

**'NEW PARADIGM' OR NEW WORLD ORDER? THE RETURN  
OF CLASSICAL IMPERIALISM AND THE DYNAMICS OF THE  
US BOOM**

**Alan Freeman**

**the University of Greenwich**

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[www.greenwich.ac.uk/~fa03](http://www.greenwich.ac.uk/~fa03)

[a.freeman@greenwich.ac.uk](mailto:a.freeman@greenwich.ac.uk)

# 'NEW PARADIGM' OR NEW WORLD ORDER? THE RETURN OF CLASSICAL IMPERIALISM AND THE DYNAMICS OF THE US BOOM

One can reject in advance the attempts by Professor Konrad'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 generalization 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 Konrad'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

– Trotsky (1923)

The idea of this paper is to ask what is happening to the world market. This is an innocent, if broad question, and it might seem that the only difficulties are technical and empirical: gather enough data, develop a good enough model, feed both to a computer, and calculate the result. This is certainly the way most modern economics approaches it.

I am going to argue that the real difficulty – and the reason the modellers produce such wildly inaccurate results – is not the answer but the question. The problem with orthodox economics is not one of models or techniques but the concepts it implies. In a nutshell, its concepts make it impossible to understand what a real market actually consists of.

To illustrate this point I want to analyse, or suggest how to analyse, two concrete questions which exercised economists at the turn of the last century, and are beginning once again to exercise them. These are:

- (a) is the world on the verge of a 'fifth Konradieff', an alleged new prolonged phase of economic growth and social progress arising from a fundamental revolution in technology?
- (b) is the world entering a new 'classical imperialist' phase like 1870-1914 characterised, despite eventual rapid growth, by enormous social and political instability and a re-partition of world's territories among the great powers?

At the centre of the past and present debate around these questions, a third question hovers in the background, and this is the start of my enquiry:

- (c) is there a process *endogenous* to the market – arising from the nature of the market itself – which leads it to re-establish the conditions for its own existence and reproduction, after or as a consequence of prolonged periods of stagnation and instability, such as that we have been living through since approximately 1965?

The idea that the market stabilises itself endogenously is, when one thinks about it, the core claim of neoliberalism. The essence of this view is that the market cures its own disorders. Any deviation of the market from the ideal of perfection cannot therefore be a result of the market but must be an external imposition on it. Unfortunate episodes such as financial crashes, famines, permanent unemployment and national destitution cannot therefore be produced by the market, but result either from interference with it or from the imperfect conditions under which it has to operate, such as bad government, incompetent monetary authorities, intransigent unions, cultural or historical backwardness, technical régime or regulatory framework: that is, they result from circumstances exogenous to the market.

If this is scientifically true, then the policy is quite logical: remove all restrictions on the market so that, operating free of external constraint, it will avert undesirable consequences and optimally deliver that which the human race freely seeks. In the developed Hayekian version of this idea, even famine and destitution are only the explicit result of choices which we ourselves make, and which the market merely delivers in a transparent manner.

This idea is also the driving force behind the ideological triumph of globalisation. In the complex debate between neoliberalism and its opponents, it is almost universally supposed that globalisation is in itself inevitable, which is just another way of saying that it does not contain the seeds of its own destruction. The critics of globalisation, or its effects, cast themselves at best as standing in the way of nature, and at worst as opponents of progress. No-one therefore proposed, for example, how countries such as Brasil, South Korea, or Russia, might defend themselves not against the onward march of the world capital market, but against its violent withdrawal. The most striking empirical fact about the crisis of August 1998 is that no-one was prepared for it.

The conclusion that the market contains the seeds of its own destruction thus leads to an entirely different policy prescription. It vitiates the basic premise of neoliberalism. If the market's capacity for self-regulation and self-stabilisation is contingent, not intrinsic, then at some point exogenous forces will irrupt into it precisely because it cannot actually sustain itself. These forces may not necessarily be morally desirable. They may take extreme malign forms such as fascism, barbarism, genocide and wars of mass destruction, whose function is not the elimination of the market but its restoration. They may alternatively take the form of revolutionary upheavals seeking to escape the consequences of the market's destructiveness. Nothing about the self-destructiveness of the market tells us how these exogenous forces will operate, precisely because they are not determined by the market's operation. The result will depend on conscious human action realised through those aspects of its political, social and cultural institutions which are not governed or dominated by the market; on subjective preparedness and informed choice. The task facing any responsible individual, rather than simply shielding society from the side-effects of an inevitable process, is to save it from the wreck of the process itself.

The core question which lies at the heart of all debates about capitalist breakdown, long waves, cyclic behaviour and market stability is hence this: does the market endogenously suspend itself? And if so, does it endogenously restore itself? The answers I will suggest are:

- (a) an endogenous long-run process, mediated by the falling profit rate and arising from growth, leads over a period of 20-30 years to what I will term 'generalised crisis' characterised above all by a serious decline in the pace of growth. This compounds the 'normal' 7-10 year business cycle. In a nutshell, growth destroys itself. However final breakdown is not an inevitable outcome of this process as many marxists believed at the turn of the century and as presented in many accounts of the falling profit rate; history has shown that the market can be saved from it. Generalised crisis therefore alternates with phases of expansion, giving the appearance of cyclic movement.
- (b) The market does not re-stabilise itself. The mechanism of exit from generalised crisis is exogenous and depends on political intervention up to and including dictatorship and war, on an ever more barbaric and brutal scale. The outcome of generalised crisis thus depends on the conscious actions of classes and the political power they wield;
- (c) a second, endogenous long-run process has operated since the dawn of capitalism: the growing inequality between a small group of rich nations and the rest of the world. Unlike the first process this has never been effectively reversed and is a genuinely secular trend which accelerates when the world market is extended and diminishes when it retreats. History has reversed Adam Smith's famous formula that the wealth of nations increases with the extent of the market: it is now the poverty of nations that grows with the market.
- (d) The two processes are linked. It is the impoverishment of three-quarters of the world that has made it possible to rescue the remaining quarter from the periodic shipwreck of the world market, through a systematic re-organisation of the world's territories and markets to place the labour of the poor countries at the service of the rich. The attempt to engineer such a re-organisation – not yet conclusively accomplished – is the principal function 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 neoliberalism.

- (e) The world market has seen two quite distinct types of exit from crisis. The industrial revolution itself, and the postwar boom, were characterised by a high global profit rate and the dominance of a single hegemonic power (the UK in 1845, the US in 1945) whose productive superiority was such that in expanding, it could act as the motor of a general expansion even of its key rivals. The result in each case was a long period of relative peace, political stability and general, though differentiated, rise in prosperity. The expansive wave of 1890-1914, which I term 'classical imperialism' had an entirely different character. The profit rate did not recover to previous levels, and it was characterised by the absence of a clear hegemon, intense great power rivalry, and a very differentiated expansion accompanied by a rise in misery, barbarity and poverty over much (probably most) of the world, and eventually, the two wars and most of the revolutions that bestride the twentieth century.

