

Marxism and development

A critical view on development and power

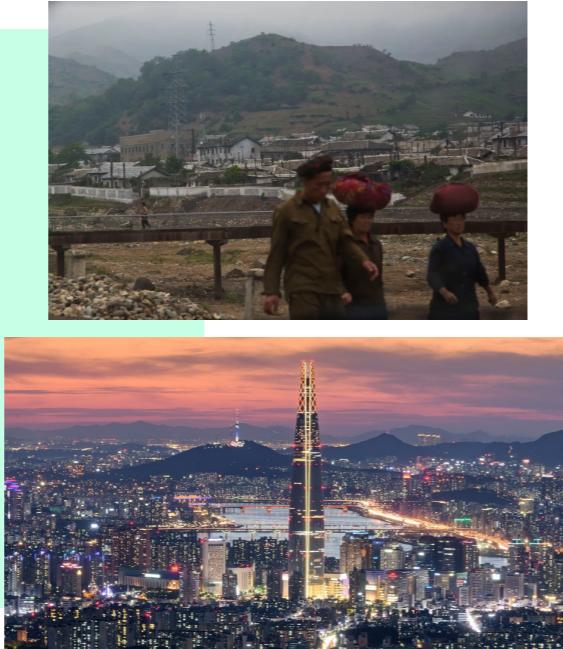
Development Economics, Lecture 7

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The Development Puzzle - Revisited



(New) Institutional Economics:

Some countries have good (inclusive) institutions, others have bad (extractive) institutions. How can we change this?

Marxism:

- Who benefits from particular institutional arrangements?
- How are development and underdevelopment connected?
- What power structures perpetuate inequality?

Agreement

Institutions matter

Key tension

Development is relational

Learning objectives

- Understand **core Marxist concepts**:
 - Modes of production, primitive accumulation, class relations,...
- Understand the difference between the **two levels of ‘development’**:
 - Pre-Capitalism → Capitalism → Post-Capitalism
 - Development ‘within’ capitalism: world systems and core-periphery dynamics
- Understand how **dependency theory** relates to Marx and links development and underdevelopment
- Compare Marxist perspectives with **OIE, NIE and growth models**

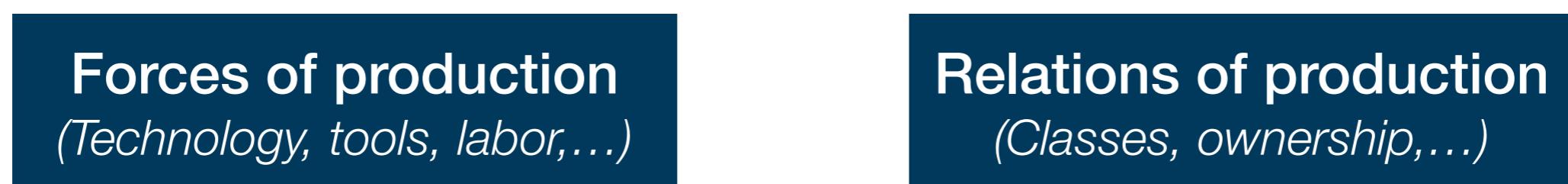
Outline

- Part I: Marxism 101 - fundamentals of Marxist economics
- Part II: Marxism and development - a global view
- Part III: Dependency theory

Marxism 101

The mode of production

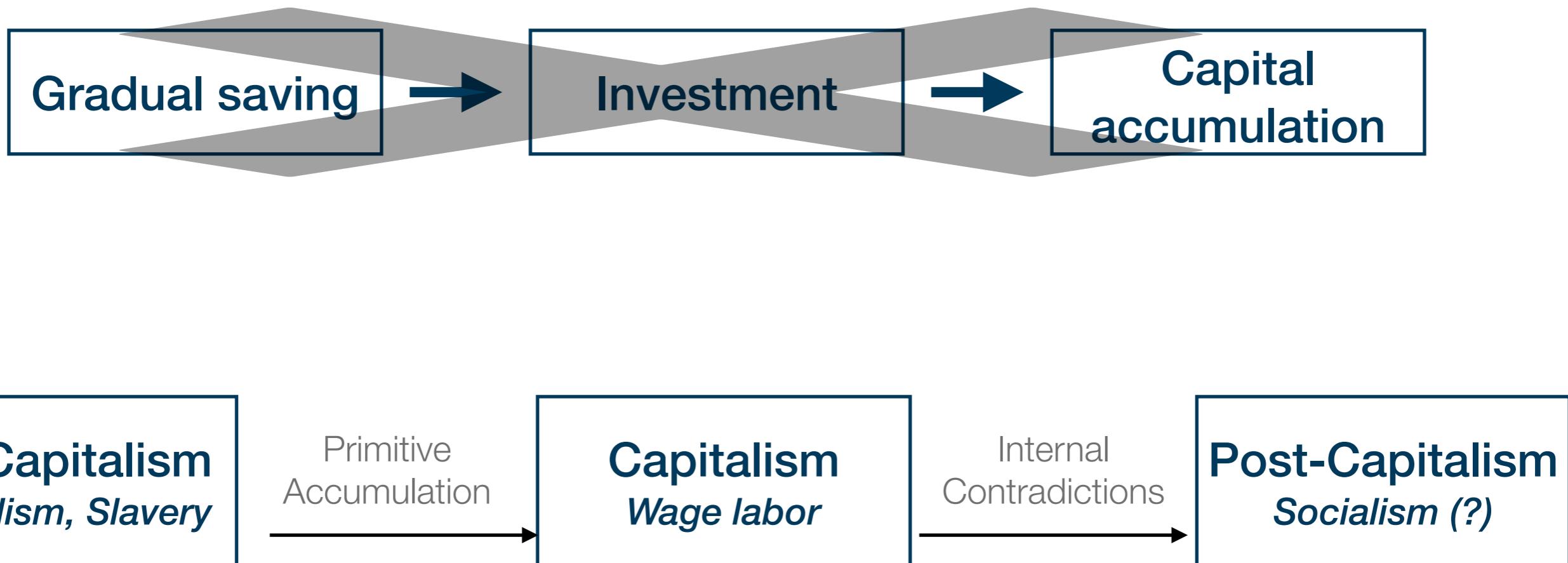
- The system that defines how society (re-)produces material existence
 - **Historical Materialism:** Shapes also its social, political, and intellectual life
- Always contains two components:



