



Is Imperialism Passé in the 21st Century?

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Abstract

Hardt and Negri in *Empire* argue that "Imperialism is over." On the contrary, others argue that not only is imperialism not dead, but its machinations have amplified during the phase of globalisation (Patnaik's *The Value of Money*, Patnaik and Patnaik's *A Theory of Imperialism*, John Smith's *Imperialism in the Twenty-First Century*, among others). The reason for this sharp division among progressives is because of the current world scenario. On the one hand, some countries in the periphery (emerging economies) are growing faster than those in the core. On the other hand, the terms of trade has started moving in favour of the primary commodities over the last two decades. This paper argues that imperialism exists not in spite of but because of the globalisation of capital.

Mature capitalism in the core needs to deal with three instabilities: accumulation, price and political (Patnaik), the first because of expectations in investment decisions (Luxemburg), the second because of the wage-price spiral (Rowthorn) and the third because of the social unacceptability of high rates of unemployment. We argue that globalisation solves the first two problems but, in the process, aggravates the third instability.

The world is no longer divided into two camps of a capitalist core and non-capitalist periphery. Today, we have a tripartite division of the world with a capitalist core (G-8), predominantly capitalist periphery (China, Taiwan among others) and a pre-capitalist periphery (the African subcontinent and the rest). The capitalist periphery, through its low wage costs, keeps the wage shares in the capitalist core under check, thereby providing price, and hence, financial stability to the US dollar. The same low wage costs induce a shift in the site of accumulation to the capitalist periphery even as the capitalist core retains the surplus generated through the IPRs. Due to increased accumulation, the raw material requirements create debilitating conditions for the pre-capitalist periphery in effect forming a pyramidal structure of imperialism.

However, a significant contradiction develops in this process. While globalisation provides the core with price and output stability, it comes at the cost of political instability because a declining wage share and outsourcing creates unemployment or declining income for the workers in the US resulting in a rightward shift (election of Trump and others) in the polity in the core.

Keywords: imperialism, terms of trade, accumulation, military spending, patents, global inequality, unequal exchange, globalization.

JEL Classification: F540

1 Introduction

Hardt and Negri [2001] in their highly acclaimed *Empire*, which drew rave reviews from both ends of the political spectrum, state

[W]e find the First World in the Third, the Third in the First, and the Second almost nowhere at all ... *[t]he United States does not, and indeed no nation-state can today, form the centre of an imperialist project.* Imperialism is over. No nation will be world leader in the way modern European nations were.

[emphasis in original]

While refuting the existence of imperialism, the authors are simultaneously making a nuanced argument in favour of a theoretical construct in the form of an Empire, the logic of which is not driven by any particular nation state. Without going into the details of how they perceive today's global economy to be, our attempt here is to examine their basic premise. Is Imperialism, in the sense of domination of one nation state over the global economy, indeed over?

Declaring the end of US imperialism in the backdrop of the (in some sense continuing) Afghan and the Iraq invasions might seem perplexing to some but Hardt [2006] defends their argument taking precisely these as examples of the *end* of imperialism by drawing an interesting analogy between these unilateral US attempts and that of a defeated monster at the end of a typical horror movie. These wars were, Hardt [2006] argues, like the last ditch attempt of the dead monster (imperialism, figuratively speaking) to grab one of the protagonists, right before the credits start rolling on the screen, after which his arm is cut off to finally put him to rest. He further argues that

There is no point continuing the fight against the old monster, dead and buried. Its time has passed. But we know there will be a sequel with a new monster [Empire] that requires new forms of struggle.

But is the US, the 'old monster, dead and buried' indeed?

Diffusion of capital in the Third World or deindustrialisation in the First should *not* be seen as a sign of weakening of the concept of imperialism. Far from it, it should be seen as a way of US imperialism to resolve its inner contradictions. While capital may have shifted to the Third resulting in high growth and employment, there is no denying that there's only one country's currency which rules the global economy, the US dollar. And given that the financial system of the world economy is driven by the stability of the USD, the US continues to 'form the centre of an imperialist project'. All major currencies of the world are in effect pegged to it.

International finance flies to it when the country is hit by the worst ever crisis since the Great Depression of the 1930s, the exact opposite of what would have happened to any other currency in the world. Despite multiple currencies trying to challenge its hegemony, none, whether Yen earlier or Euro and Renminbi currently, have managed to replace it as a reserve currency. Lest this point be misunderstood, it's not about the US dollar in particular. During the heydays of British imperialism, the same role was played by pound sterling.

Despite multiple currencies being accepted globally, there's still one which is considered to be supreme in any epoch. Why? Is the global acceptance of one currency by all countries merely an accounting exercise? In other words, whether it was pound then and dollar now, they are merely units of account, nothing more nothing less. And since any financial system requires a unit of account, there will be one currency or another which will perform that role. *This* doesn't amount to imperialism for sure. But are these reserve currencies merely units of account? They are *not* and herein lies the essence of imperialism. We will come back to this important question later in the article.

In what follows, we will look at three broad Marxian accounts of contemporary imperialism to differentiate our argument from theirs. The section after that presents some stylised facts that present the basis for our arguments followed by a section which builds a theoretical model to explain the reasons for why and how imperialism sustains the global reserve currency as a universal store of value. The last section concludes the paper.

2 Contemporary Marxian Accounts of Imperialism

There are broadly three Marxian themes, with variations within, about contemporary imperialism we review here. The choice of themes is also driven by what comes closest to our own argument so by no means is the account in this section exhaustive. In general, there are two somewhat divergent readings of Marx, which can be classified under one of these categories: the realisation problem or the tendency of the rate of the profit to fall. Since we are dealing with contemporary imperialism, we do not get into reviewing some of the classics like Hilferding, Luxemburg, Lenin, Arendt, Baran, Magdoff, the unequal exchange or dependency school. Brewer [2002] summarises most of these positions albeit, we believe, some more accurately than the others. For the same reason, we do not engage, except perfunctorily, with the Marxist literature which argues that imperialism is over. The purpose of this section is to show similarities and dissimilarities of our argument with the existing Marxian accounts of imperialism.

2.1 North-South Interdependence

Patnaik [1997, 2009], Patnaik and Patnaik [2016] have argued that for a global monetary system to be stable, prices of other commodities should not be increasing without bounds. One such set of commodities the prices of which might have an *ex ante* tendency to rise are agricultural commodities, mainly produced in the tropical regions of the global South. This tendency arises out of the constraints of the land mass, with “land augmenting” measures undermined by lack of public investment, required to produce them, thereby, limiting their supply in comparison to rising *ex ante* demand. Patnaik and Patnaik [2016] say ‘Imperialism is *the* device typically used by capitalism for [the] purpose ... [of] ensur[ing] that the phenomenon of increasing supply price does not actually manifest itself.’

And this *ex ante* rise in supply price is suppressed through an *ex post* deflation in demand through an income squeeze of the vast mass of working people (global reserve army) in the South. To be sure, this does not require an absolute squeeze, a relative squeeze of the South vis-à-vis the North would serve the purpose provided the resultant global *ex post* demand grows in tandem with production of these commodities.

Two implications follow. One, there will be growth divergence between the North and the South resulting in an ‘unequal interdependence’. Two, maintaining price stability in the North would require a consistent fall in the terms of trade against primary commodities being produced in the South (much like the Prebisch-Singer hypothesis).

The problem is both these propositions do not seem to hold, at least for certain countries in the South, in the current phase of capitalism. On the one hand, the country with the largest reserve army of labour in the world, China, has witnessed an *en masse* shift of the manufacturing base from the North. As a result of which, let alone a growth divergence, China’s share in world GDP has been steadily rising since the 1990s (figure 1). On the other hand, the terms of trade have moved *in favour* of primary commodities since the late 1990s (figure 2).

We find that while the premise (realisation problem) of this framework is correct, the prediction (adverse terms of trade for and low growth rate in the South) is empirically questionable particularly since neoliberalism.

2.2 Imperialism as a Spatio-temporal fix against falling rate of profit

Harvey [2003] belongs to the falling rate of profit tradition. Harvey argues that imperialism provides a spatio-temporal fix – the former by exporting capital (diffusion in the South) and the latter through technologies with long gestation lags (both within the North and the South), delaying introduction of techniques, expenditure on education etc. – to postpone this imminent fall in the rate of profit.