I wish to argue that the evidence suggests the only possible basis of a new wave of economic expansion is a recovery of this second type – a return to classical imperialism. Recovery is thus contingent on the enforced immiseration of three quarters of the world, with all social consequences that this entails.

## **WHAT DO WE MEAN BY ENDOGENOUS?**

Writing in 1923, Trotsky, cited at the start of this article, opened the debate around what is probably the most basic question concerning the law of motion of a market society. He was responding to Konradieff's assertion, based on detailed empirical study, that beside the well-known business cycle, occurring every 7-10 years, a longer period cycle of 50-60 years could be discerned. Kondratieff's facts have been disputed but, especially in the light of a further hundred years of experience, I feel justified in taking as given that this periodic variation is empirically true.

Trotsky himself did not dispute Kondratieff's facts. The discussion among Russian economists, which also drew in a wider layer of Marxists, concerned the *cause* and *law of motion* of the observed periodic fluctuation. He writes, to repeat, 'The periodicity of short cycles is conditioned by the internal dynamic of capitalist forces, which manifests itself whenever and wherever there is a market.' This contrasts with the periodicity of long cycles which 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 market itself, and the non-market conditions for its existence?

On this question economics is extraordinarily silent. Insofar as it is discussed we find the purely technical distinction made in econometrics, which examines a system of equations to find out which values must be supplied from the outside, and which can be determined on these premises, in the very restricted sense of calculating them algebraically. On closer examination, this definition begs the question. If I write down an equation which makes consumer behaviour a function of psychological preferences, then I have made these preferences exogenous by my choice of equations, but if I write an extra equation that makes them a consequence of market pressures such as advertising, I have 'endogenised' them – I have by definition made them part of the market and its internal functioning.

Many attempts to account for unexpected consequences of the market amount to little more than 'internalising' things which the standard theory treats as external. Goodwin's celebrated models of the business cycle explain it as a consequence of the interaction between employment and wage-bargaining. That is, they take something which theory treats as given – the demand for money wages – and say define it as the outcome of something internal –

employment levels. Similarly 'endogenous growth theory', now popular as a means of explaining national inequality, takes external factors like policy and defines them as the product of market forces. 'Real Business Cycle' theory, currently in vogue to explain the periodic 7-10 year cycle, explains this as little more than the propagation of an exogenous shock. Many long wave theorists argue that phases of expansion are sparked, in some way, by a semi-automatic or automatic process in which technical revolution, following Schumpeter's 'creative destruction', rekindles the dynamism lost in a previous long period of stagnation. This implicitly re-instates the factor of technology, which others take as exogenous, as an endogenous market phenomenon.

When one reflects on this line of argument, one realises it does not really address the problem. With enough equations we can make everything in the world a product of the market. But all we would do is define the market to include everything, and we would no longer have a theory of the market but a theory of society as a whole. If the 'market' is a distinct social institution, demarcated for example from government or at least aspects of government, then it should exhibit universal laws which apply under all governments.

I want to be quite precise about what this endeavour consists of. The idea is not at all that the market operates independent of say, technology or politics. It interacts with them. But an interaction is not the same thing as an internal property or law. To take an extreme case, we might write an equation connecting climate to the output of pollutants, and a second equation connecting food output to climate. This connection really exists, but does not signify that the climate is a part of the market. The actual course of the market arises from an interaction between its own behaviour and external factors; to analyse the interaction we have to distinguish these factors one from the other, and from the market itself.

This is exactly what Trotsky seeks to do: he acknowledges that periods of sustained economic growth alternate with deep and extended crisis, but attributes their onset to '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.'

He is not alone in making such a distinction: neoliberal economics certainly does, by the very fact of distinguishing things like 'government interference' from the market itself, in order to blame them for what the market does. So in studying the distinction, I am doing nothing which contradicts any branch of economic thought that I know of; I am merely seeking to make explicit what all others take for granted.

I am not advancing a teleological case that the market must have laws because the universe is obliged to be lawlike. It may be that no such laws exist. It may be that it is impossible coherently to distinguish between the market itself, and its interaction with that which lies outside it.<sup>1</sup> I will to the contrary try to show that such laws *empirically* exist. I will, however, argue that we can only represent and make sense of them when we analyse them using categories that correspond to them. Above all, we require the category of *value*; moreover, we need a concept of value that is quite distinct from that so far applied by what I will call 'orthodox academic Marxism'; a concept which does not make the presupposition of equilibrium. It is also my contention that such a concept is in fact that proposed by Marx.

## **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 an important measure which essentially charts how much the economy has grown or *accumulated*: it gives the stock of capital, divided by labour employed.<sup>2</sup> Both are represented

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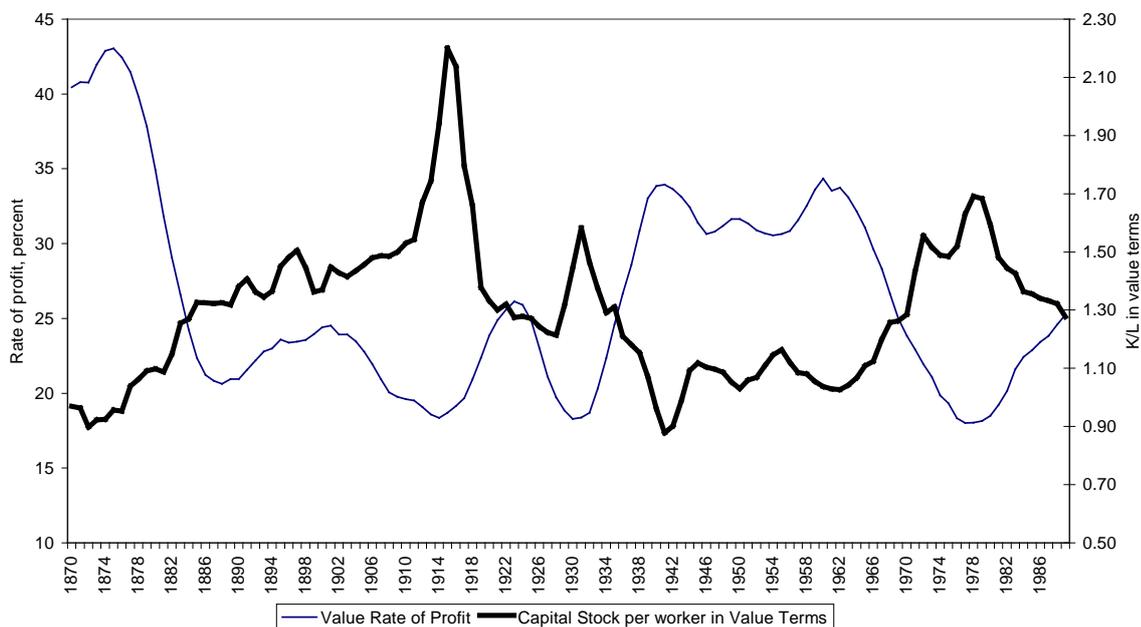
<sup>1</sup> Although in that case, one might conclude that the market itself is not really a distinct entity, since it is hard to conceive of an entity with no features distinct to it.