	Feudalism	Capitalism
Forces of production	Simple technology, little machinery or div. of labor	Advanced technology, complex div. of labor, innovation
Relations of production: Who owns?	Lords own land	Capitalists own means of production
Relations of production: Who works?	Peasants farm the land	Workers work at factories
Relations of production: Who gets surplus?	Lords extracts surplus through rent, force, taxes	Capitalists appropriate surplus value as profit

Marxism 101

Changes in the mode of production



Marxism 101

Changes in the mode of production



- This stage-development is **not universal** (Africa, Asia, ...)
- Primitive accumulation as **prerequisite** for capitalist mode of production:
 - **Separation** of producers from means of production
 - **Violent expropriation** (enclosures, colonialism, ...)

How does ‘development’ between stages work?

≠

How does ‘development’ work in a capitalist world?

Marxism 101

The production and control of surplus in capitalism

- Workers separated from means of production → sell their labor
 - **Double freedom** → wage relation appears voluntary
- The circuit of capital: $M \rightarrow C \rightarrow M'$
 - $M < M'$: money capital
 - C : Commodities
- Key features:
 - “Coercive laws of competition”: Capitalists forced to reinvest surplus $M' - M$
 - Requirement of continuous accumulation is **structural, not individual**
 - This creates instability through **internal contradictions**

Marxism 101

Four key contradictions of capitalism

- **Overproduction** crises
 - Workers cannot buy what they produce → overproduction
- **Finanzialization**
 - Fictitious capital: claims on future value (\neq real production)
 - Promises higher short term surplus → value extraction rather than creation
- Spatial ‘fixes’ and **imperialism**
 - Expropriate pre-capitalist areas
 - Exploit less capital-intensive areas
- **Tendency of the rate of profit to fall**

Key contradictions of capitalism

The falling rate of profit

- It is about a **tendency** for the rate of profit (r) to fall:

$$r = \frac{s}{c + v} \quad \text{or} \quad r = \frac{s/v}{c/v + 1}$$

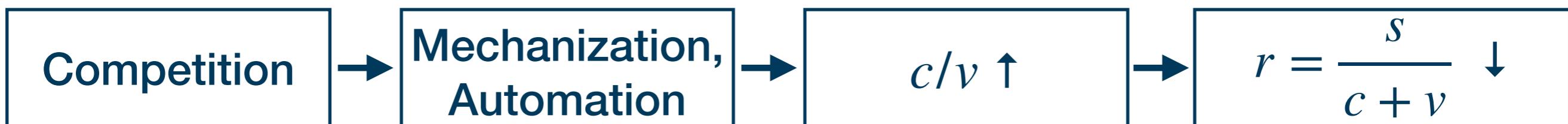
s : surplus value (profit)

c : constant capital (means of production)

v : variable capital (wages)

s/v : rate of exploitation (surplus per wage)

c/v : capital-intensity (organic composition)



- Since only workers create new value, profits fall despite more exploitation
- Foundation: **Labor theory of value**
 - Value: socially necessary labor time embodied in commodity
 - Machines just transfer existing value, workers create new value

Digression: The Labor Theory of Value

- Value = Socially necessary labor time embodied in a commodity

Machinery transfers value

- 10,000 EUR machine took 100 hours of social labor a 100 EUR to produce
- Transfers value gradually when used in production
- Example: produces 1000 units before wearing out
→ each unit gets \$10 of value

