Outsourcing, financialisation and the crisis

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Abstract: This article argues that financialisation and outsourcing, neoliberal globalisation's two defining transformations, interact so powerfully that neither can be understood separately from the other. It further argues that the transformations in the sphere of production are primary, and that the global shift of production processes to low-wage countries was driven by the desire of northern TNCs to cut production costs in order to counter the falling rate of profit, resulting in a deepening of capitalism's imperialist and parasitic character. Understanding the relation between financialisation and outsourcing is key to understanding why the global crisis heralded by the 1987 stock market crash did not erupt for another two decades, why this crisis has its roots not in finance but in capitalist production, to understanding the form and dynamics of this crisis, and why it marks the beginning of a protracted global depression that cannot be resolved within capitalism.

Keywords: outsourcing; financialisation; globalisation; crisis; imperialism; exploitation; global labour arbitrage; Marx; value theory.

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1 Introduction

Outsourcing, as used in this paper, refers to the 'global shift' of production processes to low-wage countries, and encompasses both the in-house (FDI) and arm's length forms of the increasingly transnational capital-labour relation. Seen from the perspective of the global South, outsourcing is synonymous with 'export-oriented industrialisation'. *Financialisation* is variously defined as the increased weight of finance, insurance and real estate in the GDPs of the USA, EU and Japan, of their financial markets as a source of profits, and of the financial intermediation of workers' consumption through expanded household debt, the subjection of pension entitlements to the vicissitudes of financial markets, and the conversion of stores of housing wealth into income streams.1 The more fundamental definition deployed here emphasises the separation of profit-making from production that is implied by these phenomena.2

The vast scale of outsourcing during the past three decades of neoliberal globalisation has had two consequences of supreme importance. First, TNCs based in the imperialist countries (and their suppliers of services, and the governments who rely on taxing their sales, their profits, and the wages of their employees) have become, throughout the globalisation period, ever more dependent on the proceeds of the much higher rates of exploitation available in southern nations, only a small portion of which appears in financial flow data. Second, outsourcing has transformed the global working class: in just three decades, the South's industrial workforce has overtaken that of the 'industrialised countries' to now constitute 80% of the global total.

Outsourcing is driven by the intense efforts of northern-based TNCs to cut costs and increase profits by substituting higher-wage domestic labour with low-wage southern labour. Stephen Roach (2003, pp.5–6), a senior economist at Morgan Stanley, has termed this 'global labour arbitrage', arguing that the "unrelenting… search for new efficiencies …by extract[ing] product from relatively low-wage workers in the developing world has become an increasingly urgent survival tactic for companies in the developed economies".

The term 'global labour arbitrage' is euphemistic jargon,[3] and has come out of the mouth of a top US banker, yet it is more concrete and useful than anything that has yet come out of radical literature on globalisation and the global crisis. It has three great strengths: at its centre is the globalised capital-labour relation; it highlights the enormous differences in the price of labour resulting from the repression of the free movement of labour across borders; and it conceptually links the two ways in which higher-wage labour can be substituted for low-wage labour: the relocation of production processes to low-wage economies and the super-exploitation of migrant labour within the borders of imperialist nations,[4] or as the IMF (2007, p.180) puts it: "[t]he global pool of labor can be accessed by advanced economies through imports and immigration", significantly observing that "[t]rade is the more important and faster-expanding channel, in large part because immigration remains very restricted in many countries".[5]

William Milberg is one of very few to have drawn attention to two symmetrical gaps in the literature on global value chains and on financialisation. As he states, "to date the value chain literature has not considered in any detail the implications of globalized production for the flow of funds or what has become widely known as 'financialisation'" [Milberg, (2008), p.421], while

> "studies of financialization tend to leave as implicit the link to production and investment... many analysts... fail to consider the changes in the structure of production, and specifically the rise of global value chains that have provided the continued capacity of the major industrialized countries to sustain profit growth." (ibid., p.445)

Mainstream and most radical accounts of the global economic crisis are preoccupied by their attempts to locate its roots in processes associated with financialisation. In stark contrast, most commentators remain oblivious to the relation between both of these and outsourcing. Yet the vast, three decades-long tidal wave of outsourcing of manufacturing production to low-wage countries was not only essential to the financialisation of imperialist economies, it is deeply implicated in the unfolding of the global economic crisis – so much so that it is superficial, to say the least, to describe the unfolding crisis as a 'financial' crisis, either in its origin or in its nature. Why this is so, and why this fundamental fact has eluded so many commentators, is the subject of this paper, but that truth lies in this direction can be glimpsed by noting that the direct and indirect effects of large-scale outsourcing of production processes to low-wage countries were crucial to the low interest rates, low inflation, and low volatility that characterised the so-called 'Goldilocks' economy. The inflationary pressures resulting from credit-fuelled expansion of demand were greatly attenuated by the falling prices of outsourced intermediate inputs and consumer goods, while interest rates and volatility were kept low by China and other manufactures-exporting countries who, compelled by what Lawrence Summers called the 'financial balance of terror' (Summers, 2006), returned their export earnings to the US government as loans at zero or negative real rate of interest. As Andrew Gamble (2009, p.131) has pointed out, "[i]t was the cheapness of Chinese goods and its willingness to fund US deficit which kept the bubble inflating as long as it did". Thus the 'global imbalances' that have fed financialisation, increasingly recognised by mainstream economists to have played a central role in the gestation of the global economic crisis, are fundamentally the result of the outsourcing of production; likewise the low interest rates that induced consumers and corporations to increase their indebtedness and that also compelled banks, in an increasingly desperate hunt for 'yield', to invest their depositors' funds in high-risk financial assets. In short, the root cause of the global crisis is to be found not in finance, but in capitalist production itself.

The inextricable interconnection between financialisation and outsourcing can also be seen in the antecedents and early development of neoliberal globalisation. TNCs pioneered the use of offshore financial centres and international money markets to handle their increasingly global operations, thereby forcing open the doors to international financial integration, or as Gérard Duménil and Dominique Lévy (2005, p.24) have explained,

> "[i]n the 1960s, a new international finance developed... The circulation of dollars in the world played a central role, but the most crucial element was probably the convergence between the rise of the new international finance and the internationalisation of production (the development of multinational corporations). International firms needed financial institutions allowing for the circulation of funds internationally."

Conversely and subsequently, financial engineering aimed at boosting 'shareholder value' combined with the pressures of fierce competition to compel northern firms to cut production costs by outsourcing production to low-wage countries. Outsourcing not only provided a major support to the rate of profit in the imperialist countries, it also became an increasingly-favoured alternative to investments in new productivity-enhancing and capacity-expanding technology, possessing as it does the great advantage that operating profits can be diverted into financial speculation and to finance mergers and acquisitions. As Milberg (2008, p.421) argues, the growing financialisation of the imperialist economies is the flipside of the "rapid expansion of manufacturing productive capacity in low-wage countries", generating "capital flows from the low-wage to the industrialized countries ... supporting asset values in the industrialized countries and especially the U.S.". The strong implication is that the rising values of financial assets that characterise financialisation are not all fizz, froth and fictitious capital, but to a significant extent reflect the greatly expanded super-exploitation of living labour in the global South – a conclusion confirmed by analysts working for Roubini Global Economics, who found that "[a]t the TNC level, the cost savings from offshoring are considerable and coincide with historic highs in profit shares" (Parisi-Capone, 2006). In a nutshell, *outsourcing has fuelled financialisation*.

2 The critique of 'financialisation'

> "Between its low in the first quarter of 1982 and its high in the second quarter of 2007, the share of the financial sector's profits in US gross domestic product rose more than six-fold. Behind this boom was an economy-wide rise in leverage. Leverage was the philosopher's stone that turned economic lead into financial gold. Attempts to reduce it now risk turning the gold back into lead again." (Wolf, 2007)

Finance capital has indeed indulged in alchemy, using debt to inflate asset values, with the perversity that the more readily an asset can be 'stripped' and turned into an income flow the more valuable that asset becomes; the more it is cannibalised the more flesh it seems to have on it. However, as well as appearing to create value out of thin air, the financial sector also captures value created in productive sectors of the economy, *including those it has helped to relocate to low-wage nations.*

Milberg (2004a p.3) is at the head of all fields in making this crucial connection between financialisation and outsourcing, which he explains as follows:

> "the enormous expansion of global value chains has ... coincided with a decline in manufacturing in most countries [he means most rich countries], and thus has permitted companies to return a greater share of net revenues to shareholders rather than reinvesting these revenues in new productive capacity."

