

## Surplus Allocation and Development under Global Capitalism

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### 1

Mainstream thinking in economics currently tends to describe the problem of economic development as one of differential economic growth across space; a differential which is ascribed to seizing or missing opportunities to solicit foreign investment, to attract subcontracting orders, to upgrade activities in value chains and to grow by exporting. This approach to development overlooks the mounting case-by-case evidence on the lopsided distribution along value chains (Gereffi 1989: 525; Gereffi 1994: 102-3; Feenstra 1998: 36; Kaplan and Kaplinsky 1999: 1794; Chossudovsky 1998: 87-90; Figueroa 1996: 37, 39; Talbot 1997: 18<sup>1</sup>; Dikmen 2000: 215, 243). The evidence raises questions concerning the international distribution of the 'gains from trade' and suggests that, if international growth differentials are driven by international distribution mechanisms rather than the other way round, then the development issue demands greater attention to global distribution mechanisms.

Economic development involves fixed capital accumulation. The capacity to undertake fixed investment in underdeveloped countries that import capital goods depends on these countries' terms of trade, as much as on their efforts to save and export. Institutionalist economists, aware of the importance of the terms of trade for accumulation, have been careful to qualify their own recommendations for strategic trade and industrial policies in that such policies might be self-defeating at the global level, since implementation of export-based upgrading policies among many

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<sup>1</sup> Page number on internet version.

underdeveloped countries may cause a general deterioration of the terms of trade (UNCTAD 1996, Part Two Chapter III; UNCTAD 2002, Part Two Chapter IV; Mayer 2003).

Hence a framework apposite for studying the global distribution of investible resources is necessary to understand the sustenance of differences in per capita incomes between countries. Such a framework should preferably take the global social product as given, and focus on attempts of firms and governments to extract the maximum surplus out of the social product, on the struggle between social groups and nations to appropriate the generated surplus, and on how the surplus is used.

This essay is an endeavour to understand and assess the developmental consequences of global economic integration by focussing on the generation, transfer and utilization of the global surplus. It tries to address the following questions: (1) How does globalization affect surplus generation? (2) Where does the global surplus accumulate? (3) How is the global surplus absorbed? (4) What prospects does this pattern of absorption hold for the capital accumulation needs of poor countries? The essay continues as follows: the second section presents a brief description of the surplus concept, and questions whether the tendency for the share of the surplus in GDP to rise has abated under globalizing capitalism. The third section discusses at an abstract level how the surplus is generated and allocated in internationally organized production. In the fourth section empirical clues on the last question are investigated, which seem to indicate an increasing flow of surplus from periphery to core. The fifth section takes up the problem of surplus absorption and juxtaposes the rising consumption of the surplus in the core with the fixed capital formation in the periphery. Section six concludes.

## 2

It seems useful to begin by reviewing the theoretical framework we will employ. The social surplus is a basic concept of classical political economy which has been revived in the post-war period by Paul Baran and Paul Sweezy.<sup>2</sup> They defined it as

... the difference between what a society produces and the costs of producing it. The size of a surplus is an index of productivity and wealth, and of how much freedom a society has to accomplish whatever goals it may set for itself. The composition of the surplus shows how it uses that freedom: how much it invests in expanding its productive capacity, how much it consumes in various forms, how much it wastes and in what ways. (Baran and Sweezy, 1966: 23).

The surplus can be calculated in alternative ways. One is to estimate the necessary costs of producing the national product, and to deduct the costs from the national product. This raises the conceptual problem of calculating the necessary costs of production. Some of the outlays recorded as costs by firms (such as outlays for superficial product differentiation and advertising) may be unnecessary from the social viewpoint. Hence the determination of the necessary costs is crucial for this first method. A second method is to estimate the various expenditures absorbing the surplus (non-essential consumption, investment etc.) and to add them up.

The difficulties of estimating the surplus at the global level either way are obvious.<sup>3</sup> This paper does not attempt to estimate the global surplus produced, but uses available statistics to make conjectures about *trends* in the generation and the disposal of the surplus.

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<sup>2</sup> Baran and Sweezy made the surplus a measurable concept. Lippit (1985), Danielson (1990), Yeldan (1995) provide similar definitions and descriptions of the concept. A more general theoretical presentation of the classical surplus approach can be found in Garegnani (1988).

<sup>3</sup> There are surplus estimations for the US (Philips 1966, Stanfield 1973, Dawson and Foster 1992 and Lippit 1992) and one for Turkey (Somel 2003). Baran reports estimations of potential surplus - hypothetical surplus that could be produced in full employment- for a number of underdeveloped countries (1967: 227). Other work on the surplus in underdeveloped countries include Lippit (1988), Kanth (1987), Danielson (1990), Yeldan (1995).

The re-elaboration of the surplus concept in the post-war period is connected to the evolution of certain features of capitalism. In *Monopoly Capital* (1966) Baran and Sweezy argued that capitalism had made a transition from a competitive phase to a monopolistic phase in the twentieth century. In their view, the concentration of capital in giant corporations enables them to fix prices, in contrast to nineteenth century capitalists who worked under more intense competition. These giant corporations set their sales prices by adding mark-ups to production costs. Such price setting gives the corporations control over the partition of the value added with their workers.

Corporations also strive to increase their profits by reducing their production costs. On the macroeconomic plane, the general endeavour to reduce production costs (inclusive of labor costs) tends to raise the share of the surplus in GDP. This rising surplus can be sustained only if it is absorbed. The consumption of capitalists, the consumption of employees in non-productive activities (e.g. superficial product differentiation, advertising, litigation etc.), investment and some part of government expenditure (e.g. public investment, military outlays) are the main outlets for absorbing the surplus.

As forty years have elapsed since the above framework was formulated, it is legitimate to ask: has the increasing ratio of trade to global output in the last decades of the twentieth century impaired the diagnosis of Baran and Sweezy with regard to the monopolization of capital, and with respect to the inclination for the surplus in GDP to increase? Has increasing trade and integration of markets raised competitive pressures so as to restrict the pricing latitude of industrial conglomerates?

The immediate effect of global trade expansion obviously must be to increase overall competition, as greater numbers of firms would come to compete in formerly

segregated markets. But a countervailing effect would emerge when large firms with greater financial resources and organizational advantages eliminate smaller firms (as happens when large transnationals take on firms of peripheral countries in opened markets).

