

GLOBALISATION, ECONOMIC FLUX AND SURPLUS VALUE

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In the early 1970's Late Professor P. N. Mathur of Mathur-Leontief input-output model fame was working on a set of input-output coefficients that would help him sort out the technology-wise obsolete industries in Great Britain and found to his surprise that the rate of obsolescence in British industries was such that it was almost evenly distributed between state-of-the-art industries and absolutely obsolete ones [see P N Mathur : *The Rate Of Interest In A State Of Economic Flux* in M Parkins : *Studies in Economic Theory*] . New technology had been pouring out in a steady stream and rendering many existing industries obsolete. A continuous process of vintage substitution was going on replacing old technology with new ones. He called this continuous innovation in technology a state of 'economic flux'. When the author joined him on a research fellowship at the University of Wales, he assigned him the task of exploring the implication of the technology flux releasing huge quantities of working capital from scrapped vintages on the determination of income and employment in both Keynesian and Monetarist framework. [See Basu : *Monetarist Controversy and Vintage Substitution*—*Indian Journal of Economics*, 1979].

Much water has flowed down the Thames since then. Technology inventions are no longer meant for producing the same product in a more efficient way. More often than not it is about changing the product mix altogether. New technology is not merely improving labour productivity. It is also bringing to the market newer products. In the computing industry, for example, the desktop computers or the so-called PCs and laptops have brought on their trail the Internet, the e-mails, computer games, the scanners and a whole range of other electronic products. Technology innovations like cell-phones with digital cameras have made possible SMS's carrying instant telecast of colour photographs; the Internet has given birth to mobile and satellite telephones. Inventions like these in hundreds of other fields have revolutionised not only technologies but also people's life styles. More inventions like these are in the pipeline: not only in electronics and telecommunications industries, but also in scores of other fields like microbio-logy and medical sciences. Cloning and stem cell researches that are waiting for their applications to receive moral sanction of the society, have the potential of radically changing the pattern of living of mankind altogether. Both product and technology are undergoing continual metamorphosis. It is truly now a state of 'economic flux' as late Professor Mathur had predicted.

The present paper will, however, try to focus attention on a more relevant aspect of this flux, viz., that of globalisation of national economies and its inevitable impact on the process of generation of surplus value. On the one hand the process is linked with the 'economic flux' that augments labour productivity and thereby surplus value and on the other, to globalisation, that causes the rate of profit within a country to fall through internationalised competition. While the former i.e. the economic flux helps capital to expropriate a larger share of value from employed labour power, the latter puts it on tenterhooks as competition in internationalised business becomes stiffer and

the rate of profit regains the predicted declining trend after initially rendering some assorted comparative advantages. Can the flux continue indefinitely and keep the profit rate afloat above zero for a yet unknown period? Or if the rate of profit will eventually decline pushing the system into chaos and thus bringing the capitalist mode of production closer to its nemesis? Such are the questions that need to be asked while discussing the future of the world economy that is getting more and more closely integrated everyday pushed by the need to find an ever expanding market for newer products invented in an era of 'economic flux'.

GLOBALISATION

Over the past decades, a vast change has taken place in the structure of the world economy. In the past, global business took place in the form of direct transactions in trade, services and investment. The pattern has completely changed now. Today the transnational corporations have internalised these transactions as business operations between their overseas affiliates. At the root is a massive flow of foreign direct investments [FDI] that these corporations are undertaking to establish overseas business, factories, industrial plants and infrastructure. The staggering hike in the FDI flows can be guessed from the fact that during 1991-1996, FDI flows increased at a rate of 12 percent per annum, i.e., twice the rate of its growth over the preceding decade.

