Has the empire struck back? 'new paradigm' globalisation or return to classical imperialism?

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ABSTRACT

This paper conducts an empirical examination of the current state of the world market with a view to assessing (and establishing the relative strengths and weaknesses of) two contrasting views: the first, that it is the outcome of a process of globalisation, in some sense, and the second, that it is explicable through the classical accounts of imperialism dating from the turn of the last century. It considers also the empirical relevance of Kondratieff's and Schumpeter's conception of 'long waves' of growth and accumulation.

It develops the distinction between endogenous and exogenous causes of decline and accumulation in the market and argues that they are connected to a prolonged secular trend towards income polarisation between blocs of nations characteristic of the operation of the market. It argues that whereas the declining phase of a long wave is endogenous and lawlike, recovery is exogenous and contingent, depending on the outcome of conscious political intervention. The key to the economic outcome of the present phase of capitalism is therefore the political relation between the main players

It argues that history has seen two quite distinct patterns of exogenously-constituted recovery from generalised crisis. The industrial revolution, and the post-WWII boom were 'hegemonically-ordered' yielding high global profit rates under a single hegemonic power (the UK in 1845, the US in 1945) which fuelled a general expansion even of its rivals, and yielding rising (if unequal) prosperity, relative peace, and political stability. 1890-1914 was different. The profit rate did not recover to previous levels, there was no clear hegemon, growing misery and barbarity over the immiserated parts of the world, and intense great power rivalry leading to the wars and revolutions that bestrode the twentieth century.

I argue that the evidence suggests the only possible basis of a new wave of economic expansion is a recovery more comparable with 1890-1914 than 1945-1965. The present period is one dominated by the steady but inexorable loss of US economic hegemony but with no clear alternative hegemon. This leads to an essentially unstable, warlike, and intractable period of competition for domination over sources of surplus profit. I call this a return to 'classical imperialism'.

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HAS THE EMPIRE STRUCK BACK? 'NEW PARADIGM' GLOBALISATION OR RETURN TO CLASSICAL IMPERIALISM?

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The idea of this paper is to ask what is happening to the world market. This is an innocent enough question and, as orthodox economics often approaches it, the only difficulties seem to be technical and empirical: get the data, make the model, feed the computer, and churn out the result. I will argue that the real difficulty is not the answer but the question. The problem is not one of models or techniques; it to understand what a market actually consists of. In particular, I will argue, we need to understand what a capitalist market consists of.

Since 1970, the world market has undergone one of the most protracted phases of decline and instability it has yet known. To know whether, or how, this will end, we must establish what conditions are required for its ending. Is there a process *endogenous* or internal to the world capitalist market which can restore its stability after such a long period of stagnation? Alternatively, if the conditions for restoration are *exogenous* or external to it, then what are they? But to answer these questions, we must first know what is inside and what is outside, that is, where the boundary lies: we must know what this market *is*.

I am going to suggest that:

(a) Decline is endogenous. A regular process repeatedly leads, over a period of 20-30 years, to 'generalised crisis', by which I mean a prolonged period of slow growth, mass unemployment, and political and economic instability.

(b) Restoration is not endogenous. Exit from generalised crisis arises from political intervention, up to and including dictatorship and war, on an ever more barbaric and brutal scale; it has depended on the conscious actions of classes and the political power they wield.

(c) Polarisation is endogenous: The growing inequality between a small group of rich nations and a large group of poor ones is a secular trend which accelerates when the world market extends and slows down when it retreats. History has reversed Adam Smith's dictum that the wealth of nations increases with the extent of the market.

(d) The two processes are linked. It has been possible to restore market stability *because* of the impoverishment of threequarters of the world, by placing the labour of the poor countries at the service of the rich. The principal goal of the 'Reagan-Thatcher' offensive, the destruction of the USSR, the opening up of world markets to US capital, the construction of the WTO and the triumph of neo-liberalism was to recreate the conditions for such a restoration.

(e) History has seen two quite distinct patterns of recovery from generalised crisis. The industrial revolution, and the post-war boom, yielded high global profit rates under a single hegemonic power (the UK in 1845, the US in 1945) which fuelled a general expansion even of its rivals, yielding rising (if unequal) prosperity, relative peace, and political stability. 1890-1914 was different. The profit rate did not recover to previous levels, there was no clear hegemon, growing misery and barbarity over the immiserated parts of the world, and intense great power rivalry leading to the wars and revolutions that bestrode the twentieth century.

I will argue that the evidence suggests the only possible basis of a new wave of economic expansion is a recovery of this second type, more comparable with 1890-1914 than 1945-1965. I call this a return to 'classical imperialism'.

Can the market heal itself?

The market as it now exists is a definite historical phenomenon which spread out from its birthplace in Europe and conquered the world in the last century: the capitalist market. Almost every society has had market activities and institutions such as trading and money, but only under modern conditions has the market both become the principal organiser of all other social relations and institutions, and an entity distinct from them. Does this market require nothing of these institutions except that they place no limits upon it?

Trotsky opened the 1923 debate around the law of motion of such a society in the following terms, responding to Kondratieff's assertion that beside the 7-10 year business cycle there was a longer cycle of

50-60 years:

> One can reject in advance the attempts by Professor Kontrad'ev to assign to the epochs that he calls long cycles the same 'strict rhythm' that is observed in short cycles. This attempt is a clearly mistaken generalisation based on a formal analogy. The periodicity of short cycles is conditioned by the internal dynamic of capitalist forces, which manifests itself whenever and wherever there is a market. As for these long (fifty-year) intervals that Professor Kontrad'ev hastily proposes also to call cycles, their character and duration is determined not by the internal play of capitalist forces, but by the external conditions in which capitalist development occurs. The absorption by capitalism of new countries and continents, the discovery of new natural resources, and, in addition, significant factors of a 'superstructural' order, such as wars and revolutions, determine the character and alteration of expansive, stagnating, or declining epochs in capitalist development.[1]

He thus did not dispute Kondratieff's facts, and a further hundred years experience has empirically confirmed his assertion; the discussion then as now concerns its causes and laws of motion. The key issue is whether this periodic variation is the outcome of factors distinct from, and independent of, the institutions in which capital is embedded.

