

Surplus Value and the Value of Surplus – the Political Economy of Non-Equivalent
Exchange in the 21st Century¹

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Abstract

The international trading system is broken. To fix it, two positions are dominating the debate: 1) a hard turn to protectionism and trade wars; 2) a doubling down on 1990's-era globalization and free trade. These are false solutions. This paper will suggest that finding a real solution will require several steps. The paper will begin by reviewing and revising contemporary approaches to mapping the hierarchical nature of the world economy. It will then outline and demonstrate the mechanisms of non-equivalent exchange, enforced by structured inequalities in the relative value of national currencies, which constantly create and reinforce this hierarchy. Throughout, the paper will demonstrate the way in which these findings force modifications in our understanding of key formulae from *Capital* volumes I and III – specifically, formulae on the circulation of commodities and the rate of profit. Finally, the paper – taking a page from the first years of ALBA – will make the case for displacing the US dollar from its role as “world money”. Late in life, John Maynard Keynes argued unsuccessfully for precisely this – a structured internationally-managed system by which national economies could meet in the world market and exchange their goods and services, independent of the relative valuation of their national currencies. Whether or not the solutions posed by the ALBA countries or Keynes are complete, they are addressing the right problem – the manner in which structured inequality of currencies distorts the international trading and investment system, creating recurring crises and entrenching economic underdevelopment.

Keywords: Non-equivalent exchange; Surplus value; Commodities; Circulation; Marx

Thematic axis: 1. Theory of value and social antagonism

Introduction

In the 1980s and 1990s, debates over trade and investment polarized between two forces. On the one hand, neoliberal advocates of “free trade” argued that protectionist impediments to free trade were relics of a socialist Cold War past, and that future prosperity could be ensured through systematically privileging the market and pushing back the remit of the state. On the other hand, progressive social movements argued that these “free trade” agreements were in fact blueprints for a corporate-dominated world economy, privileging the position of Global North countries in general, and the United States in particular. The national state, they argued – weakened by a network of international free trade agreements – would be less able to advocate for and protect the social wage which has been so important in raising living standards for several generations, as well as human rights and protection for the environment.

This century – the contours of the debate are different. Donald Trump – after executing a successful white nationalist hostile takeover of the pro-free trade Republican Party, and then slipping into the presidency in spite of losing the popular vote – made his new administration the spokesperson for a new, vigorous Global North protectionism. He removed the United States from the proposed Trans-Pacific Partnership (TPP). He threatened to completely abandon the North American Free Trade Agreement (NAFTA). He launched a very serious trade war with China, the world’s second largest economy. Trump has positioned himself as a 1930s-era protectionist.

In the face of Trump’s protectionist onslaught, the overwhelming response has been a defensive rallying around the principles and practices of what we used to call globalization. Those of us with long memories, will remember the Liberal Party of Canada as the standard-bearer for anti-free trade, anti-globalization policies in the 1980s and early 1990s, in open warfare with the pro-globalization pro free-trade Conservatives. The Liberals of course shifted from that anti-globalization position early in the tenure of Jean Chrétien, moving from critics of globalization and NAFTA to being the government which signed Canada onto the deal. This convergence of interests between the two major parties

was extremely visible in the 2018 NAFTA negotiations, one of the principal allies of Liberal Justin Trudeau being former Conservative Prime Minister and poster-person for the pro-free trade pro-NAFTA camp, Brian Mulroney. The always insightful Chantal Hébert (2018) called Mulroney “one of Justin Trudeau’s most effective allies on the Canada/U.S. trade front”.

Partially absent from the debate have been the old progressive anti-free trade forces. There has been nothing resembling the great anti-free trade mobilizations of the late 1980s and early 1990s. In Canada, the country from which this paper is being written, some parts of this old coalition – in sections of the union movement – have not been absent, but have in fact welcomed Trump’s assault on free trade. Canada’s largest private sector union, UNIFOR was quoted as saying that it “welcomes the renegotiation of the North American Free Trade Agreement”. UNIFOR National President Jerry Dias said that “It was made clear ... that the United States is not interested in a few tweaks ... NAFTA has failed workers and that a major overhaul is required, which is exactly what Unifor has been saying for years” (CNW 2017). Dias was not alone in being seduced by Trump’s anti-NAFTA stance. The day after Trump was elected, Dennis Williams, president of the United Auto Workers (UAW) said that he wanted a meeting with Trump “to map a plan to overturn or renegotiate the North American Free Trade Agreement, blamed for allowing high-wage U.S. manufacturing jobs to go to low-wage Mexico. ... Williams said free-trade policies have ‘in many cases destroyed lives and destroyed the middle class,’ and he’s fully aligned with Trump on the matter. He also endorsed Trump’s proposed 35% tariff on cars imported from Mexico” (Bomey 2016). Thomas Walkom (2016a), progressive *Toronto Star* journalist, wrote in a similar vein. In an article entitled “If Trump kills NAFTA, Canada could benefit,” Walkom argued that: “Depending on how it’s done, getting rid of NAFTA could work for us”. The next month, he amplified this approach in an article with the shocking headline: “Trump shows it’s possible to confront big businesses,” citing the pressure Trump put on United Technologies to not shift jobs to Mexico. “The U.S. president-elect promised to push back against the forces of globalization and keep jobs in America. In one case, he appears to have succeeded” (Walkom 2016b). This focus on the Global South came to a climax when General Motors announced this year it was closing its