Workers create value

- Worker paid 20 EUR/hour (value of labor power = cost to reproduce worker)
- Example: Worker produces 40 EUR/hour worth of value
- 20 EUR difference →surplus value

• Automation paradox:

- Replace 10 workers with machine: $c/v \uparrow$
- Machine transfers existing value, doesn't create new value
- Source of surplus (v) reduced
- Even if more exploitation ($s/v \uparrow$): total surplus s falls relative to capital

The falling rate of profit

Counteracting tendencies

$$r = \frac{s}{c + v} \quad \text{or} \quad r = \frac{s/v}{c/v + 1}$$

- Increase exploitation: $s/v \uparrow$ (or even unsustainable ‘super-exploitation’)
- Cheapening constant capital: $c \downarrow$
- Destruction of capital through crises: $c \downarrow$
- Foreign trade and imperialism
 - Export capital to periphery regions with smaller $(c + v) \rightarrow r \uparrow$
 - But: periphery must not develop to keep advantage
 - Core-periphery hierarchy maintains profit opportunities

Exercise: The Bangladesh Garment Industry

- Read the background info on the Bangladeshi textile industry on the course webpage
- Analyze this situation through two different theoretical lenses -
 - New Institutional Economics (NIE)
 - Marxist Development Theory.



The Rana Plaza building in Bangladesh
April 24, 2013

- How would each framework explain what happened and why?
 - Details given via the webpage

Marxism and development: a global view

From Europe to the global economy

- Marx: origin of capitalism in **Europe**, esp. UK
 - Primitive accumulation as a one-time transformation
- But: **imperialism** as structural implication → global implications (→ Lenin)
 - Exploitation of non-capitalist societies
 - Unequal exchange relations to capitalist societies

Sharp contrast to idea of
Global Standard Institutions
make everyone better off!

“ The development of economic Centers, and the history of the underdevelopment of the Third World, are moderated via the international system, they are **complementary developments.**”

Senghaas (1974, p. 18)



Mechanisms of uneven development

Common theme: development and underdevelopment structurally linked.

Colonial dimension of
primitive accumulation

Unequal exchange

World Systems Theory

Colonialism and primitive accumulation

Why colonialism was structurally necessary

- At some stage: **primitive accumulation** in Europe required **colonial plunder**
 - Not a separate process that could have been skipped
 - "~~Europe developed first, then colonized~~" → "Europe developed BY colonizing"

Capital accumulation required
external wealth injection

External smoothing of internal
contradictions



Overproduction crises

- Solve realization problem via exporting surplus
- Colonies as captive markets
- Example: India forced to buy British textiles

Falling rate of profits

- Lower c/v in colonies
- Higher profit rates → export capital → repatriate profits
- Example: British Railway in India, Plantations

Raw materials and cheap c

- Raw materials expensive to produce in Europe (land scarcity, wages)
- But: required for industrialization
- Forced input cheapened c
- Example: British cotton industry