Another countervailing trend to the competition-enhancing effect of trade expansion is mergers and acquisitions, on which there is evidence in the core countries. Statistics show that in the US the number of merger and acquisition ‘deals’ have risen in a wave in 1965-73, in another wave in 1981-89 and between 1992 and 2000 (USBancorp 2001-3 : 4). The advent of the euro triggered a boom in cross-border megamergers in Europe, an increase of 87% from 1998 to 1999 (*Time Europe*, February 14, 2000). Overall, “[a] powerful trend increase in the extent of firm level concentration of global markets share could be observed in industries as diverse as aerospace and defence, pharmaceuticals, automobiles, trucks, power equipment, farm equipment, oil and petrochemicals, mining, pulp and paper, brewing, banking, insurance, advertising, and mass media” (Nolan 2003: 302-3).<sup>4</sup> Indications are that the competition-enhancing effect of trade is balanced (perhaps even overwhelmed) by the monopolizing effect of the centralization of capital, which may sustain the ability of large corporations to control the market prices of their products.

On the other hand, if mergers and acquisitions imply an increase in the average size of the workforce of corporations, this could stimulate a counterbalance to corporate power by higher unionization and worker militancy. However, the increasing mobility of capital, goods and services on the one hand, and unemployment on the other is weakening unionization in the core countries, and making workers accept temporary employment, part-time employment, flexibility in hiring and

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<sup>4</sup> Frequent reports in *The Economist* (February 19, 2004; April 7 2005; July 14, 2005; September 1, 2005; September 8, 2005) testify to an ongoing boom in M&A activities in the US and Europe.

dismissing, flexible working days and weeks, and flexibility in assigning tasks in the workplace (Walby 2000).<sup>5</sup> Increasing flexibility in labor relations shifts various risks related to the product markets and the associated costs from firms onto workers. Enhanced flexibility cannot but boost gross profits. Hence the trend towards increased flexibility in labor practices clearly implies increased surplus generation for given output in individual countries.

The neoliberal global reform agenda also includes measures to increase surplus generation through fiscal and institutional reforms, both in developed and underdeveloped countries. Lowering taxes on corporate profits, capital gains and high incomes; increasing taxes on consumption; raising fees on public services and privatization of these services, of utilities and of social security – all these policies aim at disburdening the high income earners and property owners of contributing to financing essential services for the maintenance of the labor force (Jones 2001: 13).<sup>6</sup> These reforms also contribute to increasing the share of surplus in total output.

In brief, in the era of neoliberal policies evidence does not seem to suggest that the tendency for the share of surplus in GDP to rise in individual countries may have waned. If so, what is happening to the surplus generated in international production?

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<sup>5</sup> See JIL (2004: 58) for the unionization rate decline in Japan over 1945-2003; JIL (2000) for the unionization rate decline in Japan, US, Germany (1985-1997) and the UK (1990-1997); Friedman (2005: Table 4) for the decline in the unionization rate in the US 1953-2000 and the decline in combined unionization rate in Canada, France, Germany, Italy, Japan and the UK 1980-1990. The weakness of labor and trade unionism in most peripheral countries needs no substantiation.

<sup>6</sup> Privatization of socially owned assets and services is a tendency of capitalism that stretches back to the sixteenth century English enclosures, a tendency that was driven off course by Keynesian policies in the twentieth century (Nasser 2003). Shaikh (2003) shows that the 'net social wage' has been a small fraction of GDP in the major industrialized countries in the 1980s and 90s. Privatization is penetrating the most vital services, provoking sharp social responses, as in the water crisis in Bolivia in 2000 (Gosh 2003; Moberg 2004).

### 3

Baran and Sweezy argued (1968; Baran 1952, 1967) that the surplus of underdeveloped countries had been and was being drained away to the centers of the world-system. Their description of core firms' overseas activities in *Monopoly Capital* can be read as a description of offshore outsourcing activities today if one replaces 'subsidiary' with 'suppliers' (1968: 200):

What they [giant multinational corporations] want is monopolistic control over foreign sources of supply and foreign markets, enabling them to buy and sell on specially privileged terms, to shift orders from one subsidiary to another, to favour this country or that depending on which has the most advantageous tax, labour and other policies...

The authors' view was that imperialism had a two-fold function with respect to the surplus: finding cheap foreign sources of supply (which increases the surplus in the home country), and using other countries' markets as outlets (which helps absorb the surplus of the home country).

A major motive of transnational companies in their current practice of outsourcing parts of production to underdeveloped countries is to cut production costs, hence to increase gross profits. When the corporation of a core country decides to outsource its production to a peripheral country, or when it shifts its sources of supply of intermediate inputs to a peripheral country, this increases global surplus creation. Global output remains the same, the costs of producing it decline.<sup>7</sup> For the firm, the effect of offshore outsourcing is the same as if it were to reduce its own (in-house) costs of production, or were to outsource to a cheap supplier in the home economy. If the workers in the core country dismissed due to the offshore outsourcing find newly created jobs and continue to produce surplus, then global output increases and surplus creation increases *a fortiori*. If the workers dismissed due to the

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<sup>7</sup> Here the implication is that integration of national economies through trade is reducing the 'necessary costs of production' which is taking the attribute of a global concept.



outsourcing remain unemployed, then their consumption (provided by family, unemployment benefits etc.) absorbs part of the surplus produced by other workers in employment. Should the supplier in the peripheral country expand her production to meet the order under subcontract, there will also be some increase in surplus creation in the peripheral country. In this case the total increase in surplus may accrue to both countries' economies - in indeterminate proportions.

Rough estimates suggest that by outsourcing globally a multinational firm may be able to lower its costs by as much as 50-70% (*The Economist*, 2004: 4). The McKinsey institution estimates that for every dollar American firms spend on services from India, the US economy receives between \$1.12 and \$1.14 in benefits (Drezner 2004). Of that dollar spent in India only part contributes to surplus generation in India; the rest is the necessary cost of production. But the \$1.12 accruing to the US is pure surplus.