A detailed analysis will show the picture more vividly. During the same period i.e. in 1991-96, when FDI grew at the rate of 12 percent per annum, world exports rose merely by 7 percent per annum. By 1995, transnational companies had a total of 280000 affiliates world-wide but most of them incorporated in the USA. These affiliates generated between them \$7000 billions in sales in a single year. The sum exceeded the total global exports by 20 percent in the same year. Relevant statistics gleaned from World Bank reports show that the share in world output of multinational affiliates increase from 4.5 percent in 1970 to 7.5 percent in 1995. The share of these affiliates in manufacturing output had a more spectacular rise : from 12 percent in 1977 to 18 percent in 1992. An estimated 70 percent of global payments of royalties and fees are merely transactions between incorporated firms and their overseas affiliates.

That was only one aspect of the rapid stride of globalisation in the closing decades of the last century. Yet another aspect has been the emergence of the global financial market. According to the data provided by the Bank of International Settlement [BIS], in the period 1975-80, financial outflow in portfolio investment was merely \$2.48 billion. It rose to \$8.36 billion in 1980-84, to \$35.6 billion in 1985-89 and then to a whopping \$214.6 billion in a single year, 1990-91. This exponential growth has metamorphosed the global capital market into a single entity.

When one adds to it the growth in foreign currencies and international securities, there appears a staggering dimension in the spread of globalisation and aggregation of national markets. According to BIS, in 1983, five major central banks held \$139 billion whereas daily transactions in foreign currencies and securities was a mere \$39 billion. In 1992, the situation was completely reversed. In that year, the central banks

held merely \$278 billion while daily transactions averaged \$623 billion. Since then till date the latter has more than doubled.

The result of such rapid stride of globalisation has given birth to footloose productive capital. Capital is no longer anchored to the boundaries of a national economy. It no longer needs to attract labour to its place of location. On the contrary, capital itself moves around today, not only to cheap labour regions but also wherever it can cut costs internationally. In the late sixties the textiles and micro-electronic industries moved out in search of cheap labour. Companies began to outsource components and set up total offshore manufacturing of components. Hitherto unified production processes were broken up, disaggregated and dispersed, to take account of cost savings, especially in Latin America and South-East Asian countries. In these regions, dictatorships maintained cheap labour conditions. Industries for manufacturing and assembling of components were dispersed in a number of countries. Such dispersed industries had a very wide range indeed: from cars to computers. Single plant industrial processes gave way to global dispersal of manufacture of various components and in a way led to the finest ever division of labour and specialisation.

The initial drive to cut costs through specialisation in component manufacturing gradually evolved an altogether new system of production. The new system, in turn, was sustained by dramatic reduction in the costs of transport and communications. Between 1930 and 1990, for example, the average revenue per mile in air transport fell from 68 US cents to 11 cents, in 1990 dollars. The cost of a three minute telephone call between New York and London fell from \$244.65 to just \$3.32. Between 1960 and 1990 the cost of a unit of computing power fell by 99 percent. The unit cost of sea freight fell by 70 percent, in real terms, from the beginning of 1980's to the end of the 1990's.

The implication of such massive integration of world capital movements has been such that reformist politics based on the relative immobility of productive capital has been rendered incapable of delivering the desired result. Previously the application of political pressure secured concessions from capitalists by cutting pieces off the surplus value cake that they extracted within the national state. The conditions for securing those concessions have now ended. It is not merely a case of capital moving offshore to cheap labour countries. Capital can now move from one region of the country to another or from one nation to another, according to cost advantages of each area or according to earnings as fly-by-night portfolio investment. As Hirst and Thompson have pointed out [*Globalisation in Question*] the major source of concern on the social welfare state in Europe is not cheap labour countries in Asia, but the United States and within Europe itself, Great Britain.