Colonialism and primitive accumulation

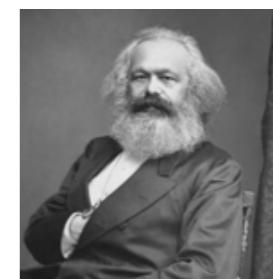
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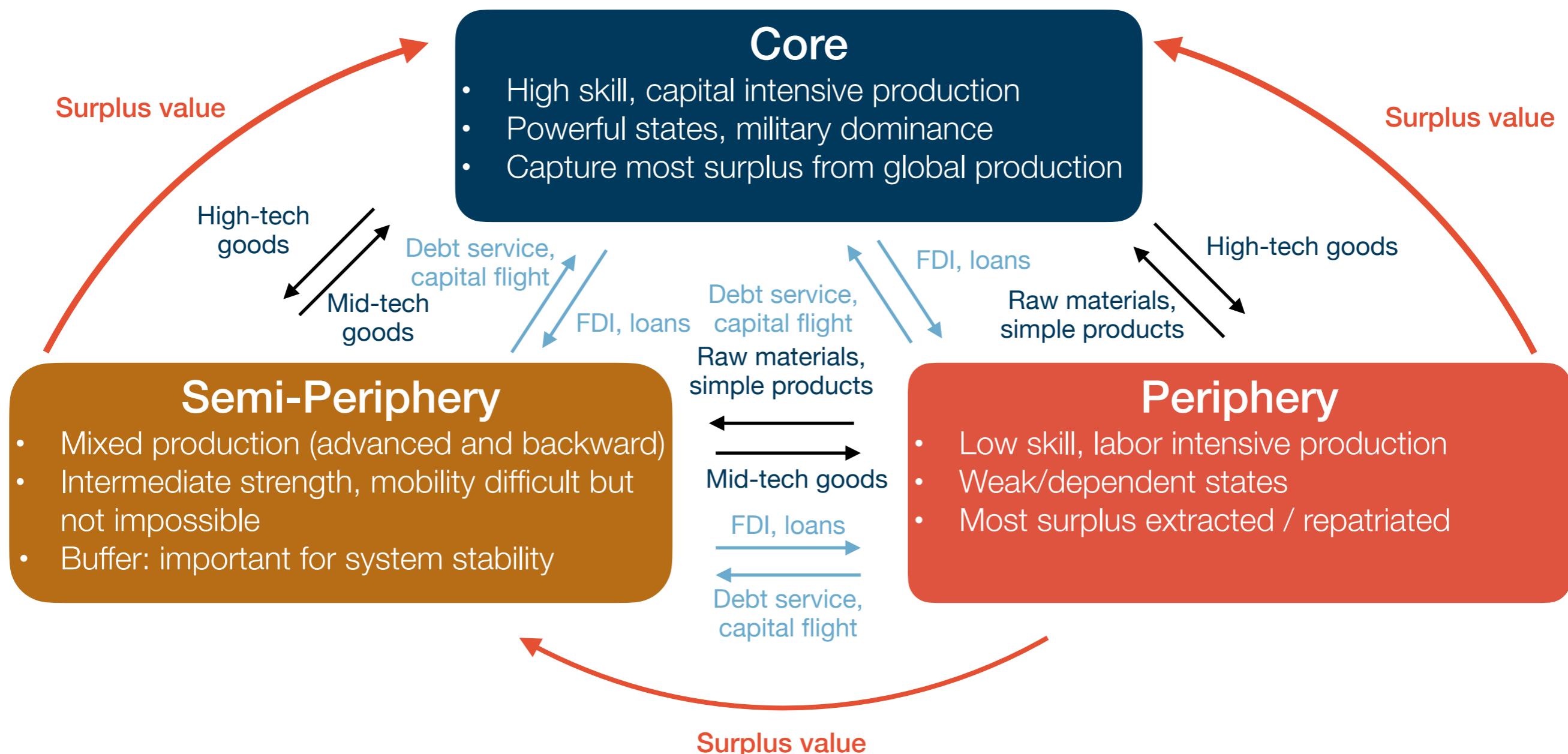
“The treasures captured outside Europe by undisguised looting, enslavement and murder flowed back to the mother-country and were turned into capital there.”



- Structural necessities continues → neo-colonialism after ‘independence’
- Accumulation by dispossession (Harvey): Ongoing primitive accumulation

