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Mr Smith Goes to Beijing

By Daniel Berchenko

Sociologist Giovanni Arrighi invokes the political economy of Adam Smith to claim that China's 'labour intensive' mode of production is the future of capitalism. It's also the past, argues Daniel Berchenko

In 1977, the *New Left Review* devoted more than half of its July-August issue to an essay by historian Robert Brenner entitled 'The Origins of Capitalist Development: A Critique of Neo-Smithian Marxism'.¹ The target of Brenner's critique is Immanuel Wallerstein's *The Modern World System* - a book that is generally credited with (or in this case, accused of) laying the foundations for the interpretive framework known as 'World Systems Theory'.² World Systems Theory is an unlikely synthesis of Marxism, Annales School historiography, and Dependency Theory that was sweeping sociology departments during the late 1970s. The novelty of the approach consists in viewing the entire history of capitalist development over the course of the last 500 years as a unified process whose subject is not any one class or nation, but the global market itself (the eponymous 'world system'). Wallerstein's thesis is that the emergence of capitalism and the continual revolution of the means of production are driven by the dynamics of international trade. 'Capitalism and a world economy (that is, a single division of labor, but multiple politics and cultures) are obverse sides of the same coin.'³

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In his critique, Brenner compares Wallerstein's model to the political economy of Adam Smith in *The Wealth of Nations*. Like Smith, Wallerstein argues that the expansion of trade creates conditions under which goods are increasingly produced for exchange, rather than for immediate consumption. Like Smith, Wallerstein believes that this situation leads directly to the development of the forces of production and the accumulation of capital. For Wallerstein, production for exchange constitutes the *differentia specifica* of capitalism as mode of production:

The essential feature of a capitalist world economy ... is production for sale in a market in which the object is to realize the maximum profit. In such a system, production is constantly expanded as long as further production is profitable, and men constantly innovate new ways of producing things to expand their profit margin.⁴

In the models of both Smith and Wallerstein, the profit motive compels individual capitalists to specialise in particular branches of industry and to rationalise their production processes. The progressive accumulation of capital in these industries raises barriers to entry, diverting subsequent investment into new channels. The result is a social division of labour whose depth is determined by the extent of the market. Smith and Wallerstein differ only in their estimations of the salutary effects of this process. (Whereas Smith notoriously viewed the expansion of trade as the path to international peace and prosperity, Wallerstein argues that the structure of the modern world system benefits the core at the expense of the periphery.)

Brenner takes issue with Wallerstein's suggestion that production for exchange leads directly to the emergence of capitalism and capitalist development. He notes that exchange-based production existed in many pre-capitalist societies before taking root in early modern Europe.⁵ Because pre-capitalist societies are fundamentally agrarian, both exploiters and direct producers have access to their own means of subsistence. '...[T]heir survival and reproduction is not dependent on the sale of their products on the market,' writes Brenner, 'consequently they do not have to compete in terms of productive powers.'⁶ Under these conditions, 'the market exerts no pressure toward the continual revolution of the means of production.'⁷ As a result, there is a bias in pre-capitalist societies toward the realisation of 'absolute', as opposed to 'relative', surplus value. In other words, because labour is compulsory for serfs and slaves, lords and masters tend to extract additional surplus labour by lengthening the working day or extending the corvée, rather than by introducing technological innovations. There is little reason to invest profits in the development of productive forces. 'Rather than being accumulated, economic surplus is here systematically diverted from reproduction to unproductive labour.'⁸ According to Brenner, '[t]he increase of relative surplus labour cannot become a *systematic* feature of such modes of production.'