The globalisation of financial capital particularly had all along a stringent string attached to it. Each section of capital, even if its individual operations are confined within a given national market, is under pressure to return a rate of profit in line with international standards. Those companies that fail to do so, will find globally mobile shareholders' funds shifting out of their stocks thereby lowering their price in the market and raising the cost of new capital. Alternatively, credit rating agencies would lower their rating thus raising the interest rate at which they can borrow. In other

words, transnational money and capital markets have led to a severance of national ties of capital as much as globalised production of commodities and services had. At the end of the day, however, it cannot be stated with certainty if such globalisation would contribute to halting the tendency of the rate of profit to decline. With the number of players in the international money and capital markets increasing every year by the millions, it is more likely that this tendency may be buttressed rather than getting halted or reversed.

SURPLUS VALUE

On the other side of the spectrum, social productivity of labour had a quantum jump due to a continual and steady stream of technological innovations creating a state of economic flux that had, in turn, rendered the globalisation of productive capital inevitable. In this era of technology, albeit economic flux, the impact of the huge augmentation of the productivity of labour on the basic social relations of capital has been tremendous. In so far as all class societies are founded, to take recourse to common Marxian terminology, on the extraction of surplus labour power, augmentation of labour productivity influences the economy through a simultaneous augmentation of surplus value from the employment of labour or what is the same thing, the purchase and deployment of labour power. This happens through the wage contract. The worker sells labour power, his capacity to work, to the capitalist. The capitalist, like every other commodity owner, has the right to consume the commodity he has purchased and receive its use value. The worker, however, reproduces the market value of his labour power in a fraction of the working day. The capitalist usurps the fruit of rest of the working day of the labourer. This is what Marx has called surplus value under the assumption that, in the productive process, capital can reproduce only its own value and it is labour to which the credit for producing the entire surplus should be attributed. Capitalist Economics would, however, contest this view and claim that it is this surplus created by capital that lies at the root of demand for capital.

The truth may lie somewhere in between the two positions. There is no doubt that capital has a role to play in augmenting the productivity of labour and in so far as production of capital itself involves a cost in terms of abstinence and waiting, it can legitimately claim a part of the surplus generated by labour. Having said that, one should immediately put a rejoinder focusing the fact that a large part of the surplus in the applied capitalist mode emanates merely from market imperfections. Remove the imperfections, the surplus will be smaller and a very small share of it may legitimately be claimed by capital. The rest, as Marxists would insist, is genuine surplus value i.e., surplus of labour productivity over and above the market value of employed labour power.

The total mass of surplus value increases or decreases as and when the number of workers increase or decrease. On the other hand it is also influenced by the relationship between paid and unpaid portions of the labour power employed in a working day. The shorter is the time taken by the worker to reproduce its own market value i.e., the wage he receives, greater will be the mass of surplus value. Clearly therefore, in a state of 'economic flux' two contradictory forces are working on the overall mass of surplus. One, the technology change enhances the portion of unpaid for labour power

employed. Two, in so far as new technology has a tendency to employ lesser number of workers at a certain level of exploitation, it will have an adverse effect on the overall mass of surplus value.

This contradictory process has led some theoreticians to predict that since new technology is destroying jobs, it will lead to a crisis, irrespective of whether the rate of profit ultimately declines, remains constant, or even augment marginally. Those who oppose this view, point out to the fact that in the past too, technological advance have led to turbulence but was ultimately followed by capitalist expansion. The Marxist view, however, is that augmentation of labour productivity would not be able to match the loss of overall mass of surplus resulting from reduction in employment. According to it, to the extent the state of technology flux continues to reduce the number of workers employed, the mass of overall surplus will decline and the rate of profit will decline. Declining profit rate, in the Marxist scheme of things, is the essential condition for ushering a socialist revolution. The growing reserve army of labour is merely a sufficient condition and only when combined with the essential condition, it can seize the revolutionary situation and exterminate exploitation from its roots for all time to come.