In asserting it is not, Trotsky asserts explicitly contrasts it with the short cycle which is 'conditioned by the internal dynamic of capitalist forces, which manifests itself whenever and wherever there is a market,' The long cycle is determined 'not by the internal play of capitalist forces, but by the external conditions in which capitalist development occurs.'

But what *is* the difference between the 'internal dynamic of capitalist forces' and 'the external conditions in which capitalist development occurs'? Where does the boundary lie between the capitalist market itself, and the non-market conditions for its existence? In studying the distinction I am only trying to make explicit what all others take for granted. By blaming 'government interference' for market failure, neo-liberal economics for example is already, in its very language, distinguishing government from the market.

The distinction has profound policy implications. The idea that the market stabilises itself endogenously is, when one thinks about it, the core claim of neo-liberalism. The basic idea is that the market cures its own disorders. Left to its own devices it is perfect and by definition cannot produce such unfortunate episodes as financial crashes, famines, permanent unemployment and national destitution. These must therefore result from the imperfect conditions under which it operates, such as bad government, monetary incompetence, union intransigence, cultural or historical backwardness; from the technological régime, the regulatory framework or the prevailing entrepreneurial spirit. That is, they result from circumstances exogenous to the market.

Neoliberal policy conclusions are quite logical given these premises: remove all restrictions on the market so that it can achieve the perfection intrinsic to it. But if the capitalist market destabilises itself – and if, moreover, it cannot restabilise itself – we are led to entirely different conclusions. Not only is it foolish to leave the market to its own devices; actually its failure will call exogenous forces into being whether we like it or not, whether in the form of popular or national resistance directed against market freedom, or political and military measures designed to enforce it.

There is then a sphere for conscious human choice distinct from, and superior to, the market. Precisely because they are exogenous to the market, these forces are not governed or dominated by it; precisely because the market endogenously fails, they are a necessary part of life. Politics and social intervention are legitimate, necessary, and autonomous spheres of activity, not limited as in the neoliberal vision to simply maintaining the conditions for the market to attain its perfect state.

Moreover if the market is ultimately incapable of sustaining itself, then the task facing any responsible individual, rather than simply shielding society from the market's side-effects, is to save society from the wreckage of its failure. The problem for Brazil, South Korea, or Russia was not to defend themselves against the onward march of the world capital market, but against its violent withdrawal.

What does an 'endogenous' theory look like?

Despite the substantial implications of this issue and although economics is very insistent that the market is a social institution from all others, it is extraordinarily vague about where where boundaries actually lie. It defines what is 'endogenous' algebraically, asking which variables can be determined mathematically if other variables have been fixed by the economist. On closer examination, this begs the question. If one economist's equation makes prices a function of preferences, then s/he has defined these preferences as exogenous. But another can rewrite the same equation so that the preferences are a function of prices. This is an arbitrary choice. *Why* treat preferences as external to the market? What is it about the nature of the capitalist market that puts prices inside it, and preferences outside it?

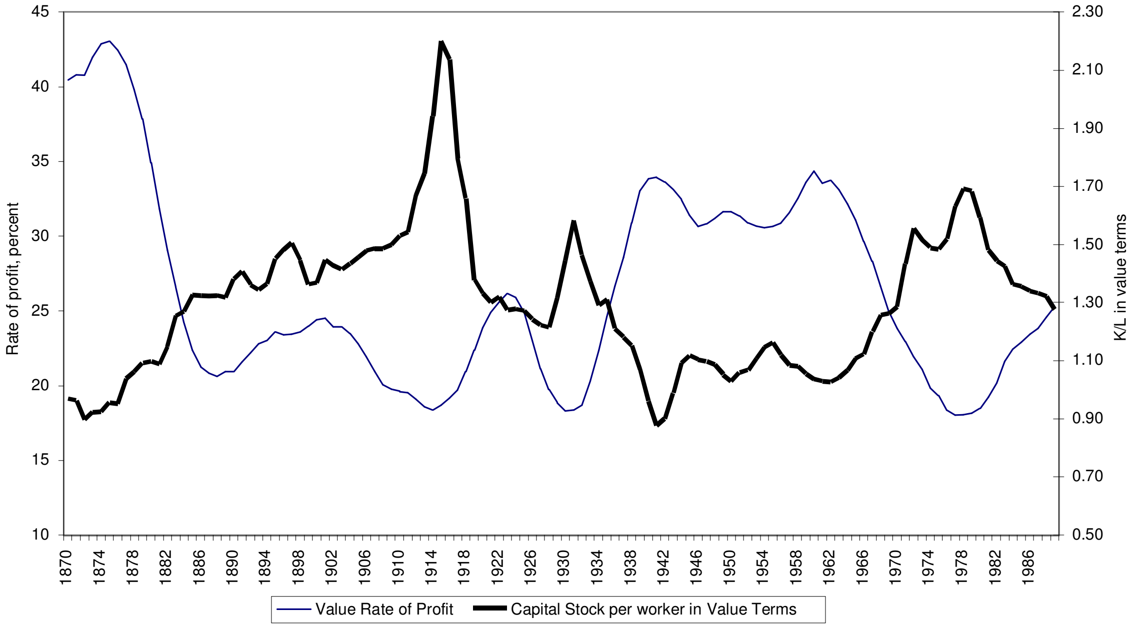
One reaction is to say, in essence, that the market in principle contains everything. Many attempts to explain unexpected market behaviour begin by 'internalising' things which orthodox theory treats as external. Thus Goodwin(1951) explains the business cycle as an interaction between employment and wage-bargaining; Endogenous Growth Theory (see Stern 1996) explains national inequality by making external factors like policy a product of market forces; Real Business Cycle theory says cycles propagate exogenous shocks, and many long wave theories treat phases of expansion as if technical innovation arises more or less automatically out of a phase of decline and suffices with no other precondition to reverse it

This does not really address the problem. With enough equations, we could make everything in the world a part of the market. But then we no longer have a theory of the market but a theory of the universe. The capitalist market is a social institution distinct, for example, from government, and exhibits laws which apply under all governments except those which suppress it. It must therefore be possible to express and frame these laws without reference to government.