Fleeting references to outsourcing in the financialisation literature treat these two processes as if they were completely unrelated. Beverly Silver and Giovanni Arrighi (2000, p.10), for example, argued that

> "the great relocation of capital of the 1980s and 1990s from trade and production to financial intermediation and speculation ... rather than the incomparably smaller relocation of industrial activities from North to South, has been the main cause of whatever worsening of working and living conditions Northern andSouthern workers have been experiencing over the past twenty years."

Leaving aside their belittling of the global shift of production, what's problematic about this view is the *primacy* it accords to developments in the sphere of finance, a premise that ineluctably follows from relegating transformations in the sphere of production to the margins. This (mis)understanding is to be found throughout the financialisation literature, despite the many valuable insights it offers and the important concepts it has developed. Thus Engelbert Stockhammer asserts that "financialisation contributed to the slowdown in accumulation since the Golden Age" [Stockhammer, (2004), p.728], a view endorsed by Ben Fine (2009, p.7), who has argued that "[f]inancialisation is… complicit in the persistence of slowdown of accumulation since the end of the post war boom. It has created a dynamic in which real accumulation is both tempered and, ultimately, choked off by fictitious accumulation", and Costas Lapavitsas (2009, p.5), who maintains that "financialisation has induced poor performance in investment, output and growth in developed countries in recent years". The problem with this dominant, almost consensual view was identified in '*What the 1987 Stock Market Crash Foretold*', a resolution adopted by US communists in 1988:

> "capitalists are not refraining from major new capacity-expanding investment because they are choosing to divert too much capital into securities markets, real estate speculation, loan sharking, and speeding up production in outmoded factories. The cause and effect are the other way around. The exploiters are sinking their capital into 'labor-saving' retooling and speculative paper claims on values because they can get a better rate of return there than from investments in building new factories, installing major new technologies, and hiring on large amounts of additional labor power." [Socialist Workers Party, (1988, 1994), pp.101–204]

Searching for the root of this reversal of cause and effect, we turn to *The Financialization of the American Economy*, a founding document of the financialisation literature. There, Greta Krippner (2005, pp.174–175) defines financialisation as "a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production". 'Accrue' could mean the capture of profits whose source is elsewhere, but Krippner glides into a wholly different meaning, referring to 'the growing importance of the financial sector as a source of profits for the economy' (ibid., p.182), and again, where she argues that "in contrast to the dominant perspective on long-term economic change, which is concerned with *the tasks performed* or with *what is produced* in an economy, this paper... examines *where profits are generated* in the U.S. economy" (ibid., pp.175–176, emphasis in original). Criticising this conception, Till Van Treeck (2008, pp.4–5) makes the essential point:

> "[i]t is undoubtedly true that many profits are nowadays linked to financial activities. Yet… aggregate profits ultimately rely on the production and trade of real goods and services… it is in our view at least semantically, if not conceptually, problematic to consider 'the financial sector as a source of profits for the economy."

The implications of this are far-reaching. The 'value-added' captured in the financial sector represents surplus value extracted (or the promise of surplus value yet to be extracted) from living labour employed in manufacturing, agriculture and other productive sectors of the economy. These value transfers are completely invisible in the economic data, which exclusively records prices captured in the market-place. To the positivist economics of the ruling mainstream what cannot be seen does not exist; its conflation of price with value excludes the possibility of such value transfers, except where the free play of market forces is distorted by monopoly factors of one kind or another (such as when workers 'exploit' their employers by forcing wages above their marginal productivity) [see Rama, (2003), p.13]. On the other hand, the pervasive and systematic existence of such value transfers is an elementary postulate of Marxist value theory.[6] Two implications that flow from the Marxist approach are crucial to the argument in this paper. First, 'manufacturing value-added' (MVA) is wholly distinct from – and necessarily less than – the actual contribution of manufacturing to the total value generated in the economy as a whole. MVA does *not* represent the value that is actually added in manufacturing; it instead measures that portion of value generated by the total social capital which manufacturing firms succeed in capturing in the marketplace; similarly, the profits realised by the non-productive sectors are derived from surplus value extracted by value-producing living labour. Second, since the total social capital, and the marketplace in which it circulates, are *global*, it follows that the value captured by firms in both productive and non-productive sectors of the imperialist economies represents their share of the total value generated by living labour in the entire global economy, not just that which is created by their own employees, whether they are working for the TNCs' domestically-based production facilities or in overseas subsidiaries. It also follows that, just as value-added does not measure value created, GDP (which aggregates the value-added supposedly generated by all firms within a national economy) does not measure the actual contribution of the living labour of a particular country to global wealth, giving rise to what I call *the GDP illusion*.

3 The GDP illusion

It is well known that the standard Mercator projection of the three-dimensional surface of planet Earth into the two-dimensional frame of a map exaggerates the size of the northern hemisphere and diminishes the relative size of the tropics and magnifies the temperate zones. Standard data on GDP and trade flows produce a similar effect, diminishing the global South's contribution to global wealth and exaggerating that of the imperialist countries. That this is so can be seen by asking a (deceptively) simple question: what contribution do the 270,000 workers employed by Foxconn International in Shenzhen, China make to the profits of Dell, Apple, etc. (and of the service industries that provide their premises, retail their goods etc.)? To what extent do Wal-Mart's profits derive from the millions of low-wage, namely young and female workers toiling in the 'arm's-length' sweat shops and plantations whose products fill up its shelves? According to mainstream economic theory and to standard data on GDP, trade and capital flows, *none whatsoever*. According to most Marxist and heterodox critics of the mainstream, *none worth mentioning*. Yet the inexplicable (to those who are wittingly or unwittingly ensnared in the neoclassical straitjacket) fact remains: Dell etc's profits increasingly derive from their relations with these outsourced suppliers. Resolving this conundrum requires a profound critique of the fundamental neoclassical concepts of 'value-added' and productivity, and of the supposedly objective GDP and trade data that, it is argued here, are projections of these fallacious concepts.

Only by applying Marx's theory of value, critically developed to account for the imperialist evolution of the capital relation, can this conundrum be cracked. The consequences of failure to do so can be seen in the paper by Greta Krippner cited above. She claims to test "[t]he hypothesis that what is driving financialization is not a substantive change in the nature of the economy but rather the spatial reorganisation of economic activity associated with globalisation" [Krippner, (2005), p.195] – as if this 'spatial reorganisation' was not itself a substantive change! She performs her test by comparing US profits earned from FDI and overseas portfolio investments with profits earned domestically, finding that domestic profits 'dominate' profits earned overseas, and furthermore that profits from overseas financial activities have increased even faster than overseas non-financial activities, concluding that "these results are not consistent with the claim that financialization in the domestic economy is simply an artefact of the offshoring of production" (ibid., p.195). Implicit in this approach is the assumption that profits earned domestically can only reflect value generated domestically, that 'value-added' is synonymous with value created, and that statistical measures of surface appearances disclose all that is needed for us to comprehend the relations between capitals and between capital and living labour.

Despite its claim to be a measure of 'product', GDP measures the results of transactions in the market-place. Yet nothing is produced in markets, 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 analyse the global economy we have no choice but to use data on GDP and trade, yet every time we uncritically cite this data we open the door to the core fallacies of neoclassical economics which these data are projections of. What is required, in other words, is a fundamental change in how we perceive and understand supposedly objective economic data. Before we lay out the theoretical basis for this rejection of standard interpretations of GDP and trade data, we will first consider some of the paradoxes and anomalies that make this radical break necessary.