It is worth noting that the effect of offshore outsourcing on productivity in the core economies is ambiguous. The formula

$$\text{productivity} = \frac{\text{sales revenue} - \text{material input cost}}{\text{number of workers}}$$

shows that an increase in material input cost (due to the increase in outsourced inputs) and a reduction of the in-house workforce (due to outsourcing) may ultimately affect the outsourcing firm's productivity either way. The gains that motivate firms to outsourcing are not gains in labor productivity (which arguably could legitimize outsourcing from a social viewpoint), but gains in gross profits – i.e. in surplus appropriation.

To substantiate their argument on the transfers of surplus from the periphery, Baran and Sweezy (1966: 191-201; also Baran 1967: 228-230) showed that the repatriated profits from investment exceeded investment in peripheral countries by core countries' firms, and that investment returns of firms in core countries exceeded their returns in the periphery.

Today we have access to more factual information and analytical tools for gauging international transfers of surplus. The first indicator of surplus flows is trade balances: a country that runs a trade surplus must be transferring net resources (part of its saved surplus) elsewhere. World Bank Indicators show that the high-income countries (and also the high-income OECD countries) have recorded deficits in their trade in goods and services with the low and middle income countries through 1999-2002 (summary figures in Table 1); hence the periphery has been realizing a net transfer of resources to the core, assuming that prices reflect values of resources.

This recent surplus of the periphery in recorded trade might not accurately reflect the magnitude of the real transfer if the prices of peripheral exports were increasing at a higher rate than the prices of core exports. However, evidence suggests the converse. In a recent study investigating the terms of trade of twenty-six developing countries Ram (2004: 251) found that “[w]hile there are some cases of positive trends, the overall scenario is of sizable negative trends for most developing countries over the thirty-year period 1970 to 1999.” Another study reports the deterioration of the terms of trade in manufactured commodities for underdeveloped countries in their trade with the EU by an average annual 2.2 percent over 1979-1995 (UNCTAD 1996: 148). Yet another calculation shows an average annual terms of trade deterioration for non-oil exporting developing countries of 1.3 percent for 1982-

1988, and an average annual deterioration of 1.5 per cent for 1989-1996 (UNCTAD 1999: 85). Morisset (1998) highlights the increasing difference between commodity prices in international trade and their prices in developed country markets, suggesting that the increasing spread may be due *inter alia* to the ability of large international trading companies to influence such spreads. He reports that “the spread between world and domestic prices almost doubled in all major commodity markets during 1975-94” (1998: 503). To sum up, in view of the terms of trade deterioration of the periphery, trade balances -whether in surplus or in deficit- tend to underestimate the periphery’s actual resource exchange with the core countries.<sup>8</sup>

Changes in the periphery’s terms of trade with the core can be tracked to various variables that affect the costs of production in different countries: real wage differences, differences in profit margins, tax policies etc.<sup>9</sup> Another important variable that bears on terms of trade and on resource transfers in core–periphery trade is the undervaluation of underdeveloped countries’ currencies with respect to their purchasing power parity. Köhler (1998) has suggested that, as the purchasing power parity exchange rates compiled by international agencies are based on a comparison of prices of a certain basket of goods and services in the US and in other countries, the purchasing power parity figures can be interpreted as, roughly, the price of goods and services in local currency units in other countries that are priced at one dollar in the US. Hence the difference between a currency’s purchasing power parity and its

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<sup>8</sup> Computations of the ecological and natural resource content of trade are not central to this paper but significant from the viewpoint of surplus transfer. A study of the environmental and natural resource content of trade between the developed and underdeveloped countries finds that industrialized countries are in general physical net-importers of natural resources from other world regions. In some material categories (like fossil fuels and basic metal products) “a clear tendency toward an increasing physical trade surplus can be observed” (Giljum and Eisenmenger 2003: 16). The authors highlight the role of declining primary commodity prices in sustaining the imbalance in trade in physical resources. Lipke (2002) and Jorgenson and Rice (2005), using ecological footprint per capita, likewise find a net transfer of ecological capacity through trade from the periphery to the core.

<sup>9</sup> Emmanuel (1972) argued that real wage differences are the main determinants of relative prices of the exports of core and periphery; and that differences in profit rates do not play the defining role in these prices.

market exchange rate to the dollar can be used as a rough measure of the overvaluation or undervaluation of a countries' exports with respect to their values in the US.

Table 1  
External balance in goods and services of country groups  
(annual average balance; billions current US dollars)

	1975-1979	1980-1984	1985-1989	1990-1994	1995-1999	2000-2002	2003	2004
High income	-1	-21	-39	86	165	-71	...	...
High income: OECD	-35	-67	-68	49	112	-159	...	...
Low income	-14	-27	-24	-19	-27	-18	-25	...
Middle income	-12	1	17	-1	-13	93	140	127

Source: World Bank, World Development Indicators.

Table 2 shows the deviation of exchange rates from purchasing parities for 20 peripheral countries. Dividing the GDPs in current dollars by GDP in current international dollars highlights the under- or overvaluation of currencies in market exchange rates compared to their purchasing powers. The undervaluation in some of the countries (the South Asian countries, China, Indonesia, Malaysia, Zimbabwe) appears to have been increasing. To note some extreme cases: the average undervaluation of the national currency against the US dollar compared to its purchasing power in 2000-2004 was 78 per cent in Bangladesh and China, and 81 per cent in Vietnam and India.

Table 3 shows the same exchange rate deviation for the currencies of ten major core countries. The dollar exchange rates of the core currencies appear to gyrate around unity; and the figures indicating an undervaluation generally do not approach the extreme degrees seen in underdeveloped countries. It follows that the currencies of underdeveloped countries generally tend to remain undervalued not only with respect to the US dollar, but also with respect to the currencies of the other major core countries. The undervaluation of peripheral countries' exports with respect to

their values in the core countries implies that outsourcing production to the periphery generates *an unrecorded flow of surplus* to the economies of the outsourcing firms in the core.