<sup>2</sup> 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

using a specific concept 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). This isn't the standard concept: it is an alternative which the 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. In a nutshell, 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. Finally 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.

**Figure 1: United States rate of profit and capital stock in terms of labour time 1870-1992**



Source Data: Dumenil and Levy (1994)

However this is not all. The graph also suggests that there are two distinct types of expansionary phase, although I would exercise some caution because of doubts surrounding early measures of capital stock. Nevertheless it would seem that the recovery of 1890 did not re-establish the profit rate but that of 1945 did do so, and that at least a part of the explanation is that this recovery was not based on a substantial reduction of capital stock but on an additional source of US profits. We can more confidently relate this to more definitely confirmed facts about the relations between nations: there is no doubt at all that 1890 opened a prolonged period of extreme and violent political crisis. A key question about any possible upturn is to establish whether it is stable like 1945-1962 or unstable like 1890-1914.

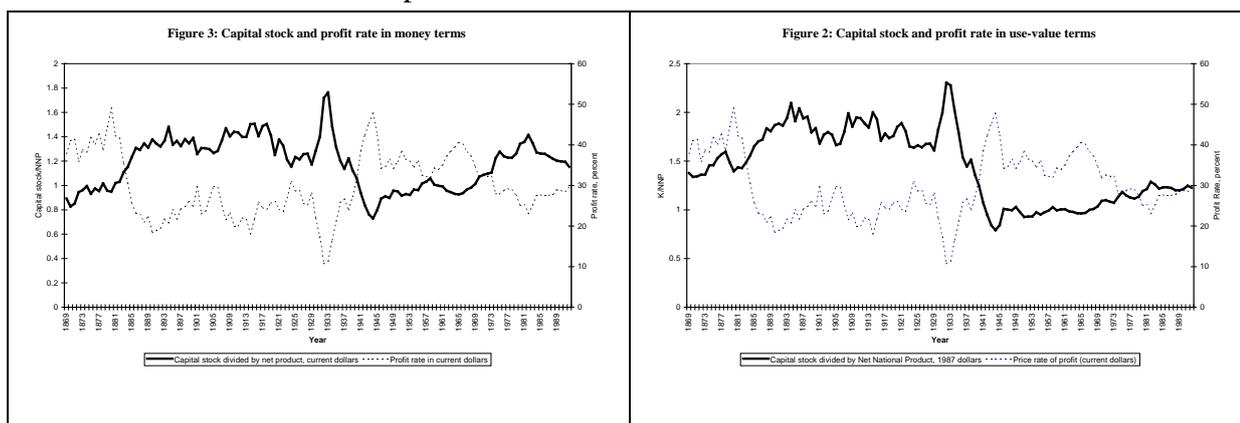
I will argue, in the second section of this paper, that the source of this recovery was the appropriation of profit from the rest of the world, through the mechanism of unequal exchange arising from the fact that the technical revolution of 1890-1914 was differentially concentrated in the US. Of this, more later. For now, I want to concentrate on a more basic point: the empirical evidence is highly suggestive of lawlike behaviour: when capital accumulates, the profit rate falls. In and of itself, this neither proves such a law, nor does it determine that it is endogenous. It does nothing to establish a chain of causal connection,

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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.

which calls for a theoretical explanation, that I will shortly propose. Before moving on, however, I want to make three points.

- (a) a single fundamental fact – the alternation of periods of reduced accumulation with periods of expansion – emerges from the data even when a different concept of accumulation is applied: for example when accumulation is measured in terms of use-value, as shown in figure 2, or money, as in figure 3. This suggests that it is in some sense a ‘genuine’ fact and not an artefact of our concept. The concept allows us to explain the fact, but the fact exists in its own right.
- (b) the law manifests itself. For very long periods of time, the rate of profit falls and the capital stock rises, and the second suffices to explain the first. This is not always so but it appears sufficiently often, and for a sufficient time, to create a *prima facie* case for a relation of cause that is an element of observable reality. An analogy with the the law of gravity may help. First, this law is very universal even though objects do not always fall downwards. The prime function of the law is to distinguish gravity from all other factors, allowing us to explain how any concrete object moves as an interaction between gravity and everything else. Nevertheless gravity is a factor that appears in its own right; it is not concealed. Though not everything falls all the time, a lot of falling goes on; otherwise, for a start, Newton would never have observed an apple doing it. Thus we can observe both the law itself, and its interactions.
- (c) further confirmation of an endogenous law is that it operates for large periods independent of variations in 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 they all take the same form, in value terms: stock goes up, and the profit rate comes down. The only constant factor is the market itself. This suggests that a declining profit rate under accumulation is a law *of* the market, and not of something else. As Trotsky puts it, the internal dynamic of capitalist forces ‘manifest itself whenever and wherever there is a market.’ Technical advance, for example does not – as contemporary theory claims – counteract this tendency. 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.



## WHAT DOES AN ENDOGENOUS LAW CONSISTS OF?

What we have so far presented constitutes no more than supporting evidence for a law that explains generalised crisis. A full justification requires a theoretical explanation, an account that can be 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 that is applied in this paper: it is a law linking capital stock and investment which I call the law of accumulation.<sup>3</sup> Capital stock grows by exactly what is added to it by investment, over any period. To illustrate this suppose we have an initial capital of 1000 units and suppose that the constant labour force adds 300 units of value each year. Suppose 200 of this is profit, and of this profit, 100 is invested. Thus, 100 is spent by the capitalists in each current period, as revenue. Table 1 shows what happens each year:

Capital	Output	Wages	Profit	Capitalist Revenue	Investment	Profit Rate
1000	300	100	200	100	100	100/1000 = 10%
1100	300	100	200	100	100	100/1100 = 9%
1200	300	100	200	100	100	100/1200 = 8%

**Table 1: the law of accumulation**

This is *why* accumulation leads to a falling profit rate. The 'law of the tendency of the rate of profit to fall' is only an expression of the law of accumulation, in the following sense:

- The profit rate itself, given capital stock, can fall only if there is a decrease in the proportion of total new value added going to workers;
- If the mass of this new value added is itself fixed independent of accumulation, and cannot grow without limit (as is the case when expressed in labour-hours), then this decrease cannot offset the fall in the profit rate forever;
- The only other way that the profit rate can 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 perfectly comprehensible; for example if in period 4 the capitalist consumes 400 units of accumulated wealth, the accounts for periods 4 and 5 will read:

Capital	Output	Wages	Profit	Capitalist Revenue	Investment
1000	300	100	200	100	100
1100	300	100	200	100	100
1200	300	100	200	600	-400
800					

**Table 2: disaccumulation**

Disaccumulation means the capitalists actually spend their wealth in the current period, a situation that Marx describes as the conversion of capital into revenue or the release of capital.<sup>4</sup> In period 4 above, the capitalist spends 600 units, being 200 in current profit plus 400 withdrawn – disaccumulated – from the business.