Brenner, following Marx, argues that capitalism emerges only when labourers are both free to sell their labour power on the market as a commodity, and compelled to do so in order to survive:

As Marx puts it, 'the domination of exchange value itself, and of exchange value producing production, presupposes alien labor capacity itself as an exchange value - i.e. the separation of living labour capacity from its objective conditions ...'.⁹

This point is central to Brenner's critique. For Smith and Wallerstein, capitalist class relations are the *result* of the expansion of trade and the deepening of the division of labour. According to their model, capitalists are driven by the profit motive to innovate and develop the forces of production. Beyond a certain point, this development requires a reorganisation of labour within the individual productive unit. Smith's pin factory must be staffed by wage labourers from the semi-educated urban working class, rather than by uneducated serfs. Thus, capitalist relations of production gradually supplant feudal relations with the development of trade and market-based production; wage labour autonomously replaces the corvée. Against this view, Brenner argues that capitalist class relations are a necessary *precondition* for the accumulation of capital.

... 'production for profit via exchange' will have the systematic effect of accumulation and the development of the productive forces only when it expresses certain specific social relations of production, namely a system of free wage labour, where labour power is a commodity. Only where labour has been separated from possession of the means of production, and where labourers have been emancipated from any direct relation of domination (such as slavery or serfdom), are both capital and labour power 'free' to make *possible* their combination at the highest level of technology... Only under such a system, where both capital and labour power are thus commodities - and which was therefore called by Marx 'generalized commodity production' - is there the necessity of producing at the 'socially necessary' labour time in order to survive, and to surpass this level of productivity to ensure continued survival.¹⁰

Brenner therefore accuses Wallerstein and Smith of employing a kind of circular reasoning. The validity of their model is premised on the prior emergence of capitalism and capitalist social relations - the very phenomena that it seeks to explain.

Although more than three decades have passed since the publication of Brenner's essay, the Wallerstein-Brenner debate continues - somewhat in the manner of a summer movie franchise, whose first installment has been forgotten by most of its audience, and many of its current participants. This

may explain why few expressed surprise recently when Giovanni Arrighi, Wallerstein's most prominent acolyte, published a book in which he endorses Brenner's position in the NLR essay and self-consciously claims the Neo-Smithian title for his cause. In *Adam Smith in Beijing: Lineages of the Twenty-First Century*, Arrighi takes up Brenner's distinction between 'Smithian' and Marxist models of development in order to analyse the so-called 'economic renaissance of East Asia.'¹¹ Arrighi concedes that exchange-based production does not lead directly to the emergence of capitalism. However, rather than concluding with Brenner that the Smith/Wallerstein model is a theoretical fiction, he argues that it constitutes a viable alternative to capitalist development.

Arrighi claims that a form of 'Smithian' market-based development occurred in China between the 16th and 18th centuries. During this period of relative peace and stability, China experienced massive population growth, paralleled by an expansion of its domestic market. However, these conditions did not result in any corresponding development of the means of production. Arrighi quotes a passage from a study by Mark Elvin, describing some of the fetters to technological development in China at this time:

[W]ith cheapening labor but increasingly expensive resources and capital, with farming and transport technologies so good that no simple improvements could be made, rational strategy for peasant and merchant alike tended in the direction not so much of labor saving machinery as of economizing on resources and fixed capital.¹²

According to Arrighi, these tendencies led to the development of 'labor-absorbing institutions and labor-intensive technologies' that allowed demographic growth to continue in China, in spite of natural resource constraints.¹³ Arrighi follows World Systems fellow-traveller Kaoru Sugihara in referring to this process as an 'Industrious Revolution'.¹⁴ For both Arrighi and Sugihara, the Industrious Revolution is 'a market-based development that had no inherent tendency to generate the capital- and energy-intensive development path opened up by Britain and carried to its ultimate destination by the United States.'¹⁵ Unlike the Western 'industrial' path, the East Asian 'industrious' path is characterised by a disposition to 'mobilize human rather than non-human resources.'¹⁶