Oshawa, Ontario plant. The Ontario Public Service Employees Union (OPSEU) joined UNIFOR in calling for “a boycott of Mexican-made General Motors products ... They’re shipping good Ontario jobs to Mexico ... and we can’t let them get away with it” said OPSEU president Warren (Smokey) Thomas (OPSEU 2019).

Williams, Dias, Walkom and Thomas are acting as if negotiations on trade deals such as NAFTA and episodic instances of “keeping jobs in America” can be separated from the Trump’s wider and clearly racist political agenda. They cannot. The problem confronting workers in Canada and the U.S. is neither Mexico nor China. Focusing on these economies is premised on a misunderstanding of the contours of the world economy. To find an alternative requires addressing two key issues. At the level of analysis, we need to revisit an old idea, the mechanism of non-equivalent exchange, enforced by structured inequalities in the relative value of national currencies, and the way in which this non-equivalent exchange structures the contours of international trade and investment. At the level of policy, we need seriously to examine the case for displacing the US dollar from its role as “world money” and finally begin to institute what Keynes envisioned late in his life – a structured internationally-managed system by which national economies could meet in the world market and exchange their goods and services, independent of the relative valuation of their national currencies. Whether or not Keynes’ solution was complete, it was addressing the right problem – the manner in which structured inequality of currencies distorts the international trading system, creating recurring crises and entrenching economic underdevelopment.

A Hierarchical World Economy

The necessary first step is to demonstrate and map the extraordinarily hierarchical nature of the world economy. This is not straightforward. Any statistical representation has to be taken with more than a grain of salt. Every approach has its limitations, and every approach is simply a two-dimensional approximation.

The terms Global South and Global North, for instance, are regularly deployed binaries – Global South for the poor majority of countries, Global North for the rich minority – that are helpful in a very general sense to signify inequality in the world system.

But the complexity of the world system is difficult to capture with just these two broad categories. Other attempts at classifying the world system have tended to divide it into three portions. World Systems Theory has offered the most precise designations: core (roughly corresponding to the Global North); periphery (roughly corresponding to the Global South); and semi-periphery – those “middle” economies that don’t fit easily into either the core or periphery categories. A “tripartite” approach to classifying the world economy has a long legacy. During the Cold War, world economic inequality was commonly captured using the “Three Worlds” analogy – First World for the advanced capitalist economies, Second World for the “socialist” economies, Third World for the poor economies that had formerly been colonies of the Great Powers. The collapse of “communism” has made that categorization less useful than in the past. Further, many have felt the need to go beyond a tripartite approach. A literature has emerged which talks of a Fourth World – sometimes seen as comprising the very poorest of the poor economies, sometimes seen as grouping together the poor and marginalized within all economies, including core or Global North ones, sometimes seen as referring to the marginalized Indigenous populations which exist in every region of the world.² One widely used framework is that deployed by the World Bank, using four categories – High-income, Upper-middle income, Lower-middle income and Low-income (World Bank Data Team 2018), a framework examined in more detail below.

Probably the most widely used contemporary framework, is that provided by the United Nations, which like the Three World’s school, classifies the world into three broad categories – developed economies, economies in transition and developing economies (UN/DESA 2019:167–175). But this approach obscures more than it reveals. In the “Developed economies” group, prosperous economies such as Germany and Canada co-exist with struggling places such as Croatia and Greece. The “Economies in Transition” category includes the regional imperialist power which is the Russian Federation, alongside the deeply impoverished and oppressed country of Albania. China – the now second largest economy in the world – is in the “Developing Economies” category alongside Zimbabwe

² For one development of this concept, see Hall and Hall (2005)

and Afghanistan! These kinds of heterogeneous categories are really quite unhelpful. The UN approach is also surprisingly “normative” – only partially resting on economic and developmental indicators, but also on a series of judgements. The second of their three basic categories, is a relic of the Cold War, invoking countries “in transition” from Communism to Capitalism – a kind of post-Cold War inversion of the former “Second World” categorization. They do refine their categories at the bottom of the hierarchy offering, for instance, the categories of “Least developed countries” and “Heavily Indebted poor countries”, moves similar to that made by Fourth World scholars, who could see the inadequacy of a tripartite approach to economic and developmental categorization. But overall, the UN approach is unsatisfactory.

In the end, I settled on my own “four-part” framework to statistically represent this hierarchy (Table 1), a framework which involved six steps.

