
Outsourcing and the Crisis (Part One) ...

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[*Note: apologies to participants in the 'Dimensions of the Global Crisis' panel at Historical Materialism 2009—what follows is part one of my paper. Instead of posting the promised transcript of my presentation, I've been working on converting this into a full-length paper. I'm posting part one in partial fulfilment of my promise to any of you that goes looking to my website, as I invited you to do.*

Because of the scope and importance of its subject and my ambitions for it, this paper will go through many drafts. I very much welcome any questions and critical comments, which I will fully acknowledge in later versions.]

Introduction

Cuban revolutionary leader Raúl Valdés Vivó identifies two great camps in the debate sparked by the global crisis: the supporters of capitalism, “*who attribute the crisis to bad management by banks and governments, problems which can be overcome*”;¹ and those opposed to capitalism, who see the crisis as systemic. He observes that amongst those opposed to capitalism, some consider this crisis to be cyclical, believing the capitalist system will emerge from it and even be invigorated; while others appreciate this to be capitalism’s total and final crisis, that it cannot be averted, that there is no way out of it—it is, in his words, ‘*un crisis sin salida del capitalismo*’, whose only progressive resolution is to begin the transition to a communist mode of production, otherwise known as ‘*socialism*’. Thus he argues that “*the principal tendency in today's world is the beginning of the end of the imperialist system... 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.*”² [This is the communist, internationalist meaning of the Cuban slogan ‘*vencer o morir*’, victory or death.]

Valdés’ formulation – ‘total and final crisis’ – is striking. This is capitalism’s *third* ‘total crisis’. There are many reasons why I also agree with Valdés Vivó that this is capitalism’s *final* crisis. The contradictions that have produced this crisis are immeasurably deeper, more global and more intractable, and are now intertwined with the capitalist destruction of nature. Another reason,

¹ Raúl Valdés Vivó, ‘Crisis sin salida del capitalismo’, in *Granma*, 30 January 2009 (my translation). <http://www.granma.cubaweb.cu/2009/01/30/interna/artic01.html>. (my translation)

² Raúl Valdés Vivó, ‘Crisis sin salida del capitalismo’, in *Rebelión*, 30 January 2009. http://www.rebelion.org/noticia_pdf.php?id=79985

directly relevant to this presentation, are the profound changes that post-World War II capitalist development, and the neoliberal globalisation period in particular, have wrought to the grave-diggers of capitalism, the international working class.

This international working class is still coming to be, and the deepest and most mutilating division that it must overcome is the one between workers who live in imperialist nations and our sisters and brothers in southern nations. One single statistic from Mike Davis' *Planet of Slums* is enough to remind you about the huge differences in the conditions faced by workers in the North and South: "Residents of slums, while only 6% of the city population of the developed countries, constitute a staggering 78.2% of urbanites in the least developed countries."³

The North-South divide is visible from outer space, as can be seen in the composite satellite photograph of the earth at night.⁴ Europe and North America and Japan, the so-called triad nations, the imperialist nations, with just 16% of the world's population, emit far more light than the rest of the world. This North-South divide follows fairly closely to the topic of cancer, with only important anomaly being Australasia. Across the increasingly militarised borders that bifurcates the world, factories, the owners of factories, the products issuing from these factories, and the capital generated by these factories can all pass freely. Only the workers who work in those factories are denied the right of passage. This suppression of the free international movement of labour is the linchpin of a system of racism, national oppression and state violence that signify that the end of colonial domination and the attainment of national sovereignty has resulted in the emancipation of the national bourgeoisies while the exploited majorities of the global South still await their day of liberation. The suppression of the free movement of labour is a major factor in the huge and persistent wage differentials between rich and poor countries, which bourgeois economists - and some Marxists who should know better - try to explain away as a reflection of different levels of productivity.⁵ Instead, these huge international wage differentials reflect major differences in the rate of exploitation, the rate of surplus value.

³ Mike Davis, *Planet of Slums*, 2006, p23

⁴ Go to http://www.atimes.com/atimes/images/earth_night.jpg for this picture (not included here to save your printer ink)

⁵ For example, "the capitalist system must base itself on the exploitation of labour. 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." Joseph Choonara, 2009, *Unravelling Capitalism*, p34.