When a consumer pays £20 for a pair of shoes made in Mexico or China, only a small fraction of its final selling price will appear in the GDP of the country where it was produced, while the great majority of it is counted in the GDP of the country where it is *consumed*. Only an economist could think there is nothing wrong with this! Another, even more startling, example of the paradoxes produced by GDP statistics is that in 2007 the nation with the highest per capita GDP – that is, whose citizens are supposedly the most productive on earth – was Bermuda. This tax haven attained its position as a direct result of the destruction of the World Trade Center in September 2001, when hedge funds headquartered there needed a new home, and was given a further boost by hurricane Katrina, which sparked a global rise in insurance premiums and a flight of hot money into the world's reinsurance industry – Bermuda being one of the most important centres. Yet, despite its first place in the ranking of the world's most productive nations, virtually the only productive activity taking place in Bermuda is the production of cocktails in beach bars and other high-end tourist services. 1,600 km SSW of Bermuda lies another island nation, the Dominican Republic, where 154,000 workers toil for a pittance in 57 export processing zones (EPZs) (Singa Boyenge, 2007), producing boatloads of shoes and clothing, 95% of which are destined for the North American market [Shelburne, (2004), p.23]. Its per capita GDP is just 8% of Bermuda's when measured in PPP dollars, or 3% at market exchange rates; in 2007 it languished in 98th place in the CIA Factbook's global league table of per capita GDP. Yet which country, Bermuda or the Dominican Republic, makes the greater contribution to global wealth?

The comparison between Bermuda and the Dominican Republic challenges us to recognise that the 'financial services' that Bermuda 'exports' are non-production activities that consist of teeming and lading wealth produced in countries like the Dominican Republic, and is therefore directly relevant to comprehending the relationship between financialisation and outsourcing. However, it is not so relevant to comprehension of the broader relationship between 'industrialised' nations and industrialising southern nations. We get closer still to seeing through the *GDP illusion* when we consider what happens when extreme and intensifying competition with China and other footwear and hosiery producers for access to the shelves of Wal-Mart, Top Shop etc forces the Dominican Republic's employers to reduce wages. Assuming that this increased competition results from China's lower wages rather than from more advanced production techniques (in other words, that the socially-necessary labour time absorbed in the production of these commodities is unaltered), lower real wages signify a higher rate of surplus value. Thus a reduction in the real wage in the Dominican Republic means that its living labour becomes *more* important as a source of surplus value and profits. But GDP and trade data lead us to the very opposite conclusion: falling real wages in the Dominican Republic allow its employers to cut output prices, resulting in a decline in the sector's value-added, and with it the apparent contribution of the Dominican Republic to global wealth and profits. And the same goes for measures of our Dominican sisters' productivity, too, and it follows that statistics on 'labour productivity', conventionally defined as 'value-added per worker', should no more be considered as objective raw data than statistics on GDP and trade.

These paradoxes suggest that uncritical acceptance of trade and GDP data leads to a massively distorted picture of the relative contributions of the imperialist countries and the global South to global wealth. To see why this is so we must look more closely at GDP, so-called 'gross domestic product'. GDP is, stated simply, the sum of the value-added generated by each firm within a nation. The key concept within GDP is therefore 'value-added': the difference between the prices paid for all inputs and the prices received for all outputs. According to this core neoclassical concept, the amount by which the price of outputs exceeds the price of inputs is automatically and exactly equal to the value that *it* has generated in its *own* production process, and cannot leak to other firms or be captured from them. Seen through the neoclassical lens, production is not only a 'black box', in that all we know is the price paid for the inputs and the price received for the outputs; it is also hermetically sealed from all other 'black boxes', in that no value can be transferred or redistributed between them as a result of the competition for profits. Marxist political economy rejects this absurdity and advances a radically different conception: that 'value-added' is really 'value captured'; it measures the share of total economy-wide value-added that is captured by a firm, and does not in any way correspond to the value created by the living labour employed within that individual firm. Indeed, Marxist value theory maintains that many firms supposedly generating 'value-added' are engaged in non-production activities like finance and administration that produce no value at all.

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. In the aggregate, total value *is* equal to total price.[7]

If value produced by one firm (i.e. one production process) can condense in the prices paid for commodities produced in other firms within a national economy, then it is irrefutable that, especially in the era of globalised production processes, this also occurs between firms in different countries and continents in the global economy. In other words, as David Harvey (2006, [1982], pp.441–442) once surmised, "the geographical production of surplus value [may] diverge from its geographical distribution". To the extent that it does, GDP departs ever further from being an objective, more-or-less accurate approximation of a nation's product (indeed, it never was) and is instead a veil that conceals the increasingly parasitic and exploitative relation between northern capitals and southern living labour, in other words the *imperialist* character of the global capitalist economy. The invisibility and indeed unthinkability of North-South exploitation was epitomised in a Financial Times (1994) editorial which stated that "the richest fifth of the world's population generates – and enjoys – 85 percent of world output. The poorest fifth produces – and struggles to survive on – just 1.4%".[8] The FT editors just can not countenance the possibility that part of the 85% of world output enjoyed by the 'richest fifth' is actually produced by the other four-fifths.

There are vast implications of this, too many to explore here, but two that are particularly relevant to our argument can be briefly mentioned. First, the *GDP illusion* at least partly explains why dominant paradigms see the global South as peripheral, of minor importance, despite the ubiquity of the products issuing from its mines, plantations and sweat shops, whose living labour are the creators of much or most of our clothes and electronic gadgets, of the flowers on our table, the food in our fridge, and of the fridge itself. Second, 'arm's-length' relationships between northern TNCs independent firms in the global South generate gigantic flows of surplus value supporting the profits of these northern TNCs, and indeed are increasingly favoured over FDI, both because of their profitability and because they feed financialisation – *yet these flows are completely invisible in financial flow data.* As William Milberg points out,

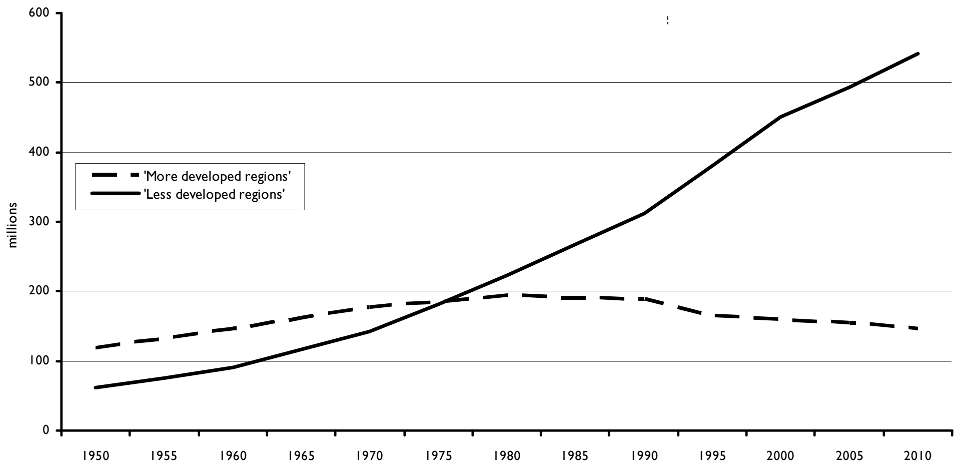
> "despite the stunning increase in the transnational activity of large firms... such firms find it increasingly desirable to outsource internationally in an arm's length rather than non-arm's length (intra-firm) relation... increasingly, efficiency-seeking foreign direct investment is being substituted with arm's length subcontracting." [Milberg, (2004b), p.15. Also see Gereffi, (2005), p.4; Dicken, (2007), p.164 and Sturgeon, (2008), p.8]

4 Global outsourcing and the rise of Southern labour

Despite the intensification of the labour process, increased labour productivity, real wage compression, and the expanded super-exploitation of immigrant workers, capitalists in the imperialist countries were unable to savagely cut domestic production costs to anything like the extent needed; despite all their efforts they have not yet succeeded in reversing the expensive post-World War II welfare reforms conceded to the working class in the imperialist countries, as Fidel Castro said, "out of fear of revolution, out of fear of socialism".[9]

Evidence presented here underlines the transcendental scope of global outsourcing, and why it is impossible to understand the nature and dynamics of the unfolding crisis without placing this at the centre of our attention. The absolute growth of the southern workforce in general and the industrial proletariat in particular and its growing numerical dominance vis-a-vis that of the imperialist countries, depicted in Figure 1, impressive as it is, underestimates the stellar growth in their importance as a source of global value and surplus value. One reason why this is so is that, during the neoliberal globalisation era, southern nations and the workers and farmers who live in them have become much more integrated into the global capitalist economy, thus gearing their numerical growth. The IMF (2007, p.162) attempted to capture this with its 'export-weighted global workforce' construct, according to which the South's contingent of the global workforce has quadrupled since 1980.