Table 2  
The ratio of GDP at current US dollars to GDP in current international dollars  
for selected underdeveloped countries

	1975-1979	1980-1984	1985-1989	1990-1994	1995-1999	2000-2004
Bangladesh	0.39	0.31	0.28	0.27	0.25	0.22
Bolivia	0.41	0.35	0.43	0.42	0.44	0.38
Brazil	0.60	0.48	0.44	0.52	0.66	0.40
Chile	0.73	0.78	0.44	0.52	0.59	0.48
China	0.64	0.39	0.28	0.22	0.24	0.22
Colombia	0.37	0.41	0.28	0.28	0.39	0.29
Egypt	0.47	0.40	0.37	0.32	0.40	0.36
India	0.37	0.35	0.30	0.21	0.20	0.19
Indonesia	0.62	0.59	0.36	0.34	0.30	0.29
Kenya	0.70	0.59	0.46	0.32	0.36	0.39
Malaysia	0.75	0.72	0.56	0.55	0.53	0.44
Mexico	0.55	0.58	0.41	0.60	0.52	0.68
Nigeria	1.33	1.25	0.48	0.34	0.35	0.41
Pakistan	0.47	0.46	0.33	0.29	0.28	0.27
South Africa	0.36	0.43	0.39	0.42	0.39	0.32
Thailand	0.50	0.46	0.39	0.44	0.40	0.30
Turkey	0.79	0.53	0.43	0.54	0.49	0.44
Venezuela	0.99	1.19	0.70	0.51	0.65	0.74
Vietnam	...	...	...	0.14	0.20	0.19
Zimbabwe	0.66	0.61	0.40	0.31	0.22	...

Source: Calculated from World Bank <http://devdata.worldbank.org/dataonline/> by dividing “GDP (current \$)” data by “GDP, PPP (current international \$)” data and taking arithmetic averages over periods.

Köhler (1998) estimated the unrequited transfer due to distorted exchange rates from 97 underdeveloped countries to 22 OECD countries for 1995 and found a transfer amounting to 8 percent of the GDP of the OECD countries and 24 percent of the GDP of the underdeveloped countries.<sup>10</sup>

<sup>10</sup> Lipke (2002), using and refining Köhler’s method, finds a positive correlation between the unequal exchange in goods and the unequal exchange in ecological content of exports and imports (ecological footprint).

Table 3  
The ratio of GDP at current US dollars to GDP in current international dollars  
for selected core countries

	1975-1979	1980-1984	1985-1989	1990-1994	1995-1999	2000-2004
Belgium	1.12	0.82	0.83	1.06	1.06	0.90
Canada	1.09	1.00	0.96	1.03	0.88	0.87
France	1.10	0.93	0.95	1.14	1.12	0.95
Germany	1.11	0.90	0.97	1.22	1.20	0.98
Italy	0.70	0.68	0.80	1.01	0.91	0.84
Japan	0.97	0.90	1.22	1.50	1.49	1.24
Netherlands	1.09	0.89	0.88	1.03	1.03	0.91
Sweden	1.47	1.16	1.17	1.43	1.28	1.09
Switzerland	1.12	1.00	1.15	1.40	1.43	1.24
United Kingdom	0.71	0.81	0.76	0.94	0.95	0.99

Source: Calculated from World Bank <http://devdata.worldbank.org/dataonline/> by dividing “GDP (current \$)” data by “GDP, PPP (current international \$)” data and taking arithmetic averages over periods.

What drives the currency undervaluation in peripheral countries? Capital account convertibility in peripheral countries instigates a private demand for dollars and for other reserve currencies as a store of savings and for capital flight.<sup>11</sup> In addition, volatile international capital flows unleashed by this convertibility compel central banks to accumulate large reserves in order to prevent currency crises, generating a rising official demand for reserve currencies. The accumulation of foreign exchange reserves in poor countries is seen in Table 4. The rising trend of the ratio of reserves to imports and to GDP reflects an increasingly costly hoard, and a source of downward pressure on the exchange rates of peripheral national currencies against the reserve currencies.<sup>12</sup>

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<sup>11</sup> “In the emerging markets, for each dollar of net inflow there was a net outflow of 14 cents in the 1980s, but of almost 24 cents in the 1990s. For developing countries as a whole, this share more than doubled during the 1990s alone” (UNCTAD 1999: 106).

<sup>12</sup> In an alternative explanation for the undervaluation of currencies in the periphery, Reich (2004) argues that a country with a lower productivity in the production of tradables compared to its trading partners must have lower wages than its trading partners to be able to price its tradable goods competitively (“the law of one price”), given the exchange rate of its currency. Then wages in the non-tradables sectors in this country would also have to be lower. If productivity of labor in the non-tradables sectors of this country is comparable to that of its trading partners, then the prices of non-tradables are underpriced comparatively to the corresponding non-tradable goods in developed countries. Reich attributes exchange rate distortion to this underpricing of non-tradables in excess of

Table 4  
Low and middle income countries' official reserves relative to imports,  
world reserves and GDP

	1981-1985	1986-1990	1991-1995	1996-2000	2000-2003
Ratio to imports	0.21	0.22	0.30	0.41	0.52
Ratio to GDP	0.04	0.04	0.07	0.11	0.15
Ratio to world reserves	...	0.18	0.27	0.35	0.39

Source: World Bank, World Development Indicators.

Note: Total reserves comprise special drawing rights, reserves of IMF members held by the IMF, and holdings of foreign exchange under the control of monetary authorities. Gold holdings are excluded. Imports refers to imports of goods and services and does not include factor incomes.

Table 1 showed that the high income countries as a group have been running trade deficits in goods and services, largely due to OECD countries' deficits in the 1980s and in recent years. Table 5 reveals that when the undervaluation of the currencies of the low income countries is used to find a rough estimate of the value of their exports in the markets of the core countries, this undervaluation overshadows these countries' recorded deficits in trade of goods and services. Similarly, Table 6, comparing the value in the core countries of middle income countries' exports with their recorded external balance in goods and services, suggests that the undervaluation these countries' exports to the core countries may far exceed their recorded trade surpluses. However, peripheral countries do not trade only with the core countries, but also trade with each other. The different rates of undervaluation of currencies of peripheral countries (highlighted in Table 2) suggest that trade among these countries also incurs unrequited surplus transfers.

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productivity differentials. But this cannot explain why transnational companies outsource production of *tradable* goods to suppliers in peripheral countries.

Table 5  
Low income countries' annual exports in current international dollars  
and their external balances (billion US dollars)

	1980-1984	1985-1989	1990-1994	1995-1999	2000-2003
GDP in PPP \$/GDP current \$ (=current e-rate/PPP)	2.36	2.93	4.03	4.31	4.69
Exports in current dollars	66	65	91	133	192
Exports in PPP \$	154	191	366	575	953
Exports in PPP \$ - exports in current \$	88	126	275	442	750
External balance on goods and services (current \$)	-24	-21	-16	-24	-14

Source: World Bank World Development Indicators.