'Outsourcing', in my usage in this presentation, includes both its in-house and arm's length forms, and is synonymous with 'export-oriented industrialisation' from the perspective of the South. It refers to the massive 'global shift' of production to low-wage nations, the proliferation of global value chains and globalised production networks.

This is how important outsourcing is: if it wasn't for capitalist firms in the triad nations substituting relatively high wage labour at home with low-wage labour in Morocco, Bangladesh, China, the crisis that broke out two years ago would have started 20 years ago. Notwithstanding the intensification of the labour process through faster production lines, elimination of breaks etc; the deskilling and downgrading of labour; and—especially in the USA—cuts in real wages, capitalists in the imperialist countries did not dare to savagely cut production costs to the extent that they needed to at home; they could not reverse the expensive concessions made, as Fidel Castro said, 'out of fear of revolution', to the working class in the imperialist countries.⁶

Global outsourcing, was one of three ways that, in combination, enabled capitalists in the imperialist countries to put the overproduction crisis of the 1970s back in the box, to prop up the rate of profit, and to give another few decades of life to the unsustainable, destructive and obsolete capitalist system.

The other two factors that were crucial in putting capitalism back on the rails were the stimulation of demand through massive expansion of debt, and the productivity advances and reduction in turnover time made possible by the IT revolution.

There is not going to be another IT revolution, a few more drops can be squeezed out of the one we've got; and they cannot continue to expand debt, instead demand is being crushed by the 'great debt unwind'. And global outsourcing is a principal cause of the 'global imbalances' that are increasingly being seen as a root cause of the crisis, the reverse Marshall plan by which China and other manufactures-exporting countries lend the US the dollars it needs to purchase the products of their factories. This 'reverse Marshall plan' allowed the USA to finance overconsumption and gigantic budget deficits without having to borrow from private money markets; this would have resulted in higher interest rates and a global recession that would have quickly developed a momentum of its own. Ultra-low interest rates, in turn, encouraged households and firms to take on more debt, and at the same time obliged financial intermediaries to invest in riskier, higher yielding

⁶ *"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."* Fidel Castro, 1994, 28 January 1994 'Speech to an international solidarity conference in Havana', reprinted in *The Militant* (New York), 7 March 1994.

assets. Thus the factors pointed to by mainstream economists and the media as the cause of crisis—excessive debt, excessive risk-taking—were themselves effects of the global imbalances resulting from global outsourcing.

The 'financial crisis' can therefore be seen as a sickness caused by the medicine taken to relieve an underlying disease, that of overproduction and the tendential decline in the rate of profit. The sickness is bad enough, but worse still is that capitalism now has no medicine to use against the underlying disease, which is now returning with a vengeance. The emergency measures taken by governments to alleviate the financial crisis will only serve to inflate new and even bigger bubbles; when they burst, there will be no second rescue. There is nothing they can do to avert a calamitous global depression, a vicious trade war, an explosion of inter-imperialist rivalry, a crisis which puts socialist revolution once again on the agenda, North and South.

The above introductory remarks underline the scope and centrality 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. Yet the dominant paradigm, even among those who consider themselves Marxists, is to see the global South as peripheral, of minor importance. This is all the more surprising, given the ubiquity of the products of low-wage southern labour, the creators of most of the clothing worn by the people in this room, the electronic gadgets in your pockets, the coffee and much of the food we consumed during the lunch break. How, then, can we still consider the global South to be peripheral to global political economy?

We cannot discuss the role of outsourcing and its relationship to other economic processes, and neither can we evaluate recent mainstream and Marxist literature on the global crisis, without first attempting to correct these gross distortions in perception, this basic lack of a sense of proportion.

Accordingly, the remainder of this presentation is arranged as follows.

First, I shall present some evidence that strongly indicates that *the global South is peripheral no longer*. Second, I will discuss what I call the 'GDP illusion', arguing that GDP and trade data conceals at least as much as it reveals; that these statistics are not, as is almost universally believed, raw data that may suffer from technical shortcomings but are essentially objective and uncontaminated. Instead, I will argue that 'gross domestic product', does not measure gross domestic product, the wealth produced by economic activity within a nation, that it is instead a projection of the core fallacies which form

the foundation of mainstream neoclassical economics and of the heterodox economic theories which have partially broken with the mainstream but remained trapped by it.