Figure 1 Global industrial workforce



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

Source: 1950–1990: ILO, ILO, 'Population and Economically Active Population' (http://laborsta.ilo.org/ – downloaded June 21, 2004); *1995–2005: ILO, 2007, KILM (5th edition) – htmfiles Chapter 4 Box 4b; 2010: KILM 6th edition Box 4b. To generate this Figure, ILO/KILM data on the percentage of the workforce employed in 'industry' in 'more developed regions' and 'less developed regions' was applied to its data on the total economically active population in these two regions. Data for 1955, 1965, 1975, 1985 calculated by interpolation from decade-end data. Data for 'less developed nations' industrial workforce for 1995, 2000 and 2005 was extrapolated from KILM 5th edition Box 4b data for 1996 and 2006; data for 2010 was extrapolated from KILM 6th edition Box 4b data for 2008. 2010 data for 'more developed nations' industrial workforce includes the ILO estimates of a recession-induced decline of 9.5m industrial jobs.

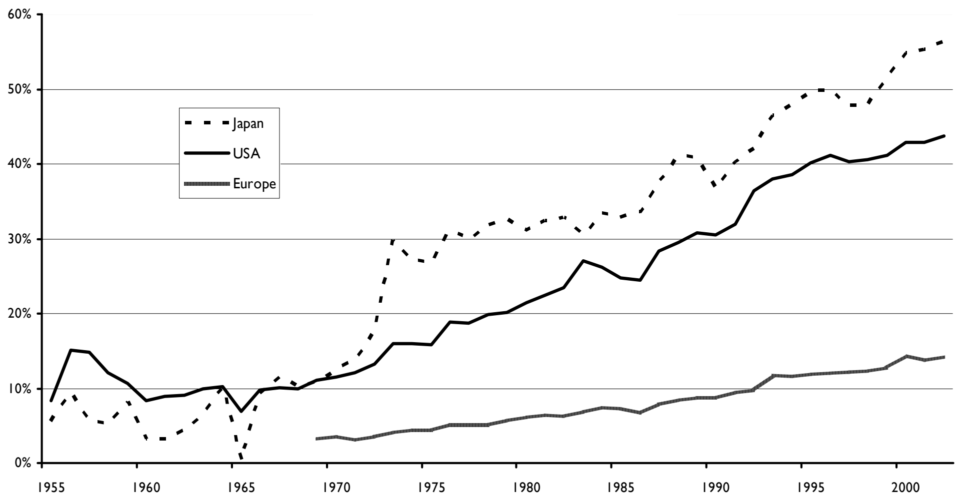
The increasingly central role played by the supposedly 'peripheral' South in global value production and surplus value extraction is further underlined by Figure 2 and Figure 3. Figure 2 shows the proportion of 'developed nations' manufactured imports that are sourced from 'developing nations'. It shows this to have *quadrupled* in the three decades from 1970 to 2000 for each of the three legs of the 'triad'.[10] Figure 3 provides still more evidence of this global shift of production. Each of its three traces requires some interpretation. The share of the South's manufactured exports to 'developed countries' appears to be trendless from the early 1970s, but this obscures the dramatic increase in 'triangular trade', whereby intermediate inputs are traded between 'developing economies' before the finished goods are finally exported to 'developed economies' – were this to be stripped out, this trace would also show a sharply rising trend. The trace showing the weight of manufactured exports in the South's total exports shows a truly astonishing rise – from 20% to over 65% in just over a decade – eloquent testimony to the dramatic transformation wrought by global outsourcing. Finally, the third trace in Figure 3 shows that the South's share of world manufactured exports almost tripled in the two decades between 1980 and 2000, reaching nearly 30%.

It is widely believed that industrialisation in the global South is highly concentrated in a small number of southern nations, namely China and a handful of others. Indeed, there is a marked tendency in most of the literature reviewed here to conflate the global shift of production and the emergence of China. The implication is that, outside of China and E Asia, export-oriented industrialisation has been unremarkable, that most southern nations have not participated in it. Ajit Ghose (2005, p.12), a senior economist at the ILO, propounds this one-sided view, arguing that

> "what appears to be a change in the pattern of North-South trade is in essence a change in the pattern of trade between industrialised countries and a group of 24 developing countries... the rest of the developing world, in contrast, remained overwhelmingly dependent on export of primary commodities."

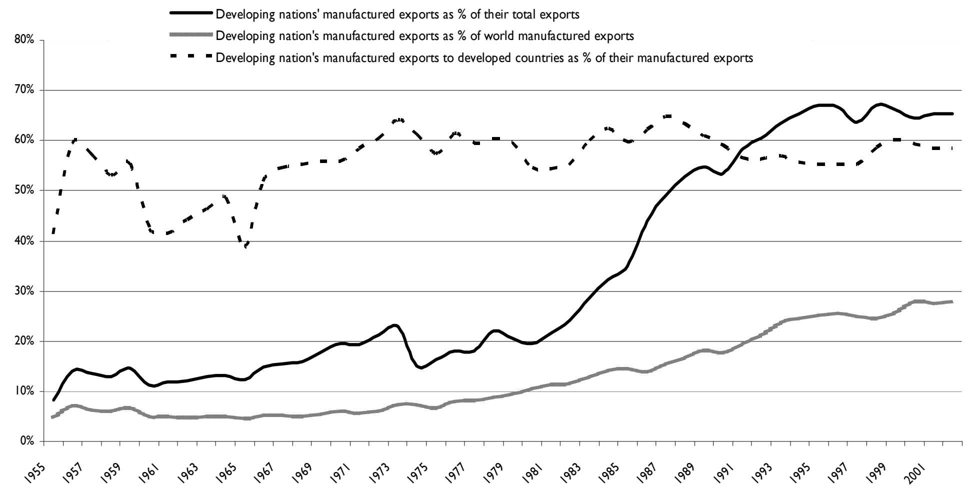
According to Ghose, in 1998 manufactured exports constituted 50% or more of merchandise exports for 24 developing countries, and these "accounted for more than 95% of manufactured exports from the developing world". On these grounds he argues that recent decades have seen a 'growing polarisation' between a minority of countries that have "succeeded in shifting their export base from primary commodities to manufactures", while "for the rest, the old pattern of trade with industrialised countries remained basically unaltered" [ibid., (2005), p.12]. 'The rest', more than 100 'developing countries', "face global exclusion in the sense that they became increasingly insignificant players in the global marketplace" [ibid, (2005), p.14]. Ghose neglects to mention that these '24 developing countries' include nine of the ten most populous southern nations, inhabited by 76% of the global South's total population.

Figure 2 'Developing nations' share of 'developed nations' manufactured imports



Source: Unctad, Handbook of Statistics – Archive: Network of exports by region and commodity group – historical series (http://stats.unctad.org/handbook/ReportFolders/ReportFolders.aspx)

Figure 3 'Developing economies' trade in manufactures



Source: Unctad Statistical Handbook (http://stats.unctad.org/handbook)

The astonishing rise of China, "the supplier of choice in virtually all labour-intensive global value chains" [Gereffi, (2005), p.18], as a major manufacturing exporter is renowned, but manufactured exports provided 50 percent or more of export growth between 1990 and 2004 for 38 other 'emerging nations' whose combined population is twice that of China's.

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, so-called EPZs that exert a powerful and distorting influence on their national economies. EPZs have experienced accelerating growth in recent years; their workforce nearly tripled in the decade following 1997, when 22.5 million workers were employed in EPZs in 93 different countries. By 2002, this had increased to 43 million workers in 116 different countries, and in 2005-6, the latest year for which there are statistics, 63 million workers were employed in EPZs located in 132 countries. The ILO (2003, p.6) reports that "[w]omen make up the majority of workers in the vast majority of zones, reaching up to 90% in some of them". Although China remains the most important host, EPZs have been growing faster still in other low-wage countries: in 1997, China accounted for 80% of EPZ employment, falling to 70% in 2002 and 63% in 2005–2006 [ibid, (2003), p.2]. After China, the largest EPZ employer is Bangladesh, with 3.25 million employees in 2005–2006. The proliferation of EPZs provides further evidence that, while export-oriented industrial development in the global South may be very unevenly distributed, it is nevertheless very widespread.