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. This gives precise meaning to the idea that the fall in the profit rate is endogenous to capitalism: it can be ameliorated or stopped only by suspending capitalist accumulation itself. There are two ways this can happen: one is to end the market in capital and remove investment from the sphere of capital altogether. The other is if the fall ends destructively as investment is hit by falling profitability: this is the source of crisis.

<sup>3</sup> 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.

<sup>4</sup> See Maldonado-Filho (1998,1999)

### ***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 but which is central to the task in hand, and also to the inadequacies of equilibrium economics – including in particular that branch of equilibrium economics which most economists, in my view very wrongly, attribute to Marx.

What concepts do we presuppose, in order to speak of such magnitudes as accumulation, profit rate, and capital stock? In actual fact, only one: the stuff that accumulates. To be precise, the substance that is the subject of accumulation and profit, the ‘result’ of economic production. If we have some concept or measure of this result – value – then stock is the quantity of value in existence, profit is the amount of it produced in a given period, less what is consumed in the same period, accumulation is the increment of this stock, and the profit rate is the profit divided by the stock.

The law of accumulation is, in this sense, what I term a ‘pure law’; it is expressed in terms of a single substance, value, without any external admixture. It is precisely this fact that makes it universal; it is also precisely this fact that makes it an endogenous law. It applies regardless of technology and regardless of monetary régime, just as the law of gravity applies regardless of the material of which planets are composed. This does not mean that technology may not alter the way the dynamics of the law or its concrete form of appearance. Value may accumulate faster or slower, as a result of technical change. It may take the form of many products or a small number of products. Technical change, however, cannot modify the quantity of value that these products represent, if produced by a given number of workers using a given value of inputs. This quantity of value depends only on the number of workers, and not on the number of things they produce. An hour is an hour, regardless of what is done in it.

This quantitative absoluteness is, however, a feature of the concept of value that we apply. If we treat money as the measure of value, for example, we will find that stock – and the profit rate – are larger under conditions of inflation, than under conditions of deflation. If on the other hand, as does most of economics, we think of the result of economic production as a mass of use-values, or quantities of goods, then the stock and the profit rate will be larger under conditions of technical progress. But this is because we have tried to express the law in terms of something that is not governed by the it; as would occur if we tried to measure the distance of a planet from the sun as a multiple of its size, instead of applying a uniform measure of distance.

The logical basis of the law of accumulation applies only to a particular concept of output: value. Moreover it applies only if our concept of value distinguishes unequivocally between production, in which value is created and consumed, and circulation, where it is re-allocated among its owners.<sup>5</sup> Whilst the law also appears empirically in terms of other concepts of output such as use-value, it cannot be theoretically accounted for using these concepts. Indeed, not only is there no obvious reason that the profit rate in use-value terms should fall as a consequence of accumulation; it is well-known and mathematically proven that the profit rate in use-value terms should in theory rise, unless offset by increasing real wages, as long as there is technical progress: this is a result of Okishio’s famous theorem.

The problem is that, if we use the concept of value that is commonly attributed to Marx by his interpreters, there is indeed no logical basis to the law. The law as expressed by Marx is

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<sup>5</sup> At first sight it may seem that consumption does not belong to the sphere of production. However, production constitutes, not creation *ab initio*, but the transformation of what is inherited from the past into something different. It consumes in order to produce. Included in this process is the production of the commodity labour-power itself, through the consumption of the wage; and in the reproduction of capitalist society as a whole is included the reproduction of the capitalist class through its own private consumption. Hence consumption *itself* belongs to the sphere of production. The alternative is to locate it in the sphere of circulation, but this contradicts what circulation consists of, namely, the transfer, without alteration of form, of commodities from owner to owner.

logically sound if, and only if, we apply a different, non-equilibrium concept of value. The most important property of this non-equilibrium concept is *value conservation*: value can be destroyed or created only in the course of production, and never in circulation (where, in the sphere of production, we include the production and reproduction of the commodity labour-power, and of the capitalist class itself).

It is a dogma of most writings on Marx's law of the tendency of the rate of profit to fall that, because the profit rate in use-value terms will necessarily rise as a result of technical progress, this law cannot hold. This dogma ignores the fact, well-known to Keynesians, that there is not in fact a single rate of profit; the profit rate varies according to the unit of account. The 'errors' which the literature attributes to Marx's law arise because in the equilibrium framework, value is incorrectly accounted for and is treated as if it had been destroyed without being consumed.

### WHAT IS PRODUCTION?

It makes a difference, to labour the point, which concept of value is used. We will now suggest that to any given concept of value corresponds, in fact, a definite concept of production. The way we conceive of production is in a one-to-one relation with the way we conceive of value.

This is because any expansion of capital stock appears as a component of output. This is why money matters; if money prices rise then capital stock will also rise, even if no 'production' has taken place. In properly produced accounts this appears as a component of earnings. This isn't particularly difficult to understand; it is the source of speculative profits, in which someone buys an asset such as a house or a work of art, and its price then rises to produce a capital gain. This capital gain is treated as value added. If the asset is retained the accounts will also show this capital gain as retained earnings, or 'investment'. In effect, we are obliged to dignify the activity of speculators as a kind of production.

It seems very unreasonable. Nevertheless, if we say that value is 'merely' money, we will be driven to this conclusion unless we cheat by refusing to balance the books.

Actually the monetary expression of value amalgamates two distinct effects and gives them the same name. On the one hand, capital assets increase when people work and make new value. On the other, they rise when the goods they make rise in price. If we treat money as the true measure of value, we will amalgamate these two causes of change and call them one.

