

Economic theory and global division of labor. Myths and paradoxes

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Economic theory and global division of labor. Myths and paradoxes

*di Oreste Ventrone*¹

Abstract

Despite substantial differences of opinion on the origins and details of the process, few scholars, these days, would deny that we live today in a global age. Many could also agree that the theoretical and methodological framework of global analyses of the present world is still, predominantly, that elaborated ca. two centuries ago by the likes of Smith, Ricardo and List. Given the enduring relevance of these theories, testified by the works of scholars of any background, it is maybe still worth to inquire on the adequacy of these contributions for the identification and interpretation of current processes and, of the dynamics through which one prevails on the others in a determinate space-time.

Key words

Global Division of Labor - Trade - Finance - Globalization - Development

Parole chiave

Divisione internazionale del lavoro - Commercio internazionale - Finanza - Globalizzazione - Sviluppo

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J21, J45, J51

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I. The enduring charm of the fetishism of ideas

Ten years ago, Ha-Joon Chang's successful book *Kicking Away the Ladder* (2002) offered a tribute to Friederich List's *National System of Political Economy* (1909), one the first accomplished systematizations of a development strategy for late comers. In his book, List criticizes Adam Smith's argument in favour of free trade polemically defining it 'cosmopolitical', in that it pretends to be valid for any country at any stage of development. In his reading of the *Wealth of Nations*, List re-examines the process of paradigm construction and emphasizes how the British, in order to advance their interests in the world division of labor, have imposed, through Smith, the idea of 'free trade' (cosmopolitism) while the vast majority of the late comers need an intermediate phase of 'protection' to allow for the competitive development of their activities to take place.

This attitude towards development and competitive integration in the world market, examined by List as an historical constant in the development of every core country, is identified not only as the economic behavior of the French starting from Colbert, but also as a basic guideline starting from the Venetians and the Dutch to end with the British, which have made of it the inherent principle of their success. Hence, the free-trade doctrine, displayed by Britain in the phase of its primacy on the world markets, serves essentially the interests of the core countries, while, at the same time, harms all the others (Lentini, 2003, p. 177).

Indeed, the title of Chang's book, devoted to a defence of the 'developmental state', draws its title from a famous passage of List's *magnum opus*:

It is a very common clever device that when anyone has attained the summit of greatness, he kicks away the ladder by which he has climbed up, in order to deprive others of the means of

climbing up after him. In this lies the secret of the cosmopolitical doctrine of Adam Smith, and of the cosmopolitical tendencies of his great contemporary William Pitt, and of all his successors in the British Government administrations. Any nation which by means of protective duties and restrictions on navigation has raised her manufacturing power and her navigation to such a degree of development that no other nation can sustain free competition with her, can do nothing wiser than to throw away these ladders of her greatness, to preach to other nations the benefits of free trade, and to declare in penitent tones that she has hitherto wandered in the paths of error, and has now for the first time succeeded in discovering the truth (List, 1909, pp. 295-296).

Despite the rigor of the critiques to free trade and their solid grounding in history, confirmed time after time by the experiences of the totality of the countries that have achieved strong economic growth in the history of the world economy, the debate on free trade retains its salience; and this is testified by the very success of Chang's book.

Indeed, Smith's argument, discredited by history and, well before List, by the works of Adam Muller in Germany, Jean-Antoine Chaptal and Charles Dupin in France, and Alexander Hamilton in the US (probably the first to outline the 'infant industry' argument), still constitutes the core of mainstream economic orthodoxy and its cosmopolitanism resonates in the bold statements of its current priests.

Larry Summers, former economic aid to president Obama, when chief economist of the World Bank in 1991, stated in an interview:

What can the West do to drive this process of reform [in Russia] forward? Number one: it can spread the truth. The laws of economics, it's often forgotten, are like the laws of engineering. There is only one set of laws and they work everywhere. One of the things I've learned in my short time at the World Bank is that whenever anybody says, 'But economics works differently here', they're about to say something dumb (Cited in George e Sabelli, 1994, p. 106).

What makes free trade doctrine at least superficially plausible is a sort of synoptic illusion. The fact that the countries who are more liberal are also the most developed, at least in terms of economic growth, is a coexistence or correlation of factors that can easily tempt somebody in turning it into causal determination, inverting the historical nexus between growth and openness and asserting that is openness that determines growth and not the other way around.

Anyway, at this point, what appears to us amazing by itself is the persisting relevance of a debate reiterated innumerable times, over more than two centuries, in substantially similar terms. Even more striking, is the continuing success of the free market/free trade doctrine in establishing itself as orthodoxy over historically better grounded and theoretically tighter opponents.

Not infrequently, theories are treated like lenses through which to see reality. They are often confronted between themselves, in a doxographical fashion, in terms of complexity, internal coherence, amount and significance of the factors they leave out or unexplained. So, the ideas of authors from the most disparate spatiotemporal dimensions are put against each other as they had a power in themselves regardless of the social relations in which these very theories emerged, what interests they served and whose vision they carried. So the theoretical debate looks essentially as a struggle between virtual realities wishing to become the "real virtuality", ie. the virtual reality that succeeds in becoming the official representation of reality.