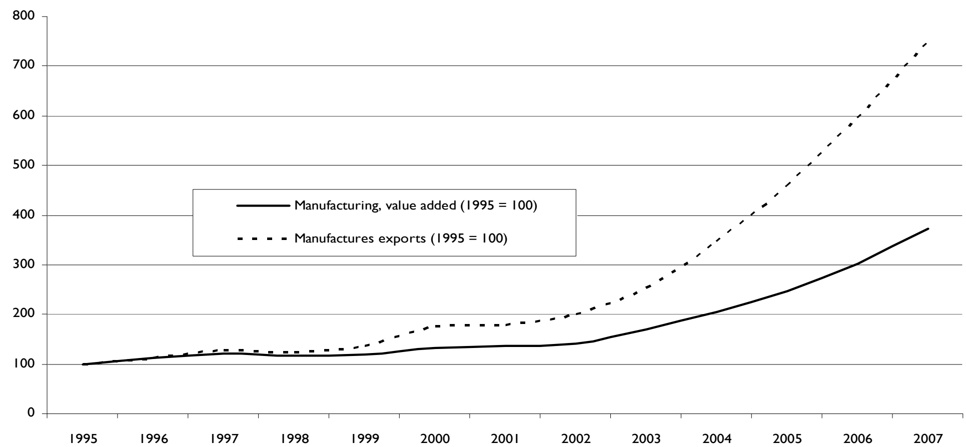
It is necessary to make two extremely important caveats to this brief survey of export-oriented industrialisation in the global South. Each of them speaks of inherent and very large distortions in the supposedly objective trade data; what is more, these distortions act in opposite directions, and the second of them is not only quantitative but qualitative. Whereas the first is an established fact, the second is a fact to be established.

Trade data is intrinsically deceptive since it aggregates the gross values of export goods, thereby including the value of imported inputs. To the extent that these inputs originate from the imperialist countries (for instance, when manufactured intermediary inputs are shipped to low-wage countries for final assembly and then re-exported), these traces will exaggerate the growing importance of southern manufacturing. As Gene Grossman and Esteban Rossi-Hansberg (2006, pp.6–7) point out,

> "[t]o measure task trade that generates shipments of goods, we would like to know the sources of the value added embodied in the goods and the uses to which the goods are eventually put. But, the statistical agencies have no way to know the national content of goods that are traded, nor do they track the uses of these goods; that is, whether they are destined for further processing or for sale to final consumers."

A far more meaningful picture of international trade in manufactured goods would be obtained were the IMF, Unctad etc to report not the gross value of manufactured exports, as they do now, but manufacturing value added (MVA), *i.e.*, the South's actual contribution to the gross value of its exports. This is very difficult to calculate since, as Grossman and Rossi-Hansberg explained above, trade data does not allow disaggregation of gross export values. If the IMF etc did report the MVA component of manufactured exports, however, they would have the embarrassing task of explaining not why the southern manufacturing exports have grown so fast, but why this growth has been so lacklustre. International agencies do provide data on the contribution of MVA to GDP, though they do not separate out that part of it that is accounted for by exports. Figure 4 reports this MVA growth and compares it to standard manufacturing trade data, revealing that the sharp divergence between MVA and manufactures-exports growth rates began in the early 1990s and accelerated in the early 2000s. What Gary Gereffi (2005, p.46–47) calls "the fundamental asymmetry in the organisation of the global economy between more and less developed nations" – that is, growing oligopoly in the North, cutthroat competition and a 'race to bottom' in the South – has resulted, in Milberg's (2004a, p.10) words, in a "situation in which developing countries have greatly expanded their share of global manufacturers exports while seeing their share of global value added in manufacturing rise by proportionally much less".

Figure 4 'Emerging nations' MVA growth and manufactures export growth, 1995–2007



Source: World Development Indicators (Edition: September 2009 http://esds80.mcc.ac.uk/wds_wb)

5 Outsourcing, financialisation… and the crisis

In an insightful article David McNally (2009, pp.41–42) offers one of the few holistic accounts of the global economic crisis, attempting to integrate transformations in the spheres of production and finance into his analysis. Critical appraisal of his important contribution allows us to consider the implications of the discussion so far. McNally observes that

> "[o]n the Left, most analyses of the crisis have tended to fall into one of two camps. On the one hand, we find a series of commentators who view the financial meltdown as just the latest manifestation of a crisis of profitability that began in the early 1970s, a crisis that has effectively persisted since that time. In another camp is a large number of commentators who see the crisis as essentially caused by an explosion of financial transactions and speculation that followed from de-regulation of financial markets over the past quarter-century."

He cogently assails the second camp for its

> "failure to grasp the deep tendencies at the level of capital accumulation and profitability that drove deregulation and that underpin this crisis… As a result, they are prone to describe the problem in terms of neoliberal policy-changes, rather than capitalism, they advocate a return to some sort of Keynesian re-regulation of financial markets." (ibid, p.42)

Epitomising the defects of the second camp, Robin Blackburn's (2008) *The Subprime Crisis* provides an insightful analysis of the sub-prime crisis, but one that is completely divorced from developments in the sphere of production, and arrives at a hopelessly reformist and fantastic conclusion: "[t]he solution [to the crisis]… is not to abandon money or finance but to embed them in a properly regulated system… a global system of financial regulation". Leo Panitch and Sam Gindin, in *The Current Crisis: A Socialist Perspective*, provide another most insightful account of the evolution of 'financialised capitalism', in particular demonstrating the glaring discrepancy between the supposed relaxation of state intervention into financial markets and the reality of the highly activist role of the US state in promoting and steering financialisation in order to strengthen its global political and economic hegemony. But they have nothing to say about the relationship between the evolution of finance and the transformations in the realm of production, except for one passing comment: "New York and London's access to global savings simultaneously came to depend on the surplus extracted through the high rates of exploitation of the new working classes in 'emerging markets'" (Panitch and Gindin, 2008). Two things are remarkable about this comment. Despite its decidedly non-trivial nature, Panitch and Gindin have nothing more to say about it. And while they give fleeting recognition to the dependence of New York and London's financial institutions on super-exploited southern labour, they entirely ignore the increasing dependence of *non*-financial TNCs headquartered in those same cities.

Robert Brenner is one of the most prominent partisans of the other camp of heterodox and Marxist theoreticians of the crisis, those who seek its deeper causes in the sphere of capitalist production. Brenner (2009, p.14) argues that the crisis is driven by a "profound system-wide decline and failure to recover of the rate of return on capital", whose "fundamental source… result[s] largely – though not only – from a persistent tendency to over-capacity, i.e. oversupply, in global manufacturing industries". He explains that this

> "[m]anufacturing over-capacity emerged, was reproduced, and has been further deepened by… a succession of newly-emerging manufacturing powers… combining ever increasing technological sophistication with relatively cheap labor and orienting production to exports for the world market… thus ma[king] huge, but often redundant, additions of manufacturing capacity to the world market, tending to squeeze global prices and profits." [ibid, (2009), p.9]

Conspicuously absent from this is a recognition that the massive expansion of what he calls 'highly-competitive lower cost producers' was driven by capitalist firms based in the imperialist economies, impelled by their insatiable urge to cut costs by substituting relatively expensive domestic labour with cheap southern labour. Brenner (2009, p.13) is therefore mistaken to argue that "economic accelerations in major regions had increasingly to take place as a zero-sum game", i.e., that the rise of Chinese industry straightforwardly signifies the decline of US industry. On the contrary, the success and even the survival of US industrial firms has been and continues to be predicated upon their ability to extract surplus value from low-wage workers in China, Mexico and elsewhere. The paradox is that overcapacity in southern labour-intensive production processes, through its effect on repressing the prices of consumer goods, intermediate inputs etc, has played a key role in helping the imperialist economies to alleviate their domestic overcapacity. Thus global outsourcing has not only *added* to global overcapacity and overproduction, it has *displaced* it to the global South, and has allowed the imperialist nations to *postpone* its emergence until now. The onset of the global financial crisis signifies that they have now run out of road; that the underlying crisis of overproduction that reared its head in the 1970s is now set to return with a vengeance.