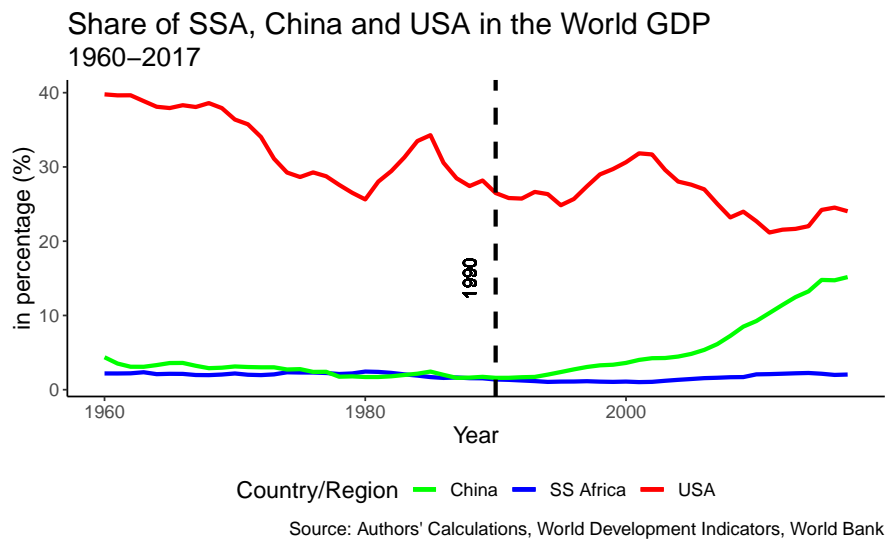


Figure 1: Share of the USA, China and sub-Saharan Africa in the World GDP

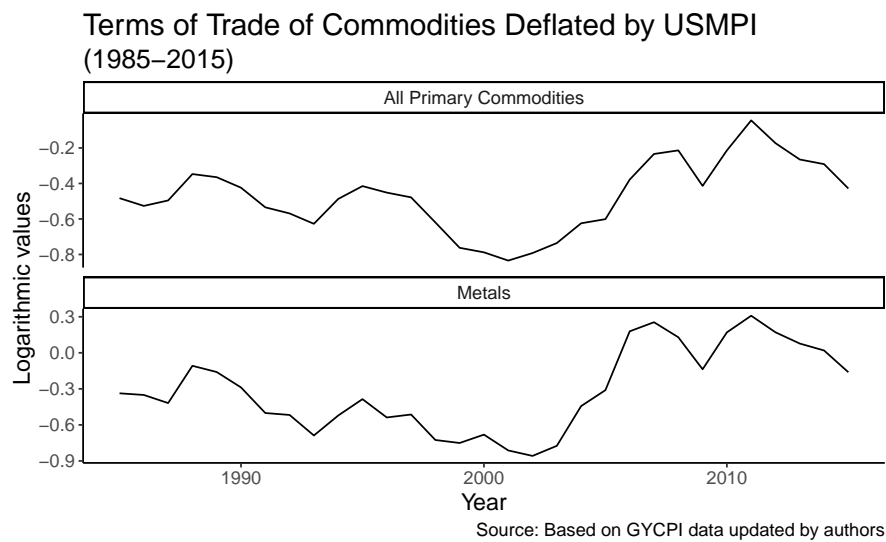


Figure 2: Terms of Trade of Primary Commodities against US Manufactured Prices

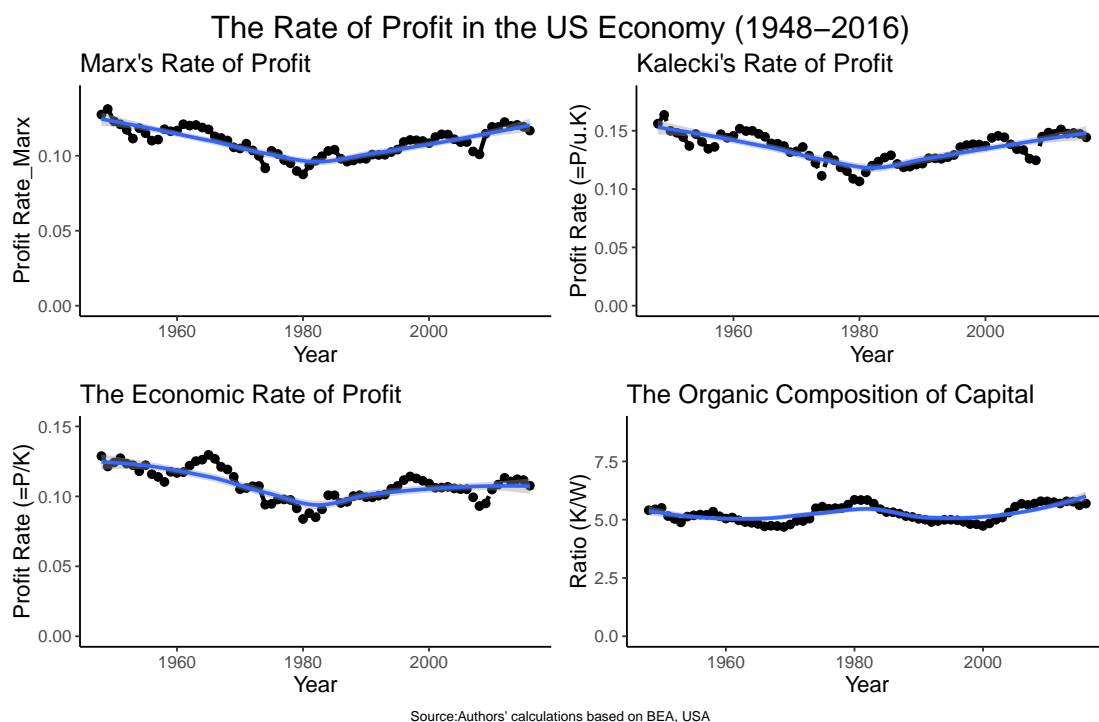


Figure 3: Various Definitions of the Rates of Profit and the OCC in the US

Let us add a rider here. Harvey [2018], of late, has changed his position dramatically and admitted: “I don’t find the category of imperialism that compelling” and the reason is that, “the historical draining of wealth from East to West for more than two centuries has... been largely *reversed* over the last thirty years” (emphasis added). We of course discuss the earlier Harvey here.

The central problem with this framework, and by inference this Marxian tradition, is the premise on which this concept of imperialism is built is theoretically unsound. Sweezy [1991] and the monopoly capital school have critiqued this position extensively, which runs as follows. One, replacement of living labour (workers) with dead labour (machines) does not mean a rise in the organic composition of capital to begin with as Marx seems to have conflated the use value with the exchange value of machines. Two, even if the organic composition of capital (denominator in Marx’s rate of profit) rises, there is no upper limit to the numerator i.e. *ratio* between the surplus value and labour value (s/v) may still not fall. Data on rates of profit too seem to show that there has not been any *technologically-induced* fall in the rate of profit (see figure 3). There could be a fall in the rate of profit reflective of the realization problem but then that’s a separate issue.

What if there is no such technical “limit”, as indeed we have shown in figure 3? Does that mean imperialism is not required for such a system? That would be

an erroneous position to take. So, in contrast to Patnaik, Harvey [2003] gets the prediction (diffusion of capital in certain segments of the South) correct but his premise is theoretically and empirically questionable.

2.3 Unequal exchange

Smith [2016], Foster [2019] try to resurrect the unequal exchange school in today's context. Since this argument seems closest to what we are going to argue, we would like to discuss this in some detail to distinguish our position from theirs.

To prevent the fall of the rate of profit, massive underutilisation of capacities, corporations in the North indulge in outsourcing part or all its production. In certain cases, they may create their own subsidiaries in the South but in most cases the so-called lower end of the value chain is *not* owned by those on the top of the pyramid. This process of creation-of-surplus-in-the-South-but-appropriation-in-the-North, i.e. imperialism of today, can continue only if there is a substantial difference in wage costs between the two regions of the world, which will continue till there are restrictions on labour mobility between them. Smith [2016] calls this a process of 'labour arbitrage', which forms the core for his premise of imperialism to stand. Much like Smith, the "old" school of unequal exchange tried to explain how this unequal exchange comes about (see Bharadwaj [1984] for a detailed critique).

Foster [2019] argues that "(e)ach historical phase of imperialism relies on different means of exploitation and expropriation to feed accumulation on a world scale" with the current one christened as *Late Imperialism*. The current phase of monopoly-finance capital can be ascertained from the fact that merely 500 MNCs usurp nearly 40 percent of the total world revenue and this process is facilitated through appropriation of surplus value generated in the global South due to South-to-North labour immobility. The difference between the nominal and the real exchange rate (purchasing power parity), he argues, can roughly measure the extent of transfer of this surplus value and can also be treated as a measure of this late imperialism.

A few issues, primarily theoretical, arise vis-à-vis this framework too even though the detailed analysis of the global value chains provides some very important insights into the current world order.

One, unless the benchmark of equal exchange is specified, how does one define unequal exchange? Patnaik [1982, p. 24], in her critique of the theory of unequal exchange, argued that attaching this normative label of 'equal exchange' (carrying implications of equity and justice) to exchange at labor values is directly antithetical to Marx's treatment of exchange. The necessary implication of Marx's treatment of 'equivalent exchange' under the laws of competitive capitalism is that commodities do not exchange at labor values. However, there is no normative content to Marx's use of the term 'exchange of equivalents.' And, moreover,

to define that concept of unequal exchange one needs to compare the real wages in conjunction with “objective” levels of labour productivities. Without a doubt, Smith [2016] acknowledges this problem but says that it’s impossible to define it since the definitions of labour productivities are all deeply flawed. Foster [2019], on the other hand, argues that since the machines that the two sets of workers work on are the same, their technical productivities are the same. The difference in their real wages, therefore, measures the extent of unequal exchange.

Two, the argument that this labour arbitrage arises because of immobility of labour even as capital remains mobile to equalise rates of profit is problematic. In the theoretical framework of this tradition, whether the old or the new avatar, while capital is mobile labour is not and that is what creates the wage differentials. But in the abstract world of full capital mobility, wage equalisation should take place even if labour itself is *not* mobile. It is true that in reality, there are a host of social factors which determine the levels of wages. But even if these factors are controlled for, a more macro reason for wage differential today is that both capital and labour are only *partially* mobile, though of course to different degrees.