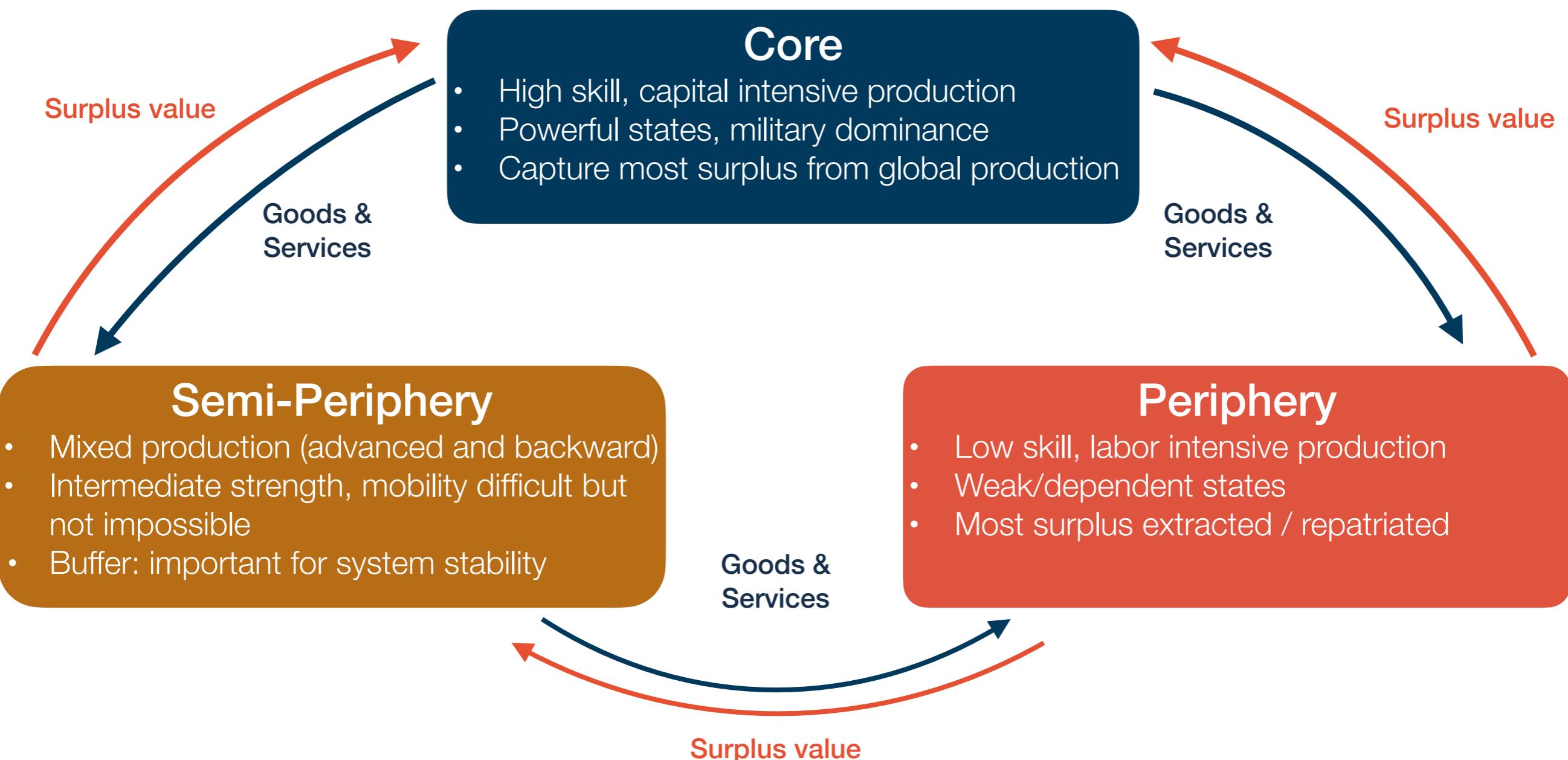
World Systems Theory

Capitalism as a global system



World Systems Theory

Capitalism as a global system



World Systems Theory

Capitalism as a global system

Core

Semi-Periphery

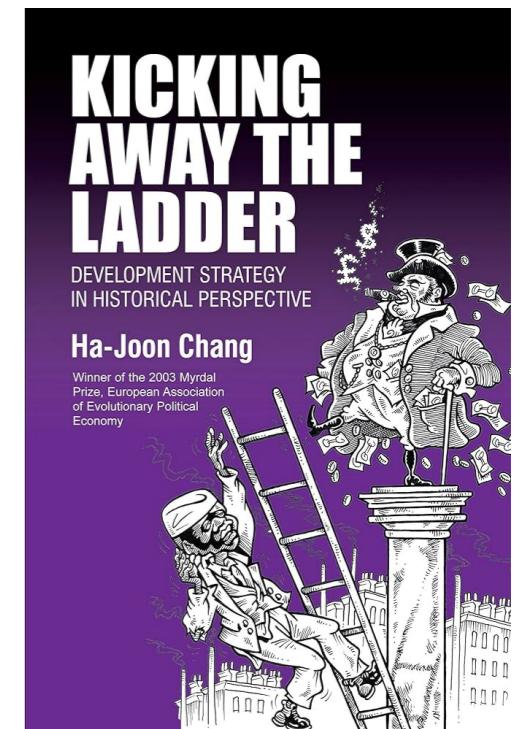
Periphery

- Development and underdevelopment **co-constituted** in the system
- Periphery is capitalist, integrated into the system in **subordinate position**
 - **Articulation of modes:** combination of modes of production within a single economy
 - Serves global capitalism → backward elements maintained for functional reasons
 - **Examples:** Caribbean Plantation Slavery, African Mining Enclaves,...

World Systems Theory

Key difference to Global Standard Institutions

- **Different rules** for different positions:
 - **Core:** Could use protectionism during industrialization (Britain, US, Germany)
 - **Periphery:** Forced to liberalize (forced ‘free’ trade)
 - “Kicking away the ladder”
 - **Contrasts GSI** with its idea of universal rules
- Dynamics on the **system level**:
 - Hegemons rise and fall (Dutch → British → American)
 - Countries can move between categories (rare but possible)
- System structure persists: there is always a **functional hierarchy**
 - Not everyone can be core → would eliminate advantage and functional role