I do not claim that the market operates independent of politics or technology. It interacts with them. But an interaction is not the same as an internal property. The market interacts with the climate; food output depends on the weather and the weather depends on the output of pollutants. This connection really exists, but this neither means the climate is part of the market, nor that economics is a branch of meteorology. The actual course of the market arises from its interaction with countless institutions; precisely in order to analyse this interaction, we have to distinguish it from them.[2]

Nor am I saying markets must necessarily have laws, on grounds of pure logic. I will to the contrary try to show that such laws *empirically* exist, in the form of patterns of market behaviour that manifest themselves under a very wide variety of external conditions. The problem is to make sense of these patterns using categories that correspond to them; I will argue that this requires the category of *value*.

Figure 1: United States Rate of Profit and Capital Stock in Terms of Labour Time 1870-1992



Source Data: Dumenil and Levy (1994)

What does an endogenous law look like?

In Figure 1, the thin line shows the rate of profit in the US economy. The thick line shows how much the economy has accumulated: it gives the stock of capital, divided by labour employed.[3] Both are expressed represented in terms of value, measured in socially necessary abstract labour time, by transforming raw data from Duménil and Lévy (1994), using a simple algorithm explained in Freeman (1997). However, this isn't the standard, equilibrium concept of value as it appears in the orthodox literature but an alternative which this literature systematically ignores: the *Temporal Single-System* (TSS) or non-equilibrium interpretation of Marx's theory of value. I applied only one other transformation: I took a moving average of the profit rate over seven years to remove short-term fluctuations.

Any unprejudiced observer can verify the relation between these quantities. The rate of profit falls when capital accumulates, and vice versa. Statistical analysis confirms that 80% of the variation in the value rate of profit is explained by changes in the capital-labour ratio. The only substantive exception is the period 1890-1910, of which more later. Phases of rapid accumulation - which appear on the graph as steep rises in the capital-labour ratio - invariably accompany a fall in the profit rate.

Of course this does not establish a chain of causal connection; this calls for a theoretical explanation, which I will shortly propose. However I want at this stage to draw attention to five points to which the theoretical explanation will refer:

(a) Expressed in value terms, periods of crisis are clearly periods of *decline;* of negative accumulation. But even in use-value or monetary terms it is clear that periods of reduced accumulation alternate with periods of expansion.[4] This suggests that this alternation is a 'genuine' fact and not an artefact of our concept.

(b) The law manifests itself. For long periods the rate of profit falls and the capital stock rises. Though not always so, this appears sufficiently often, and for sufficiently long periods, to create a *prima facie* case for a relation of cause that is an element of observable reality.

(c) The phenomenon is largely independent of external factors. The long profit declines of 1870-1890, 1902-1914 and 1962-1978 took place under very different régimes of regulation, technology and government but all took the same form in value terms: stock goes up, and the profit rate comes down. This suggests that the connection between growth and declining profit rates is a law *of* the market, and not of something else. It 'manifest itself whenever and wherever there is a market.'

(d) Specifically, technical advance does not counteract this law. The periods of most rapid technical change, of whirlwind revolution, are precisely those periods when capital stock is rising and the profit rate is falling, which is very difficult to square with the idea that technical progress counteracts the fall in the profit rate.

(e) There are two distinct types of expansionary phase. The recovery of 1890 did not re-establish the profit rate whereas that of 1945 did. We can relate this other facts: 1890 opened a prolonged period of extreme and violent political crisis, and 1945 closed one. A key question is whether any new upturn can be stable like 1945-1962 or would be unstable like 1890-1914. At least part of the explanation, although stock figures from this period are less reliable, is that a significant element of the 1890 recovery was an additional source of US profits, rather than a decline in US capital stock. I will argue that this source was the appropriation of profit by the great powers from the rest of the world, for which the exogenous precondition was military and commercial conquest.

What does an endogenous law consist of?

We have presented only supporting evidence for a law that explains generalised crisis. A full justification requires a theoretical explanation, deduced from logically-developed properties of the category in which the law is expressed.

Such an account does indeed follow from the concept of value applied in this paper: it is a law linking capital stock and investment which I call the law of accumulation.[5] Capital stock grows by exactly what is added to it by investment, over any period. Suppose, for example, an initial capital of 1000 units and a constant labour force of 300. Suppose 200 of this is profit, and of this profit, 100 is invested. Then in year 1, the capital stock must grow to 1000+100=1100. In year 2, to 1100+100=1200, and so on: it grows *as long as investment is positive*. Profit, to the contrary, remains fixed at 200 and even if exploitation increases, cannot possibly rise above 300, the amount of living labour worked each year.

This is *why* accumulation leads to a falling profit rate. The profit rate itself, for a given capital stock, cannot possibly rise above the total living labour worked in each year. But this is fixed independent of accumulation, by the size of the workforce. The profit rate asymptotically falls.[6] The only other way that the profit rate can then be restored is if accumulation itself is suspended, that is, if profits are not invested but instead, capital is converted into revenue.