Figure 7: growth of capital stock in terms of money and labour time

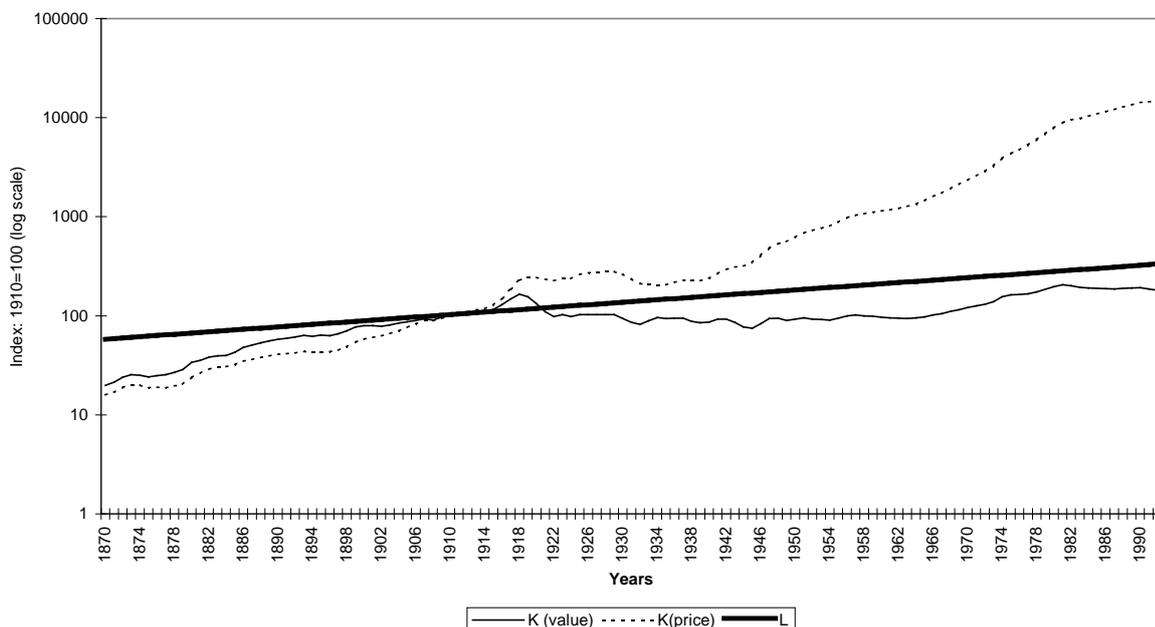


Figure 7 illustrates this by plotting capital in terms of money and labour time on the same axis as a trend line showing the growth of the working population. Until 1910 the two measures march more or less in step.<sup>6</sup> Subsequently, the value of money systematically rises so that by 1992, capital stock in money terms had risen by 81 times more than in labour time.

This latter expansion is a monetary effect, in the sphere of circulation. This is very important but cannot be confused with growth arising from productive effort. Precisely because inflation is so important, we have to separate it from production, just as air resistance must be distinguished from gravity to explain how objects move through space. This separation is accomplished by a value measure unaffected by circulation, strictly governed by the labour time added in any period and modified by nothing else. Monetary effects are then recorded in the difference between the two measures.

Exactly the same consideration applies to the idea that use-value, or physical size, can serve as a measure of output. At first sight, use-value appears as the ideal measure of both capital stock and output. What could be more reasonable than to treat the outcome of production as the number of things it has produced?

However the concept in fact amalgamates intrinsic market phenomena with phenomena that arise outside it. It counts anything which leads to the creation of more use-values as part of production, whether or not humans are directly involved and whether or not the results are exchanged on the market. But almost everything in nature leads to new use-values. Moreover the machines we produce take their place beside natural objects as an objective and unalterable part of our general environment. The use-value concept in its early form appeared as the physiocratic notion that the unaided activity of nature is a the prime source of traded products. In its modern guise it leads to a concept we might call robocracy, that everything machines do is also a part of production, even if no humans are involved at all. It promotes *things* to a factor of production. In a certain sense, it defines production as 'everything that gets bigger' which voids it of all content.

Why does this matter? Since, for example, nature clearly helps us produce, why not recognise it as a factor of production? Since better machines make more products, why not recognise this advantage? My answer is that both nature and machines must be recognised, but we have to distinguish sharply between their non-market effects and their market effects. Machines and nature when organised by the market exhibit a completely distinct behaviour and their operation must therefore be separated into two distinct components, that which arises from the conscious application of waged labour, and that which takes place independent of this labour.

### ***HOW DO LAWS INTERACT WITH EACH OTHER?***

Let us summarise. A coherent explanation for the existence of crisis lies with the accumulation of value as such, independent of and without resort to any other factor. This in no way denies the enormous importance of technical advance, whose interaction with accumulation almost certain accounts for the dynamics of long-run change – its timing, extent, and social impact. But it is not the same as accumulation itself, which has independent laws which, the empirical facts show, are not transcended by technical advances. The entire problem with use-value as a measure of output is that it does not permit this distinction; it does not tell us, when 'output' grows, whether the economy was using more human labour or whether it was applying it to better machines. It does not constitute an information gain to mix up two distinct sources of variation in a single measure; it constitutes an information loss.

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<sup>6</sup> Note in passing that throughout Volumes II and III of *Capital*, Marx explicitly states that he assumes a constant value of money. This is in any case a valid simplification on theoretical grounds, for the level of abstraction reached in these works. It is worth noting, however, that for the whole historical period he covered, and long after, this assumption was also empirically justified.

This is not altered because the two things interact; indeed we can only speak of an interaction between separate things. When I produce an article my head interacts with my arm but if I can't tell my head from my elbow, I will have as much trouble writing as I will thinking.

Three distinct aspects of the commodity – its value, its price, and its use-value – must all be taken into account in a complete account of economic activity. Each must be studied separately in order that their combined effect may be evaluated. The function of the category of value is that it *partitions* all changes in the monetary value of output into three distinct components: the application of labour, the improvement of machinery, and the impact of circulation.

All theories which claim to prove accumulation does not diminish the value profit rate, do so by defining value so that it no longer measures accumulation in its pure form, as a growth in abstract production by wage-labour and nothing else. They mix up the deployment of the labour force, technical change, and monetary fluctuations under the illusion that, because this incorporates many concrete phenomena, it somehow represents them more generally.

This is to misconceive the purpose of abstraction: all truly great scientific abstractions are both universal and simple. They are simple not because they explain so little but because they explain so much. Generality does not arise because an abstraction represents everything that could possibly happen but because it remains valid no matter what happens. To take an example that exercised Galileo: all objects fall at the same speed. This doesn't make it irrelevant whether an apple or a cannonball falls on me: it does mean they will take the same time to reach me.

The law of accumulation, when presented in value terms, is a law of this type. In this form it is independent of monetary and technical changes and therefore cannot be overridden or contradicted by them. In each period, the value created is given by the amount of labour expended, and this is so quite regardless of the money that represents this labour time or the amount of goods that it produces.

## CONCEIVING THE POVERTY OF NATIONS

At one time it was widely believed on the left that the fall in the rate of profit was irreversible and would lead, in some way, to a decisive and terminal collapse of the capitalist system. New empirical evidence is always welcome, but I think the evidence of the 1930s has settled this question. Capitalism did survive its most 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. The evidence, which is now considerable, suggests that the global market has given rise to a prolonged and irreversible divergence between the nations of the world, organising them in two fundamental groups:

- 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;
- a much larger group containing three-fourths of the world population. Although this is made up of 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 substantively reversed. It has not even been interrupted except when nations have protected or isolated themselves from the impact of the world market in capital.<sup>7</sup> Those nations that have