Third, I will consider the relationship between outsourcing and the global crisis, first by briefly reviewing influential mainstream and Marxist analyses of the crisis (to be in future versions of this paper), and then by considering the relationship from three temporal angles, the past, present and future. The past: the relationship between outsourcing and financialisation, identifying these to be the two outstanding transformations wrought by neoliberal globalisation, considering why neither can be understood outside of their relationship with each other and how together they have helped to determine the shape of the crisis and the timing of its eruption. The present: the impact of the credit crisis on the functioning of global value chains. The future: the implications of this unfolding crisis for the future of export-oriented industrialisation, the only game in town for 'emerging economies' pursuing capitalist development without major natural resources.

2. Global outsourcing and the rise of Southern labour

The period of neoliberal globalisation has seen a vast expansion of the southern labour force, or what the ILO calls the 'economically active population' or EAP (Figure 1, showing absolute numbers of EAP, N&S); and, within this, of the southern proletariat (Figure 2, which shows proportion of EAP who work for a wage); and, within this, of the southern industrial proletariat (Figure 3), now home to more than three-quarters of the world's industrial workers. While those who live by selling their labour power, the proletarians, form an overwhelming and still-increasing proportion of the economically active population in the imperialist countries (rising from 83% to 87% between 1980 and 2005), in 'developing nations', the proportion of the economically active population who sell their labour-power has fluctuated around 60%, the remainder being made up of small farmers and other small producers, petty traders and others, reflecting the enormity of what Marx called the 'relative surplus population' that has been 'liberated' from their ties to the land and their place in traditional economies by the penetration of capitalist social relations (see Appendix 1: 'Capitalism's relative surplus population'). When the spiky trace showing the 'waged and salaried' proportion of the South's EAP in Figure 2 is smoothed, it reveals a cycle which closely follows the periods of acceleration and deceleration in the growth of GDP: in periods of higher growth, some of capitalism's 'relative surplus population' gains paid employment, when growth sags the flux is reversed.⁷

⁷ The spikiness of the trace is due to poor date quality, and to the inherent difficulties faced by southern governments in determining the employment status of people working in the informal economy.