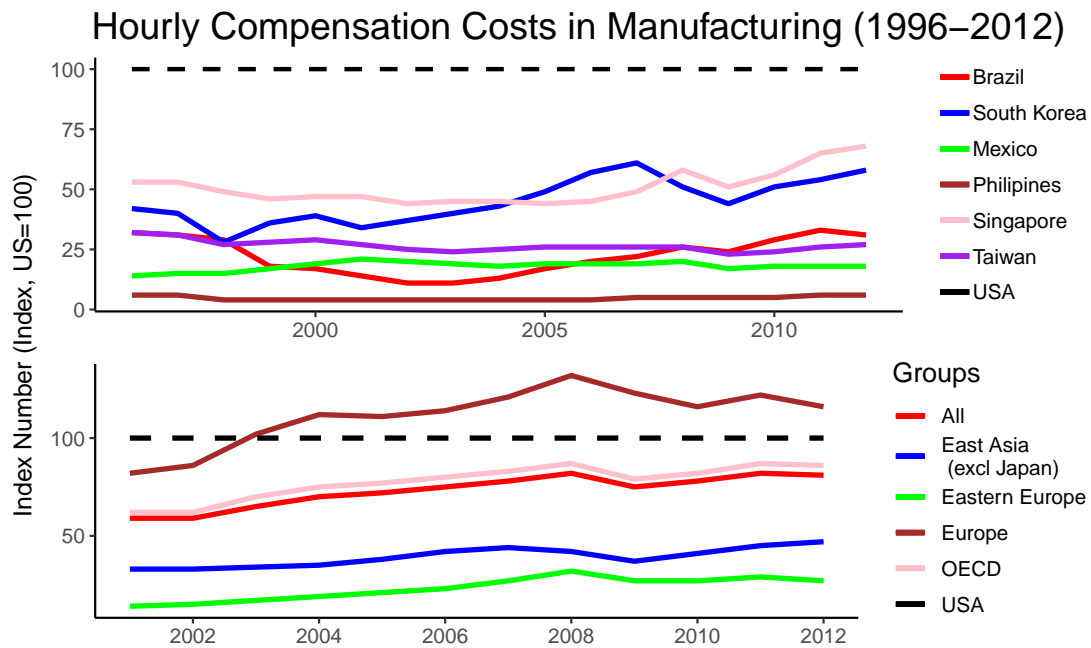
Three, any attempt to “measure” imperialism in the form of labour arbitrage (and the corresponding transfer of surplus) has a basic lacuna. If, over time, the North-South wage gap falls, as is indeed happening (see figure 4), as a result of capital mobility, this would imply that the “degree” of imperialism has fallen *pari passu* but then such a theory ties us in knots. Figure 4 presents the gap between the unit labour cost in manufacturing across a few countries where capital has relocated in recent times. And the picture is quite clear, while there is surely a gap but that gap, instead of staying constant or rising, is closing in (distance between the dotted line, which is the benchmark US wage cost, and the respective lines for different regions/countries). And if the argument is that this notion of wage cost has a flawed productivity inbuilt into it, then looking at median wages between the US and Chinese workers (implicitly assuming, as Foster [2019] does, the productivities to be the same) shows that the two are moving closer since the late 1990s.

Four, if in the distant future, wage differential of some countries in the South and the North tends to disappear, would one conclude that these Southern countries have become part of the imperialist yolk?

3 In the Dollar lies US imperialism

We need to first establish whether imperialism exists today or this category needs to be discarded, as Hardt and Negri propose, given the existence of the First in the Third and Third in the First.

In light of the unilateral military or trade aggressions that the US has made in



Source: U.S. BLS, International Labor Comparisons, August 2013

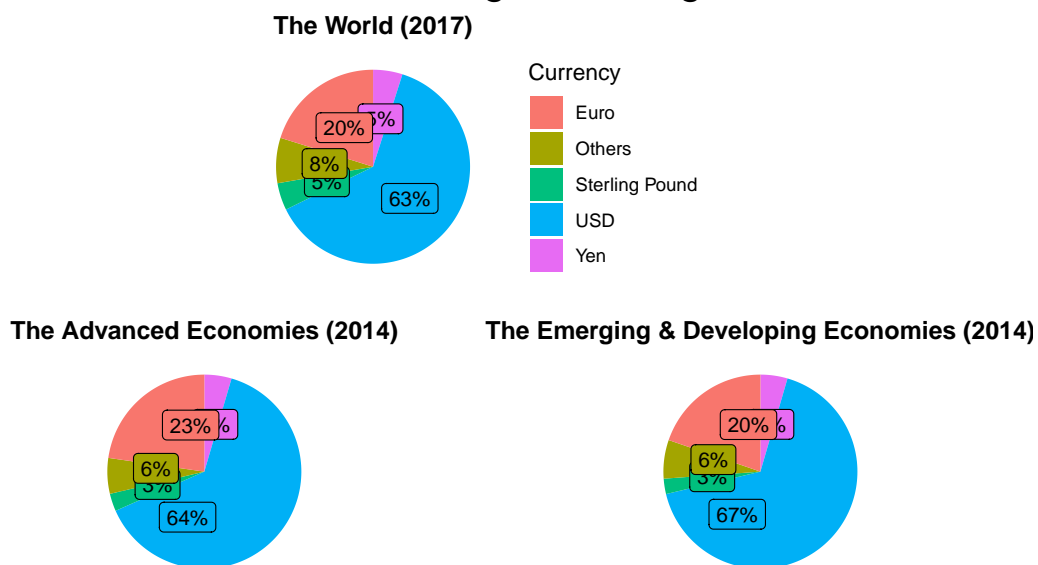
Figure 4: Declining Gap in the Hourly Compensation Costs in Manufacturing

the recent past and continues to make even today vis-à-vis West Asia, one should immediately be wary of outrightly discarding the category of imperialism. There's no doubt that military might of the US is behind its hegemony but is that all there is to US imperialism? Moreover, there is a problem with this position. It gives the impression that if tomorrow the US were to withdraw troops or become less aggressive, imperialism would have got weakened accordingly. Moreover, Hardt and Negri would argue that this is the last leg of US' imperialism and it's trying to desperately assert its long lost dominance and it's just a matter of time before these aggressions become politically irrelevant and disappear.

Our argument is that if there's a proof of imperialism, it lies in the way the global reserve currency is maintained in the world economy. This holds true of the past as much as it holds today. The mechanisms may have changed but that there is global financial/trade architecture which maintains the hegemony of the US dollar today or the British pound earlier is beyond doubt. It's this architecture that defines and sustains imperialism. Almost two-thirds of the forex reserves are kept as dollars irrespective of the region we look at in the world (see figure 5).

To be sure, currency hegemony is merely a reflection of a complex institutional infrastructure - trade agreements, debt and capital flows, intellectual property rights - created by the North to the detriment of the South. Moreover, it does not necessarily require *one* currency, there could be multiple currencies from the North

The Distribution of Foreign Exchange Reserves



Source: Currency Composition of Official Foreign Exchange Reserves (COFER), International Financial Statistics (IFS)

Figure 5: Composition of Forex Reserves

stacked on a global ladder but at a distinctly higher level than the currencies of the South. In fact, one could argue that the changing relative strength of these high-order currencies may reflect the extent of inter-imperialist rivalry at a point in time. The current hegemony (almost absolute) of the dollar, for eg., shows the unipolarity of US imperialism.

But what gives dollar (or these currencies in certain epochs) the special place it commands?

Keynes [1936, ch. 17] had argued that the net return of all commodities (what he called marginal efficiency of capital net of borrowers' and lenders' risks) falls as their production rises and the commodity whose net return falls the slowest sets the limit to production of all the other commodities. That special commodity is money because of two reasons, neither of which holds for any other commodity. On the one hand, its elasticity of production is zero since only central banks can create it. On the other hand, its elasticity of substitution is nearly zero since 'money is a bottomless sink for purchasing power', the demand for which can't simply be diverted to other commodities. What's true for domestic money is true for global money as well and in that sense dollar is money *par excellence*.

For the elasticity of substitution of dollar to be zero, global holders of wealth have to be assured of its value against other commodities and rival currencies. For the dollar to be a preferred asset, its premium net of prices (for eg. of essential

commodities like oil) should not fall precipitously. No wonder the 1970s oil crisis created a scare for the USD. It took a paradigmatic change in the geopolitical landscape and economic framework altogether to bring the USD back on track. Therefore, the importance of price stability can not be stressed more. The mechanism through which stability of dollar is maintained globally forms one of the core elements of the theory of imperialism here (as also in Patnaik [1997]).

As for rival Northern currencies, *ceteris paribus*, the one whose value is most stable against each other will act as the key reserve currency. We discuss that *ceteris paribus* does not normally hold. One could perhaps argue that price stability is nothing unique to the dollar since the other leading currencies too more or less share this property. It needs to be noted, however, that the uniqueness of the dollar comes from the fact that it maintains its hegemony *despite* running huge trade and fiscal deficits with autonomous monetary policy (all conditions for capital flight in today's world), whereas none of the other countries with leading currencies have this liberty.

A proof of this more equal than others status of dollar was best exemplified recently when global capital paradoxically flew towards the US even as its financial system was experiencing the biggest collapse since the Great Depression. Euro during the Euro crisis or Yen during its lost decades didn't have the same fate. Nor would Renminbi either if China were to experience such a crisis. Such is the power of the dollar! Why?

3.1 Global stability of the dollar

If one looks at the exchange rates between the dollar and other currencies or between dollar and other commodities, we find that with the exception of the 1970s, its value has been pretty much stable. Let's look at the exchange rate between leading currencies first. If the currencies are floating so that the governments don't interfere in the exchange markets to determine the value of their respective currencies, then the relationship mentioned above holds true for the currencies too. The only difference is that premia net of depreciation of these currencies will have to be equal to the premium of the USD. And for the USD to maintain its position, the other currencies should not continuously be appreciating otherwise the agents would move to the currency which consistently appreciates with respect to the USD and once that happens, that currency will become the reserve currency of the world. Something like this happened during the transition from the British pound to the US dollar during the inter-war period.