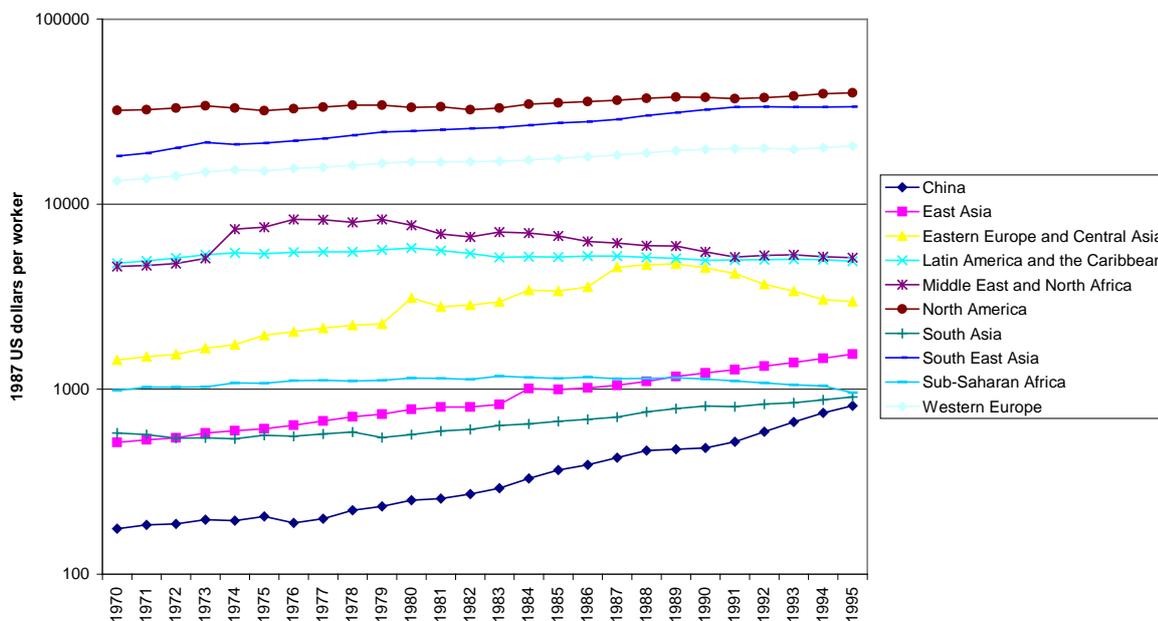
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<sup>7</sup> I distinguish categorically between isolation from the world market – that is, the products of capital – and protection from the world market in capital itself, that is, the capitalist mechanism for allocating investment resources. The decisive strategic question for any nation facing the destructive power of the world market is how to prevent its investment decisions being subjected to the requirement of realising a competitive money profit in an open world market. The decisive tactical question is preserving access to the world's products while so doing.

risen from rich to poor status since 1870 are a tiny group containing an even tinier part of the world's people. An authoritative article by Pritchett (1997:9) sums up the results as follows:

If you accept (a) the current estimates of relative incomes across nations; (b) the estimates of the historical growth rates of the now-rich nations, and (c) that even in the poorest countries incomes were not below P\$250 at any point – then 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.

Figure 5: Use-Value output per worker



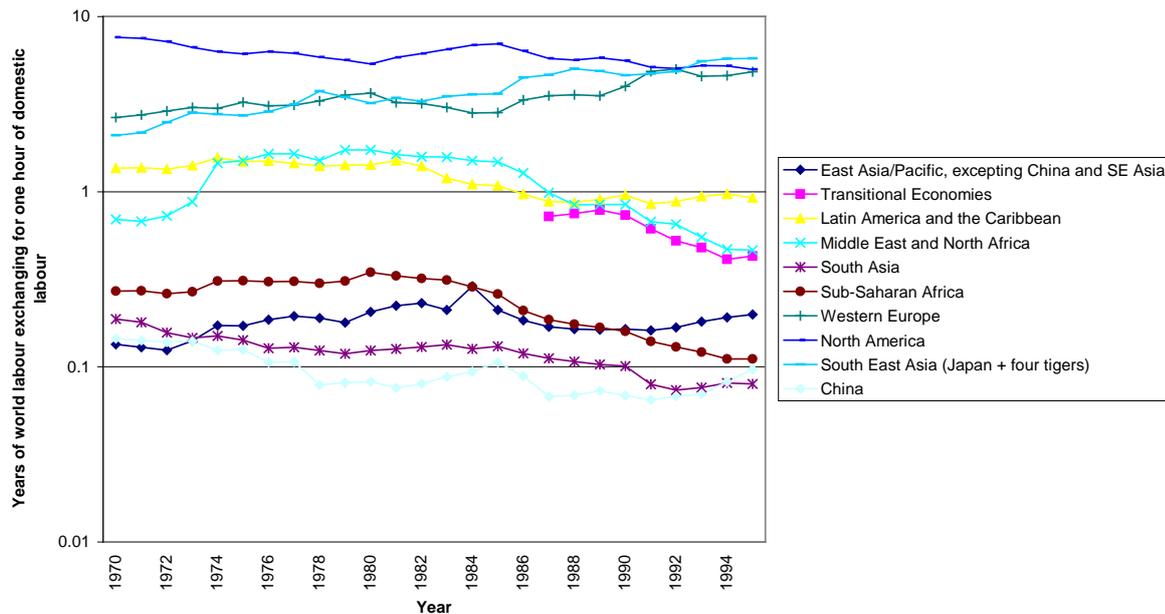
Pritchett gives the ratio of the GDP of the richest to the poorest country as 8.7 in 1870, and 45.2 in 1990. He gives the ratio of the 'advanced capitalist' to all other countries as 2.4 in 1870, and 4.5 in 1990. The acceleration of this differentiation since 1980, when the US opened its world trade offensive, is so marked that it is now widely recognised by all major world agencies, to the extent that George Soros, and now Ted Turner of CNN, comment on it in alarmist terms. According to Maddison (1995), Brazil grew by 4.13% per year between 1960 and 1979, and *declined* by 0.54 percent between 1980 and 1994.

The great difficulties which economic theory has with these facts arise because it is literally inconceivable, in use-value terms, that one country might get poorer because another gets richer. This is demonstrated in figure 5, which compares the output of the major regions of the world in use-value terms.

This representation makes it appear as if almost everyone is gaining, but some more than others. Since output may always be increased by technology, which is apparently limitless in its potential, there is no obvious reason that all should not exploit it. The problematic of 'development' economics is not competition but backwardness, a failure to avail oneself of allegedly limitless resources. Indeed, if output is nothing more than a physical product there is no intrinsic reason for losses; everyone should benefit, but some more than others. If only, it seems, the poor countries could emulate the rich ones, the problem would go away. The market, it seems, places no intrinsic limit on human potential. This intuitive notion is enshrined in the theory of Comparative Advantage which, despite its well-known empirical shortcomings, still underlies the doctrine of free trade which underpins current world policy.

Yet there is a limit to human potential, namely human activity. The maximum the world can produce in any year is fixed, given the technology actually in place, by the labour it employs.

Figure 6: Unequal value for equal work



Let us therefore study the same fact in a different way. We can express the product of all countries regardless of productivity by treating all labour as equal, forming world values,<sup>8</sup> or years of total world labour. This lets us treat the distribution of this product as a competitive struggle for a magnitude fixed each year, independent of technology; as a phenomenon of circulation. We find that, for example in 1995 Europe consumed the results of 854 million years of work in the world economy, whilst all the developing countries except China consumed the results of 366 million years of work, about four-tenths of what the Europeans consumed. Nevertheless the total working population of Europe was 175 million, whilst that of the developing world was 1,349 million, 7.7 times as great.