1. Choosing Gross Domestic Product (GDP) measured in dollars adjusted according to Purchasing Power Parities (PPP), as the key measure of economic strength;
2. Factoring in population size, by representing this as PPP-adjusted GDP *per capita*;
3. For China and India, the world’s two largest countries, differentiating GDP per capita in urban areas from GDP per capita in rural areas;
4. In keeping with the recurring use of “four tiers” by which to visualize the world economy, categorizing these figures, from highest to lowest GDP (PPP-adjusted) per capita, into four “tiers.” Tier 1 includes the countries of the G7. Tier 2 includes the BRICs countries (China and India represented by the statistical constructs “China-urban” and “India-urban”). Tier 3 includes the massive populations in the categories “China-rural and migrant” and “India-rural”. Tier 4 includes those whose GDP per capita is 5% or less than that of the U.S.
5. Within these Tiers, ranking each country according to their inequality-adjusted Human Development Index (HDI) value; (with the exception of the “statistical constructs” for urban and rural China and India);

6. Displaying the total population residing in each Tier, along with individual results for those countries with a population greater than 25 million.

Let us examine each of these steps in turn.

PPP-adjusted GDP

The first step involves choosing a unit of measurement. The two most commonly used measures are Gross Domestic Product (GDP)³ and Gross National Income (GNI)⁴. I have chosen to use GDP, which measures the total output produced within the country, rather than GNI, which measures income received by the country. (However, they are sufficiently similar, so that in a “wide angle analysis” such as the one being attempted here – a classification of the entire world economy – results using either would be similar.) With GDP as the yardstick, the United States in 2017 had the world’s largest economy with a GDP of \$19.4 trillion, China the second largest, with a GDP of \$12.2 trillion. Sixteen economies had GDP figures above \$1 trillion, including Canada which sat in 10th place, ahead of Russia, South Korea, Australia, Spain Mexico and Indonesia, trailing the other six members of the G7 to which Canada belongs, as well as China, India and Brazil (The World Bank 2019a).

These GDP figures are derived by converting the value of GDP as measured in a country’s national currency, into what has for decades been seen as the universal unit of measurement – their market exchange rate as measured in current US dollars, in this case, 2017 US dollars. While helpful in making investment decisions, it is very misleading when used as a metric for cross-country comparisons. The market exchange rates for currencies can be very volatile “influenced primarily by factors such as currency speculation, interest

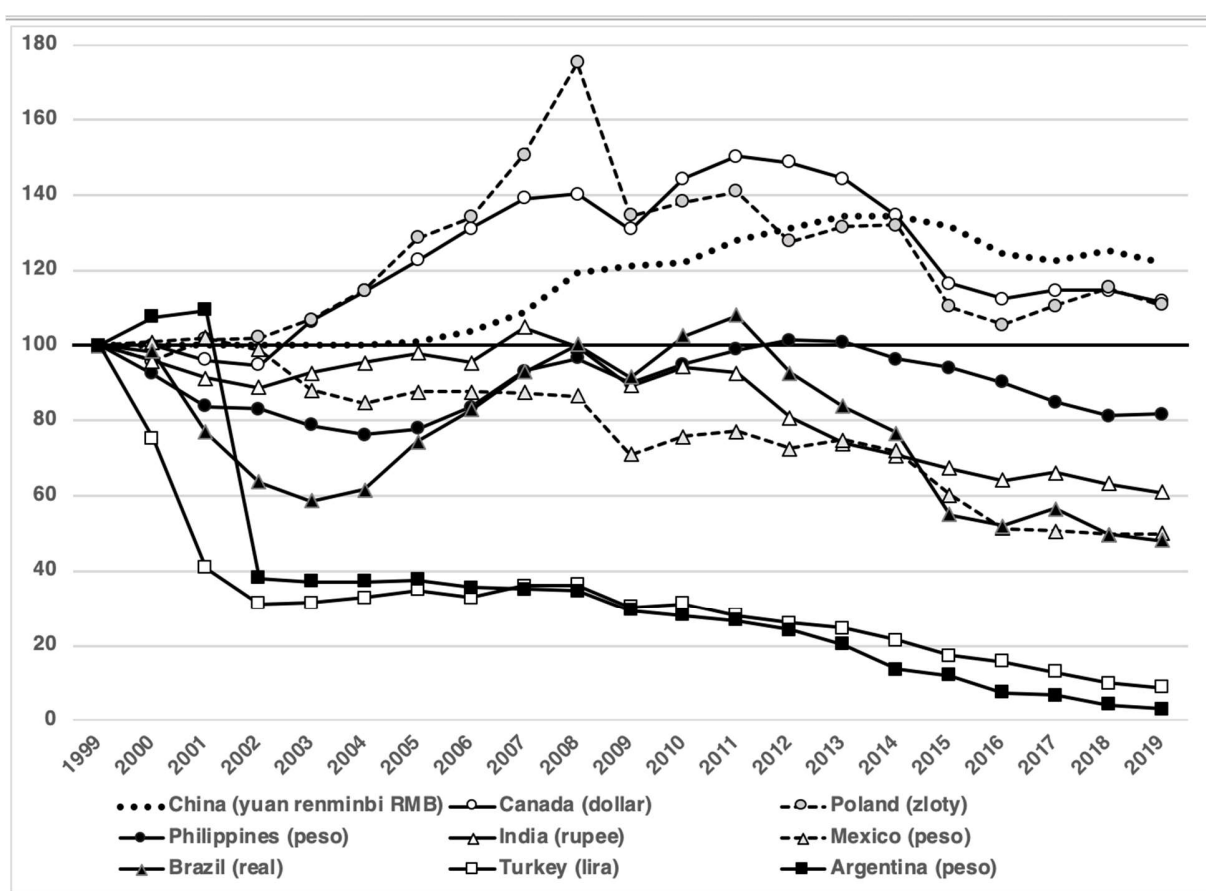
³ “GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.” (The World Bank 2019a)