Brenner's thesis of unrelieved decline in the rate of profit and of mounting overcapacity begs an obvious question. Why did this not result in systemic crisis much earlier? Brenner's (2009, p.12) answer brings him back into line with the theorists of financialisation:

> "[a]ll else equal, the build-up of over-capacity…could have been expected to lead, sooner rather than later, to serious crisis. But the governments of the advanced capitalist economies were long able to forestall this outcome by making sure that titanic volumes of credit were made available to firms and households – through ever more varied, baroque, and risky channels."

McNally (2009, p.54) retorts (though he does not name Brenner, he clearly has him in mind) that

> "[i]t will not do to say that for 25 years crisis was 'postponed' because credit was pumped into the system…. If this was the whole answer, if everything had simply been credit-driven, then all the evidence suggests that an enormous global financial crisis of the sort we are witnessing today would have had to occur much earlier."

According to McNally, the postponement of the crisis can only be explained by integrating other factors:

> "the partial but real successes of capital in restoring profit rates throughout the 1980s; the generation of new centers of global accumulation, such as China; the creation of huge new labour reserves (by means of ongoing 'primitive accumulation'); the re-subordination of the South under neoliberalism; and the associated metamorphoses in financial markets, all of which enabled neoliberal capitalism to avoid a generalized economic and financial slump for a quarter of a century, only to lay the grounds for new crises of overaccumulation and financial dislocation." (ibid, pp.53–55)

6 The China question

McNally's argument has much force, but it nevertheless contains a big problem. What exactly does it mean to refer to China and other low-wage southern nations as "new centres of global accumulation?" When applied to the US, Japan, Western Europe, 'centres of global accumulation' is nothing else than a euphemism for *imperialist nations,* in other words nations whose capitalist ruling classes are able (thanks to their accumulated wealth, potentised by command over advanced technology, military power etc.) to capture the lion's share of the surplus value generated by the proletarians of the world, the wealth generated by its small farmers, the proceeds of brutal 'primitive accumulation' etc. It is, to say the least, highly debatable that any of today's so-called emerging economies are about to gatecrash into the elite club of imperialist 'developed countries', unchanged since the accession of Japan at the end of the 19th century – not even South Korea and Taiwan, the only oppressed capitalist neo-colonies that could today be considered as candidate members. It is unclear whether McNally actually believes that China, Bangladesh, etc., have emerged from their condition as exploited, dependent countries, since he also emphasises the "re-subordination of the South under neoliberalism". But his formulation is nevertheless open to such an interpretation, and there are many who believe it to be true.

In the case of China, in my opinion, additional reservations are called for. In a nutshell, I do not believe that the sum total of transformations that have taken place in China over the past three decades *yet* equal in significance those resulting from China's socialist revolution, namely the expropriation of the capitalists and landlords and the establishment of a workers' state (albeit horribly deformed from the outset by its Stalinist leadership). There are many capitalists in China, and their number and wealth is rapidly increasing, and there is indeed a great deal of capitalist accumulation taking place in China today, *but most of this capital is being accumulated by Japanese, US etc TNCs* – both those whose foreign subsidiaries today produce around 55% of Chinese exports, and also by 'lead firms' like Wal-Mart and Dell indulging in arm's-length exploitation of workers by independent suppliers like Foxconn, Huawei etc. Capitalist development in China is still characterised by dependence on exports of low value-added goods to the imperialist economies (or, in the case of China's high-tech exports, low value-added assembly of imported inputs), and by reliance on FDI from TNCs based in those economies. It is therefore much more accurate and useful to identify these southern nations as *new sources of imperialist super-profits*, as *centres for super-exploitation by triad-based TNCs*.

For the time being, at least, the threat to the domination of global markets by US, European and Japanese TNCs by the rise of China's manufacturing is a modern myth. China's manufacturing industry is no more a threat to the supremacy of US, European and Japanese TNCs than are the maquiladora plants on the Mexican side of the USA's southern border. This was made clear in a recent *Financial Times* survey of the relation between China and Japan. Japanese industrialists do not regard China's manufacturing industry to be a threat,

> "not only because so many Japanese companies are enjoying the benefits [of Chinese low wages], but also because of the complementary nature of the two countries' industries. 'At the moment, China is not a threat to Japan's core industries,' says Richard Herd, head of the China division at the OECD. The ability to assemble their products cheaply in China has given many Japanese

> companies 'a new lease of life', he says – and 'if you look at Chinese exports and Japanese exports they are not competing, they are complementary'. The backbone of Chinese exports are still textiles, toys and plastic goods, products with little added value that Japan no longer exports in volume. Even in electronics, 'China has been exporting high-tech goods that draw in imports of components from Japan… When Chinese exports of those goods like PCs rise, Japanese exports of components to China rise.' Furthermore, there is a confidence that Japan will be able to maintain its technological lead for the foreseeable future, in part because of the low level of Chinese companies' investment in R&D." (Nakamoto, 2010)

Similar observations could also be made of China's relations with Europe and the USA. As Ari Van Assche, Chang Hong and Veerle Slootmaekers (2008, pp.15–16) explain in a study of EU-Chinese trade, "Europe's importers and retailers... increasingly rely on cheap inputs and goods from Asia... EU companies are now also producing in low-cost countries, and not simply importing inputs". Driving home their central point, they add that "the possibility of offshoring the more labor-intensive production and assembly activities to China provides an opportunity to our own companies to survive and grow in an increasingly competitive environment" (ibid, p.16). As for the USA, between 1992 and 2005 US TNCs built a giant exporting platform in China almost from scratch, resulting in annual imports into the USA from US-owned TNC subsidiaries leaping from $3bn to $63bn, a 30-fold increase, while US imports from independent suppliers in China recorded a nine-fold increase, from $22bn to $180bn.[11] Van Assche et al. (2008, p.13) add,

> "China has turned into a global assembly platform that sources its processing inputs from its East Asian neighbors while sending its final goods to high-income countries. Since China is often only responsible for the final assembly of its export products, this puts into question China's responsibility for the growing U.S. trade deficit."

The important question remains, is China's rise a threat to imperialist domination of Asia and the world? Yes, I believe it is. What sort of threat? That China's rulers – whether we consider them to be a capitalist class or a Stalinist bureaucracy – will refuse to accept the subordinate, oppressed, submissive status reserved for the so-called emerging nations, that they will challenge US hegemony over Asia and develop a counterweight to the US-Japanese military alliance that rules its coastal waters, that they will wield the potential economic power reflected in their possession of trillions of dollars of US treasury bonds and other financial assets, that their emergent TNCs will muscle in on mineral resources and markets hitherto the exclusive preserve of the imperialist nations. They are already marching down this road, *a road that leads to war*, and the USA is responding in the way we would expect the imperial hegemon to respond: the invasion of Iraq was aimed at least as much at intimidating China as at securing US/UK control over Middle Eastern oil supplies.

7 The pre-crisis acceleration of outsourcing

McNally's (2009, p.46) argument against those who see the roots of the crisis in the sphere of finance is undermined by a major and unwarranted concession: "while the entire period after 1982 cannot be explained in terms of credit-creation, the postponement of a general crisis *after* 1997 can". With this concession the global shift of production to low-wage countries drops out of the picture just when it was about to achieve its maximum importance: "[t]he recovery after 1997… was built on the pillars of exceptionally low US interest rates, particularly from 2001; steady growth in consumer-indebtedness; and a swelling US current-account deficit" [ibid, (2009), p.63]. Yet the post-1997 'credit creation' was accompanied by a major acceleration of outsourcing. Robert Brenner (2006, p.326) reports that, "[f]rom 2000 onwards, the Chinese economy took off as never before, its exports growing at an average annual pace of over 25% over the next four years (despite an increase of only 6% in 2001) and reshaping in the process the commerce of Asia, the US, and indeed the world". What is more, this period coincided with increasing signs of a shift in low value-added production from China to Vietnam, Bangladesh and other 'developing nations' whose living labour is even cheaper. Compelling evidence that the explosion of financial derivatives in the first years of the new millennium coincided with, or rather proceeded in tandem with, a major acceleration of outsourcing of production to low-wage countries has also been provided by Kate Bronfenbrenner, Stephanie Luce and James Burke, who noted that "the US companies that are shutting down and moving to China and other countries tend to be large, profitable, well established companies, primarily subsidiaries of publicly-held, US-based multinationals" [Bronfenbrenner and Burke, (2002), p.ii], while Bronfenbrenner and Luce (2004, p.80) summarised the overall picture like this:

> "the outsourcing of production, both near shore and off shore, from the US and around the globe, crosses nearly every major industrial sector, from communications and IT, to high-end manufacturing of industrial machinery and electronics components, to low wage manufacturing in food processing and textiles."