These are real years measured with real clocks, and worked by real people. Each is a sixtieth of the short life of some human somewhere. By working nearly eight times less than their developed country counterparts, European workers either produced, or brought into their countries, the fruits of more than twice as much labour.

It is still more striking to ask 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 is shown in figure 6, which clearly conveys a series of phenomena that do not show up in the use-value presentation. 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 industrialised or industrialising 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.

<sup>8</sup> The calculation is less accurate than in the first section, since capital stock data is not available for all groups. Hence it uses an approximation based on the ratio of GDP to labour-force. However, it clearly demonstrates the explanatory power of the value concept.

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 (of this more later when we assess its use-value performance). South Asia – a region with nearly a quarter of the world population – and Sub-Saharan Africa have suffered what Pritchett (1997) calls 'an implausible decline'.

A further three 'middle' groups track each other at around or under a labour appropriation ratio between 0.5 and 1. Moreover only Latin America has staged anything recognizable as recovery: Middle East/North Africa and the transitional economies are in effect converging not with the advanced countries, but with the poorest.

Finally, the sheer scale of the difference is quite staggering. In the extreme case of South Asia, 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. This region contains some of the most ancient civilisations of the world – as indeed do most of the third world. It gave the world numbers, algebra, and some of its greatest mathematicians. It bequeathed material, aesthetic, and spiritual riches which nourished most of the apparatus of the British Empire for three centuries. The idea that its present economic subjugation is a consequence of productive, cultural or psychological backwardness is a mockery of science and an abomination of the spirit. This status is something Asia was neither born with nor achieved; it was thrust upon it. No other explanation makes sense.

## **EXPLAINING THE POVERTY OF NATIONS**

Suppose Clive, Columbus, or Rhodes, had greeted the people of India, America or Africa thus: 'at the end of the glorious millenium to come, I give you this pledge: while each of you works for eighty hours, each of us will work for one hour. Then we will force you to exchange what you have made in equal measure for what we have made; and thus will peace, friendship and equality between our great nations be cemented.'

The early merchant adventurers doubtless did not put matters this way: they offered beads for gold, disease for slavery, and priests to explain God's will – nowadays known as the theory of comparative advantage. One might be forgiven for suspecting that unless world economic relations were expressed indirectly through money, instead of directly in human labour, few merchants would have made their return journeys.

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

However it gives some difficulty with the data. Are we to suppose that three-quarters of the world's population, by some extraordinary coincidence that very part which arrived fifty years too late in the world market, were convulsed by some peculiar dystechnia at the very moment of their arrival? Or that some terrible mental affliction seized the whole Indian people in 1980 so as to double the time they needed to work from forty to eighty hours to acquire one hour's worth of US goods?

The most decisive counterfact is that there is actually enough to go around. World production per head of population now stands at around \$3000 in 1987 US dollars. This could provide, if not handsomely, for every person on this planet: it could house, clothe, feed and educate them, protect them from major diseases, maintain them in dignified old age, and provide for all those disadvantaged by difference. Moreover despite the turmoils of the last twenty years,

output per head continues to grow; the equivalent figure in 1970 was \$2000. The Malthusian argument is, so far, false.<sup>9</sup>

But this very fact shows we cannot explain national differentiation on the basis of technical change alone, and why the use-value presentation of the facts is therefore insufficient. It is, at the very least, the interaction of technical progress with the market that explains why China is getting richer, and India is getting poorer; why some LDCs and the Eastern European economies pulled back the gap in the 60s and lost it again in the 80s; and above all, why this \$3000 per person, is not simply distributed to every person. The market clearly, in some sense, dominates over technical innovation.

1980, which unleashed a marked acceleration in differentiation, coincided with the recovery in the US rate of profit recorded in figure 1, and with a fundamental shift in US policy that initiated the new phase of globalisation discussed in the final section of this paper. At the heart of this shift lies a general transformation of the political governance of world trade which opened third and emerging world markets to advanced country products, services, and capital.

1980 finished the only period in which any inroads at all were made in the gap between nations, namely the period 1950-1980 during which the developing nations had secured within GATT that allowed them to set at least some limits on the penetration of the world market into their economies (see Freeman 1998). The gap recommenced widening at the precise point when these barriers crumbled before the US onslaught.

But the most important evidence comes from the economic performance of China. I accept that caution must be exercised with quantity figures from centralised or post-centralised societies (indeed, with all quantity figures) because they depend heavily on choices such as base year and commodity basket. However the magnitudes are so large that it is unlikely to be the result of measurement error. When we compare China's performance in use-value terms with 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 a staggering 7.65 times while its monetary value grew by less 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.

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. It is an irrefutable conclusion of mainstream economic theory that these two standards are mathematically identical. It is an irrefutable conclusion of history that they are empirically incompatible.

This is an ironic fact. Refutations of Marx's law of the rate of profit have held, for a hundred years, that use-value dominates over value – that technical progress could overcome the operation of the market – and have rejected the law on this basis. But when it comes to technical progress *itself*, the facts demonstrate that the market overcomes its operation. It counteracts the effects of technical progress to such a degree that it concentrates almost all of its benefits in the hands of one-quarter of the people of the world.

On a world-wide scale, we see technical progress combined with social regress. The intrinsic laws of technical progress do not explain this paradox; it requires their interaction with the laws of value.

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<sup>9</sup> This is not to say that the exhaustion of sustainable resources isn't a major threat to the planet. The point is, this threat is a future one. It doesn't explain what is happening now. It doesn't tell us why threequarters of the world are *now* impoverished and getting relatively poorer, and why at least a third of the world is now getting absolutely poorer.

***COMBINED AND UNEVEN DEVELOPMENT: HOW VALUE INTERACTS WITH TECHNICAL CHANGE***

An abstraction that explains only one feature of reality at the expense of another, is inadequate. Does the category of value defined above assist or constrain our understanding of the poverty of nations, the principal outstanding fact of the global market economy? More important still, can it establish the potential link between exit from generalised crisis, and the poverty of nations?

My starting point is that, according to the definition we have adopted, circulation and production stand as counterparts to each other. When value is defined so that it arises only in production, it *cannot* arise in circulation. This makes it possible to understand the distribution of the surplus as a *competitive* process, for a share of a pre-given magnitude. It is not possible for all nations to gain because whatever one gains, the others lose.

This restraint does not operate as a constraint on the use-values that the world makes, because these can be increased by technology. The form in which this appears in the world economy is a constraint on the quantity of *capital*, which is what a nation needs in order to avail itself of technology. The quantity of capital itself sets a fundamental limit on the expansion of the world market, precisely because it cannot be altered in circulation – for example, through the extension of credit, which may increase the monetary means available to purchase capital goods, but makes no change at all to the capital goods themselves – it is not possible for all countries to expand without limit, and each country's gain is another one's loss.