Normally, investment is positive. But when capital stock is reducing, it becomes negative - disaccumulation. This is not the same as the physical liquidation of stock. It simply means the capitalists spend their wealth in the current period, a situation that Marx describes as the conversion of capital into revenue or the release of capital (Maldonado-Filho 1997). In fact, if technical progress is taking place, disaccumulation will occur even if the capitalists *only* replace their physical stock in kind, because in each period, they need to spend less money to secure the same goods.

This exceptional circumstance takes place only in crisis. Capital that ceases to expand is destroying itself, not least because it destroys the source of demand for investment goods, provoking a slump. In this sense we are dealing with a law of the capitalist market, not 'the market in general'; only under capitalism must the market expand to survive, so that accumulation becomes its form of existence. Crisis is hence not a suspension of equilibrium but a suspension of *growth*. This gives precise meaning to the idea that the fall in the profit rate is endogenous to capitalism: it can be reversed only by suspending capitalist accumulation itself. There are two ways this can happen: one is if the market in capital is eliminated and investment is removed from its sphere. The other is if the fall ends destructively as investment is hit by falling profitability: this is the source of general crisis.

A pure law of value: distinguishing value from use-value and money

At this point we encounter a complication which I have so far kept in the background. What concepts do we presuppose, in order to speak of accumulation, profit rate, and capital stock? Only one: the substance that accumulates – the 'result' of economic production, or value. Stock is the quantity of value in existence, accumulation is the value increment of this stock, profit is the excess of value produced in a given period, and the profit rate is profit divided by stock.

The law of accumulation is what I term a 'pure law'; it is expressed in terms of a single substance, value, without any external admixture. This is what makes it universal; it also makes it endogenous. It applies regardless of technology or monetary régime, just as the law of gravity applies regardless of the material of the planets. Technology may interact with this law but cannot suspend it because it cannot modify the quantity of value which a given number of workers create.

This quantitative absoluteness is not manifested by other concepts of value. If we treat money as the measure of value, for example, then as assets get dearer their possessor gets richer, making them appear as a source of profit. Similarly if we think of output as a mass of use-values, or quantities of goods, as does most of economics, then it will appear that technical progress can increase profits because more goods will be created with the same labour.

In each such case we are attempting to express a law which applies to labour alone in terms of something which is not labour. This is like using a pair of scales to tell us how big a piece of cake is; the problem is that the scales can't tell us how much air the cake contains. Nevertheless all cakes obey empirically observable laws determined only by their weight, regardless of their size. We can understand the logical foundation of these laws only if we understand weight for what it is, a property independent of size.

The empirically observable law of accumulation is grounded only when we express it in terms of a substance – value – independent of money and technique: when we eliminate, from the definition of production, every source of new value except the producer, namely labour itself. Then:

(a) the value added by living labour is *conserved in circulation*: it is destroyed or created only in production.[7]

(b) the only source of new value is living labour.

Because of (a), capital stock continues to rise unless the capitalists actually disinvest. Because of (b) the effect of this on the profit rate can be offset only by raising the amount of value the capitalists appropriate, and this is strictly limited by the growth rate of world living labour.

Whilst the law also appears empirically in terms of other concepts of value such as use-value, it cannot be theoretically accounted for using these concepts. There is no obvious reason for the profit rate in use-value terms to fall as a consequence of accumulation; indeed Okishio's (1961) famous theorem shows it must rise indefinitely unless offset by increasing real wages.

It is a dogma of most writings on Marx that, because the profit rate in use-value terms necessarily rises with technical progress, this law cannot hold. This dogma ignores the fact, well-known to Keynesians, that the profit rate varies according to the unit of account. The 'errors' which the literature attributes to Marx's law arise because in the standard, equilibrium, framework, value is incorrectly accounted for and is treated as being destroyed without being consumed; all rates of profit are collapsed onto a single rate, the use-value or 'material' profit rate. If, however, we interpret Marx's value concept without presupposing equilibrium – and the evidence that this was Marx's own idea is very substantial – then his own theory of the tendency of the rate of profit to fall is logically faultless.

Conceiving the poverty of nations

A general concept is not scientifically useful unless

(a) it explains a variety of phenomena, not just a single phenomenon, and
(b) it exhibit the relations between phenomena

I will now argue that the same concept of value which explains the periodic long-term decline of accumulation, also explains the long-term, secular differentiation of nations.

At one time the left widely believed that a falling rate of profit was irreversible and would lead to a terminal collapse of capitalism. I think the evidence of the 1930s has settled this question. Capitalism did survive a shattering and protracted crisis and it would be imprudent to suppose it cannot do so again.

The same cannot be said for the differentiation of nations. A large body of evidence shows that the global market has produced a prolonged and irreversible divergence between the nations of the world, organising them in two groups:

(a) A small group containing around one fourth of the world's population and comprising essentially those nations that have been rich since the start of this century, plus a tiny number of additions, mainly peripheral to the existing centres;
(b) A much larger group containing three-fourths of the world population. Although this contains two groups, middle and low income nations, it shouldn't be forgotten what 'middle' means in this context - a living standard between a fifth and a tenth of the advanced country average.

This secular change in market relations, unlike the decline in the profit rate, has *never* been reversed and has only been interrupted when nations protect or themselves from the world market in capital.[8] Moreover it is nearly universal: A minute number of nations have risen from poor to rich since 1870. An authoritative article by Pritchett(1997:9) sums up the results as follows:

> …you cannot escape the conclusion that the last 150 years have seen divergence, big time... The magnitude of the change in the absolute gaps in per capita incomes between rich and poor is staggering. From 1870 to 1990, the average absolute gap in incomes of all countries from the leader had grown by an order of magnitude from $1,286 to $12,662

Pritchett gives the ratio of the GDP of the richest to the poorest country as 8.7 in 1870, and 45.2 in 1990. He gives the ratio of the 'advanced capitalist' to all other countries as 2.4 in 1870, and 4.5 in 1990. This differentiation accelerated markedly after 1980 when the US opened its world trade offensive. According to Maddison (1995), Brazil grew by 4.13% per year between 1960 and 1979, and actually declined by 0.54 percent between 1980 and 1994.