Notes: PPP \$ rate/current \$ rate is calculated by dividing GDP in current international US dollars by GDP in current US dollars. Exports in current international dollars are calculated by multiplying exports of goods and services by the PPP \$ rate/current \$ rate. Exports in current dollars are actual earnings from exports. All figures are simple arithmetic averages for periods indicated.

Table 6  
Middle income countries' annual exports in current international dollars  
and their external balances (billion US dollars)

	1982-1984	1985-1989	1990-1994	1995-1999	2000-2003
GDP in PPP \$/GDP current \$ (=current e-rate/PPP)	2.20	2.59	2.56	2.53	2.98
Exports in current \$	471	475	773	1292	1803
Exports in PPP \$	1004	1231	1975	3278	5132
Exports in PPP \$ - exports in current \$	534	757	1202	1986	3416
External balance on goods and services (current \$)	11	4	2	1	130

Source: World Bank World Development Indicators. Note: Calculations are same as in Table 5. Averages begin in 1982 for lack of 1980 data.

Tables A1-A3 in the appendix and Table 7 below present a tentative calculation of unrequited transfers through exchange rate distortions between regional groups of core and peripheral countries. The reader should be reminded of the exclusion of East European and Central Asian transition economies from the estimations, and of our crude assumptions underlying the calculation of the distortion factors for whole regions -necessitated by the incongruence of aggregate data from ECLAC and from the World Bank- so that the tables should be taken rather as a methodological exercise than an estimation with any claim for precision.

Still, with due caution, the figures in Table 7 merit some scrutiny. The total value of unrequited transfers appears to increase with trade from 1985 to 2000. Latin



America's surplus transfers seem to concentrate in the US and Canada, while that of developing Asia appears more balanced between Western Europe, North America and 'other industrialized countries'. The net unrequited transfers from the Asian periphery overshadow that from the other two peripheral regions. The change in the relative position of Africa with respect to 'developing' Asia and Latin America from 1985 to 2000 is to be noted. The table shows an upward stream in 2000 of undervalued exports from Africa to 'developing Asia', from Asia to Latin America, and from the latter region to the core countries; and the confluence of surplus from each of the 'developing' regions directly to the core blocks.

Table 7  
Net unrequited transfers between different regions, 1985 and 2000  
(billion current international dollars)

1985 destination Origin	Western Europe	US and Canada	Other industrialized	Latin America and Caribbean	Asian developing	Africa
Western Europe	-	65	10	-	-	-
US and Canada	-	-	-	-	-	-
Other industrialized	-	21	-	-	-	-
Latin America and Caribbean	37	90	12	-	-	1
Asian developing	67	117	102	2	-	2
Africa	48	18	3	-	-	-
2000 destination Origin	Western Europe	US and Canada	Other industrialized	Latin America and Caribbean	Asian developing	Africa
Western Europe	-	70	53	-	-	-
US and Canada	-	-	46	-	-	-
Other industrialized	-	-	-	-	-	-
Latin America and Caribbean	34	225	17	-	-	-
Asian developing	976	1282	875	90	-	-
Africa	132	52	14	13	8	-

Source: Table 3A. Inter-regional flows are ignored.

Table 7 depicts a hierarchy of transfers – the “structured inequality” of the world-system demarcated by territorially based states (Tabb 2005: 50). Asian peripheral countries’ undervalued exports to other peripheral countries may serve to underpin local support in peripheral countries for free trade policies. Workers in Turkey, for example, may be unaware of the market price in the EU of their products exported there, or may not notice how export competition against other Asian producers pushes down their wages and deprives them of their jobs; but they may see more easily the advantages of purchasing cheap consumer articles imported from China or India which enable them to survive on their wages.

Table 8  
Per capita gross fixed capital of peripheral country groupings relative to per capita gross fixed capital formation in high-income OECD countries

	1975-1979	1980-1984	1985-1989	1990-1994	1995-1999	2000-2002
East Asia and Pacific (a)	0.04	0.04	0.03	0.03	0.05	0.06
East Asia and Pacific (b)	0.06	0.08	0.09	0.14	0.19	0.22
Europe and Central Asia (a)	...	...	...	0.10	0.08	0.08
Europe and Central Asia (b)	...	...	...	0.30	0.23	0.23
Latin America and Caribbean (a)	0.22	0.20	0.12	0.11	0.13	0.12
Latin America and Caribbean (b)	0.37	0.33	0.28	0.24	0.25	0.24
Middle East and North Africa (a)	...	...	...	...	0.06	0.07
Middle East and North Africa (b)	...	...	...	...	0.18	0.18
South Asia (a)	0.02	0.02	0.02	0.01	0.02	0.02
South Asia (b)	0.05	0.06	0.06	0.07	0.08	0.09
Sub-Saharan Africa (a)	0.07	0.05	0.03	0.02	0.02	0.02
Sub-Saharan Africa (b)	0.11	0.09	0.06	0.05	0.05	0.05
Low income (a)	0.03	0.02	0.02	0.01	0.01	0.01
Low income (b)	0.05	0.05	0.05	0.06	0.06	0.07
Middle income (a)	0.12	0.11	0.08	0.06	0.07	0.08
Middle income (b)	0.21	0.21	0.20	0.18	0.20	0.22

Source: World Bank World Development Indicators.

Note: (a) The ratio of per capita gross fixed capital formation of indicated countries to that of high-income OECD countries in current US dollars.

(b) The ratio of per capita gross fixed capital formation of indicated countries to that of high-income OECD countries in current international dollars.

From the viewpoint of economic development, the critical matter in the use of the surplus is fixed investment in the underdeveloped countries. To investigate whether the level of fixed capital formation in the periphery offers any prospects for

per capita income convergence, it seems logical to focus on fixed capital formation *per capita*, as labor productivity is largely determined by the quantity of the means of production per worker, and its quality. Table 8 shows per capita gross fixed capital formation figures for underdeveloped regions as ratios to the corresponding figures in the high-income OECD countries, and for the low income countries and the middle income countries as blocks, estimated both on market exchange rate and purchasing power parity bases. The relevant ratio for a country should lie between the two estimates, depending on how imported investment goods and domestically produced investment goods are combined in fixed capital formation.

