This is the same question begged by Van Assche et al's comment that "[f]or a country that heavily relies on imported inputs to produce their exports, its

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[84] 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).

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

[86] Robert Feenstra, 1998, 'Integration of Trade and Disintegration of Production in the Global Economy', in *Journal of Economic Perspectives.* 12:4 31-50, p35-6.

[87] 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.

[88] Kaplinsky, Raphael, 2005, *Globalization, Poverty and Inequality*. Cambridge: Polity, p164.

export value... may significantly exceed the value that it really produces in its export sector." [89] But, just what is the value 'really produced' by southern producers? Van Assche and his fellow researchers evince no doubt—they assume, in strict 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' did indeed measure the relative contribution of hedge fund traders and workers in Caribbean shoe factories to social 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 production, at the aggregate level all these individual divergences cancel out.[90] In the aggregate, total value is equal to total price. 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.

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.[91] 'Value-added' itself is the net addition to value that is assumed to result solely from the productive activity of that firm, and is obtained by

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[89] Ari van Assche, Chang Hong & Veerle Slootmaekers, 2008, *China's International Competitiveness: Reassessing the Evidence*. (http://www.econ.kuleuven.ac.be/licos/DP/DP2008/DP205.pdf, accessed 14/09/2009), p3.

[90] *"[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, p971.

[91] This deconstruction of GDP leaves a host of secondary but important issues to one side, e.g. the method of accounting for goods and services produced by governments.

subtracting the cost of all its inputs from the proceeds of the sale of its outputs.[92] But all this data tells us is the price of what goes in and the price of what comes out; indeed, this is the only information about the production process that is relevant to the concept, with the result that the production process itself 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 through the medium of market-place transactions*. However, cognition of this elementary fact is confounded by the neoclassical economists' dogmatic 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." [93]

According to the economists' 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 firm's '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.[94] 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." [95]

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

[92] 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"*. Apart from earlier usage in connection with taxation, the OED reports 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."*

[93] Marx, [1894] 1991, p966.

[94] The factors of production are, essentially, labour and capital, but the economists have decomposed the latter into different elements (R&D, machinery, material inputs etc), producing different versions of the 'production function', a mathematical formula used to model the firms value-adding activities.

[95] Anwar M Shaikh, & E. Ahmet Tonak, 1994, *Measuring the Wealth of Nations*. Cambridge University Press.p33

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, a web of input-output relationships and much else, the marginalist 'theory of the firm' does not permit firms to influence each other. No 'value added' is allowed to leak between them. Instead, the quantity of each firm's '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.*

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' (TFP) 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." [96]

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', [97] values, which are prior to prices, *must be transformed into them in a really existing process*. The consequences of this are profound. 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. [98]

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[96] Lance Taylor 2004, *Reconstructing Macroeconomics: Structuralist Proposals and Critiques of the Mainstream.* Cambridge, Massachusetts: Harvard University Press (p351).

[97] "*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)

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

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." [99] 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 but the very existence of North-South exploitation.

2.2 - 'Value-added' and value chain analysis

While orthodox economics rules out regular, large-scale transfers of value between firms, the value chain concept implies that individual firms within the chain may leak value to, or absorb value from, other links in the chain—thus destroying the value/value-added identity for individual firms. 'Global commodity chains', a.k.a. 'global value chains', as theorised by Gary Gereffi, Timothy Sturgeon and Raphael Kaplinsky among many others,[100] or 'global production networks', the concept developed by a related school,[101] greatly benefit from their decision to place the globalisation of production at the centre of their attention.[102] Furthermore, both the 'in-house' and 'arm's length' forms of TNC activity are included in their field of vision, a big improvement on the obsolete 'FDI lens', which only recognises direct investment and leaves the increasingly important 'arm's-length' relations with independently-owned suppliers out of the picture.

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[99] David Harvey, [1982] 2006a, *The Limits to Capital*. London: Verso, pp441-2.

[100] Gary Gereffi, 2005, *The New Offshoring of Jobs and Global Development.* ILO Social Policy Lectures. Geneva: ILO Publications; Raphael Kaplinsky, 2005, *Globalization, Poverty and Inequality*. Cambridge: Polity. Timothy J. Sturgeon, 2008, *From Commodity Chains to Value Chains: Interdisciplinary Theory Building in an Age of Globalization.* (http://web.mit.edu.eresources.shef.ac.uk/ipc/publications/pdf)/08-001.pdf).

For an excellent review of the literature, see Jennifer Bair, 2004, *From Commodity Chains to Value Chains and Back Again?* (http://www.irows.ucr.edu/conferences/globgis/papers/Bair.htm) and Jennifer Bair, 2005, 'Global Capitalism and Commodity Chains: Looking Back, Going Forward', in *Competition & Change,* Vol. 9, No. 2, June 2005 153–180.