The problem of national inequality then reduces to the following: why is this pre-given sum distributed unevenly?

At this point I can exhibit, practically, the merit of the category of value we have adopted. I said we had to distinguish production, measured by value, from technical capability, measured by use-value, and monetary price, measured by money, not to forget or nullify the impact of technical change or money on the laws of value, but in order most accurately and clearly to specify their interaction with the laws of value. In relation to the poverty of nations, this interaction gives rise to definite, quantitative laws in which both value, and use-value play their specific parts. National inequality is neither the outcome of a pure law of value, nor even less the outcome of some putative pure law of technical change. It arises from the interaction between value and technical change: to be precise, the interaction between the pure laws of value and those laws of technical change which are imposed on it by the value-form.

The pure law of value is invariance in circulation; the market can only effect redistribution. The law of technical change is that different sellers of the same product attract different amounts of this value, depending on their productivity. The interaction is that this modifies the law of accumulation so that capital accumulates unevenly, growing systematically faster in those places where technical change is most advanced, in the process reinforcing the very technical advantage that gave rise to the original surplus profit.

Value, as we conceive it, permits us to formalise this much better than the standard version because it does not pre-suppose equal profit rates. TSS values and, incidentally, prices of production, are defined for any combination of sectoral and enterprise-level profit rates. Distribution then emerges as the outcome of definite processes which drive profits higher in one place than another. In any situation where one company or nation realises profits that are higher in value terms than another, they will appropriate – obviously – more value. If this appropriated value is in turn the basis for their investment in production, then it is clear that they will dispose of a larger investment fund, again in value terms.

If, in turn, this investment fund may be used in such a way that it reinstates or amplifies the original advantage which led to a high profit rate, then it is clear that, over time, sources of consistently high profit rates will be self-reinforcing. This dynamic phenomenon finds no equivalent in equilibrium thinking. It is the equivalent of the curved water which one finds in

a waterfall. Despite process that *tend* to make a waterfall flat, namely the tendency of water to find its level, under conditions of permanent change – falling – this tendency never asserts itself because it is superseded and dominated by the process of falling.

Uneven development is just such a process. The permanent process producing the unevenness is technical change itself. This always brings a cost advantage to the early innovators reflected in a higher, surplus, profit, as Marx termed it. Of course there is a countertendency: capital migrates to such sources of higher profit rate. But this countertendency does not nullify the unevenness because the speed of capital migration is limited by the process of production itself. New techniques cannot actually be introduced instantaneously: it takes time to build the factories and make the machines. If the process of innovation exceeds the speed of capital migration, unevenness will predominate over equalisation.

Equilibrium thinking ignores all such dynamic considerations and indeed cannot conceive of them. It acts as if, because there is a countertendency, we must be able to treat profit differentials as ignorable, accidental or secondary. *Eppur si muove*: the empirical facts demonstrate that this countertendency does not dominate. Therefore, it is clear that dynamic processes produce self-sustaining, permanently elevated profit rates. We cannot explain, for example, the existence of Microsoft or Intel on any other basis.

If, like most economists, we treat use-value as if it were value, the conceptual framework does not impose the constraint that competition as such cannot raise or decrease value. This which produces a permanent and inbuilt theoretical tendency, noted for example by Brenner (1999), to resort to Malthusian explanations. For, from a use-value point of view, production is apparently limitless. Yet the facts show that the market sets clear limits on growth and distribution. From a value perspective this is completely understandable, since there are a limited number of humans on the planet. From a use-value perspective it is incomprehensible and theory is therefore driven, time and again, to invent an external limit on the production of use-values.

The unequal distribution of profit rates is the actual motor of capital movement, as first discussed by Marx but more recently by Ernest Mandel (1962). 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.

Consequently this is an effect confined to the sphere of circulation. It is, in value terms, a zero-sum game. Technical differentiation may not, in and of itself, either raise or decrease the total value in circulation but it decisively alters its distribution.

Here we have the secret of uneven development. Who is it that realises the extra profits that arise from technical innovation? Those that make the technical innovations. Who has the capital to invest in technical innovation? Those who have realised these extra profits. This is a positive feedback; to those that have, comes more.

Posed thus, it can be seen that a single concept of value suffices to explain both sets of phenomena, crisis and poverty, provided that it distinguishes categorically and rigorously between effects of production as such, in which value is created, and circulation, in which it is distributed. Such a concept is to hand; I argue it is in fact Marx's concept but in this article I present it as an interpretation of Marx and defend it in its own right as a scientific category.

### ***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 the state which we have characterised as generalised crisis: low accumulation, low general profit rates, mass unemployment, and economic instability. Are there possible modes of exit from this crisis for the market, and if so, what are they?

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, to say the least. Nevertheless it is important, in order to identify what future options are open, to assess what was the basis of the recovery of the last seventeen years, as far as it has gone.

The historical evidence is relatively plain: the date of the turnaround clearly associates it with the political offensive that began in 1980. This was not an endogenous process. of the market: it was the outcome of a political re-organisation 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 re-organisation, 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 postwar 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, 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.<sup>10</sup> Transforming technological knowhow 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."

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<sup>10</sup> Mihevic 1995

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 simultaneously a massive extension of the market, and a systematic manipulation of the market to restore advanced country – above all US – profitability. Anti-dumping is baldly described by the World Bank as ‘a packaging of protectionism to make it look like something different’.<sup>11</sup> As Hoekman and Kostecki 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 express function of providing them the necessary freedom of movement 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.

### ***ENDOGENOUS RECOVERY, OR A NEW PHASE OF IMPERIALISM?***

But consider even measures whose purpose is to impose or extend the market, such as free trade legislation. If the market could impose or extend itself, no special measures would be needed to do this. Setting the legal framework for the market – in Marx’s terms, establishing the property relations which the market presupposes – is precisely *not* an effect of the market itself but an external precondition for it.

Most decisive is the very fact that these measures are exceptional. A sequence of events which happens once every seventy years does not serve as a basis for explaining the other sixty-nine. At the very least we have to admit the following; the mechanism now underway as a consequence of the general crisis of 1968-80 is a process that has nothing in common with the expansive wave of 1945-62. We confront two distinct processes, one of which created the expansion and the subsequent crisis and which is a direct consequence of the pure law of accumulation, the other of which took over when the accumulation process broke down. The sequence is better described as a rise, followed by a crisis, and an external intervention, than a smooth curve in a single process.

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<sup>11</sup> Hoekman and Kostecki (1995).

This has practical conclusions. It means that the price of recovery from general crisis necessarily includes a 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 necessary 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 that the market itself sets the limits on its own existence; to this we must however add that the automatic processes of the market are not the only ones in the world; no ruling class has ever voluntarily surrendered its existence, and there is no evidence of any intrinsic limit on the barbarism and destructiveness of which it 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. A repetition, under modern technological conditions, of previous ways out for capitalism is, for the majority of the human race, unlikely to provide a way out of anything at all.

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