How should we account for these facts? They find almost no explanation within orthodox theory. In my view, this is due to a conceptual framework which conceals the fact that distribution is a competitive struggle. It is literally inconceivable, in use-value terms, that one country might get poorer *because* another gets richer. Consider figure 2, which compares the output of the major regions of the world in use-value terms.

It appears as if everyone gains, but some more than others. Since by the application of technology, output can increase in principle without limit, there is no obvious reason anyone should fail to benefit from it. The framework of 'development' economics becomes that of obtaining access to a limitless resource, and a failure to do so must be explained not by competition but backwardness; countries are poor not because others are rich, but because they have not 'done as well'. They are made responsible for something that has in fact been done to them.

However human output *is* limited, not by external resources but by human production. The world *cannot* produce for more hours than it works. If we express the outcome of the phenomenon of distribution in terms of these hours worked, precisely because this neither rises nor falls in circulation, it becomes clear that the market locks nations in battle for battle for a fixed magnitude, which cannot rise faster than the number of consumers. There is no such thing as comparative advantage in the acquisition of value: only a ruthless struggle to survive.

We can observe this as shown in figure 3 by asking how many years of local labour are required, in each region, to acquire one year of world labour, a number I call the 'labour-appropriation ratio'. This conveys several phenomena that were not apparent in figure 2. First, the competitive struggle between nations emerges clearly. When one goes up, the others go down, and vice versa.

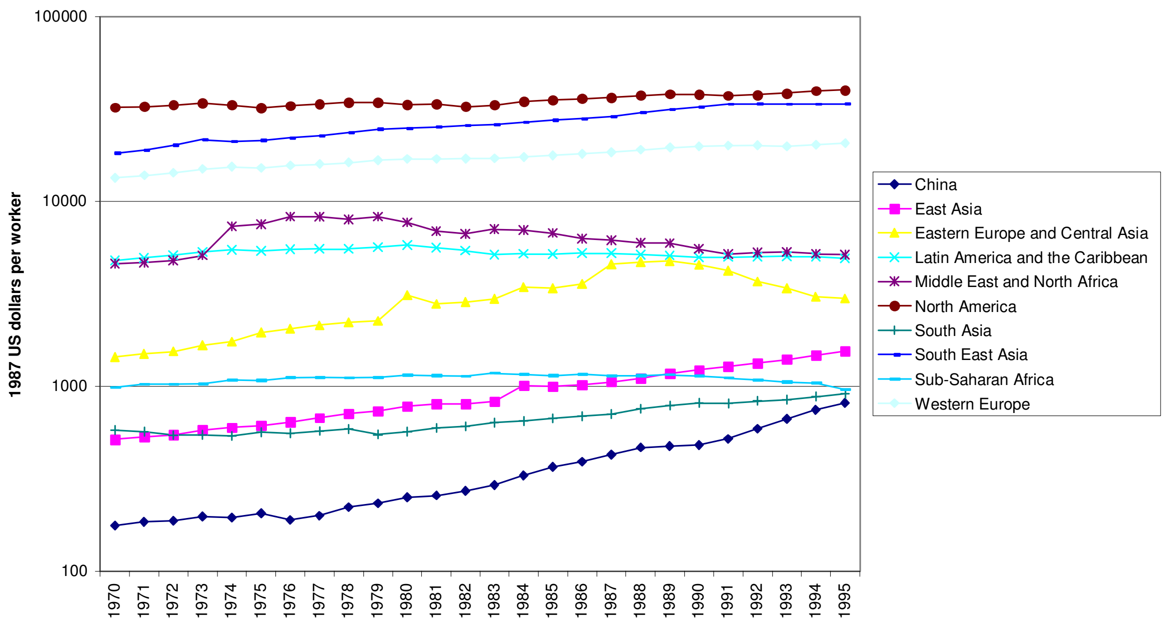
Second, the graph shows that 1980 was a turning point in the structure of the world economy. The protracted downturn of the Middle East, of Latin America, of South Asia and of Sub-Saharan Africa all date from this point; although the data for the transitional economies is available only from 1989, their collapse was in large degree the culmination of the US policy offensive launched in 1980.

The graph also conveys very clear information about the structure of the world economy. Three groups of countries have converged at a labour-appropriation ratio of 8, namely Western Europe, North America and South East Asia (Japan and the four tigers). Among these North America shows a clear relative decline. Though the graph does not show it because the figures are disaggregated, the industrial countries as a whole show a rising trend.

A second group bumps along the bottom at a labour-appropriation ratio between 0.2 and 0.1 and is also differentiating: China and East Asia/Pacific (a group which excludes China and the South East Asian economies) are rising although China's rise is quite recent and has not restored its 1970 position. South Asia − a region with nearly a quarter of the world population – and Sub-Saharan Africa have suffered what Pritchett (1997) calls 'an implosive decline'.

A further 'middle' group of regions track each other at a ratio between 0.5 and 1. Of these only Latin America has held its own: Middle East/North Africa and the transitional economies are in effect converging not with the advanced countries, but with the poorest.