[101] See, e.g. Jeffrey Henderson, Peter Dicken, Martin Hess, Neil Coe & Henry Wai-Chung Yeung, 2002, 'Global production networks and the analysis of economic development', in the *Review of International Political Economy*, 9:3, 436 – 464. (p442).

[102] Gary Gereffi: *"global outsourcing has given rise to a new set of economic structures in the world economy that we refer to as 'global value chains'."* Gereffi, 2005 p2

Despite these strengths, and the important findings and insights in their voluminous literature, these schools have been unable to escape from the thrall of neoclassical economic theory, and in consequence of known what to do with their most important discovery, that value can be produced by a firm occupying one link in a global value chain and captured by another on the other side of the world. Indeed, this remains implicit, left in the ground. And neither have they moved on to ask whether and how transfers of value take place *between* chains. In the value chain concept, the false identity between a firm's 'value-added' and the new value it actually generated 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.[103] 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 the economists call 'value-added' is actually *value captured*, is the logical next step, but a step which would signify a decisive and explicit break with the premises of neoclassical economics and a re-engagement with Marx's theory of value.

2.3 – The three dimensions 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.[104] But it highlights just one of three 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 of how much it captures.

The Bermuda distortion arises 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. Nonproduction activities,[105] which 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

[103] *"Within a supply chain, each producer purchases inputs and then adds value, which then becomes part of the cost of the next stage of production. The sum of the value added by everyone in the chain equals the final product price."* Greg Linden, Kenneth L. Kraemer & Jason Dedrick, 2007, *Who Captures Value in a Global Innovation System? The case of Apple's iPod.* Personal Computing Industry Center, UC Irvine, p2.

[104] 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.

[105] "*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."* Anwar M. Shaikh & E. Ahmet Tonak, 1994, Measuring the Wealth of Nations. Cambridge University Press p25.

as forms of social consumption—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.

While the first distortion results from the distance separating global financial markets from the sphere of production, the second and third spring from (globalised) production itself. The higher organic composition of capital in imperialist nations than in the southern nations, that is, investment in constant capital forms a higher proportion of total investment, with proportionally less invested in wages. As we know from *Capital, Volume 3*, 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 a well-known passage:[106]

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.

This effect takes place whether or not the competing capitals are operating within the borders of a single economy, it occurs if we assume perfect competition among capitals (in other words, it does not depend on any monopolistic violation of the law of value), and—most significant for this paper—it takes place even on the assumption of a uniform rate 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 concealed by n GDP data. This, the only basis for 'unequal exchange' accepted by dependency theory's 'orthodox' Marxist 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 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 systematic and substantial international differences in the rate of exploitation are a key feature of late imperialism.

Conclusion

[106] Karl Marx, [1894] 1991, p193-194.

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Armed with the concepts developed in this paper, the door is open to understanding how surplus-value extracted from workers assembling Dell computers and Apple iPods in Foxconn's Chinese factories, and those producing clothing and footwear in the Dominican Republic for Wal-Mart, Sears department stores etc, massively contribute to these firms' profits even though there is no trace of this in GDP, trade or financial flow data. It allows us to see that a major part of the revenues and profits from the sale of iPods accruing to Apple Inc., its distributors and their employees (and therefore appearing in US GDP) represent the unpaid labour of super-exploited Chinese and other low-wage workers. It allows us to understand why, according to standard interpretations of GDP and trade data, not one single cent of the wages, salaries and profits received by Apple Inc., its employees, or by the firms retailing its products and providing services, are derived from the exploitation of Chinese workers. And finally, it makes clear the implications of denying the existence of much higher rates of exploitation in the global South than in the imperialist countries—it means accepting that Chinese workers working flat out for 12 hours or more per day, prohibited from speaking to each other and subjected to 'military-style' supervision are less than one-fiftieth as productive as Apple's professional employees in the USA.[107] This is not only intuitively absurd, it is also illogical, since this way of perceiving the world, as we have shown above, is founded upon the tautological conflation of values generated in production processes with prices captured in markets.

Boosting profits through 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, 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 small 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.

It is understandable why members and aspiring members of privileged social layers in imperialist countries might find it convenient to take statistics on GDP and labour productivity at their face value—by doing so they can avoid confronting the disturbing and complacency-shattering consequences of recognising the relations of exploitation, imperialism and parasitism that are intrinsic and fundamental to the contemporary capitalist world order and to their social position within it. On the other hand, for workers in the UK and other imperialist nations, the globalisation of production means that nationalist-reformist attempts to protect workers living

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[107] Martin Hickman, 2010, 'Concern over human cost overshadows iPad launch' *The Independent, Thursday, 27 May 2010.*

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."