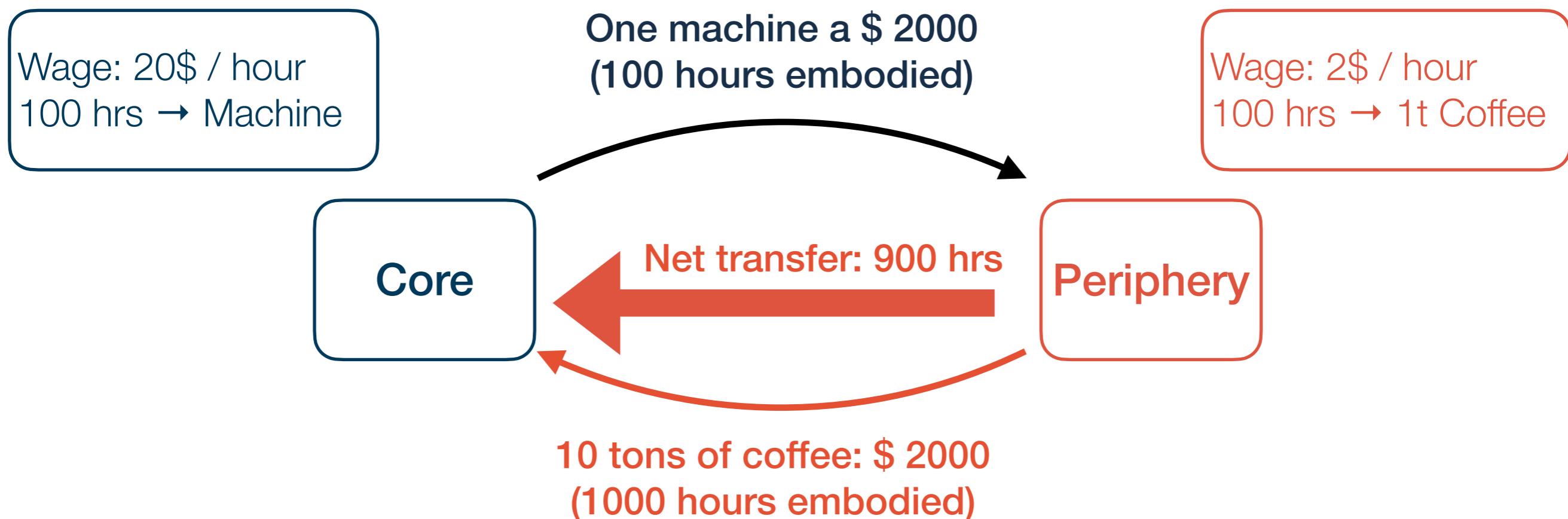


Unequal exchange

- **Mercantilism:** trade substitute for war → **winners and losers**, zero-sum
- **(Neo)Classical:** comparative advantages → trade **mutually beneficial**
- **Marxism:** trade structurally unequal → trade **instrument of exploitation**
- Different views on this structural inequality within Marxism:
 - Emmanuel on wage differentials and **equal productivity**

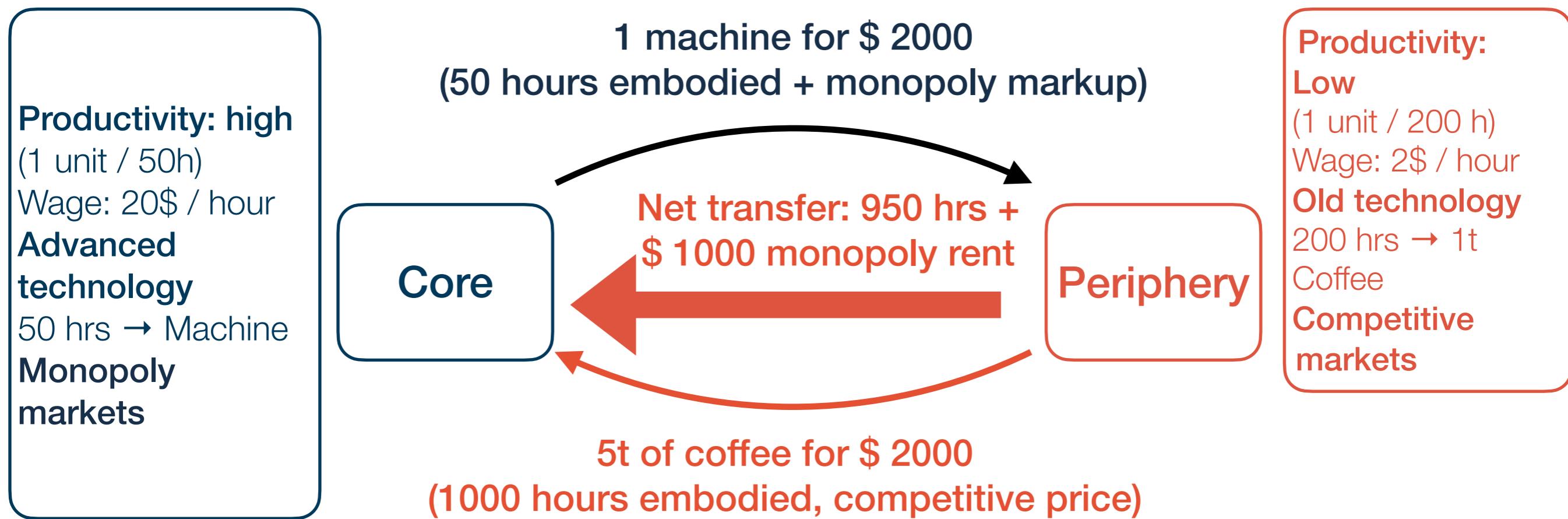
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Unequal exchange

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 - Amin on **productivity differentials** and **monopolies**



Unequal exchange

- **Marxism:** trade structurally unequal → trade **instrument of exploitation**
- Different views on this structural inequality within Marxism:

	Emmanuel	Amin
Productivity	Equal (100 hrs/unit both)	Unequal (periphery 4x worse)
Wages	Unequal (\$2 vs \$20)	Unequal (\$2 vs \$20)
Market structure	Both competitive	Core monopoly, periphery competitive
Net transfer	900 labor hours	950 labor hours + \$1,000 rent
Solution	Raise periphery wages	Transform production + break monopolies

Other variants: Prebisch-Singer, Unequal Ecological Exchange,...