## 5

The table reveals that the ratios in general appear to be stagnating in current US dollars, and appear to be decreasing in purchasing power parities. The ratios for East Asian and the East European and Central Asian grouping show upward trends. If these upward trends were to continue, they would imply a convergence not of per capita stocks, but of *rates of increase* of per capita stocks. As long as the absolute difference between per capita fixed investment in two regions continues, the gap in per capita stock of fixed capital deepens. Convergence of per capita capital stocks of peripheral countries with the core countries would necessitate that the figures in the table be over unity – moreover, *substantially* over unity. Given the figures, the prospects for the low and middle income countries' raising their capital accumulation and labor productivity to levels commensurate with that of the core countries seems to be nil.

The alternative mode of surplus absorption is that part of private and government consumption that cannot be categorized as necessary for the maintenance

of the workforce. There is no doubt that such non-essential consumption is widespread in the periphery of the world-system (formerly among the comprador and ‘traditional’ ruling classes, now among the emerging transnational élite groups<sup>13</sup>) and that this consumption diverts resources away from investment. It lies beyond the scope of this paper to estimate non-essential consumption for groups of countries. However Table 9 reveals that as the peripheral countries are being officially exhorted to raise their saving rates, the propensity to consume in the core countries is increasing. An increase in the share of consumption in national income in core countries may be interpreted as impinging on the global surplus, unless there are reasons to suppose that the necessary costs of maintaining the labor force in the core rises faster than GDP. The declining overall saving rate and trade deficits of the core countries as a block flies in the face of the need to make provisions for aging core populations.

Table 9  
Final consumption as percentage of GDP (%)

	1975-1979	1980-1984	1985-1989	1990-1994	1995-1999	2000-2003
Low income	84	85	83	82	82	80
Middle income	74	74	73	74	74	73
High income: OECD	76	78	78	79	78	80
European Monetary Union	77	79	78	78	77	78
Japan	67	69	67	67	71	74
United States	80	81	83	84	82	85
Per capita GDP as percentage						
of high-income OECD	1975-1979	1980-1984	1985-1989	1990-1994	1995-1999	2000-2004
Low income	7	6	6	6	6	7
Middle income	17	18	18	17	18	19

Source: World Bank, World Development Indicators. Per capita GDP ratios (not in percentages) calculated by dividing ‘GDP per capita, PPP (current international \$)’ figures of low and middle income country groupings by that of the high-income OECD countries.

The United States and the European Monetary Union countries as a group have been contributing less to global saving (relative to GDP) than the middle income

<sup>13</sup> Sklair (1994).

countries since the 1970s, and Japan appears to have joined the former group in this respect since 2000. The high income OECD countries' final consumption share in GDP has risen by four percentage points from 1975-1979 to 2000-2003, and the final consumption share of the low income countries has declined by four percentage points. The average saving rate in the core has dropped to the level of the low income countries in 2000-2003. The increase in the consumption rate from 0.78 in 1999 to 0.79, 0.80 and 0.81 in 2000, 2001 and 2002 in the high income OECD countries has deprived the world of roughly 1.49 trillion dollars (1.55 trillion in current international dollars) of saving in the three years, a sum equal to 1.5 percent of world output in those years (1.1 percent by current international dollars). The increasing flow of global surplus to the core countries makes it both possible and necessary to increase consumption rates in the core.

The share in GDP of the other component of final consumption expenditure, government expenditure, in the core countries appears to stable, balanced by Japan's rising share and a declining trend in the US. In the context of government expenditure, US military expenditure played an important role in absorbing surplus during the Cold War (Baran and Sweezy, 1966: Chapter 7). In the 1990s the proportion of disclosed military expenditure in GDP and in central government expenditures has been slightly declining according to World Development Indicators; in 2002 its share in GDP was 3 percent in the US, and 2 percent in the European Monetary Union. But a comparison of the level of military spending with investment figures in the periphery yields a more telling picture.

The rise in the consumption rate in the major core countries appears to be maintained *inter alia* by a rising household consumption rate in the US and Japan. Private consumption expenditure is sustained by advertising, superficial product

differentiation and planned obsolescence. Asset prices inflated by speculation (such as the current housing bubble in the US) play a part in encouraging consumption. As income levels in the core countries become increasingly polarized, corporate sales strategies develop mass markets in segments, e.g. in markets for ‘life-style model’ consumer goods and markets for discount-store consumer goods (Jones 2001: 14).

Capitalists, for their part, present advertising as necessary to serve consumers, who are portrayed as having mysteriously become more whimsical in their demands and preferences.<sup>14</sup> World advertising expenditure (Table 10) amounted to around one percent of world GDP in 2003 and 20 percent of the fixed capital formation expenditure of the low and middle income countries combined. Much of expenditure on advertisement can be seen as a waste of resources that is used to abet further waste. Another factor that instigates private consumption in the core countries is consumer credit, which has enabled US consumers to accumulate a debt of ten billion dollars at the end of 2004 (Wolff 2005).

Table 10  
Advertising expenditure through major media\*  
(billion US dollars)

	1996	1997	1998	1999	2000	2001 <sup>a</sup>	2002 <sup>b</sup>	2003 <sup>c</sup>	2004 <sup>c</sup>
North America	105.6	112.6	118.9	124.9	131.2	146.7	150.3	158.4	167.9
Europe	72.9	78.6	83.4	87.7	92.2	76.9	86.9	89.5	95.0
Asia and Pacific	61.7	67.2	67.2	70.4	74.0	61.3	66.2	69.7	75.0
Latin America	21.1	24.2	26.7	29.6	33.1	18.3	14.1	13.7	16.1
Rest of World	5.3	6.1	6.8	7.6	8.4	9.4	11.4	14.2	17.4
Total	266.5	288.8	303.1	320.1	338.9	312.6	328.9	345.5	371.4

Source: For 1996-2000 figures:

<http://www.asianmediaaccess.com.au/ftimes/adspend/summary.htm> (14 July 2005), original source: Zenithmedia.

<sup>a</sup> ZenithOptimedia Press Release June 30, 2003.

<sup>b</sup> ZenithOptimedia Press Release July 19, 2004.