Not surprisingly, critics like Robert Brenner and Philip C.C. Huang have challenged this interpretation of East Asian development during the early modern period. For Huang, the tendencies that Arrighi and Sugihara describe are fundamentally involutory. Because the Chinese demographic boom of the 17th and 18th centuries was sustained by the increasing exploitation of the peasantry without any investment in means of production, it amounts to 'growth without development'.¹⁷ (One example of industriousness, frequently cited by Arrighi, is

the absorption of sideline non-agricultural work performed by women, children, and the elderly, reducing the operating costs of household production units, giving them a competitive edge over large capitalist units using hired labor.¹⁸)

Brenner and his colleague Christopher Isett have argued that in the absence of any development of the forces of production, population growth is inherently limited and becomes increasingly precarious:

In the Yangtzi delta, the main economic agents possessed direct non-market access to the means of their reproduction. They were therefore shielded from the requirement to allocate their resources in the most productive manner in response to competition. As a result, they were enabled to allocate their resources in ways that, while individually sensible, ran counter to the aggregate requirements of economic development, with the consequence that the region experienced a Malthusian pattern of economic evolution that ultimately issued, in the eighteenth and nineteenth centuries, in demographic-cum-ecological crisis.¹⁹

According to this view, 'labor-intensive production', as Arrighi euphemistically describes it, does not provide the basis for the extended reproduction of society. It cannibalises existing resources until it literally devours itself - leading to a Malthusian catastrophe.²⁰

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Arrighi rejects these criticisms as inherently chauvinist. He argues that Brenner and his allies unfairly measure the East Asian path against the standard of Western capitalist development.

If we identify 'evolution' and 'development' as the displacement of labor intensive household production by capital-intensive production in units employing wage-labor, as Huang and Brenner do, then [the Industrious Revolution] should indeed be characterised as 'involutionary.' But if we leave open the possibility that labor-intensive production may play a lasting role in the promotion of economic development ... then such a characterization is unwarranted.²¹

As the passage above suggests, this is not merely a historical dispute for Arrighi. One of the central claims of his book is that China owes its recent fortunes (or misfortunes, depending on your view) to its industrious past.

The East Asian economic resurgence has ... been due not to a convergence towards the Western capital-intensive, energy-consuming path but to a fusion between that path and the East Asian labor-intensive, energy-saving path.²²

Arrighi cites, as an example, the Wanfeng automotive factory near Shanghai, where 'there is not a single robot in sight'. 'As in many other Chinese factories,' writes Arrighi,

the assembly lines are occupied by scores of young men, newly arrived from China's expanding technical schools, working with little more than large electric drills, wrenches and rubber mallets.²³

(Thankfully, the factory has yet to employ children and the elderly). In this Smithian paradise,

Engine and body panels that would, in a Western, Korean or Japanese factory, move from station to station on automatic conveyors are hauled by hand and hand truck. This is why Wanfeng can sell its handmade luxury Jeep Tributes in the Middle East for \$8,000 to \$10,000. The company isn't spending money on multi-million dollar machines to build cars; instead, it's using highly capable workers [whose] yearly pay ... is less than the monthly pay of new hires in Detroit.²⁴

Yet Arrighi maintains that the chief competitive advantage of Chinese manufacturers is not low wages per se, but rather 'techniques that use inexpensive educated labour instead of expensive machines and managers.'²⁵

...[S]tatistics showing US workers in capital-intensive factories to be several times more productive than their Chinese counterparts ignore the fact that the higher productivity of US workers is due to the replacement of many factory workers with complex flexible-automation and material-handling systems, which reduces labor costs but raises the cost of capital and support systems. By saving on capital and reintroducing a greater role for labor, Chinese factories reduce this process.²⁶

The reader is left to wonder why Detroit squandered so much money on conveyor belts in the first place. Some would argue that Western manufacturers invest in plant equipment for the express purpose of minimising labour inputs, since reductions in wages tend to offset the initial costs of investment over time. But more importantly, each manufacturer must achieve the same general level of productivity as its competitors (all things being equal - as we will see). Otherwise it will be forced to choose between selling its products at higher prices or achieving less than the average rate of profit. Therefore, when one capitalist invests in new plant equipment that allows it to produce more goods with less labour, its competitors must eventually adopt this new technology or perish. Marx describes this logic in the first volume of *Capital*:

The law of the determination of value by labour-time makes itself felt to the individual capitalist who applies the new method of production by compelling him to sell his goods under their social value; this same law, acting as a coercive law of competition, forces his competitors to adopt the new method. [...] *Capital therefore has an immanent drive, and a constant tendency, towards increasing the productivity of labour...* [Italics mine]²⁷

Arrighi implies that because of their industrious past, Chinese manufacturers are able to achieve productivity gains *without* actually investing in plant equipment. But it is obvious that if this were possible, each advance would be universally adopted by competing manufacturers since, by definition, it would involve no investment in machinery or infrastructure. Arrighi himself provides evidence that the educational level of the average worker in China is well below that of the average worker in the United States. Therefore, any competitive advantage that Chinese manufacturers possess in terms of productivity would have to be purely organisational in nature. And while there can be little doubt that advances in organisational techniques have played a leading role in the development of the forces of production throughout history (think of the impact of Taylorism, for instance), it is equally certain that they are quickly disseminated and easily adopted when they do not require any corresponding investment in means of production. In other words, if automobiles could be produced more efficiently with drills and rubber mallets than with automated machinery, workers across the globe would suddenly be possessed by the same spirit of industriousness as their Chinese counterparts. Arrighi's argument seems more indebted to the myth of John Henry than the political economy of Adam Smith.²⁸

What *are* the causes of the 'Chinese economic miracle', if not the industriousness of Chinese workers? In order to answer this question, we must begin by inquiring into the nature of the miracle itself. Of course, every schoolboy knows that there are no miracles. But, at least in the case of the Chinese economy, this is one possibility that Arrighi fails to consider. After a few obligatory references to GDP figures and *Wall Street Journal* op-ed pieces, we are assured that

China has increasingly replaced the United States as the main driving force of commercial and economic expansion in East Asia and beyond.²⁹

Arrighi sets out from the assumption that China is undergoing some sort of 'economic renaissance' and proceeds in search of its causes. This leads to the absurd conclusion that a sweatshop in China is more efficient than a typical automated Western plant because of the 'industrious' heritage of Chinese workers (not to mention all of the money that those thrifty Chinese capitalists save by forgoing conveyor belts).

Is it possible that Chinese manufacturers are, in fact, less productive than their Western counterparts (even taking into consideration the cost of plant equipment)? If this were the case, how would we account for China's rising GDP and the explosive growth of Chinese exports in recent years? We noted above that manufacturers must achieve the same general level of productivity as their

competitors - *all other things being equal*. However, Chinese manufacturers enjoy many unique advantages that allow them to prosper, even while employing primitive production techniques. Arrighi notes that in China, many of the social costs of reproducing labour power are borne by the village and the extended family. These informal support networks provide care for the sick and the elderly, as well as education for the young. They are also increasingly called upon to maintain roads, dispose of waste, administer civil law, and supply water and electricity - especially in the many slum-like villages that have been engulfed by China's rapidly expanding cities.³⁰ In addition, Chinese manufacturers are able to defer many of the social costs of the production process itself, resulting in environmental depletion and infrastructural decay. In the West, capitalists bear these costs to a much greater degree - either directly, in the form of wages and benefits, or indirectly, in the form of taxes and operating expenses.

By exploiting these advantages in order to cut prices and drive export growth, China generates enormous amounts of credit. Much of this credit returns to the US in order to subsidise its massive balance of payments deficit (creating equity and real estate bubbles in the process). However, China also uses its fortunes to subsidise many of its industries and to maintain cheap credit domestically. Cheap credit allows redundant and unprofitable businesses to survive by pyramiding bad debt. (Since much of this debt will never be repaid, it also leads to banking instability, c.f. the subprime mortgage crisis).