Maybe the power of ideas is quite overvalued. Especially when they pretend to offer a faithful representation of "reality". As in the fetishism of commodities, where commodities appear to enter in social relationships by themselves instead of mediating the relationship between human labours, the apparent social relationship between theories hides the underlying social relationships and the inevitably unequal powers involved. Unsurprisingly, Marx associated his concept of commodity fetishism with the dynamics of the religious world, the most ancient form of idea fetishism.

There it is a definite social relation between men, that assumes, in their eyes, the fantastic form of a relation between things. In order, therefore, to find an analogy, we must have recourse to the mist-enveloped regions of the religious world. In that world the productions of the human brain appear as independent beings endowed with life, and entering into relation both with one another and the human race. So it is in the world of commodities with the products of men's hands. This I call the Fetishism which attaches itself to the products of labour, so soon as they are produced as commodities, and which is therefore inseparable from the production of commodities (Marx, 2007, p. 83).

So, we should maybe dedicate more attention to the historical conditions of the production of social knowledge, even more than to the theories themselves, and inquire on the social formations of which they are expression and whose powers and interests they serve. This in order to unveil the lawyers behind the "laws", and their ideology.

2. (Affectively) Kicking away Chang

In his well documented and tightly argued book, Chang does a meritorious job, defending a position that goes against the mainstream and recalling often neglected authors like List. However, like in Chang's case, when we call into question theories from the distant past, we usually do so in order to

sustain and nobilitate our arguments, which often refer to a spatiotemporally different situation. This operation usually requires a certain degree of adaptation, which can range from simple transposition to outright ideological manipulation. Classical examples of this are the frequent references to Ricardo's comparative advantages in order to support free trade, which usually fail to acknowledge the fact that the author conceived this mechanism as functioning only in absence of capital and labour mobility. Indeed, if one acknowledged this condition, Ricardo's argument would be much more difficult to apply, for instance, to the current situation of international trade.

The aspect of List's work that Chang fails to acknowledge is, first of all, that List produced his theory in and for a very different world. Far from being the fully nationalized world of today, the world the first half of the Nineteen century can be considered, more than an interstate system, an interimperial system, where imperialism was usually considered, implicitly or explicitly, as a constitutive part of the 'development' process.

Secondly, even if he recognizes that industrial policy, in some cases, can neither be sufficient, nor necessary, for the development process, Chang treats protectionism and industrial policy as a strategy that any country can adopt, and, what is more important, in a purely theoretical stance, as it could be adopted by all countries at the same time without affecting each other's welfare. On this, Chang's argument oversees a crucial aspect of List's theory. The latter implied, at least implicitly, a conception of unequal exchange. In fact, the whole argument about protectionism and industrial policy is based, not just in List's case, on the assumption that in the trade between countries producing manufactures and countries producing raw materials, the first reap most of the economic benefits, and this is the very reason why developing countries should adopt industrial policies directed towards the promotion of high value added sectors. The problem is, banally, that if all countries were protectionist at the same time, world trade would collapse, with the consequences seen in the 30s of last century. Moreover, if all countries became producers of high value added commodities, there would be no high value added commodities. Hence, in Braudel's terms, producers would step down from the capitalist sphere, where the anti-market (*contre-marché*) rules in the form of monopoly, and they would find themselves in the market sphere, where C-M-C, i.e. the exchange of equivalent values, would finally rule.

3. Young protectionists grow liberal

Beyond the more or less instrumental claims of those who recall him, List's arguments were more complex and articulated. His vision was different from Smith's more in the means than in the ends. Essentially, he was deeply aware that Germany had to promote a nationally integrated political economy, develop an industrial policy and be protectionist in order to be able to compete with England on the same ground and eventually impose its own free trade to others. But, at the same time, the field of the competition had to remain limited. For the system to stay afloat there had to be a part of the world permanently confined to the production of raw materials and low value-added commodities, which he called the "tropical region", which was meant to stay under the tutorship of European powers according to a climatic determinist view of human development.

The countries of the world most favoured by nature, with regard to both national and international division of labour, are evidently those whose soil brings forth the most common necessities of life of the best quality and in the largest quantity, and whose climate is most conducive to bodily and mental exertion, and these are *the countries of the temperate zone*; for in these countries the manufacturing power especially prospers, by means of which the nation not merely attains to the highest degree of mental and social development and of political power, but is also enabled to make the countries of tropical climates and of inferior civilisation tributary in a certain measure to itself. The countries of the temperate zone therefore are above all others called upon to bring their own national division of labour to the highest perfection, and to use the international division of labour for their enrichment (List, 1909, p.131).

As Shafaeddin notes, List recommended selected, rather than across-the-board, protection of infant industries and that he was against neither international trade nor export expansion. In fact, he stressed the importance of trade and envisaged free trade as an "ultimate aim of all nations"; he regarded protectionism as instrumental to the achievement of productive power, massive export expansion and, ultimately, free trade (Shafaeddin, 2000, p.18).