Figure 6 shows the long term relationship between the leading currencies of the world and it can be seen that their respective values move within a bound with broadly a flat trend after an initial adjustment following the breakdown of the pegged exchange rates (Bretton Woods system). This also shows that if it

The Exchange Rates of the Advanced Economies

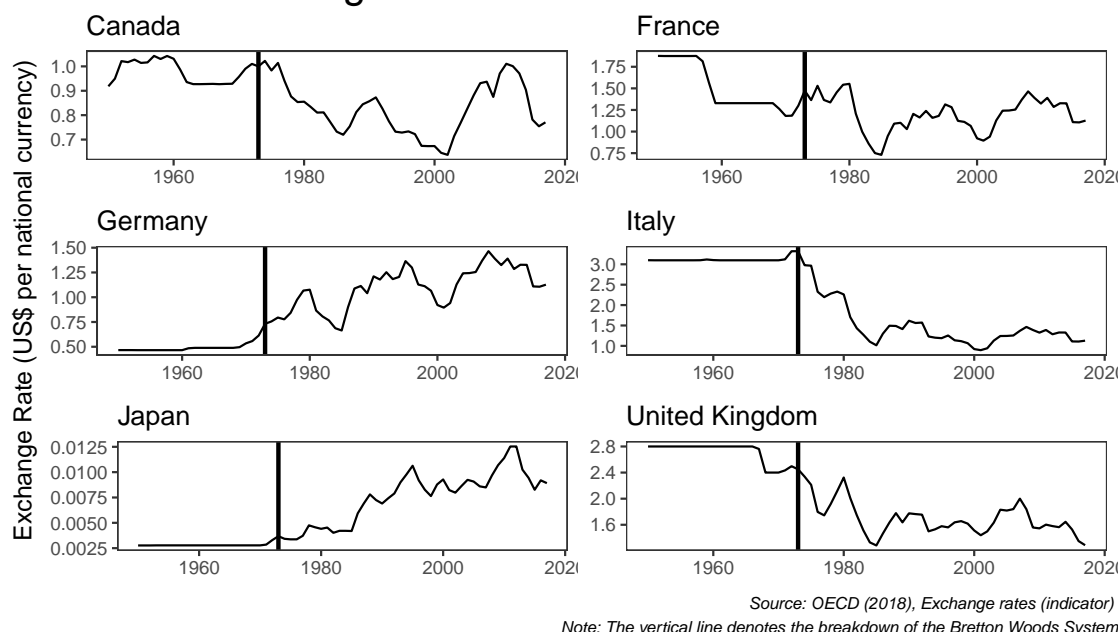


Figure 6: Nomianl Exchange Rates of Leading Currencies vis-à-vis USD

were only about a unit of account, then any of these currencies could play the role of the USD since all of them are relatively stable and yet it's the dollar which is the reserve currency. Moreover, as witnessed during the lost decade(s) of Japan, an appreciation in the value of the Yen has not destabilised the global financial system in any fundamental manner but a collapse of dollar probably will.

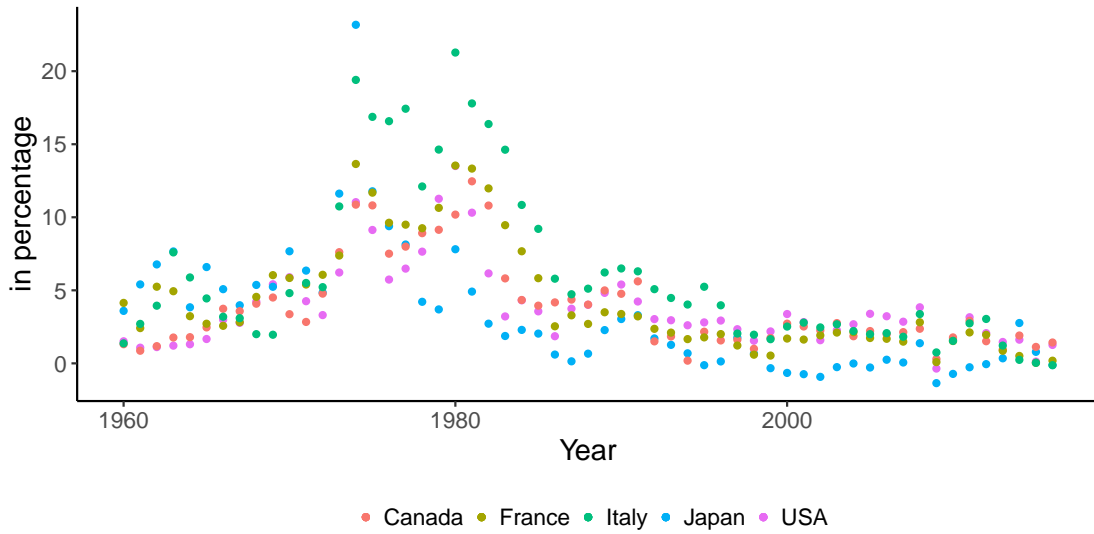
Another important aspect of the USD, which is unique to it, is that it derives its supremacy from its leadership in the world of technology.

3.2 Technology and Patents' Regime backs the USD

Despite having outsourced the production of commodities to the Third world countries and running huge trade deficits with some of them, the USD has not only maintained its supremacy, it has not let those countries gain the status of global reserve currency despite having huge current account surplus with the US.

The politics of patents and copyrights and its limitations are well known but within the given framework, there is no doubt that the US has the highest number of patents in the world. The first world in general has higher patents than the emerging and growth-leading economies (EAGLEs) followed by the relatively underdeveloped African subcontinent (see figure 8). There's a clear hierarchy between these three sets of countries as far as control over technology is concerned.

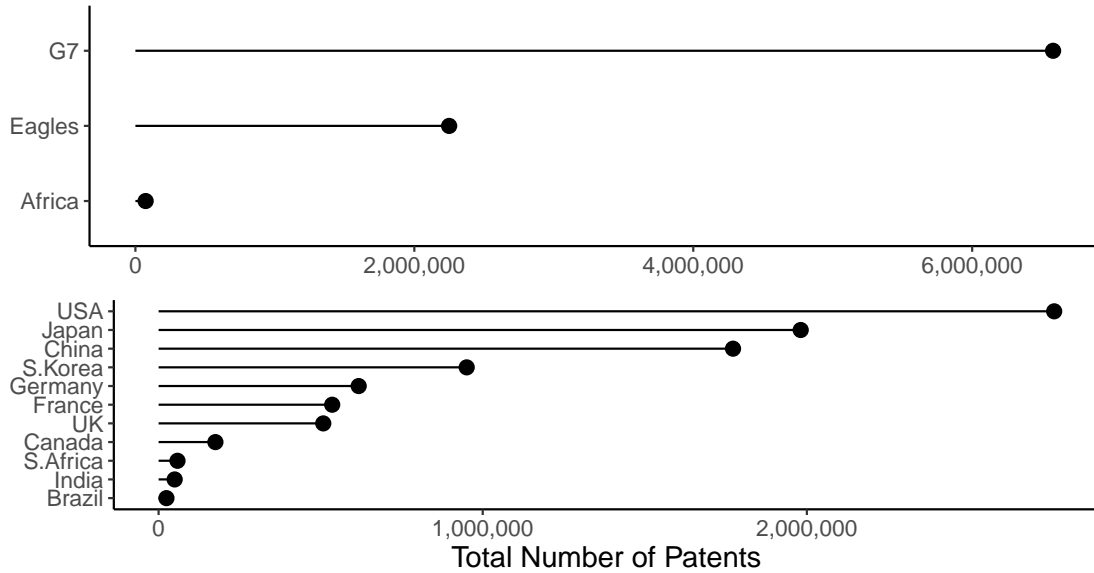
Rate of Inflation: USA, Canada, France, Italy & Japan (1960–2016)



Source: Authors' Calculations, World Development Indicators, World Bank

Figure 7: Rate of Inflation: USA, Canada, France, Italy and Japan

IPRs: Patents in Force (2016)



Source: WIPO statistics database. Last updated: May 2018

Note: EAGLES (emerging and growth-leading economies) except Indonesia & G-7 countries except Italy

Figure 8: Intellectual Property Rights (IPRs): Patents in Force (2016)

And within the Eagles, it's essentially the Chinese and South Koreans who have pushed the ranking up while the rest of the Eagles are way behind on the technology ladder.

This supremacy in technical knowhow provides two distinct advantages to the US and its currency. One, whoever holds the patents holds the monopoly rents arising out of those. It provides the basis for surplus value expropriation even though the production is taking place overseas, a point which has quite succinctly been made by Smith [2016] and Foster [2019].

Two, it will always have the first movers advantage since technological development requires heavy investments in R&D and more long term investment in educational and research institutions. It's a self fulfilling process. The universities which provide the best research facilities attract the best minds in the world, which feeds into newer ideas, which, by generating monopoly rents, give the holders of the patents a heads up. A part of this profit is reinvested in these research departments in the US universities and the entire process repeats. The US also creates the politico-legal framework to its own advantage to maintain this technological advantage. Any other country to break into this position would require a huge spike in its technological pace, which is a Herculean task though some countries can still make significant advances in this regard.