The practical implication

- Common theme: **development and underdevelopment structurally linked**
 - Colonial dimension of primitive accumulation
 - World Systems Theory
 - Unequal exchange
- What is the policy implication?

Selective delinking (Amin)

- Reduce dependence on core markets, technology, capital
- Reorient economy toward internal market
- Selective integration (South-South trade, strategic sectors)

Radical break (Frank)

- Complete delinking from capitalist world system
- Revolution to eliminate capitalist class relations
- Overcome development of underdevelopment by system change

Pragmatic reform (ECLA)

- Strategic state intervention and industrial policy
- Protect infant industries
- Diversify production away from primary commodities
- Regional integration
- See *next topic*

Dependency Theory

“ [dependency is] a situation in which the economy of certain countries is conditioned by the development and expansion of another.”

Dos Santos (1970, p. 231)

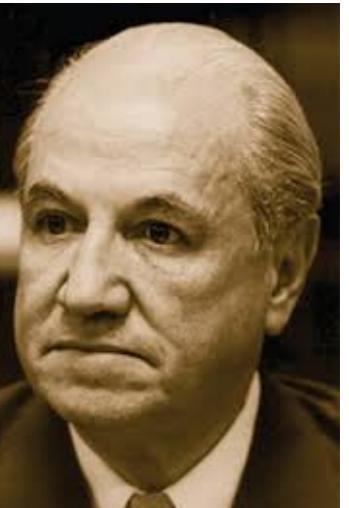
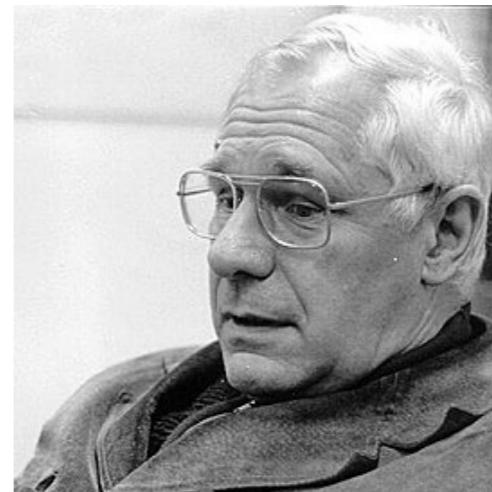
From Europe to Latin America

Dependency theory

- Origin: **Latin America** in the 50s and 60s
- Response to the failure of Latin American countries to ‘catch-up’
- Context: **crises** in the 1920s, dependence on colonial states
- Focus: **Global South**
 - Critique of modernisation → **interdependencies** matter
 - Development and underdevelopment two sides of the same coin
 - Periphery not ‘behind’ but **structurally subordinated**



CEPAL, founded in 1948



Raul Prebisch



André Gunder Frank



Celso Furtado

Exercise II: Contemporary Patterns of Exploitation

- Stay in your groups of 3-4 students, follow instructions from webpage
- Your task: Choose a case using the theoretical tools from today's lecture
 - Lithium Extraction in Chile , Vietnamese Electronics Manufacturing, Digital Platform Labor in Kenya
- Be **selective** about the key questions for your case:
 - Primitive Accumulation / Accumulation by Dispossession
 - Surplus extraction
 - Core-Periphery relations
 - Unequal exchange
 - Structural heterogeneity
 - Contradictions
- Present your **preliminary results** in class afterwards
- Do the remaining exercises and follow-up questions for further training

Summary and conclusion

Summary and conclusion

	Mainstream (NIE)	Marxism
Development is...	Universal stages all can follow	Relational process: Development ↔ Underdevelopment
Key problem	Bad institutions, low capital	Exploitation, unequal power relations
Global economy	Mutually beneficial integration	Hierarchical system (core <i>needs</i> periphery)
Poor countries are...	Lagging behind	Subordinated, structurally exploited
Solution	Global Standard Institutions	Transform power relations, strategic delinking



Distinct vantage points, distinct conclusions

Summary and conclusion

What's at stake: development policy in general

	Mainstream (NIE)	Marxism (NIE)
Focus	Governance reforms, property rights, trade liberalization	Power relations, class struggle, structural transformation
Assumption	System can work for all with right institutions	System structured to benefit some at expense of others
Blame	Poor governance, corruption, "backward" culture	Capitalist exploitation, colonial legacies, ongoing imperialism
Solution	Technical fixes, institutional transplants	Political mobilization, system change, or strategic delinking

- The Stakes are High
 - Theory shapes **international institutions** (WTO, IMF, World Bank)
 - Influences national **development strategies**
 - Determines whose **interests** are served

Appendix: More details on dependency theory

Dependency theory

Key analytical dimensions

Structural heterogeneity [within periphery]