So long as China can rely on the unremunerated labour of women, children, the elderly, and the unemployed in order to feed, clothe, educate, and care for its working class, wages will remain low, exports will grow, and the cycle can continue. But at some point, the costs of reproducing the world's fastest-growing labour force are bound to exceed the abilities of Chinese peasants and the urban lumpen proletariat. And when that day comes, China may well wish that it had invested more in conveyor belts and less in American real estate and tech stocks.

All of this casts doubt on Arrighi's thesis that China has the potential to 'open up for itself and the world an ecologically sustainable development path.'³¹ Ironically, it is Arrighi's failure to consider the 'systematic' aspects of Chinese growth - its dependence on exports and American credit, on the one hand, and the non-reproduction of its working class on the other - that blinds him to the less-than-miraculous nature of labour-intensive production. In short, Arrighi doesn't bother to prove that China is experiencing an economic renaissance before advocating a headlong return to the dark ages.

Info

Giovanni Arrighi, *Adam Smith in Beijing: Lineages of the Twenty-First Century*, Verso, 2007

Footnotes

1 Robert Brenner, 'The Origins of Capitalist Development: A Critique of Neo-Smithian Marxism', *New Left Review*, Number 104, London, 1977, pp.25-92.

2 Immanuel Wallerstein, *The Modern World System*, New York, 1974. Note that Brenner treats only the first volume in the series. When his article appeared, Wallerstein had not yet published the second and third volumes of *The Modern World System*. Brenner also discusses a number of Wallerstein's essays, cited below.

3 Immanuel Wallerstein, 'The Rise and Future Demise of the World Capitalist System: Concepts for Comparative Analysis', *Comparative Studies in Society and History*, XVI, January 1974, p.391. Quoted in Brenner, op. cit., p.54.

4 Wallerstein, *ibid.*, p.398. Quoted in Brenner, op. cit., p.32.

5 Brenner, op. cit., p.32.

6 *Ibid.*, p.37.

7 *Ibid.*

8 *Ibid.*

9 *Ibid.*, p.50. The Marx passage comes from the *Grundrisse*, London, 1973, pp.509-510.

10 *Ibid.*, p.32.

11 Giovanni Arrighi, *Adam Smith in Beijing: Lineages of the Twenty-First Century*, London: Verso, 2007.

12 Mark Elvin, *The Pattern of the Chinese Past*, Stanford, CA: Stanford University Press, 1973, p.314. Quoted in Arrighi, op. cit., p.330.

13 Arrighi, op. cit., p.32.

14 *Ibid.*, p.33.

15 *Ibid.*

16 *Ibid.*, p.34.

17 Philip C.C. Huang, 'Development or Involution in Eighteenth-Century Britain and China?', *The Journal of Asian Studies*, Volume 2, Issue 61, 2002, p.514. Cited in Arrighi, *Adam Smith*, p.39.

18 *Ibid.*, p.39.

19 Robert Brenner and Christopher Isett, 'England's Divergence from China's Yangtzi Delta', *The Journal of Asian Studies*, Volume 2, Issue 61, 2002, p.613. Quoted in Arrighi, *Adam Smith*, p.29.

20 Arrighi, op. cit. p.30.

21 Ibid., p.39.

22 Ibid., p.37.

23 Ibid., pp.365-366.

24 Ibid., p.366.

25 Ibid., p.365.

26 Ibid.

27 Karl Marx, *Capital: A Critique of Political Economy*, Vol. 1, translated by Ben Fowkes, New York: Vintage Books, 1977, pp.436-437.

28 John Henry is an American folk hero of the railroads who, according to the legend, outworked the steam hammer (and died) to save his men's jobs, [http://en.wikipedia.org/wiki/John_Henry_\(folklore\)](http://en.wikipedia.org/wiki/John_Henry_(folklore))

29 Arrighi, op. cit., p.8.

30 'No Place to Call Home', *The Economist*, 7 June, 2007.

31 Ibid., p.389.