3.3 US Military: The Power behind the Dollar

Even though not discussed or stressed so far in our argument, a very important factor behind dollar's hegemony has to do with the military might of the US. We have downplayed it so far both because it has been written about extensively as also we wanted to highlight the other factors which have not been given their due in the existing literature on imperialism.

The data on defence expenditure speaks for itself. If we look at the share of the US in the global defence expenditure, it is light years ahead of other countries, First or Third world countries alike (see figure 9). This aggressive armament race also requires the US to be at the cutting edge of warfare technology, an offshoot of which are also technologies, for eg., internet or drones, which are later used for civilian purposes. So, one could argue that heavy military expenditure feeds into the patents' race and vice versa which help the US maintain its hegemony.

This gives their military an edge over any competing country, and by corollary, currency. International finance knows that when push comes to shove, the dollar can maintain its hegemony through brute force and that expectation is based on past as well as present experiences.

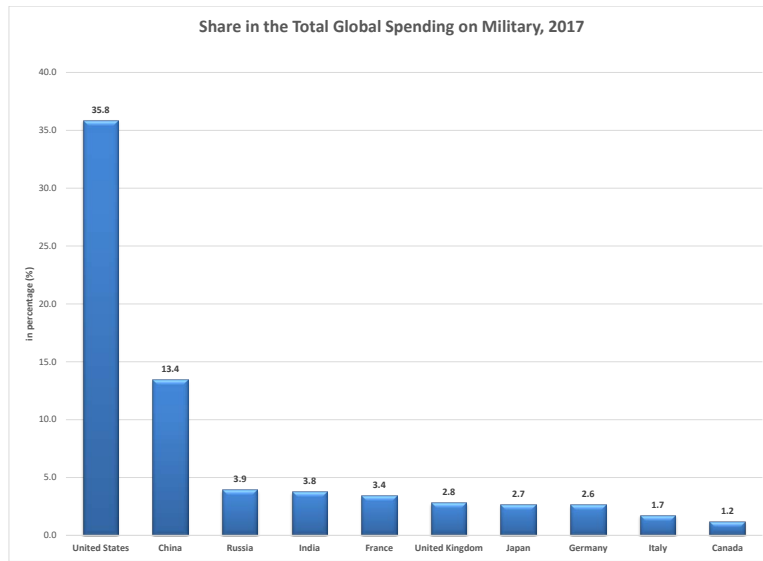


Figure 9: Share in World Defence Expenditure by Countries

4 The Modus Operandi of Modern Imperialism

4.1 Weakening Labour and Resurgent Capital in the Core

How has the dollar, as the lead currency, maintained its value over time? In understanding this process in the contemporary world lies the essence of imperialism of the 21st century. We have already seen that except for the 1970s, inflation has been stable in all the leading currencies. What determines the price appreciation of commodities? The mainstream tradition of economics, courtesy Milton Friedman, would have us believe that inflation is essentially a monetary phenomenon i.e. higher the supply of money higher would be the inflation. A lot has been written about this theoretically incorrect position on account of getting the basic causality wrong. In sharp contrast, in the Marxian and other heterodox traditions, price determination is essentially in the terrain of class politics. Since the price vector (inclusive of wages) essentially represents the class weapon that each claimant has over the total produce, how the level of output prices and inflation are going to behave depends on the relative bargaining strengths of these different claimants. Let's take a simple case of three claimants to begin with: workers, capitalists within the First World, primary commodity producers in the Third World.

If looked at analytically for clearer representation of the argument, it can be

shown in the following form (see eq. 1). The capitalist core produces manufactured goods whereas the non-capitalist periphery produces primary commodities and exports to the core. Here, p stands for prices in USD, subscripts m and a represent manufacturing and primary commodities respectively, per unit wage cost is given by ω , σ_a is primary commodity's input coefficient, μ is markup in the core.

$$p_m = (1 + \mu) (\omega_m + p_a \sigma_a)$$

$$1 = \left(1 + \underbrace{\mu}_{\text{US capitalists}} \right) \left(\underbrace{\frac{\omega_m}{p_m}}_{\text{US workers}} + \underbrace{\frac{p_a \sigma_a}{p_m}}_{\text{Periphery's share}} \right) \quad (1)$$

If the sum of their *ex ante* claims is greater than one, there will be a case of increasing inflation, through the wage-price spiral in the second term, unless one (or more) of the three claimants accepts the residual. Since the claim of the working class is normally taken as a function of the level of the reserve army (measured by the rate of unemployment), there appears to be a negative relationship between unemployment and inflation (the famed Phillips curve). Patnaik [1997] has argued that it's the primary commodity producers' share in the First World output that takes the hit, which shows itself in the fall in the terms of trade of primary commodities, thereby, absorbing most of the inflationary shocks that the core would have experienced in its absence. We have already discussed that this doesn't seem to be holding true for the last decade and more (fig. 2). Irrespective of the fall or rise in the terms of trade, there is, however, a far more powerful force that globalisation throws up which keeps inflation in the core under check: *global reserve army of labour*. Indeed rising oil prices or even food prices in recent times has not created a destabilising inflation in the core and the reason is the working class in the core has become price takers. In terms of the equation 1, the claim of the first, the capitalists in the US, (and under certain conditions the third) can rise at the cost of the claim of the second, the working class in the US. The famous slogan of top 1% vs the rest during the Wall Street movement essentially captures this reality in the First World today.

Rohit [2009] has argued that the bargaining position of the working class *in the core*, which is a key source of destabilising prices in the core, itself turns redundant as their wages get tethered to their brethren in the periphery. This is quite the *opposite* of the central argument of the unequal exchange school, whose theory of imperialism is premised on diverging wage levels between the two regions. The role that the domestic reserve army of labour played earlier in influencing the *ex ante* wage share in the core is now being played by a *global* reserve army. The nature of imperialism, defined in terms of the role that the periphery plays in maintaining

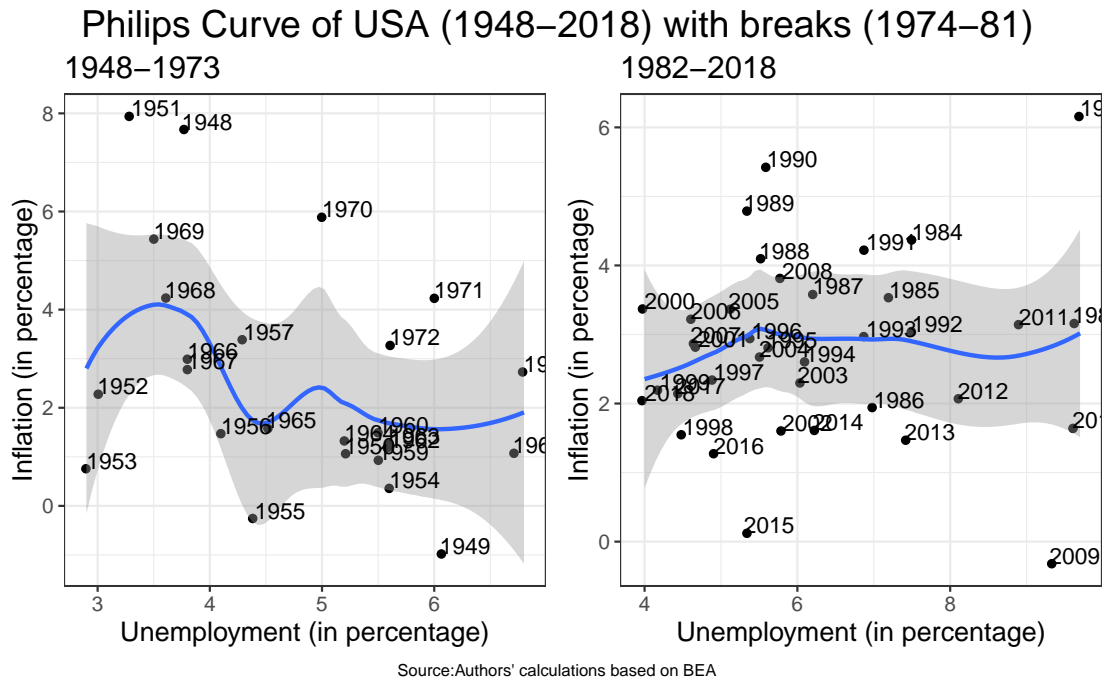


Figure 10: Phillips Curve in the US Disappears

stability in the capitalist core and by extension the global order, changes. The periphery, by providing a global reserve army, plays a critical role in ensuring that inflation in the core is kept under check, thereby, providing stability to the reserve currency. The link between domestic unemployment rates and inflation in the core essentially breaks down. The Phillips curve essentially breaks down under globalisation. So, as figure 10 shows, leaving aside the turbulent 1970s, while the Phillips curve was indeed negatively sloped during the Golden Age (1948-1973), the relationship breaks down completely during globalisation (1982-2018). This assumes greater importance than the terms of trade route of Patnaik [1997] because over a period, as the author himself acknowledges, the latter could lose its shock-absorbing capacity as its magnitude itself would keep falling. Unlike the case where the burden of adjustment fell on the share of the periphery alone, here the working class within the geographical boundaries of the capitalist system too becomes the shock absorber. It's another matter that this has the potential of aggravating *political* instability in the core both because the bargaining power of the working class gets severely limited as also the tendency towards stagnation reappears as we see later.