- Dual economy problem:

Modern export enclave

- High productivity
- Foreign owned
- Capital-intensive

Traditional subsistence

- Low productivity
- Rather isolated
- Labor surplus

- Surplus extracted, not reinvested locally

Tech. dependence [Core ↔ Periphery]

Core

- Capital-intensive
- High complexity
- Self-accelerating innovation

Periphery

- Labor-intensive
- Low complexity
- No autonomous innovation

- Permanent technology gap

ToT deterioration [Core ↔ Periphery]

Core Exports

- Manufacture goods
- High income elasticity
- Monopoly markets
- Prices tend to rise

Periphery Exports

- Primary goods
- Low income elasticity
- Competitive markets
- Prices tend to fall

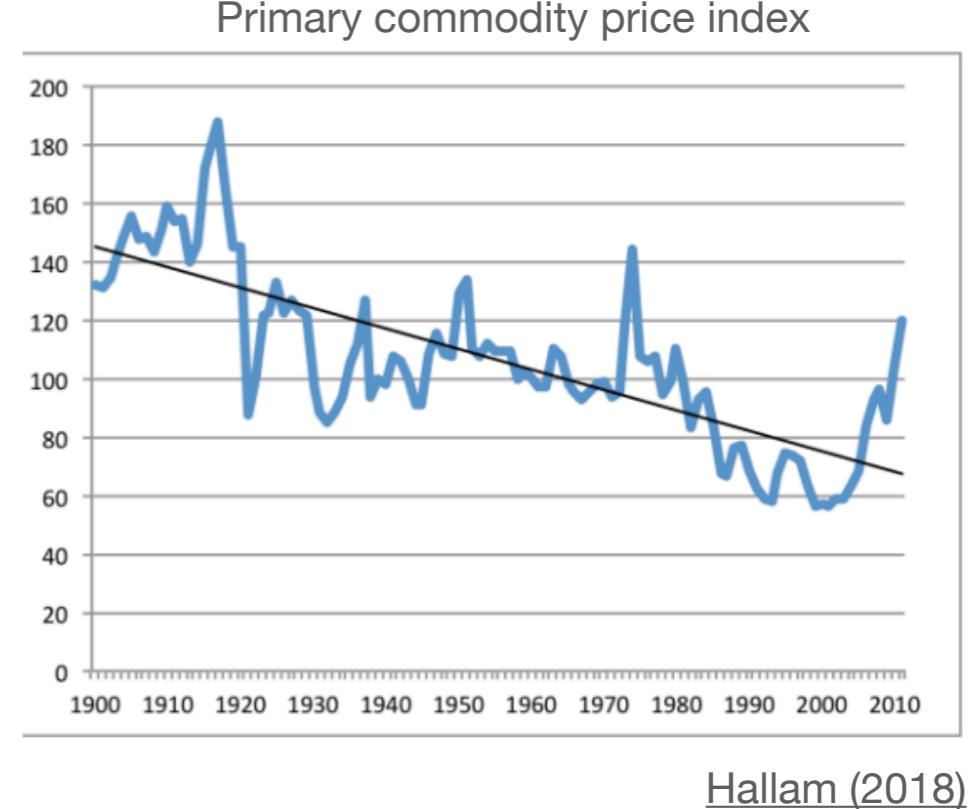
- ToT ↓, export more to import same amount

→ Structural lock-in: Periphery trapped in subordinate position

Dependency theory

The Prebisch-Singer hypothesis

- Terms-of-Trade: $\frac{P_{Exports}}{P_{Imports}} \times 100$
 - Small ToT: export more to import same amount



Periphery: Primary Commodities

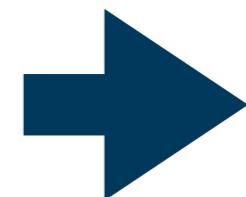
- Income rises → Demand rises slowly (small η_I)
- Competitive markets & weak labor
- Productivity gains → **Prices fall**

Core: Manufactured Goods

- Income rises → Demand rises quickly (high η_I)
- Monopoly power + Strong unions
- Productivity gains → **Prices stable/rise**

1950
100 t of coffee ~ 10 tractors

2000
100 t of coffee ~ 5 tractors



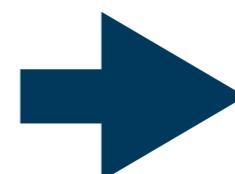
Growing effort for same import

Dependency theory

Contemporary relevance

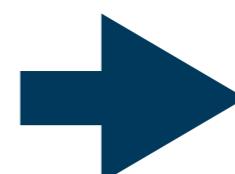
- Two key contributions against dominant view on development:

Development in LA only understandable against the historical genesis of dependency, especially through colonialism



Critique of positivist research approach

The unequal relationships between core and periphery countries determine the development prospects of the latter



Critique of methodological nationalism

- Ongoing and active research program
- Many extensions and triangulation with other research programs:
 - Unequal ecological exchange and sustainability studies