⁴ “GNI is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad” (The World Bank 2019d).

rates, government intervention, and capital flows between economies”. In addition, “[m]any goods and services such as buildings, government services, and most market services are not traded internationally” (The World Bank 2014a:6).

Figure 1 tracks the performance this century of nine currencies, measured against the U.S. dollar – their market exchange rate of 1999 taken as equal to 100, and their increase, or decrease above that point tracked for 20 years.

Figure 1. Market Exchange Rates (1999=100), Nine Currencies, 1999-2019



Created by the author, based on data in in Pele (2019).

Three currencies on the list have increased in value over these two decades – the currencies of Canada, China and Poland. Four have declined in value between 20% and

50% – the currencies of the Philippines, India, Mexico and Brazil. Two have fallen in value by more than 80% – the currencies of Turkey and Argentina.

Hence, when market exchange rate derived GDPs are the metric, national economies with a strong currency (the G7 and Eurozone economies for instance) will see the “size” of their economies “inflated” compared to national economies with weak currencies (Mexico, Brazil, etc.). The volatility can also mean sudden sharp statistical “collapses” in the size of an economy (when its currency’s market exchange rate has a bad year), or similarly sudden “eruptions” in its size (when its currency’s market exchange rate has a good year).

There have been various devices developed to attempt to mitigate these problems. The Atlas Method, often deployed by the World Bank, is one such (The World Bank 2014b). It makes allowance for differences in “the rate of inflation in the country and international inflation” which is helpful. But while its method of using a three year average of market exchange rate figures will help to eliminate the effect of *momentary* fluctuations in a currencies value, it will not in any way address the question of *systemic* weaknesses and strengths of different national currencies. The results are less than satisfactory. Using GNI per capita “calculated using the Atlas method” the World Bank groups countries into four categories – High-income, Upper-middle income, Lower-middle income and Low-income (World Bank Data Team 2018). The 1.2 billion people in “High Income” countries include places as diverse as the very comfortable Norway and Denmark, with the much more stressed economies of Croatia, Chile and Uruguay. The 2.5 billion in the “Upper-middle income” category range all the way from Turkey to Guatemala. The 3 billion in the “Lower-middle” category groups Indonesia and the Philippines with Palestine and Zimbabwe (Author’s calculations, derived from data in The World Bank 2019d, 2019e).

Without any question, the most helpful corrective to the problems inherent in the use of market exchange rate figures as a metric, has been provided by the International Comparison Program. The ICP has as its object the creation of a unit of measurement with which “to compare the gross domestic product (GDP) of economies to determine those economies’ relative size, productivity, and material well being.”

Because economies estimate their GDP at national price levels and in national currencies, those GDPs are not comparable. To be compared, they must be valued at a common price level and expressed in a common currency. The ICP uses purchasing power parities (PPPs) to effect this double conversion. (The World Bank 2014a:1)

An accessible version of the PPP approach has been used by *The Economist* magazine since the 1980s. Its widely cited “Big Mac Index” is based on the ubiquity of Macdonald’s Big Mac hamburger. On the assumption that in a world of equivalent currencies, the price of the Big Mac would be the same in each country, the index takes the price of the Big Mac in a local currency, converts it to the market exchange rate (current U.S. dollars), and then compares that price to the current Big Mac price in the U.S. To cite just one example from 2019 from: “In Russia ... a Big Mac costs 110 roubles (\$1.65), compared with \$5.58 in America. That suggests the rouble is undervalued by 70%” (Pick of the Menu; Burgernomics 2019). It is a rough and ready approach, but helpful in understanding the logic behind the PPP-adjustment approach, which is the first step in the construction of Table 1, choosing PPP-adjusted GDP as the foundational metric.

Factoring in Population Size

The second step was to factor in population size. The really telling statistics are not Gross Domestic Product *per se*, but Gross Domestic Product *per capita*. China and India’s vast population size – both with populations in excess of 1.3 billion – propel them towards the top of the GDP pyramid, even if their GDPs per capita are much lower than in a country such as Canada, which – with a much smaller population of 35 million – still manages to claim 10th spot in overall economic size. Per capita, rather than gross, figures give real insight into the actual economic status of individual economies. The second step, then was to adjust the first metric into PPP-adjusted GDP per capita.