The crucial issue, however, is not whether or not the profit rate will decline eventually but how imminent could such a possibility be. There is no doubt that a clash exists between the two contradictory tendencies, viz. one of augmented labour productivity enhancing surplus and therefore leading to expansion of capital and the other of shrinking employment opportunities reducing the overall mass of surplus. However, so far the result of the clash in the current era has remained indeterminate. What will happen in the long or even in very long run can only be merely a matter of guesswork—no definite trend is as yet available. As John Maynard Keynes once said, “In the very long run we are all dead.” That should not, however, be a cogent reason why one should not try to predict the course of societal development. But the process of prediction in social sciences needs to base itself on more concrete data stretching over a fairly long period of time. However, the state of ‘economic flux’ that is breeding new technology and newer products in a breathtaking speed is a comparatively recent phenomenon and needs to be pursued as it develops into maturity. Or has it matured enough already for breeding a synthesis in the ongoing class struggle?

CONCLUSION

In the present context, that last question may be a significant one to ask because, even according to Marx, capitalism has a historically useful role to play. After all, the capitalist mode was ushered in by the industrial revolution and since then its progress has been marked with continuous innovation in industrial processes. Thus Karl Marx opted for a most highly developed capitalist system for staging the world’s first socialist revolution. Looking back to Germany of 1948 from today’s Germany, it appears the capitalist system there, far from being a fully developed one, was, in fact, still in its cradle. No wonder that revolution had failed. It, however, succeeded in a country where the newly born capitalist system was so immature that one could say it was yet to have its umbilical cord severed from the womb of a deep rooted feudalistic inner structure headed by an all powerful Czar.

It is quite likely that today's 'economic flux' need to reach a stage from where it would be historically possible for a socialist economy to pull it into the next higher stage. By hindsight, it appears, a premature take-over could, in fact, halt the benign march of technology towards a new era of development of human civilisation on the one hand, and the development of socialist economy itself, on the other. The so-called collapse of the soviet system points to such a tragic possibility. I would like to conclude this note with a quotation on this subject from the 'Epilogue' of my 1999 novel [See Subhas Basu : '*Round Loaf and The Moon.*' Minerva, London, Chap. XIV] : "Several years back, sitting in the canteen of Ajay Bhawan (CPI headquarters at Delhi) , Pratul Lahiri and I were discussing the collapse of the socialist system in Russia. I asked,

'Pratulda, China has averted a disaster by skillfully combining the socialist economy with a system of market determined allocation of resources. If absorbing the distortions of a market on the cushions of a socialist sector could earn a reprieve for the system as a whole, as in China, how come the erstwhile Soviet Union, did not follow the same course? Young men and women were mad not so much for political rights as for the electronic gadgets they saw at work in the dollar shops in Moscow, Leningrad and other cities . I met a number of them in Moscow on my visit there in 1980. They were hunting for tourists' dollars in exchange for rubles even when they joined thousands of people who queued for seeing the last remains of Comrade Lenin in the Mausoleum.' Pratulda gave an interesting answer. He said,

'Don't think that the Soviets lagged behind in technology of these 'toy' consumer goods. The TV for example was there in the Soviets as early as in the early '70s. It was doing wonderful work in the soviet made tanks. But these could not be given to the people. Because, you give this either to all of them or none at all. The gap between the floor and ceiling incomes was so narrow that almost nobody could afford it in the '70's. In the eighties, everybody could. But by that time, other gadgets like the VCR, cell phone, PC etc. arrived. In a steady stream. All these could be produced on a mass scale either by creating considerable income inequalities or by distorting the flow of resources away from essential commodity sectors. Both would be dangerous'.

But the demonstration bombardment by the market economies of these consumer durables was not only a greater danger but, in fact, played havoc with the system. The Soviet Union collapsed. China merely acted wiser by taking the warning seriously."

That view was from the protagonist of the novel. It may not conform to the purely Marxist viewpoint on the subject. But it can be gainsaid that a revolution will be pertinent only when one is sure that the technology, albeit economic flux in the globalised capitalist world has come to a dead end. Because it may be only from that point that a socialist economy could pick up the baton in the onward march of human civilisation towards ultimate victory over nature through technology innovations.

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