More formally, we would like to argue that for the core, Phillips curve in wage-unemployment plane becomes horizontal irrespective of the rate of unemployment. This is so because in today's world it is difficult to imagine wage bargaining set up

in the advanced capitalist countries without taking into account the level of wages in the rest of the world, especially in countries where the economic activities have been outsourced. Therefore, the *ex ante* money wage share might be tethered to what prevails in the periphery. This can be captured by the following where U is the unemployment rate in the core,

$$\omega_m = \min[\theta\omega_a, f(U)], \quad \theta > 1, f'(U) < 0 \quad (2)$$

A few words about the form of the equation is in order here (see Azad and Das [2015] for an empirical estimation). It shows that between the wage share in the periphery and the erstwhile wage share arising as a function domestic reserve army, it is the *minimum* of the two which determines the wage cost in the core under globalisation. The function $f(U)$ represents the negatively sloped Phillips curve. To be sure, the *ex ante* money wage share negotiated by the workers of the core is higher than their counterparts in the periphery ($\theta > 1$). This is so because of historical and political reasons. Historically, the working class in the core has been organised and, hence, negotiated significantly higher wages compared to the peripheral workers. Moreover, there is always a tendency for political instability, as being seen today the world over, if the working class geographically located within the core remains suppressed. While we are assuming $\theta > 1$, this value itself would depend on the extent of globalisation and, therefore, on the credibility of the threat of the capitalists of the core. In figure 4, the difference between the dotted line (US wage costs) and that of its outsourced trade partners measures that θ , which while clearly being greater than one, is *declining* over time.

There is an added effect of globalisation on the core workers' bargaining strength. Capitalists through coercion attack the rate of unionisation in the core. This is reflected in the *drastic decline in the rate of unionisation* in the private sector in the US from close to 25 percent in mid-1970's to 7 percent in late-2000's. There are thus two different, yet interdependent, ways in which the *ex ante* money wage share in the core is kept under control – increasing globalisation and (resulting) deunionisation within the core.

Equation 2 captures the effect of peripheral workers' wages exerting a downward pressure on the workers of the core in the era of globalisation. The bargaining chip of the workers in the core is seriously hampered since they can no more negotiate a higher wage share even if their unemployment rate is extremely low because there is always a *potential* threat of *job flight* to the peripheral countries. In such a situation, any increase in the monopoly power of the corporations in the core can be accommodated *within* the core, by suppressing the wage share, without creating any price instability. Dramatic rise in inequality, which is but one way of saying falling wage share in a politically more acceptable form, across the First World is common sense today Epstein [2017].

Though apparent in this formulation, it is not as if the workers of the periphery are responsible for the loss of the workers of the core. Rather it is the power of the capitalists in the periphery (and indirectly of the core) which keeps the money wages down for the working people in the periphery. Moreover, as part of the neoliberal package, all possible efforts are made in the name of labour market flexibility to suppress the working class movements in these regions. This arrangement sorts the problem of price instability in the core economies. However, the concern over price instability could arise if the workers in the periphery become more assertive and negotiate for a higher money wage share.

4.2 China enters the scene

Let us now look at another important aspect of contemporary imperialism. As we have shown earlier in figure 1, contrary to the arguments of the World Systems school or Patnaik [1997], capital has diffused in a major way in the Third World, China being the prime example of that. And China is no small country in the periphery, it's the country with a massive reserve army of labour. That the Chinese have infiltrated the US markets and the manufacturing base has shifted to China is a subject in itself that needs to be theoretically explained and located within the broader model of contemporary imperialism (fig. 11).

The Chinese have entered the US markets due to the competitive advantage they hold in terms of relative prices of their products [Chakraborty, 2012]. Owing to low wage costs, the terms of trade of manufacturing commodities of the periphery has declined giving them this advantage (see figure 12).

Since manufacturing has shifted out of the US to a large extent, which has now become an economy dominated by the services sector, we use the subscript s for that. Also we can, for analytical purposes, safely assume that the primary commodities, particularly those which enter as inputs for manufactured products, do not enter the price function of the US any more. Instead, it's the capitalists or public sector enterprises of China, who replace them as, in the form of manufactured exports, a new claimant of the US pie. More analytically with US services with price p_s , China mfg goods with price p_m , e is Yuan/USD, σ again as input coefficients and μ is markup, we get the following the price function for the US

$$\begin{aligned}
 p_s &= (1 + \mu_s) \left(\omega_s + \frac{p_m}{e} \sigma_m \right) \\
 1 &= \left(1 + \underbrace{\mu_s}_{\text{US capitalists}} \right) \left(\underbrace{\frac{\omega_s}{p_s}}_{\text{US workers}} + \underbrace{\frac{p_m \sigma_m}{e p_s}}_{\text{China's share}} \right) \tag{3}
 \end{aligned}$$

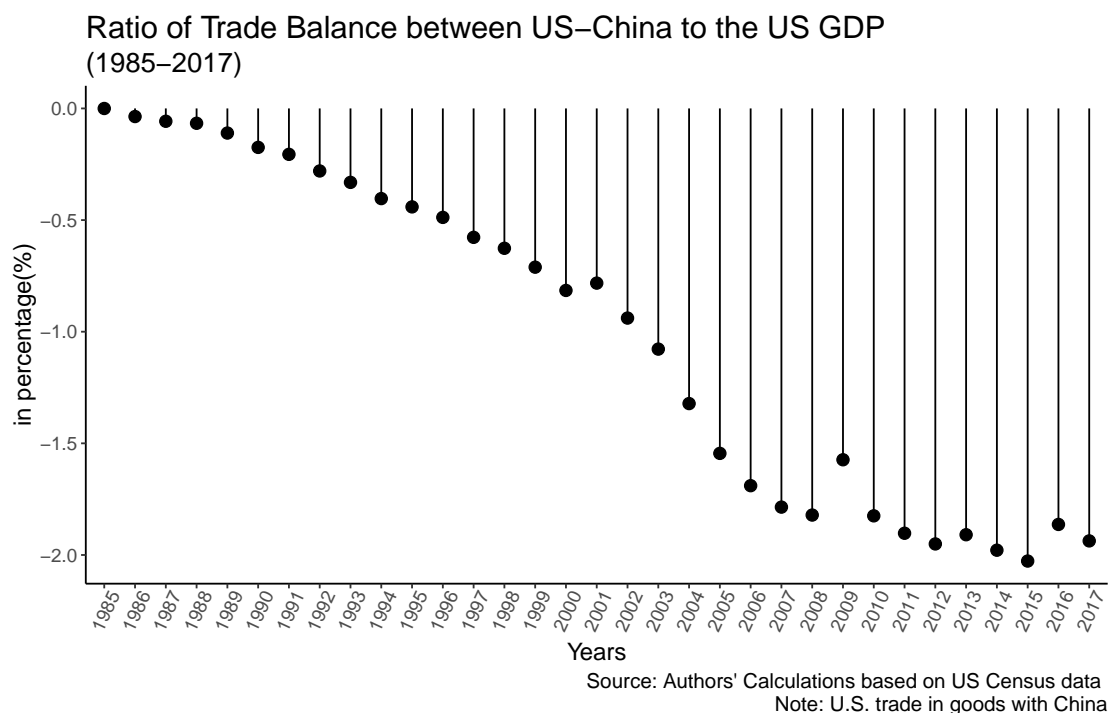
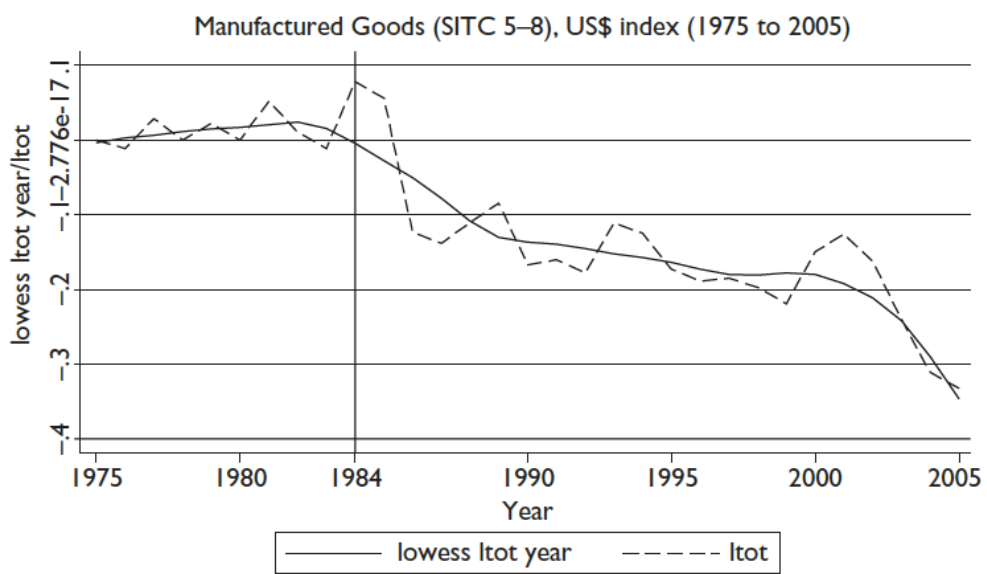


Figure 11: China Infiltrates the US Markets

What does this change bring about? While the effective exchange rate for China is falling (figure 12), it's overall share in the US pie is rising, which means that the input coefficient (σ_m) is rising faster than the fall in the real exchange rate (p_m/ep_s). Since the share of China in US' output (rising trade surplus of China vis-à-vis the US) has been rising, this means they will have to eat into somebody else's share in the US pie otherwise it will create pressures of potential price instability in the US through the wage-price spiral in the second term, which could threaten the dollar. That this tendency remains dormant is again because the share of the working class in the US (ω_s/p_s) is downwardly flexible, thereby, acting as the shock absorber, in this process. They may have to additionally take the burden of adjusting down as a result of rising degree of monopoly of the US corporations (μ_s). The working class in the US gets squeezed by both its own capitalists as well as those in the periphery. What is symptomatic of the US is equally true for the capitalist core as whole. It's not, therefore, surprising to find that the share of the working class across the First World has been declining under globalisation (see figure 13).