China and India

The third step also has to do with China and India. While both are among the 10 largest economies in the world, their economic structure is quite different from the other large economies. The other eight are all heavily urbanized, and have been so for a considerable period of time. More than 90% of Japan's people live in urban areas. The figure is more than 80% for Brazil, the U.K., the U.S., Canada and France, and more than 70% for Germany and Italy. Those figures are very similar to what they were at the beginning of this century. By contrast, China in 2001 had an urbanization rate of just 37%, India 28%. Both have been steadily urbanizing in the years since (China in particular, whose urbanization rate now sits at 58%) (The World Bank 2019f).

In India in 2017, 33.6% of people resided in urban areas – 450 million people versus the 890 million residing in the countryside. Per capita income in the urban areas is roughly 2.5 times that in the rural areas (Press Trust of India 2016). This means there is an urban India, still in the “Third World” or “Global South” but toward the top of the category, and a rural India, among the poorest parts of the world economy.

In China in 2017, 58.52% of the population resided in urban areas (China 2018a) – 811 million people versus the 575 million residing in the countryside. However, those official figures mask the enormous scale of internal migration within China, more than a quarter of a *billion* people who migrate to work in the cities, but only have permission to live in the countryside (Zhao, Liu, and Zhang 2018:19), victims of something resembling a pass-law system, creating a kind of underclass in China's growing economy – one of the world's largest reserve armies of labour, to use a phrase from the 19th century – tens of millions constantly migrating to the cities from the countryside. These internal migrants are best classified with the rural population, not the urban population. In China, per capita income by any measure is roughly three times higher among the urban population than it is in the rural population (China 2018b, 2018c). This means there are two China's – an urban China of more than half a billion that needs to be categorized with the economies of the Global North, and a rural China of more than 800 million (including a quarter of a billion internal migrants) still very much living in Global South conditions. An absolutely rigorous and complete representation of these statistics would have to duplicate this exercise, not

only for China and India, but for all the other many “Global South” economies undergoing rapid industrialization (for instance Indonesia). But given the vast population size of China and India (between them including more than one-third of the world’s population), bisecting each into urban and rural portions will help considerably to bring the entire picture into better focus.⁵

A Four Tier Approach

The Fourth Step was to decide on a manner to represent this data. The current UN approach, the three world’s method from the Cold War era, and the World Systems method all divide the world into three groups. The first two, as we have seen, increasingly saw the need to add a fourth category –to capture what has been variously called the “Least Developed Countries” or “Fourth World” – that section of the world’s people existing at the very bottom of the world’ hierarchy of economies. The World Bank takes a similar approach, dividing the world economy into four groups. I chose to accept this four-tier approach, combining a quantitative approach based on PPP-adjusted GDP per capita with a qualitative approach – keeping the countries within the G7 and BRICS categories each within their own tier (only possible because of the earlier decision to represent urban China and India separate from rural China and India). Tier 1 includes the economies of the G7 and incorporates all those economies whose GDP per capita is at least 60% of the U.S., the

⁵ In Table 1, you will find all figures for China and India, urban and rural, separated from the tier in which they are placed – to emphasize that these are approximations at many levels. For instance, the World Bank, from which these figures are taken, deploys the definition of urban and rural as used by the countries listed – and these definitions are not comparable. China combines demographic and administrative metrics for its definition, including in its definition of urban “city districts with average population density of at least 1,500 persons per square kilometre, population of suburban-district units and township-level units meeting certain criteria, such as having contiguous built-up area, being the location of the local government, or being a street (*jiedao*) or having a resident committee ... plus residents living in villages or towns in outer urban and suburban areas that are directly connected to municipal infrastructure and that receive public services from urban municipalities.” India by contrast counts as urban those places with: “(1) 5,000 inhabitants or more; (2) at least 75 per cent of male working population engaged in non-agricultural pursuits; and (3) at least 400 inhabitants per square kilometre” (UN/DESA 2018).

world's largest economy. Tier 2 includes the BRICS countries (China and India represented by the statistical constructs "China-urban" and "India-urban"). Incorporating all the BRICS countries into one category created a very large group, and I have chosen to sub-divide it into two portions – Tier 2a incorporates all those economies whose GDP per capita is between 35% and 60% of the U.S. Tier 2b incorporates all those between 20% and 35%. Tier 3 includes the massive populations in the categories "China-rural and migrant" and "India-rural". An even larger category than Tier 2, it is also sub-divided in two. Tier 3a incorporates all economies whose GDP per capita is between 10% and 20% of the U.S. Tier 3b incorporates all those between 5% and 10% of the U.S. Finally Tier 4 incorporates those whose GDP per capita is 5% or less than that of the U.S.