These authors estimate that each year from 1992 to 2001 between 70,000 and 100,000 production jobs shifted from the US to Mexico and China, which at the turn of the millennium were the first and second-most important destinations for US outsourcers. Their research shows this to have sharply accelerated at the start of the new millennium: "the total number of jobs leaving the US for countries in Asia and Latin America increased from 204,000 in 2001 to as much as 406,000 in 2004" [ibid, (2004), p.56].

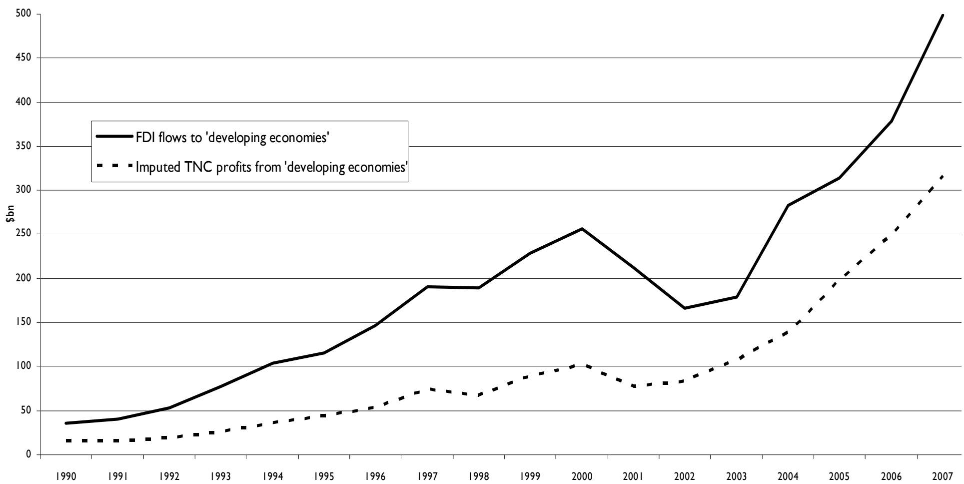
Another reason to believe that outsourcing has significantly accelerated since the turn of the millennium is its large-scale irruption into the service sector, especially affecting those services delivered through computer screens, something that, for many northern firms, has only become a practical possibility over the past decade. Susan Houseman (2006, p.4) has found that "services offshoring, which is likely to be significantly underestimated and associated with significant labor cost savings, accounts for a surprisingly large share of recent manufacturing multifactor productivity growth". According to Richard Freeman (2005), "if the work is digital – which covers perhaps 10% of employment in the United States [around 14 million workers - JS] – it can and eventually will be off-shored to low-wage highly educated workers in developing countries". These predictions were widely reported in the US news media. So too was *Offshoring: The Next Industrial Revolution?* by Alan Blinder (2006, p.114), who grabbed headlines with his warning that "we have so far barely seen the tip of the offshoring iceberg, the eventual dimensions of which may be staggering".

The final piece of evidence that the turn of the millennium coincided with a major outsourcing surge is presented in Figure 5. It reveals that, in 2007, northern firms made $316bn from their direct investments in the global South. This calculation is based on the assumption that TNC subsidiaries in low-wage countries generate profits for their parent companies only at the same rate as their subsidiaries in 'developed economies'. Since 'developing nations' in 2007 hosted 28% of the global stock of FDI, I have assigned 28% of that year's global FDI profits to them. The true figure will certainly be much higher still, to the significant extent that the rate of profit from subsidiaries in low-wage nations exceeds the returns from investments in other imperialist nations. IMF research into profits from subsidiaries of US-owned TNCs in Latin America and Asia concluded that

> "estimates for the return on foreign direct investment suggest that profitability is widely underestimated. U.S. data show returns on total foreign direct investment in emerging markets in the order of 15 to 20 per cent. An additional three per cent on invested capital [is] paid to parent companies for royalties, license fees and other services." [Lehmann, (2002), p.24][12]

Even though in recent years FDI has replaced debt and 'aid' to comprise the great bulk of N-S capital flows, the fact that S-N profit repatriation now regularly exceeds new N-S investment flows means that the net effect of FDI is increasingly to *decapitalise* the southern nations, vindicating Fidel Castro's (1983, p.141) assessment that FDI results in "a net transfer of resources ... a continuous decapitalisation of the underdeveloped countries, which are in no small measure financing the 'development' of those very same developed capitalist countries". Finally, we must bear in mind what we learned in the *GDP illusion*: FDI is only one of two ways in which northern capitalists profit from super-exploited southern labour. The other, arm's-length outsourcing, is even more profitable to northern firms, yet the S-N value flows it generates are completely invisible.

Figure 5 N-S FDI and profit flows



Source: Data on FDI flows from Unctad, Handbook of Statistics, 2008 Table 7.3 (http://stats.unctad.org/Handbook/). 'Imputed TNC profits from 'developing economies' were derived from data on global FDI profits reported in Figure 1.3 in Unctad World Investment Report 2008 (p.5), then by assigning part of these to TNC subsidiaries in the 'developing economies' in proportion to these nations' share of global FDI stocks.

8 'Neoliberal wage compression'

Turning his attention to those who see roots of the financial crisis in the deep-seated crisis of profitability of value-producing capital, McNally (2009, p.42) argues that "[t]hose analyses that effectively read the current crisis in terms of a decline in the rate of profitability from the mid-1960s to early 1970s have the merit of focusing on deeper problems at the level of capitalist accumulation", but "these approaches tend to be amazingly static, ignoring the specific dynamics of capitalist restructuring and accumulation in the neoliberal period" (ibid, pp.42–43). Chief among these was the "dynamic period of growth, centred on industrial expansion in East Asia [that] enabled capitalism to avoid a world crisis for twenty-five years" (ibid, p.53). These are very important insights, but there's a problem with posing the question in this way. How did the growth of manufacturing production in the global South allow not just capitalism in general, but US, European and Japanese capitalism in particular, to avoid systemic crisis? How have capitalist firms *in these triad nations* benefited from the enormous expansion of manufacturing industry in the low-wage 'emerging economies'? Why did the emergence of new and highly competitive manufacturing exporters, far from exacerbating the crisis of the triad nations, instead throw them a lifeline?

For McNally, the restoration of profits in the imperialist nations is explained not even in part by the proceeds of greatly expanded super-exploitation in the global South, but by 'neoliberal wage compression', i.e. increase intense exploitation at home, assisted by global competition from workers on the other side of the N-S divide. This, the standard way that the left in the imperialist countries views these matters, rests on ignoring or denying the existence of international differences in the rate of exploitation. Joseph Choonara (2009a, p.34) provides a striking example of this:

> "The level of exploitation might vary in different places and at different times. However, 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."

International wage differentials, in this perspective, merely track productivity differentials – a major concession to bourgeois economic theory, which argues exactly the same thing. Choonara's (2009b) complaint that "McNally does not sufficiently explore the relationship between accumulation in East Asia and the larger Western economies" applies with even more force to his own argument.[13]

Statistics on labour productivity, obtained by dividing the 'value-added' of a firm, industrial sector or nation by the total workforce, are highly deceptive. Much of the alleged increase in labour productivity in the imperialist nations is an artefact resulting from the outsourcing of labour-intensive production processes to low-wage countries. As Susan Houseman (2006, p.2) has argued,

> "[w]hen manufacturers outsource or offshore work, labor productivity increases directly because the outsourced or offshored labor used to produce the product is no longer employed in the manufacturing sector and hence is not counted in the denominator of the labor productivity equation."

This is extremely important, since "[t]he rate of productivity growth in U.S. manufacturing increased in the mid-1990s, [i.e., coinciding with the big outsourcing surge reported above – JS] greatly outpacing that in the services sector and accounting for most of the overall productivity growth in the U.S. economy" (ibid, p.1). Thus, she argues, "[t]o the extent that offshoring is an important source of measured productivity growth in the economy, productivity statistics will, in part, be capturing cost savings or gains to trade but not improvements in the output of American labor" (ibid, p.27). This concurs with Grossman and Rossi-Hansberg (2006, p.15) contention that "improvements in the feasibility of offshoring are economically equivalent to labour-augmenting technological progress". Houseman (2006, p.27) believes this solves

> "one of the great puzzles of the American economy in recent years…the fact that large productivity gains have not broadly benefited workers in the form of higher wages…productivity improvements that result from offshoring may largely measure cost savings, not improvements to output per hour worked by American labor. Productivity trends may be an indicator not of how productive American workers are compared to foreign workers, but rather of how cost-uncompetitive many are vis-à-vis foreign labor."