<sup>c</sup> ZenithOptimedia Press Release April 18, 2005.

\*Major media comprises newspapers, magazines, television, radio, cinema and outdoor advertising. The internet is also indicated in the source tables for figures beginning 2001.

<sup>14</sup> An ICC Policy Statement argues “In an increasingly competitive environment and the tendency toward shorter product life spans, new products and services must be introduced without delay to the local market so that business can meet consumer expectations and or preference ...” (ICC 2002).

Table 11 shows the share of the core in global military expenditure.<sup>15</sup> In 2003 world military expenditure figures of the Stockholm International Peace Research Institute amounted to 53 percent of gross fixed capital formation in the low and middle income countries combined (1758 billion current US\$ - World Development Indicators); and the military expenditure of the core corresponded to 37 percent of this investment. The opportunity cost of military expenditure is only one side of the coin. Maintaining military might, flexing it and intermittently using it is necessary for the core countries to maintain the momentum toward deregulating trade and capital movements, and controlling global natural resources.

Table 11  
Military expenditure  
(billion US \$, 2003 prices and exchange rates)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Western Europe	209	210	209	211	214	216	215	220	223	220
North America	347	328	326	319	320	332	335	375	424	466
World	789	772	774	765	773	806	819	864	927	975

Source SIPRI. [http://www.sipri.org/contents/milap/milex/mex\\_wnr\\_table.html](http://www.sipri.org/contents/milap/milex/mex_wnr_table.html)  
Western Europe comprises Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Malta, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, UK. North America comprises US and Canada.

## 6

In conclusion, it emerges from the observations above that the basic tendencies in the production and growth of the social surplus described by Baran and Sweezy have not changed under ‘globalizing capitalism’. New economic policies, corporate strategies and international rules of conduct appear to promote increasing surplus transfers from the periphery to the core of the world-system.

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<sup>15</sup> It should be recalled that in many countries part of military expenditure is concealed in other government accounts and SIPRI cannot give data on a number of countries.

In order to lift itself out of destitution the periphery is exhorted to remove restrictions on trade and capital flows, and to compete for advantageous positions in global value chains controlled by transnationals by improving quality, reducing costs, innovating etc. The export-led growth economic strategy compels peripheral producers to individually compete for exportation by repressing wages, and conceding much of the surplus produced to their trade partners in the core countries. Part of the surplus accruing to the periphery is consumed by transnational élites imitating the consumption of the well-to-do in the core societies. On the other hand dollarization, capital flight and official reserve accumulation exert downward pressure (a pressure unrelated to trade balances) on the exchange rate of peripheral currencies. The undervaluation of peripheral currencies, reflected in deteriorating terms of trade, translates into a loss of surplus to the core countries, and reduces the capacity of poor countries to import capital goods from the core. The resulting meager per capita fixed capital formation in the underdeveloped countries bodes grim prospects for the welfare of future generations of working people in the periphery.

These trends are maintained by the insertion of millions of workers in Asian hinterlands into global production networks, and by the willingness of peripheral states governed by transnational élites to continue free trade and capital transactions policies, and to accumulate foreign exchange reserves. Africa's poor populations await their turn to be drawn into the world labor market, to eke out a subsistence and produce a surplus, of which a large part will likely flow to the core.

In order to prevent the drift of the victims of globalizing capitalism to irrational reaction (religious or nationalist fanaticism, 'clash of civilizations' etc.) and to focus their attention on the real issues, social scientists and activists should open to debate the social and economic consequences of the export-led growth idea, all the



theories and policies that give precedence to global efficiency over national saving and investment, and the social psychology of consumerism. There is pressing need to promote socio-economic programs based on the principle of self-sufficient and self-reliant national development, wherein the people can decide through democratic procedures how they will dispose the social surplus they produce (how they will distribute it, how much they will save, invest, export) under less pressure from world markets dominated by transnational companies, and with less interference from international institutions and core states. Within the framework of the capitalist world-system, there is little hope for solving the deep social contradictions the system reproduces. The solution, reason shows, lies outside the logic of the system.

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## Appendix

### Table A1

World exports by origin and destination , 1985 and 2000 (billions US dollars)

1985 destination origin	Western Europe	US and Canada	Other industrialized	Total industrialized	Latin America and Caribbean	Asian developing	Africa	Total developing	Total by origin
Western Europe	663	115	35	813	18	55	27	102	915
US and Canada	84	157	53	294	24	40	7	71	362
Other industrialized	51	106	22	179	7	57	4	66	245
Total industrialized	798	378	110	1284	49	152	38	239	1522
Latin America and Caribbean	33	64	9	106	15	4	2	20	128
Asian developing	77	93	91	259	7	84	4	95	356
Africa	64	18	4	86	2	4	2	9	95
Total developing	175	175	104	453	24	95	9	126	579
Rest of world	73	4	7	84	2	18	7	24	108
Total by destination	1045	557	221	1821	75	265	51	389	2209
2000 destination origin	Western Europe	US and Canada	Other industrialized	Total industrialized	Latin America and Caribbean	Asian developing	Africa	Total developing	Total by origin
Western Europe	1952	352	115	2427	77	222	46	345	2764
US and Canada	283	505	145	934	245	184	8	436	1371
Other industrialized	153	237	46	436	23	260	8	283	720
Total industrialized	2389	1095	306	3790	337	666	61	1064	4862
Latin America and Caribbean	61	283	15	360	77	23	0	100	459
Asian developing	360	452	291	1103	38	628	15	681	1784
Africa	84	31	8	130	8	31	8	38	168
Total developing	505	766	314	1585	123	674	23	819	2404
Rest of world	283	38	15	337	8	38	8	54	390
Total by destination	3185	1899	636	5720	467	1378	92	1937	7657

Source: Figures calculated from Table 2.2 ("Structure of World Imports, By Origin and Destination, 1985 and 2000" showing exports in percentages of world exports) from ECLAC (2002: 33); and from world "exports of goods and services" figures in World Development Indicators of the World Bank (<http://devdata.worldbank.org/dataonline>).