Figure 2: Use-Value Output Per Worker



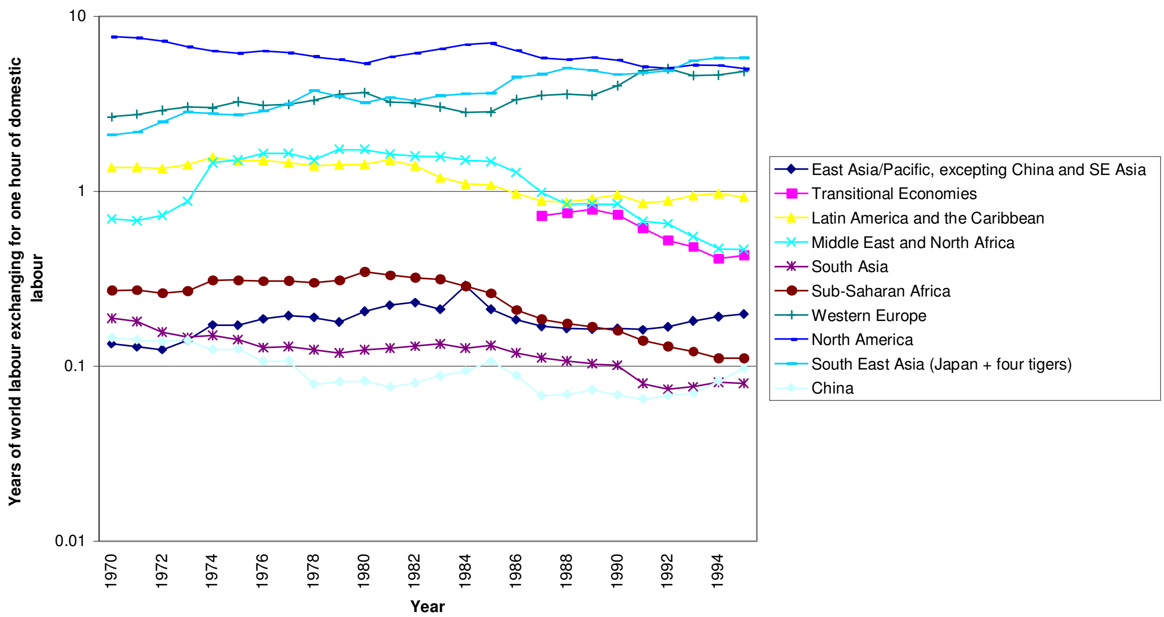
Explaining the poverty of nations

There are fundamentally two ways to interpret inequality. Either its basic explanation lies in the market itself; or in something external such as historical backwardness or national culture. This spontaneously racist second conception lies at the heart of much sophisticated economics.

However it gives some difficulty with the data. Not least, we should notice the sheer scale of the differences. One hour of US labour was by 1995 exchanging for 80 hours of Indian labour on the world market, double what it was in 1980. South Asia contains some of the most ancient civilisations of the world. It gave the world numbers, algebra, and some of its greatest mathematicians. It bequeathed material, aesthetic, and spiritual riches which nourished the British Empire for three centuries. The idea that its present economic state is a consequence of productive, cultural or psychological backwardness is a mockery of science. If cultural backwardness explains inequality, what catastrophic cultural event made India in 1995 twice as backward as it was in 1980? Asia was neither born with nor achieved this status; it was thrust upon it. No other explanation makes sense.

We then confront the following problem: if there is no cultural or historical basis for inequality, why aren't the world's goods distributed equally? And why is the inequality growing? And why are so many people actually getting poorer? After all, there is actually now enough to go around. World production per head of population now stands at around $3000 in 1987 US dollars. This could house, clothe, feed and educate them everyone on the planet. It could protect them from major diseases, maintain them in dignified old age, and provide for all those disadvantaged by difference. This output per head continues to grow; the equivalent figure in 1970 was $2000. Thus the principal obstacle to human progress is no longer technical. The only limit to humanity is humanity itself. There is no absolute need for the human race to produce more in order to survive. In consequence it is not empirically sustainable to explain national differentiation in terms of factors exogenous to the market. The differentiation is a *product* of the capitalist market; not inadequate absorption of the market, nor resistance to the market, nor even late adaption of the market.

Figure 3: Unequal Value for Equal Work



This is particularly clear in the period that opened in 1980. This unleashed a marked acceleration in differentiation; but it was precisely the period of greatest extension of the market, of 'globalisation'. It came at the end of the only period when inroads of any kind were made in the gap between nations, namely the period 1950-1980 during which the developing nations secured concessions within GATT setting at least some limits on the penetration of the world market into their economies (see Freeman 1998). The gap started to open up again at the precise point when these barriers crumbled before the US onslaught. If inequality results from factors exogenous to the market, why did it accelerate so markedly when the barriers to the market were removed?

The point is also emphasised by the economic performance of China; when we compare its performance in use-value terms with the same performance in exchange-value terms, we begin to get some glimmering of what might be going on. Between 1980 and 1995, in constant 1987 dollars, Chinese per capita output rose by 7.65 times while its monetary value grew by less than the US. This is reflected in a declining labour-appropriation ratio. Its technical performance thus directly contradicts its status in the world market. Yet it was China that most strongly resisted and controlled the impact of the world market on its domestic economy during the IMF reforms, in contrast to Russia and Eastern Europe which accepted orthodox 'shock therapy' recipes.

The case of China demonstrates that two competing standards of efficiency are at work. By one standard - human need - all production is useful which diminishes the labour required to meet human requirements. By the other standard - profitability in the world market - only that production is useful which makes a money profit. Orthodox theory predicts that these two standards of efficiency are *mutually compatible*: that if investment is governed by the principle of money efficiency, technical efficiency must follow. But the actual facts show precisely the reverse; it is only when a principle other than that of money efficiency is applied that national differentiation is reversed.

Combined and uneven accumulation: how value interacts with technical change

Distribution, expressed in value terms, is a competitive process. But why should the outcome should be uneven? Much literature from the 1960s challenges the orthodox dogma of convergence but to explain divergence, falls back on exogeneous factors such as historical specificity. The empirical evidence shows that inequality arises 'whenever and wherever there is a market'. The real problem, therefore, is to understand how it arises from market relations alone.