Human Development Index (Inequality Adjusted)

One very important indicator is still missing from the dataset – an indicator showing not simply *how much* wealth exists within a given country, but *how well* that wealth is deployed in advancing human development. Elsewhere I have suggested that there are profound economic consequences over time to *not* focussing wealth creation on human development (Kellogg 2013). Since 1990, there has existed a new standard by which comparative social and economic development is measured. The *Human Development Report* published annually since 1990 by the United Nations Development Programme (UNDP) has supplanted all others as a guide by which to measure a country's relative standing in the world.

The UNDP views on development were expounded in detail in the first issue of their report in 1990. "People," they argue "are the real wealth of a nation. The basic objective of development is to create an enabling environment for people to enjoy long, healthy and creative lives" (UNDP 1990:9). The shorthand used in the report is that "human development is a process of enlarging people's choices" (1990:10). This is a very big step beyond simple GDP per capita figures. Put in philosophic terms, it means striving for an economic situation where the realm of necessity has been minimized opening up the possibility of maximizing the realm of freedom. There is, of course, a link between the deeply hierarchical world revealed in the simpler GDP per capita charts and the UNDP

approach. In the hierarchy of national economies outlined using any of the approaches touched on in this paper, it is abundantly clear that for those at the bottom of the hierarchy the realm of necessity impinges on everything. The scope for either individual or governmental choice is restricted. For those at the top of the hierarchy, the realm of freedom is somewhat (in fact, a great deal) enlarged. However – and this is the key point – there is nothing automatic about the use that is made by the rich states of the “realm of freedom” inherited from the development of the past. That realm of freedom has been used in some states (the United States, for example) to build up the warfare state. Others have used it to build up a welfare state.

So how can you quantify the “process of enlarging people’s choices”? To measure these choices, the UNDP developed a “Human Development Index” (HDI) including those critical areas for which figures are available (life expectancy, education, access to resources, etc.) and excluding those which, while important, are harder to quantify (political freedom and human rights being the two most important) (*The Economist* 1990). This makes it less comprehensive than a study which tried to incorporate these important variables, but quite relevant to a project of mapping hierarchy in the world economy.

Importantly, beginning in 2010, the UNDP refined its categories, introducing amongst others an “Inequality Adjusted” HDI (IHDI). “When there is inequality in the distribution of health, education and income, the HDI of an average person in a society is less than the aggregate HDI ... Countries with less human development tend to have greater inequality in more dimensions – and thus larger losses in human development” (UNDP 2010:7). So individual countries within each Tier are ranked, from highest IHDI to lowest.

Large-population Countries

Table 1 displays all this information, giving overall population figures for each tier given beside the sub-titles, as well as a list of large-population countries that exist within that tier. The category “Large Population Countries” includes those countries with a

population of at least 25 million. A focus on these 47 countries⁶ – accounting as they do for 85% of the world’s population – gives us a reasonable snapshot of the gradations within the world economy, and allows for a Table less unwieldy than would be the case had all 196 countries, large and small, been listed. It is worth reiterating that the four categories based on China’s and India’s urban and rural sectors are not “countries” per se but statistical constructs, created for the purpose of a more helpful picture of the gradations within the world economy. The table displays both GDP per capita at market exchange rates, and GDP per capita at PPP-adjusted rates, which clearly displays the difference between the two metrics, and the utility of the latter. For reference, the table provides aggregate figures for both countries at the end of the table.

⁶ There are in fact 53 such countries, but several of them had to be excluded, as information for one or more of the categories being evaluated was not available. The excluded countries are: Morocco (population 36 million), Venezuela (population 32 million); Saudi Arabia (population 33 million); Uzbekistan (population 32 million); Malaysia (population 32 million) and North Korea (population 25 million).