Figure 1

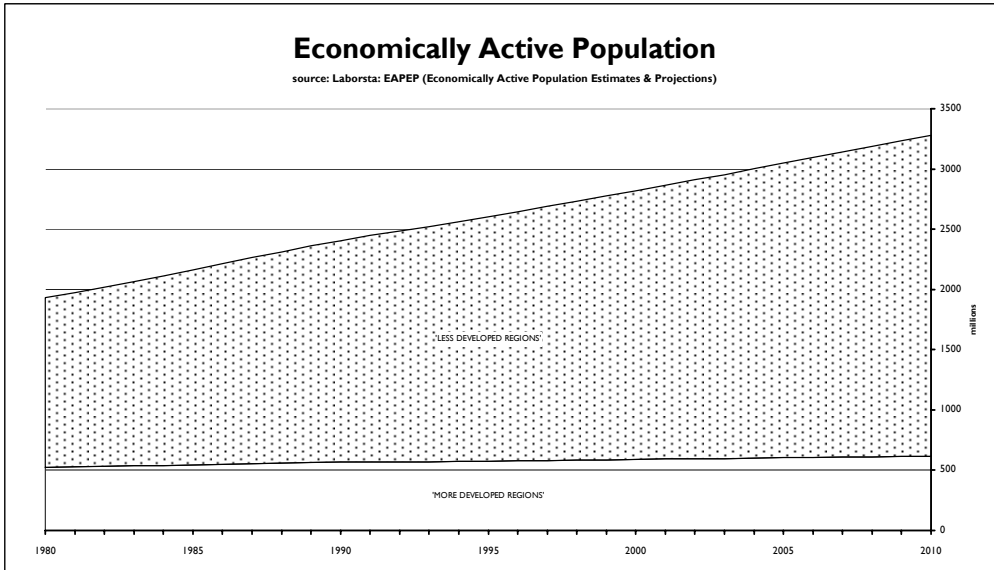


Figure 2

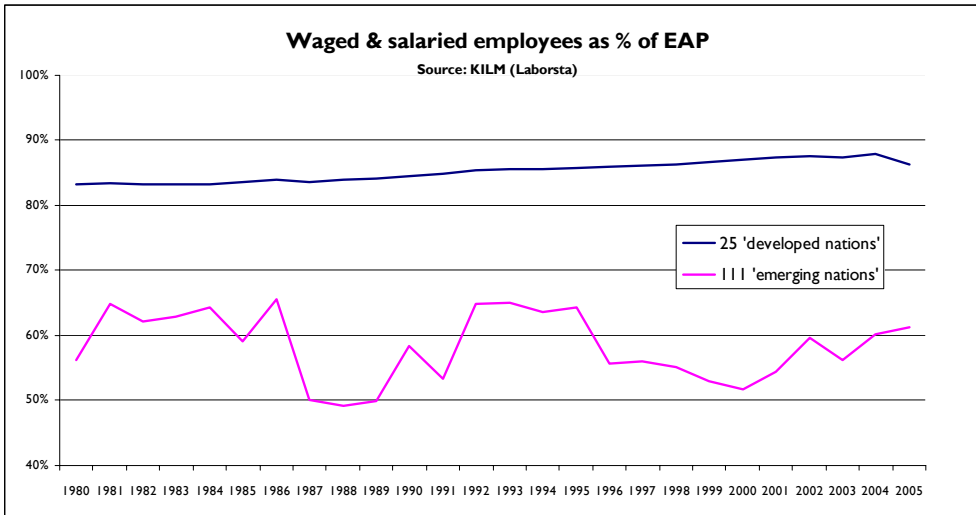