A realistic picture of the Chinese prices can be constructed by assuming that the primary commodities required for the manufactured products are acquired primarily from the underdeveloped countries in the South (let's call them peripheral



Source: Reprinted from Chakraborty (2012).

Figure 12: Peripheral manufacturing becomes more competitive



Figure 13: And labour gets a raw deal everywhere!

South). Their prices, therefore, constitute of their own workers' wages, intermediate services from the US (imports of China from the US) as well primary inputs from the peripheral South.

$$p_m = (1 + \mu_m)(\omega_m + ep_s\sigma_s + p_a\sigma_a)$$

$$1 = \left(1 + \underbrace{\mu_m}_{\text{Chinese capitalists}} \right) \left(\underbrace{\frac{\omega_m}{p_m}}_{\text{Chinese workers}} + \underbrace{\frac{e}{p_m} p_s \sigma_s}_{\text{US' share}} + \underbrace{\frac{p_a \sigma_a}{p_m}}_{\text{peripheral South's share}} \right) \quad (4)$$

Does the rising share of China in the US pie, as a result of lower international output prices for Chinese goods (p_m/ep_s), mean that this gets shared with their working class? Most definitely not. This rising share is pocketed by the upper echelons of the Chinese economy with their working class' share (not necessarily real wages which in fact have risen particularly in the last decade) declining over a period of time. In fact that lies at the core of any export oriented strategy since the only way you can maintain your markets is if you keep your prices low and the only way you can keep them low is if one of the claimants in the Chinese pie

acts as a price taker. That can only happen if either the Chinese workers or the miners and primary commodity producers of the peripheral South take the burden or both. The first is the source of rising inequality in China while the second constitutes relative income deflation of the vast masses in the peripheral South. If, however, the terms of trade moves in favour of primary commodities as it has in the last decade or so, then the Chinese workers' wage share would get doubly squeezed.

4.3 With peripheral South at the bottom of the pyramid

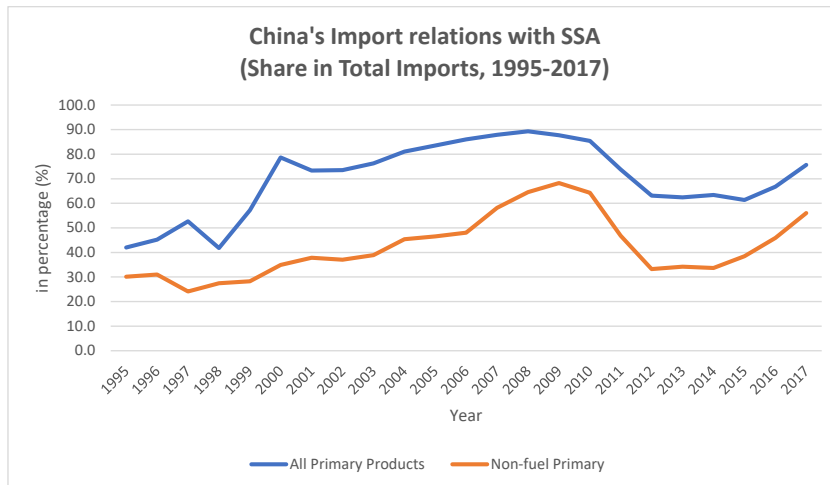
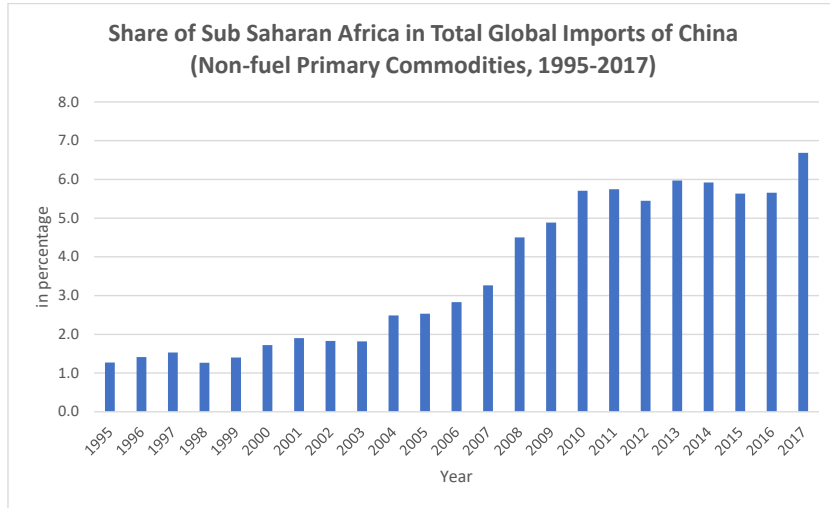
And thus enters the third player in the picture: the primary commodity producers of the peripheral South. Mining can reasonably be taken as a representative commodity exported to China. Their share in the Chinese products $\frac{p_a \sigma_a}{p_m}$ first falls and then improves marginally (figure 15). In this sense, peripheral South plays the same role that periphery as a whole played in the pre-globalisation period where they were the primary commodity producers and exporters of the same to the First World.

Primary commodity producers not only provide the raw materials to China so crucial for it remaining the manufacturing station of the world but it helps provide price advantage to the Chinese goods to remain competitive in the international market. Moreover it also acts as the market for cheap Chinese exports much like the global economy. In the process, it keeps the Chinese prices under check and, by extension the US dollar's value intact. Apart from the reason that the working classes in both China and US get a raw deal in the process, it's the primary commodity producers in the periphery who are at the bottom of the pyramid. And we don't mean the mining oligarchs but those who work in those mines, the actual miners. So, even as the terms of trade may move in favour of primary commodities under certain circumstances, that rise is pocketed by these oligarchs instead of getting passed on to the workers.

Today's imperialism, therefore, is characterised by a 3-tier structure with the country holding the reserve currency at the top and the periphery divided into two – manufacturing commodity producers, as a middle tier, who buy primary commodities from the third tier peripheral countries. Symbolically, we could say US is at the top, China in the middle and peripheral South at the bottom.

4.4 A 3-tier preliminary model of imperialism

Inflation in US has been kept under check both because of its own low wage costs, which is in turn driven by the low inflation in wage goods from China, while low inflation of the Chinese goods is driven both by their own low wage costs as well as



Source: UN Comtrade database

Figure 14: Peripheral South gets a raw deal in the process

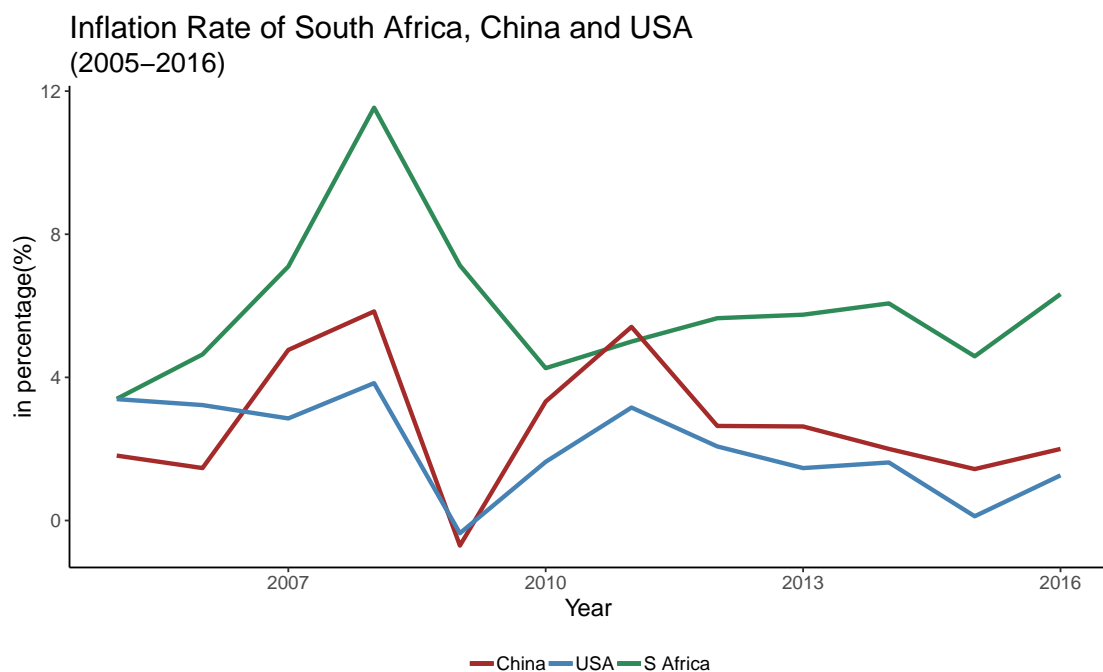


Figure 15: Stabilising the Dollar in a 3-tier Imperialist Setup

bounded inflation in the primary production in the peripheral South which enter as raw material for Chinese manufactured goods.

One could give a monetarist counter argument that low inflation in the US has more to do central bank's inflation targeting framework than to this complex structure of imperialism. So, the monetarists would argue that even if the Phillips curve relationship might have broken down i.e. bringing down the level of activity will *not* bring the inflation down, monetary policy can still influence inflation purely by keeping *expected* inflation under check. The point, however, is that the nominal wages that the trade unions would negotiate for has two components, their expected inflation and *ex post* wage they would want to achieve at the end of the period. If the latter is not fulfilled, why should the working class be satisfied with last period's bargaining process irrespective of whether the expected inflation to begin with was low. The only condition under which they would not be able to follow up is when they don't have a bargaining chip, something that globalisation has provided.