The key to this understanding is the form in which capital organises technology, which is both exogenous to the capitalist market and a pre-requisite of it.[1] Science is 'produced' non-capitalistically. But, as technology, it is embodied in definite processes of production requiring definite amounts of capital investment. Access to technology in the capitalist market demands access to capital.

The world market in capital imposes a constraint on the *quantity of capital*, which is what a nation needs in order to avail itself of technology. This sets a fundamental limit on the expansion of the world market, precisely because it cannot be altered in circulation - for example, through credit, which may make more money available to purchase capital goods, but cannot increase the capital goods themselves. The problem of national inequality then reduces to the following: why does capital accumulation distribute capital unevenly?

I can now clarify an important methodological point. A 'pure law' of value applies, independent of all other factors: it is always true. But the form in which it appears certainly does depend on other factors. National inequality arises from the *interaction* of accumulation with technical change. Specifically it arises from the way technical changes takes place under the free movement of capital. A market where the bulk of investment decisions are not dictated by the capital market, as China shows, obeys different laws. The law of uneven accumulation is endogenous to the capitalist market in the following sense: when investment is organised by the market in capital, technical change cannot escape the limits placed on it by the requirement that it produce value.

The reason is as follows: different sellers of the same product are obliged to accept a single world price, and appropriate different amounts of world value depending on their productivity. A technically superior producer makes an above-average profit, yielding an investment fund which amplifies the original advantage that led to the excess profit rate. Sources of consistently high profit rates are therefore *self-reinforcing*; the process of innovation itself polarises the world into technical haves and have-nots; one small group possesses, maintains, and single-mindedly cultivates a near monopoly of the means of technical innovation, harnessing the labour of the remainder to fuel this dominance.

The unequal distribution of profit rates is the actual motor of capital movement, as first discussed by Marx (eg 1976:1024) but more recently by Ernest Mandel (1975). Capital pours into those places where it can reach a higher than average profit rate; it thirstily spearheads technical revolution upon technical revolution in the process. The most dynamic sectors, which also yield the highest profits, are those who innovate the fastest.

Accumulation is therefore intrinsically uneven. Uneven accumulation is an endogenous law of the

[1] By analogy with labour, technology is formally but not really subsumed by capital. The present phase has introduced a new unique element, which is the attempt, by means of universal intellectual property rights, to subsume science *really* into capital. This enterprise is in itself fraught with contradiction; for example, it actually involves *restraining* trade in normal commodities, by making it illegal to produce something whose technology is owned by another.

capitalist market, overcome only when the capitalist investment mechanism is itself suspended, that is, when the market in capital is exogenously overridden.

What Happened in 1980?

We are now in a position to return to the question that opened this paper. Since 1970, the world economy, as reported by many observers, has been in a state which we call generalised crisis: low accumulation, low general profit rates, mass unemployment, and economic instability. Is there a possible exit from this crisis for the market, and if so, what?

There is little doubt that the US economy has staged a partial recovery although it is far too early to say whether this is stable, and the recovery certainly has not communicated itself to the rest of the world. Nevertheless it is important, in order to identify what future options are open, to assess what this recovery, as far as it has gone, is based on.

The historical evidence is reasonably plain: the date of the turnaround clearly associates it with the political offensive of 1980. This was not an endogenous process of the market: it was the outcome of a political reorganisation of the world economy initiated in the USA. The process began with the 'neo-classical counterrevolution' (Todaro 1994: 85) which advocated 'the privatisation of public corporations in developed nations and called for the dismantling of public ownership, statist planning, and government regulation of economic activities in developing countries' and secured controlling votes on the World Bank and the IMF. Its core argument was that '[by] promoting free trade and export expansion, welcoming investors from developed countries, and eliminating the plethora of government regulations and price distortions in factor, product, and financial markets, both economic efficiency and economic growth [would] be stimulated.'

The World Bank and IMF used the lever of debt to secure market reform packages in line with free-market principles. This also involved a conscious reorganisation, not just of national markets, but the regulatory framework of world trade. The 1986 formation of the World Trade Organisation (WTO) was the outcome of a six-year round of trade negotiations held under the auspices of the General Agreement on Trades and Tariffs (GATT), the principal post-war world trade regulatory body. The cornerstones of the new order were:

(a) A mandatory framework for world trade with economic sanctions as an automatic penalty for violation. Countries could no longer choose whether or not to accept the market; it was now imposed upon them with full binding force.

(b) GATS (General Agreements on Trade and Services) covering one-fifth of all world trade ($1 trillion) which liberalised trade in services, including notably financial services. Because this encapsulated a legal obligation to free capital movement, it imposed, as part of the free-trade framework, full participation in the market in capital.

(c) GATS extended the definition of exports to include production by foreign-owned subsidiaries in the host country. Trade regulation was thus extended to the internal market régimes of member states; subsidised state social provision is a technically criminal violation of the rights of foreign private providers. The offensive to open up capital markets, overriding national sovereignty through treaty obligations, continues with the drive to secure the MAI (Multilateral Accord on Investment)

(d) A new trade category of Intellectual Property Rights (IPRs), an absolute monopoly of advanced countries: 0.16% of world patents are currently owned by third world residents (Mihevc 1995). Transforming technological know-how into a marketable instrument, IPRs formalise the unequal exchange mechanism and provide formal permanent guarantees of advanced country dominance.

The WTO's agenda was the culmination of the aggressive US practice of mandatory unilateral sanctions to enforce GATT-agreed arrangements. Bhagwati (1993) records new legislation which 'required the US Trade representative to prepare an inventory of foreign trade barriers, establish a priority list of countries and their unreasonable practices, and then set deadlines for their removal by the foreign countries, and, should they fail to comply, for decisions on retaliation by the United States... [It] is characterised by the (wholly distinct) fact that it enables the United States to unilaterally make demands for trade concessions by others without offering any matching, reciprocal concessions of its own that others might demand in turn.'