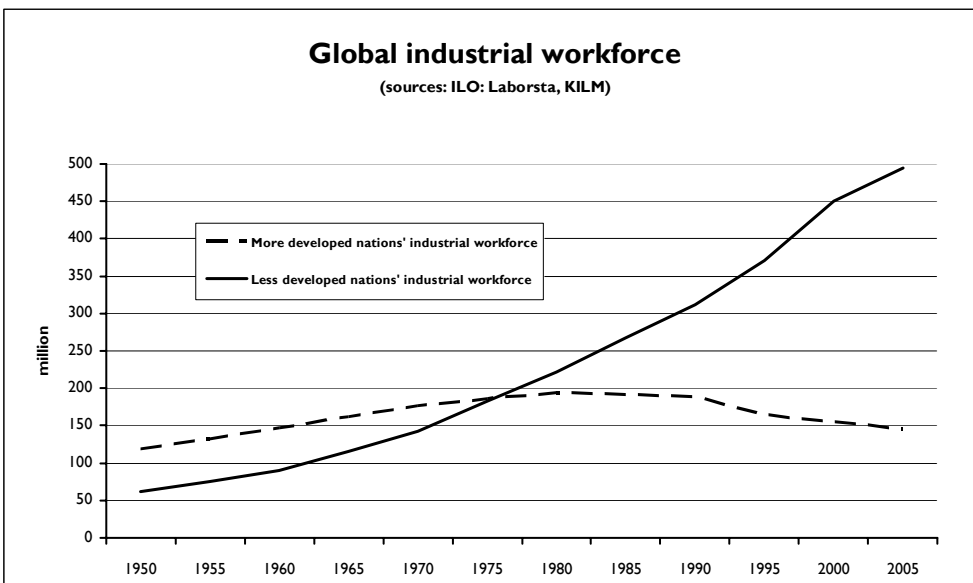
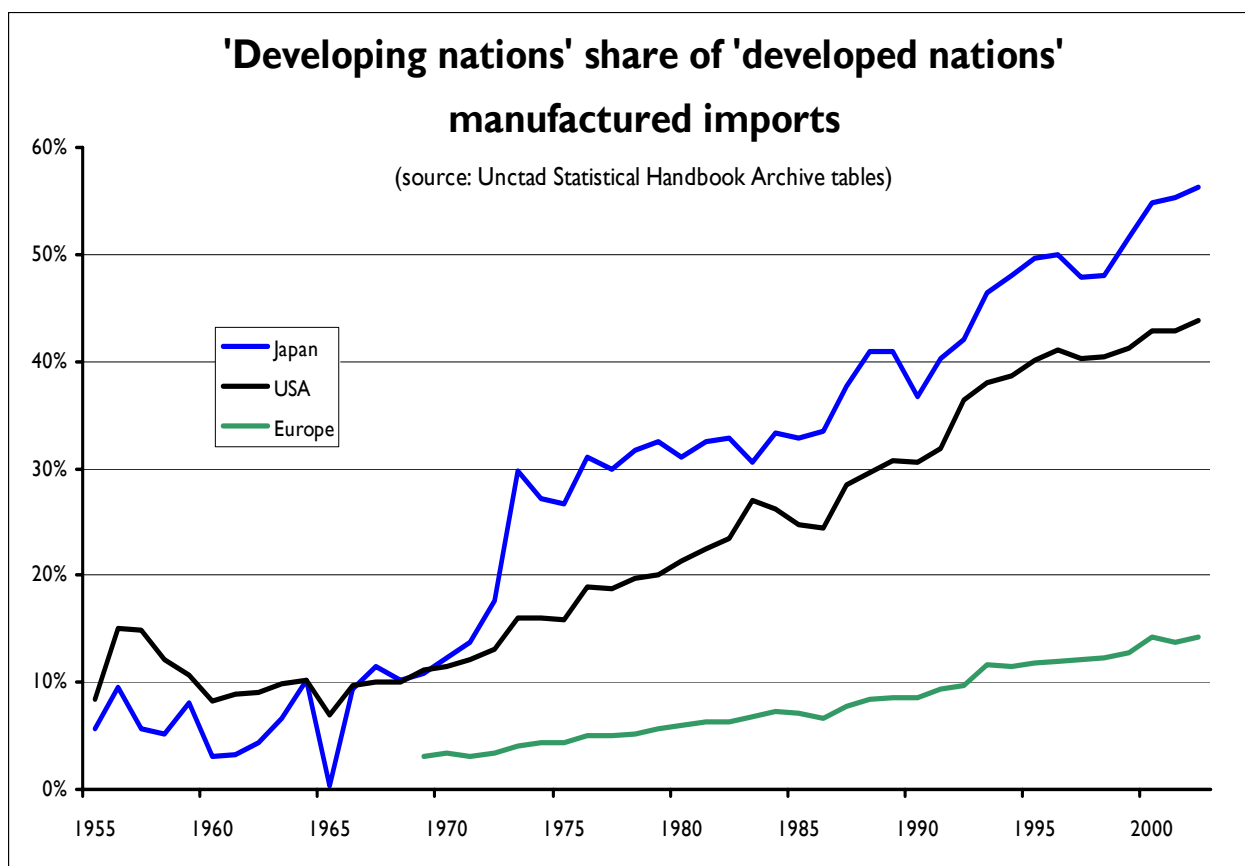