McNally (2009, p.60) argues that "neoliberal wage compression … underwrote the significant partial recovery of the rate of profit between 1982 and 1997… a key component of the increase in the rate of surplus value in the neoliberal period". This closely corresponds to Brenner's (2009, p.9) verdict that "the advanced economies have been able to sustain their profitability only at the cost of a sharp decrease in the growth of consumer purchasing power and by virtue of ceaseless downward pressure on living standards". Like Brenner, McNally emphasises 'neoliberal wage compression', but makes only a passing reference to the profits extracted by imperialist TNCs from super-exploited workers in the global South. Neither author recognises that the relocation of industries producing workers consumption goods, thereby massively cheapening them, helps to enlarge the purchasing power of the 'compressed' wages paid to workers in the imperialist countries, allowing these workers to increase their consumption of commodities without extracting higher wages from their employers, and has therefore been a major factor in attenuating class antagonisms within the imperialist nations while reinforcing the international disunity that paralyses working class agency at both a national and global level. Comprehension of this complex and contradictory reality requires taking full account of the fact that the globalisation of production has transformed not only the production of commodities in general, but also the reproduction of that very special commodity, living labour. The IMF's (2007, p.179) World Economic Outlook 2007 attempted to weigh this effect, concluding that "although the labor share [of GDP] went down, globalization of labor as manifested in cheaper imports in advanced economies has increased the 'size of the pie' to be shared among all citizens, resulting in a net gain in total workers' compensation in real terms". This coincides with Unctad's (1999, p.II) earlier verdict that "[i]ndustrial countries... [have] gained from... cheaper manufactured imports... greatly help[ing] to maintain income levels and reduce inflation", a conclusion stated more bluntly by Princeton economists Gene Grossman and Esteban Rossi-Hansberg (2006, p.28): "[i]ncreased offshoring has been a countervailing force that has supported American wages".

9 Conclusions

The vast wave of outsourcing of production processes to low-wage countries, enabled by the fortuitous arrival of IT and rapid advances in transportation technology, was a strategic response to the twin crises of declining profitability and overproduction that resurfaced in the 1970s in the form of stagflation and synchronised global recession, a course that was conditioned by the imperialists' reluctance to reverse the expensive concessions that have helped convert the workers of the 'global North' into passive bystanders, or even accomplices, to their subjugation of the rest of the world. Along with a huge expansion of domestic, corporate and sovereign debt, the global shift of production gave the outmoded and destructive capitalist system a respite that lasted for barely 25 years.

The 'financial crisis', seen from this perspective, is a secondary infection, a sickness caused by the medicine imbibed to relieve a deeper malaise. The sickness is bad enough, but worse still is that the crisis deprives capitalism of the means to suppress the underlying disease. Exponentially increasing indebtedness, by artificially boosting demand, succeeded in containing the overproduction crisis – but has brought global financial system to the point of collapse. Outsourcing has boosted profits of firms across the imperialist world and sustained the living standards of its inhabitants – but has led to deindustrialisation, has intensified capitalism's imperialist and parasitic tendencies, and has piled up global imbalances that threaten to plunge the world into destructive trade wars. All of the factors that produced this crisis – increasing debt, asset bubbles, global imbalances – are being amplified by the effects of the emergency measures being taken to contain it. The implication is that, with crisis now becoming generalised across the globe, the imperialist system has passed an 'event horizon' and cannot now escape from being sucked into a deflationary black hole.

From here, then, *all roads lead into the crisis.* This, in the words of Cuban revolutionary leader Raúl Valdés Vivó, is capitalism's 'total and final crisis', *'un crisis sin salida del capitalismo',* a crisis with no capitalist way out. His conclusion is that the only way out for humanity is to 'begin the transition to a communist mode of production' (the name of this transition is *socialism*), and that 'either the peoples will destroy the imperialist power and establish their own, or the end of history. It is not 'socialism or barbarism', as Rosa Luxemburg said in 1918, but socialism or nothing' (Valdés Vivó, 2009, my translation).

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Notes

1 "Financialisation is a recent term to capture transformations within the financial sector as well as in the relation between the financial sector and other economic sectors. There is no agreed definition, since it includes phenomena ranging from the globalisation of financial markets, the shareholder revolution and the rise of incomes from financial investment" [Stockhammer, (2004), pp.720–721].

2 In *Capital Volume* II, Marx comments, "[t]he production process appears simply as an unavoidable middle term, a necessary evil for the purpose of money-making" [Marx, ([1883] 1978), p.137]. In the second edition, Frederick Engels inserted this comment: "all nations characterized by the capitalist mode of production are periodically seized by fits of giddiness in which they try to accomplish the money-making without the mediation of the production process". This, essentially, is what so-called financialisation is all about.

3 Arbitrageurs communicate price information in imperfect markets, causing price differences to narrow (in contrast, speculators typically amplify price swings) – unless some artificial factor intervenes (e.g., international restrictions on the free movement of labour) to prevent price differences from being arbitraged away, in which case arbitrage becomes an opportunity for open-ended profiteering. In general, the bigger the imperfections, the bigger the price differences and the bigger the potential profits – and no market exhibits greater imperfections than the global labour market.

4 Marxist theory has yet to develop a rigorous definition of super-exploitation. Here, the term denotes a rate of exploitation that is higher than the average rate of exploitation of workers living in imperialist nations.

5 As Aviva Chomsky (2008, p.294) argues, "most accounts treat immigration and capital flight separately. My approach insists that they are most fruitfully studied together, as aspects of the same phenomenon of economic restructuring".

6 Value transfers from productive to non-productive sectors of the economy are in addition to the profit-equalising transfers of value that take place within the productive sector, from labour-intensive capitals (i.e., low organic composition) to capital-intensive capitals (i.e., those with high organic composition). Consideration of this extremely important dimension of the capitalist form of the value relation is outside the scope of this paper. It should also be noted that capitalistically employed wage labour is the main, but not the only source of capitalist profits. These are also augmented by unequal exchange between the circuit of capital and small farmers and self-employed or own-account workers, sometimes referred to as 'profit on alienation'.

7 “[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” [Marx, ([1894] 1991), p.971].

8 Expressing such comparisons in PPP dollars became the norm after the mid-1990s.

9 “Capitalism… has much more terrible connotations in a Third World country than in a developed capitalist country, because it is exactly out of fear of revolution, out of fear of socialism that developed capitalism came up with some distribution schemes that, to a certain degree, do away with the great hunger that European countries were familiar with in Engels’ day, in Marx’s day” (Castro, 1994).

10 The South’s much lower share of Europe’s manufactured imports compared to those of Japan and the USA is largely a statistical artefact caused by counting trade between European countries as ‘foreign trade’, while trade between states in the USA and provinces in Japan are counted as internal commerce.

11 Foreign trade statistics from http://www.census.gov/foreign-trade/balance/c5700.html#2005

12 Declared profits also ignore underreporting, transfer pricing etc, which is likely to significantly undercount the true scale of South-North profit flows. In an article co-written with Jennifer Nordin, Raymond Baker (2005, p.162), a leading authority on “the countless forms of financial chicanery ... prevalent in international business”, informed Financial Times readers that “[o]ver the past four decades or so, a structure has been perfected that facilitates illegal cross-border financial transactions ... Many multinational companies and international banks regularly use this structure, which functions by ignoring or skirting customs, tax, financial and money laundering laws. The result is nothing less than the legitimisation of illegality ... By our estimate, it moves some $500bn a year illegally out of developing and transitional economies into western coffers” (Baker and Nordin, 2005).

13 In continuation, he asks rhetorically “[i]s there evidence that somewhat increased profitability in the West led to a wave of investment in East Asia concentrated in the period before 1997?” But this question is completely the wrong way around! The real issue is how did the ‘wave of investment in East Asia’ lead to increased profitability in the ‘West’?