Note to ECLAC table: The data on world imports refer to the total imports of 82 reporting countries, corresponding to approximately 90% of world trade. 1985 refers to the annual average for the period 1984-1986. 2000 refers to the annual average for 1999-2000. The countries not included as reporting countries are primarily those with economies in transition. Western Europe: European Union plus Switzerland, Norway and Iceland. Other industrialized: Japan, Australia, New Zealand and Israel. "Rest of World" is not included as a destination for lack of information. Asian origin, [sic] "Rest of World" refers to economies in transition, Oceania except Australia and New Zealand, free zones, etc.

Table: A2  
World exports by origin and destination, 1985 and 2000 in current international dollars  
(billion current international dollars)

1985 destination origin	Western Europe	US and Canada	Other industrialized	Total industrialized	Latin America and Caribbean	Asian developing	Africa	Total developing	Total by origin
Western Europe	1052	182	56	1291	28	88	42	161	1452
US and Canada	86	161	55	302	25	41	7	73	373
Other industrialized	62	129	27	218	8	70	5	81	299
Total industrialized	1200	473	138	1811	61	199	54	315	2123
Latin America & Caribbean	80	155	21	257	37	11	5	48	311
Asian developing	176	211	206	588	15	191	10	216	809
Africa	128	35	9	173	4	9	4	18	190
Total developing	385	402	236	1018	57	211	20	282	1310
2000 destination origin	Western Europe	US and Canada	Other industrialized	Total industrialized	Latin America and Caribbean	Asian developing	Africa	Total developing	Total by origin
Western Europe	446	80	26	554	17	51	10	79	3395
US and Canada	293	523	151	968	254	190	8	452	1420
Other industrialized	126	196	38	360	19	215	6	234	594
Total industrialized	2818	1152	330	4309	367	678	71	1109	5409
Latin America and Caribbean	112	517	28	657	140	42	0	182	839
Asian developing	1387	1741	1121	4249	148	2420	59	2626	6875
Africa	227	82	21	350	21	82	21	103	453
Total developing	1725	2341	1170	5257	308	2544	80	2911	8167

Source : Calculated from Table A1 and exchange rate distortion factors. Exchange rate distortion factors found by dividing GDP, PPP (current international \$) figures by GDP (current US\$) figures from World Development Indicators of the World Bank (<http://devdata.worldbank.org/dataonline>) for 1985 and 2000. As the regional data of the World Bank do not correspond to those of Table A1 drawn from ECLAC, approximations for exchange rate distortion explained in Table A4 were used.

**Table A3**  
**Unrequited transfers through exports due to exchange rate distorsion, 1985 and 2000**  
**(billion current international dollars)**

1985 destination origin	Western Europe	US and Canada	Other industrialized	Total industrialized	Latin America and Caribbean	Asian developing	Africa	Total developing	Total by origin
Western Europe	389	67	21	478	10	32	16	60	597
US and Canada	2	5	2	9	1	1	0	2	11
Other industrialized	11	23	5	39	1	13	1	14	53
Total industrialized	403	95	27	525	13	46	17	76	601
Latin America and Caribbean	47	91	13	151	22	6	3	28	182
Asian developing	99	118	115	329	8	107	6	121	453
Africa	64	18	4	86	2	4	2	9	95
Total developing	210	227	132	567	33	118	11	158	731
2000 destination origin	Western Europe	US and Canada	Other industrialized	Total industrialized	Latin America & Caribbean	Asian developing	Africa	Total developing	Total by origin
Western Europe	446	80	26	554	17	51	10	79	631
US and Canada	10	18	5	33	9	7	0	16	49
Other industrialized	-27	-41	-8	-76	-4	-45	-1	-49	-125
Total industrialized	429	57	23	512	22	12	9	45	555
Latin America and Caribbean	51	234	13	297	63	19	0	82	380
Asian developing	1027	1289	830	3146	109	1792	44	1945	5091
Africa	142	52	13	220	13	52	13	65	285
Total developing	1220	1575	856	3664	185	1863	57	2092	5756

Source: Calculated by taking differences of corresponding regional export figures in Tables A1 and A2.

**Table A4**  
**Exchange rate distorsion factors for regions in Table A2**

Region in Tables A1-A3	Country/Region in World Development Indicators	Year	Exchange rate distorsion factor	Weights (from annual exports in billion current dollars)	Regional exchange rate distorsion factor
Western Europe	European Monetary Union	1985	1.587	-	1.587
		2000	1.228	-	1.228
US and Canada	US	1985	1.000	0.752	1.029
	Canada		1.116	0.248	
	US	2000	0.986	0.769	1.036
	Canada		1.202	0.231	
Other industrialized	Japan	1985	1.169	0.812	1.218
	Australia		1.222	0.114	
	New Zealand		1.720	0.029	
	Israel		1.756	0.045	
	Japan	2000	0.694	0.769	0.826
	Australia		1.290	0.134	
	New Zealand		1.480	0.028	
	Israel		1.123	0.069	
Latin America and Caribbean	Latin America and Caribbean	1985	2.423		2.423
		2000	1.826	-	1.826
Asian developing	East Asia and Pacific	1985	0.466	2.742	2.274
	South Asia		0.1000	3.238	
	Middle East and North Africa		0.433	1.548	
	East Asia and Pacific	2000	0.675	4.199	3.853
	South Asia		0.099	5.041	
	Middle East and North Africa		0.226	2.306	
Africa	Sub-Saharan Africa	1985	0.379	2.794	2.004
	Middle East and North Africa		0.621	1.549	
	Sub-Saharan Africa	2000	0.352	3.400	2.691
	Middle East and North Africa		0.648	2.306	

The distorsion factor for Western Europe is based on the World Bank's GDP figures for European Monetary Union; the distorsion factor for US and Canada is average of World Bank's GDP figures for the US and Canada, weighted by exports of goods and services; the distorsion factor for other industrialized countries is average of distorsion calculated from World Bank's GDP figures for Japan, Australia, New Zealand and Israel, weighted by these countries' exports of goods and services; the distorsion factor for Latin America and Caribbean is calculated from World Bank's GDP figures for this region; the distorsion factor for Asian developing countries is average of distorsion factors calculated from World Bank's GDP figures for East Asia and Pacific, South Asia and the Middle East and North Africa, weighted by these regions' exports of goods and services; the distorsion factor for Africa is average of distorsion figures calculated from World Bank's GDP figures for Sub-Saharan Africa and the Middle East and North Africa, weighted by exports of goods and services.