Table 1 – Four Tiers of the World Economy, 2017

Tier 1 (incorporating the G7)							
GDP per capita (PPP-adjusted) at least 60% of the U.S.							
Population, 1.06 billion – 14.1% of world total							
	Per Capita Gross Domestic Product (GDP)				Human Development Index (HDI)		Population
	Market Exchange	Relative to U.S.	PPP adjusted	Relative to U.S.	HDI Value	Inequality Adjusted	
Japan	\$38,400	64.6%	\$43,300	72.7%	.909	.876	127,000,000
Australia	\$53,800	90.4%	\$48,500	81.4%	.939	.861	25,000,000
Germany	\$44,500	74.7%	\$50,600	85.1%	.936	.861	83,000,000
Canada	\$45,000	75.6%	\$46,700	78.5%	.926	.852	37,000,000
United Kingdom	\$39,700	66.7%	\$43,300	72.7%	.922	.835	66,000,000
France	\$38,500	64.6%	\$42,900	72.0%	.901	.808	67,000,000
United States	\$59,500		\$59,500		.924	.797	326,000,000
Korea, Rep.	\$29,700	50.0%	\$38,300	64.4%	.903	.773	51,000,000
Italy	\$32,000	53.7%	\$39,400	66.2%	.880	.771	61,000,000
Spain	\$28,200	47.3%	\$38,000	63.8%	.891	.754	47,000,000
Tier 2 (incorporating the BRICS, excluding rural China and rural India)							
Tier 2a GDP per capita (PPP-adjusted), 35% to 60% of the U.S.							
Tier 2a population, 1.07 billion – 14.2% of world total							
	Per Capita Gross Domestic Product (GDP)				Human Development Index (HDI)		Population
	Market Exchange	Relative to U.S.	PPP adjusted	Relative to U.S.	HDI Value	Inequality Adjusted	
Poland	\$13,900	23.3%	\$29,100	48.9%	.865	.787	38,000,000
Russian Federation	\$10,700	18.0%	\$25,500	42.9%	.816	.738	144,000,000
Iran, Islamic Rep.	\$5,600	9.4%	\$20,800	35.0%	.798	.707	81,000,000
Argentina	\$14,400	24.2%	\$20,800	34.9%	.825	.707	44,000,000
Turkey	\$10,500	17.7%	\$26,500	44.5%	.791	.669	81,000,000
<i>China-urban</i>	<i>\$14,200</i>	<i>23.8%</i>	<i>\$27,000</i>	<i>45.4%</i>	<i>.752</i>	<i>.643</i>	<i>525,000,000</i>
Tier 2b (incorporating the BRICS, excluding rural China and rural India)							
Tier 2b GDP per capita (PPP-adjusted), 20% to 35% of the U.S.							
Tier 2b population, 1.57 billion – 2.9% of world total							
Thailand	\$6,600	11.1%	\$17,900	30.0%	.755	.636	69,000,000
Mexico	\$8,900	15.0%	\$18,300	30.7%	.774	.609	129,000,000
Peru	\$6,600	11.0%	\$13,400	22.6%	.750	.606	32,000,000
Algeria	\$4,100	6.8%	\$15,300	25.6%	.754	.598	41,000,000
Brazil	\$9,800	16.5%	\$15,500	26.0%	.759	.578	209,000,000
Colombia	\$6,400	1.8%	\$14,500	24.3%	.747	.571	49,000,000
Indonesia	\$3,800	6.5%	\$12,300	20.6%	.694	.563	264,000,000
Iraq	\$5,000	8.4%	\$16,900	28.4%	.685	.546	38,000,000
Egypt, Arab Rep.	\$2,400	4.1%	\$11,600	19.5%	.696	.493	98,000,000
South Africa	\$6,200	10.3%	\$13,500	22.7%	.699	.467	57,000,000
<i>India-urban</i>	<i>\$3,200</i>	<i>5.4%</i>	<i>\$11,700</i>	<i>19.6%</i>	<i>.640</i>	<i>.468</i>	<i>450,000,000</i>

Tier 3 (incorporating rural China and rural India)							
Tier 3a GDP per capita (PPP-adjusted), 10% to 20% of the U.S.							
Tier 3a population, 1.53 billion – 2.3% of world total							
	Per Capita				Human Development		Population
	Gross Domestic Product (GDP)				Index (HDI)		
	Market Exchange	Relative to U.S.	PPP adjusted	Relative to U.S.	HDI Value	Inequality Adjusted	
Ukraine	\$2,600	4.4%	\$8,700	14.6%	.751	.701	45,000,000
Philippines	\$3,000	5.0%	\$8,300	14.0%	.699	.574	105,000,000
Vietnam	\$2,300	3.9%	\$6,800	11.4%	.694	.574	96,000,000
Myanmar	\$1,300	2.1%	\$6,200	1.3%	.578	.466	53,000,000
Angola	\$4,100	6.9%	\$6,600	11.2%	.581	.393	30,000,000
China-rural and migrant	\$5,200	8.8%	\$10,000	16.8%	.752	.643	862,000,000
Tier 3b GDP per capita 5% to 10% of the U.S.							
Tier 3b population, 1.61 billion – 21.3% of world total							
Bangladesh	\$1,500	2.5%	\$3,900	6.5%	.608	.462	165,000,000
Ghana	\$2,000	3.4%	\$4,500	7.5%	.592	.420	29,000,000
Kenya	\$1,600	2.7%	\$3,300	5.5%	.590	.434	50,000,000
Nepal	\$800	1.4%	\$2,700	4.5%	.574	.427	29,000,000
Tanzania	\$900	1.6%	\$2,900	4.9%	.538	.404	57,000,000
Pakistan	\$1,500	2.6%	\$5,500	9.3%	.562	.387	197,000,000
Nigeria	\$2,000	3.3%	\$5,900	9.9%	.532	.347	191,000,000
Sudan	\$2,900	4.9%	\$4,900	8.2%	.502	.328	41,000,000
India-rural	\$1,300	2.2%	\$4,700	7.9%	.640	.468	889,000,000
Tier 4							
GDP per capita (PPP-adjusted) less than 5% of the U.S.							
Population, 545 million – 7.2% of world total							
	Per Capita				Human Development		Population
	Gross Domestic Product (GDP)				Index (HDI)		
	Market Exchange	Relative to U.S.	PPP adjusted	Relative to U.S.	HDI Value	Inequality Adjusted	
Madagascar	\$400	.8%	\$1,600	2.6%	.519	.385	26,000,000
Uganda	\$600	1.0%	\$1,900	3.1%	.516	.370	43,000,000
Afghanistan	\$600	.9%	\$2,000	3.3%	.498	.350	36,000,000
Ethiopia	\$800	1.3%	\$1,900	3.2%	.463	.331	105,000,000
Congo, Dem. Rep.	\$500	.8%	\$900	1.5%	.457	.319	81,000,000
Yemen, Rep.	\$1,100	1.9%	\$2,600	4.4%	.452	.308	28,000,000
Mozambique	\$400	.7%	\$1,200	2.1%	.437	.294	30,000,000
For Reference							
China and India, not disaggregated into urban and rural							
China (Tier 2b)	\$8,800	14.8%	\$16,800	28.2%	.752	.643	1,386,000,000
India (Tier 3a)	\$1,900	3.3%	\$7,100	11.9%	.640	.468	1,339,000,000