In fact, it is a common irony of history for the free trade argument to backfire on its early preachers. This is what happened in the first half of the twentieth century, when the United States, once reached the status of greatest commercial power - like Great Britain in the nineteenth, used against its former rival the same liberal arguments that the latter had used to establish its primacy (Ventrone, 2004, p. 32).

For these very reasons, just like the liberal ones, theories based on protectionism, despite the progressive flavor which some of them exhibit, cannot claim to be revolutionary, or even radical, in that they do not put into question

the essence of the system and its inherent exploitative nature. At best, they constitute elements of a strategy to shift from one to the other position of the relation of exploitation.

4. A few interesting things we don't know

The world has changed a lot since the nineteenth century, but not so much in the way we still predominantly tend to conceptualize it. While "globalization" progresses in its path, our conceptual and analytical tools lag behind in a national world. Our way of conceiving global relations is still based on a vision made up of the sum (algebraic in the field of economics) of the (mostly bilateral) interactions of theoretically infinite individual states, conceived as substantially comparable between themselves.

The functioning of important objects, such as transnational corporations and financial firms, because of their private nature, remains substantially opaque to in depth analysis. For instance, these are able to distribute the cost structure of production across borders through intra-firm trade without entering the market, using the different local systems (regulation, taxes, incentives etc.) to their advantage and putting, in this way, states in competition between themselves.

In the age of a global system we often lack the data to work on in a systemic way. In particular, data that can be used to study the global networks of knowledge, production, distribution and finance that shape the world as we live it. So we lack the harmonized disaggregate data on international financial flows that would allow us to map the shape of contemporary capitalism in 3D and finally see what it looks like: a flat world of direct/immediate connections (Thomas Friedman); a tripolar world of macro-regions like Europe, Americas and East Asia (Kenichi Ohmae, Giovanni Arrighi etc.); or a unipolar imperial world anchored to the enduring or declining power of the US. Moreover, the continuing emphasis on the state has distracted the attention from the networks that take shape through or above its borders. So, the study of the global élite or transnational capitalist class remains marginal, theoretically and empirically underdeveloped as the research on the galaxy of private and multilateral institutions, their links and their hierarchical and functional articulations.

5. What we should know (by now)

The struggle between the Smithians and the Listians is probably doomed to continue. By the way, it appears every day more as a struggle between two opposite political rhetorics which share the same worldview. One crafted in the methodological nationalism of the eighteenth and nineteenth century.

Confronted to the sophistication of current world relations, the arguments of the strugglers appear at least primitive. Since their first development, transnational corporations producing in another country can take advantage of that country's protectionism offsetting their competitors from outside, included companies of the same nationality as themselves. Moreover, in case of unilateral protectionism, as it is the case for China, these firms can export the commodities produced in situ back to their home countries putting out of market fellow local producers.

Anyway, trade and industrial policy are only two important ingredients in development recipes. Financial flows, transfer of knowledge and technology, resource endowment, size, geographical and geopolitical position are a few of the others to take into account for a theoretically and methodologically renovated, systemic and, most of all, pluriversalist social knowledge.

6. Trade, finance and the global division of labor

In order to elaborate more plausible interpretations of current trends, there is an impellent necessity to revise the relationship between production, trade and finance.

More than a relationship between different entities (often declined as opposition between real and fictitious economy), production (division of labor), trade and finance constitute different faces of the same solid and these words are used as eminently imperfect Heuristic tools to describe a form whose facets we cannot grasp simultaneously.

As Arrighi (1990) notes, the debate on trade – and the implied unequal exchange – represent an intellectual blind alley, since the single most important ingredient in economic development is probably capital transfer. In this he finds an authoritative predecessor in Marx, which, in the section dedicated to primitive accumulation of the first book of *Capital*, already stressed this point:

With the national debt arose an international credit system, which often conceals one of the sources of primitive accumulation in this or that people. Thus the villainies of the Venetian

thieving system formed one of the secret bases of the capital-wealth of Holland to whom Venice in her decadence lent large sums of money. So also was it with Holland and England. By the beginning of the 18th century the Dutch manufactures were far outstripped. Holland had ceased to be the nation preponderant in commerce and industry. One of its main lines of business, therefore, from 1701-1776, is the lending out of enormous amounts of capital, especially to its great rival England. The same thing is going on today between England and the United States. A great deal of capital, which appears today in the United States without any certificate of birth, was yesterday, in England, the capitalised blood of children (Marx, 2007, p. 826).

In this light, the transformations in the orientation of economic policy and theory are to be connected to the US efforts to counteract its own decline and the formation of a transnational social constituency which has embraced the neoliberal rationale and ratified the return to financial rule through the adoption of inflation control as main end of economic policy . The former main goal, full employment, was abandoned, and world markets were pried open, to commercial and financial flows of any kind. Eventually Keynes' nightmare was gradually fulfilled as, in a world of unfettered financial flows, transnational capital was once again made able to put the states in competition between themselves in a race to the bottom in order to attract it.

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