Indeed if you look at the data a lower rate of unemployment in the US, as was witnessed during the 'roaring' 1990s in the US or even currently, should have increased their demands for a higher wage share. Even if we accept that expectations of the working class is kept under check through the inflation signalling by

the Fed, the working class would have asked for a correspondingly higher nominal wages, which would have translated into higher prices unless the corporations were willing to take a cut. The mismatch between *ex ante* and *ex post* distribution of income is what creates inflation and not merely whether expectations are kept under check. *Ex post* their shares have to add up to one but there's no guarantee that they would add up to one even in the *ex ante* sense. Expectations control can at best bring down the amplitudes of the cycles of inflation but it can't help eradicate the underlying cycles altogether. Imperialism eradicates that through the process we have described above.

What is the broad mechanism through which this 3-tier structure work? We have already discussed the price system in detail. Let us now look at the process of capital diffusion in the Third World, as is being witnessed today, in this framework. US' imports of manufactured goods (in the form of consumer and industrial goods) are way higher than its exports, which shows how the US has kept its market open for such commodities produced in the emerging market economies in the periphery. We have taken China as a representative of such a country in the periphery.

Working class in the US depends on the cheap Chinese goods imported by their country. Let's assume that a proportion γ_s of their wages $w_s l_s O_s$ and $\sigma_m O_s$ as inputs are spent on the manufactured goods from China. So, the total demand of the US for Chinese goods would be $(\gamma_s w_s l_s + \sigma_m) O_s$. This is the imports (exports) of the US (China). As for their exports, $\sigma_s O_m$ is what the Chinese demand of the inputs required from the US for the production of manufactured goods. Now, we know that the US imports from China are way more than what it exports. The only way this is possible is if the Chinese are willing to hold either the US currency or some claim over that currency in the form of US financial assets. Let's denote this amount of US assets (dollars/financial assets) as F .

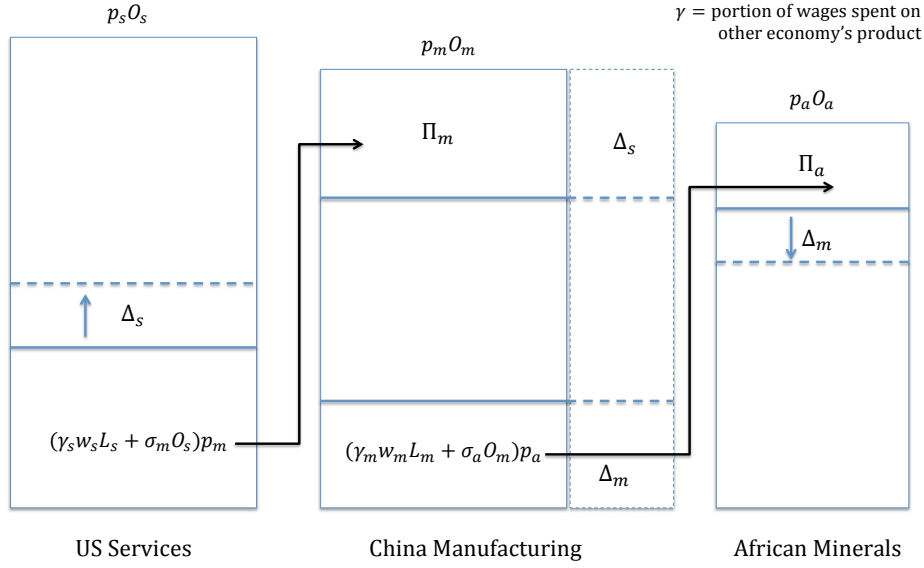
The inroads that the Chinese make into the US markets has to do with increasing the proportion of US wages and inputs spent on the Chinese goods (increasing γ_s and σ_m). This has to more than compensate for the fall in their relative prices (the usual Marshall Lerner condition) for them to gain an advantage of trade surplus. Assuming that the ML condition is satisfied, we can write the equilibrium of trade between the two countries as,

$$\begin{aligned}
[\gamma_s w_s l_s + \sigma_m] p_s O_s &= \sigma_s \frac{p_m}{e} O_m + F \\
\frac{O_m}{O_s} &= \frac{\epsilon}{\sigma_s(\epsilon)} [\gamma_s(\epsilon) w_s l_s + \sigma_m(\epsilon) - D(\epsilon)] \\
\text{where,} & \\
\frac{d\sigma_s}{d\epsilon} < 0; \frac{d\sigma_m}{d\epsilon} > 0; \frac{d\gamma_s}{d\epsilon} > 0; \frac{dD}{d\epsilon} > 0 & \quad (5) \\
\epsilon = \frac{ep_s}{p_m} &= \text{real exchange rate} \\
D &= \text{trade deficit/GDP of the US}
\end{aligned}$$

This is a steady state relationship between the outputs of the two countries. If this ratio rises over time, as indeed it has since globalisation (see fig. 1), it means that China is growing faster than the US. By maintaining a price advantage (real depreciation of yuan), this can happen only if the import propensity of the US rises faster than the rise in its trade deficit as a result of this depreciation. Trade deficit can rise in the US for two different reasons. For a given level of exports, it can rise either because of a rise in import intensity or a rise in its output. The former creates the market for the Chinese given the same level of US output whereas the latter increases the output of the US too. Unless the former dominates the latter, the ratios would not move in China's favour. Chinese do this by keeping their prices low, which itself results from suppressing the wage share in their own countries. Another interesting implication is that this ratio is rising *despite* a fall in the wage share of the US workers ($w_s l_s$), which means that an increasing proportion of the declining workers' wages in the US is being spent on Chinese goods.

A simple diagram may perhaps help understand this process better. Figure 16 shows the relationship between the 3 participants of the imperialist pyramid in the familiar format of the Marxian department schema. At the left is the US box, the demand from which creates markets for Chinese goods. In the figure we have shown an extreme case where the Chinese can grow even if the output in the US remains unchanged. They do so by utilising their competitive advantage. But the benefits of this high growth accrue not to the Chinese workers, as such a growth is premised on a wage squeeze strategy, but to the rich and the propertied in that country.

The third player, peripheral South is made part of this system through the second link in figure 16. China's growth increases their raw material requirements from this region. This demand (in nominal terms) is met by the surplus of commodities available after consumption of capitalists and workers of the peripheral South are taken into account. Trade patterns between the two players shows that



China grows at the cost of the US with the resultant increased raw material requirements fulfilled by primitive accumulation in the African region

Figure 16: A 3-tier Imperialist Structure

China is not too dependent on peripheral South for food articles whereas peripheral South is dependent on China for investment goods. Assuming workers consume all their wages and capitalists consume a constant proportion c_a out of their profits, which is profit share h_a multiplied by total output. We can capture this reality by postulating the following relationship between the two players.

$$\begin{aligned}
 p_m \sigma_a O_m &= p_a (1 - c_a) h_a O_a \\
 \frac{O_m}{O_a} &= \frac{p_a}{p_m} \cdot \frac{(1 - c_a) h_a}{\sigma_a}
 \end{aligned} \tag{6}$$

This shows that an increase in the demand for raw materials per unit of Chinese output can either be met by a rise in the total output of peripheral South or the profit share of the capitalists or the terms of trade of peripheral South's exports. If there is a limit, both technological and ecological, to the speed at which primary commodities can be extracted or produced, then the likelihood of this demand being met by peripheral South workers' wage squeeze or a rise in their terms of trade or a combination of both is quite high. It's not surprising to find that in the last few decades, rapid growth in China did unleash both these forces particularly in the African region. It can be seen that a rise in the profit share of the capitalists

in peripheral South increases the ratio between Chinese and the GDP of peripheral South, which means that over a period of time, China grows faster than peripheral South without this creating an imbalance for trade between the two because there is always a class in the peripheral South whose *ex ante* claims can be suppressed to generate surplus which is enough to meet these requirements.

The overall picture is that the global reserve army of labour provides the US dollar a stability that maintains the global financial structure even as de-industrialization takes place in the US. China gains out of this process but it does so at the cost of its own workers since that's a cornerstone of any export-oriented growth. But the story does not end there, this growth in China is sustained at times by imposing profit inflation or relative income deflation on the peripheral South. Capital gains even as labour loses everywhere to maintain this system. This complexity is how imperialism works today.

5 Conclusion

A declining wage share almost across the globe provides the system price stability, particularly in the country which owns the reserve currency. Despite the increasing clout of the Chinese since the 1980s, their currency still hasn't replaced the USD. In fact, even Euro couldn't. While globalisation provides the US with price stability, it comes at the cost of *political instability* since a declining wage share and outsourcing creates unemployment or declining income for the workers in the US. Election of Trump, perhaps, is a reflection of that. Closing down the frontiers to bring back the jobs to the US (tariffs, Mexican wall etc.), however, might turn out to be counter-productive since that simply exports the political instability at home abroad. At the bottom of the pyramid of price takers are the mining workers in the peripheral underdeveloped economies. Once the workers, especially in the lower two tiers become organised, it would have a ripple effect on the working class globally, which could again threaten the price stability of the system. On a positive note, all this also opens up the possibilities of international solidarity among the working classes across boundaries and with global value chains, their striking capacity is *globally* effective.

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