Figure 3



The absolute growth of the southern workforce and industrial proletariat and its growing numerical dominance vis-a-vis that of the imperialist countries is all the more impressive when we consider that southern nations and the workers and farmers who live in them have in this period become much more integrated into the global capitalist economy, thus amplifying the numerical growth.

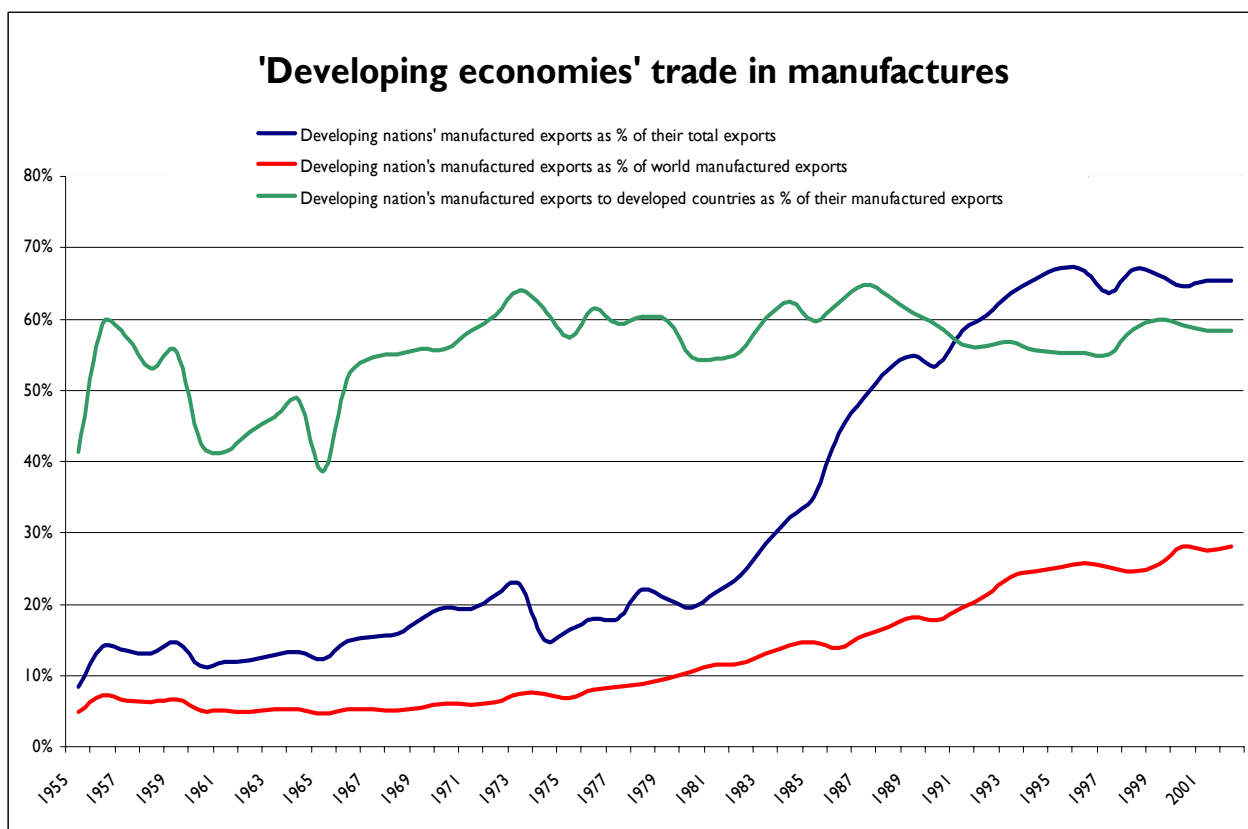
Figure 4



The growing centrality of the 'peripheral' South is further underlined by Figures 4 and 5. Figure 4 shows the proportion of 'developed nations' manufactured imports that are sourced from 'developing nations'. It shows that this year has quadrupled in the three decades from 1970 to 2000 for each of the three legs of the 'triad'. The South's much lower share of Europe's manufactured imports compare to 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. Figure 5 provides still more evidence. Each of its three traces require some interpretation. The share of the South is manufactured exports going 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 final goods are exported to 'developed economies'. By definition, this 'triangular trade' does not in

anyway imply a lessening of dependence of finished goods on northern markets; were this to be stripped out, this trace without doubt would also show a sharply rising trend. The trace showing the increased 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 into held by the 'global shift' of production in southern nations. Finally, the third trace in Figure 5 shows that the South's share of world manufactured exports almost tripled in the two decades between 1980 and 2000, reaching nearly 30%.

Figure 5



It is necessary to make two extremely important caveats to this, however. 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. A more accurate picture would be obtained by showing the net manufacturing value added (MVA), i.e. the South's contribution to the gross value of manufactured exports, but this is very difficult to calculate since trade data does not allow disaggregation of gross export values. As

Princeton economists Gene Grossman and Esteban Rossi-Hansberg 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.’*⁸

The second caveat is even more important: standard interpretation of trade data assumes that export prices equals export values, a corollary of the fundamental mainstream premise that prices equals value. What Gary Gereffi calls “the fundamental asymmetry in the organisation of the global economy between more and less developed nations”⁹—that is, growing oligopoly in the North, cutthroat competition and the race to bottom in the South—results, in Milberg’s words, in ‘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.’¹⁰ below, we reject this core premise of the dominant economic paradigm, leading us to the conclusion that export prices data systematically and massively underestimates the magnitude of the values embodied in the South’s manufactured exports to the North.

[*To be continued...*]

⁸ Grossman & Rossi-Hansberg, 2006, [p6-7](#).

⁹ Gereffi, 2005, p46-7

¹⁰ William Milberg, 2004b, ‘Globalised production: structural challenges for developing country workers’, in *Labour and the globalisation of production - causes and consequences of industrial upgrading*, 1-19. New York: Palgrave Macmillan (p10).