The market was thus dramatically extended, as it has on previous occasions, notably 1890-1914 when it reached a comparable extent, and in contrast to the onset of the 1945 golden age which was characterised by a contraction of the world market, not an expansion. This extension of the world market was nevertheless restricted in a number of decisive ways:

(e) A system of trading blocks - ‘Free Trade Areas’ around the dominant capitalist countries - the EC, NAFTA and APEC - gave specific exemption from the measures imposed on all other WTO members.

(f) Large-scale anti-dumping (AD) actions as the preferred protectionist device of the USA, EEC and Australia/New Zealand, Before 1986, these were exceptional events. By 1992 they were universal for the advanced countries, which initiated 1040 AD actions between 1985 to 1992, over half directed against either Eastern Europe (132), the third world (137) or the developing Asian countries (297). The non-industrialised countries - three-quarters of the world’s people - initiated 91.

(g) The specific new development of IPRs manifests an new, explicit contradiction in the commodity form, since trade in knowledge can be achieved only by the *restraint* of trade in products embodying this knowledge. The WTO’s harmonisation offensive against India, for example, began by outlawing India production of pharmaceutical products whose patents were less than twenty years old, overriding Indian legislation providing for a seven-year patent period.

This total package constitutes a new world political framework for trade. It is an extension of the market, but also a systematic manipulation of it to restore US profitability. Anti-dumping is baldly described by the World Bank as ‘a packaging of protectionism to make it look like something different’ (Hoekman and Kostecki 1995). As the latter remark (p178): ‘AD is not about fair play. Its goal is to tilt the playing field.’ Though article XXIV of the GATT proposes stringent conditions that a Free Trade Area must satisfy, these are never applied. The enthusiastic dismantling of third-world barriers to Northern goods has not been reciprocal. What has actually been established is a world market into which the advanced countries can sell with the necessary freedom to restore their own profitability at the expense of everyone else’s. In particular, the central focus of US and European policy, epitomised by the MAI (Multinational Accord on Investments) has been to create a world market in capital; free capital movement is the central tenet of the new offensive. The US, running the largest trade deficit in history, is financing its recovery by draining the world.

Endogenous Recovery, Or a New Phase of Imperialism?

A genuine recovery of US productivity would be marked, first and foremost, by a US trade surplus. The absence of a surplus is the surest indicator that recovery is not grounded in an intrinsic product of the market but an exogenous intervention: the subordination of the political world order to US profitability.

At the very least we have to admit the following; this mechanism has little in common with the expansive wave of 1945-65. We confront two distinct processes. The crisis itself was a direct endogenous consequence of accumulation. There was no evidence, however, of endogenous recovery. Not only did the US recovery arise from an exogenous intervention that kicked in when accumulation broke down, it has completely failed to establish the golden-age conditions of 1945, in which US hegemony was accompanied by a US surplus that financed world recovery.

This has practical conclusions. It means that the price of recovery from general crisis necessarily includes a *further* general reorganisation of the world market, including all that goes with this: a reorganisation of its territories, wars of intervention, the forcible imposition of the market relations where necessary against the will of the nations concerned, and so on. It means that the exit from one kind of catastrophe is, in the last analysis, another kind of catastrophe. The idea that the market itself, if ‘left to itself’ will simply restore the conditions for its own existence, does not hold.

The evidence confirms Marx’s original judgement of a hundred and thirty years ago: capital sets the limits on its own existence. To this we must add that there is, however, no evidence of any intrinsic limit on the barbarism and destructiveness of which capital is capable: on the contrary, each new exit from general crisis reaches previously inconceivable heights of it. As a ‘way out’ therefore, what is now happening can only be regarded by the human race with the most extreme distrust.

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Notes

[1].Trotsky (1923: 9), cited in Day (1981: 8).

[2] Even tight linkages do not abolish the distinction, in Marx’s terminology, between formal subordination where an external institution conditions another, and real subordination in which each is a condition of existence of the other. Labour, as a huge reserve of non-waged direct producers, initially existed as an external condition of existence of the market. Relative surplus value made the market a condition of existence of labour, creating a new totality containing and transforming both. Cf Marx (1976:1019-1049)

[3]. In symbols K/L, where L=S+V, K is capital stock, S is surplus value and L is total labour. I graphed K/L rather than the more usual K/V, the organic composition of capital, to strictly differentiate strictly between effects of distribution (variations in S) and accumulation (variations in K). Steindl (1952) points out that Marx himself poses his sharpest arguments in terms of K/L.

[4] For empirical evidence see Freeman (2000)

[5].See Harrod (1937), Steindl (1952: 262). The law is actually satisfied by money, as well as TSS value, but not by the standard interpretation of value: this is why most of the literature alleges that Marx made an error in asserting this law.

[6] Let r_{max} =L/K be the maximum profit rate. Then r'_{max} =(KL’–LK’)/K^2. This will be negative until KL’=LK’, that is, *r* =L’/L, the growth rate of the labour force. For profit rates higher than this floor, the maximum rate falls asymptotically towards this floor and the actual rate fluctuates under this ceiling.

[7]Note that (b) is only (a) expressed another way, since all economic activity falls either into production or into

circulation. Note also that production includes the reproduction of the commodity labour-power, and of the capitalist class itself.

[8].I distinguish between isolation from the world market - that is, the products of capital - and separation from the world market in capital itself, that is, the capitalist mechanism for allocating investment resources. The decisive strategic question for any nation is how take investment decisions without being required to make a competitive money profit in an open world market. The decisive tactical question is preserving access to the world's products while so doing.