Created by the author, based on data in The World Bank (2019b, 2019c, 2019e, 2019f); UNDP (2018); China ((2018c, 2018b, 2018a); Press Trust of India (2016); and CIA (2016). GDP figures are given in Current US dollars and then PPP adjusted dollars, highlighting the extent by which PPP figures correct distortions in comparisons between economies. All figures for China and India, urban and rural, are preceded by a blank line to indicate the fact that the figures here are approximations of my own making. The HDI and IHDI figures for China and India categories are in italics – the urban categories preceded by a “greater-than” (>) symbol, the rural categories preceded by a “lesser-than” (<) symbol. This is to highlight the fact that HDI and IHDI figures are for China and India as a whole, and we do not have any easy way to differentiate these for urban and rural areas, except to indicate that for the former, they will be greater than the figures presented, for the latter they will be less. Finally, I have included a concluding section of the table “For Reference”, indicating the results for China and India without disaggregation into urban and rural.

The hierarchical nature of the world economy could not be more clearly revealed. Tier 1 has a total population of just 1.06 billion (14.1% of world total) – comprising the 7 members of the G7, as well as Australia, South Korea and Spain. Measured by just GDP per capita, the United States would lead this tier. However, in terms of its Inequality-Adjusted Human Development Index, it falls below every member of the G7 except for Italy. Not visible here are small population countries such as Iceland, Norway, Switzerland, Finland, Sweden, Denmark, Netherlands and Ireland – all of which would appear towards the top of a complete list, all of them with an IHDI greater than Canada's.

Tier 2 incorporates all the countries which comprise the BRICS (Brazil, Russia, India, China and South Africa), the very urbanized Brazil (86.1% living in urban areas) in the middle of the list, and the less urbanized South Africa (66% living in urban areas) (The World Bank 2019f) toward the bottom. Included here are only the *urban* populations of India and China. The result is an enormous category of more than 2.6 billion people. To help put this category into focus, I have sub-divided it. Tier 2a focuses on the “first billion” in the category – Poland and the Russian Federation at the top of the category, ahead of the Islamic Republic of Iran, Argentina and Turkey. It is in this sub-category that the more than half a billion members of the “China-urban” economy exist, with a GDP per capita 45% that of the US – not in the same category as the wealthiest economies inhabiting Tier 1 of the world economy, but very much firmly ensconced in the next tier down. This is an extraordinary change from just a generation ago, when no list would have put any part of China so high up the world's hierarchy of nations. Tier 2b with more than 1.5 billion people, begins with Thailand and Mexico, and ends with the Arab Republic of Egypt and South Africa. It is in this sub-category that the almost half a billion members of the “India-urban” economy exist, with a GDP per capita 20% that of the U.S.

There is a considerable differentiation in economic conditions within those at the top of Tier 1 (Japan, Australia, Germany and Canada for instance) and those at the bottom of Tier 2a (Argentina and Turkey) let alone those at the bottom of Tier 2b (Egypt and South Africa). This differentiation is, however, only a small part of the overall story. We have to this point categorized only around half of the world's populations. The other half reside in economies whose GDPs per capita are less than 20% that of the U.S.

Tier 3 groups together those economies whose GDPs per capita are between 5% and 20% of the U.S. – a truly enormous slice of humanity – more than 3 billion people, 41% of the world’s population – which I have chosen to sub-divide in two. One major European country, Ukraine, is present among the 1.53 billion people in Tier 3a – those with GDPs per capita between 10% and 20% that of the U.S. – testament to the severity of the crisis precipitated in that country by the wars it has been experiencing this century. All the rest are from Asia and Africa, including the more than 800 million in rural China (including internal migrants). All of the countries listed here in Tier 3b – those with GDPs per capita between 5% to 10% of the U.S. – are in Africa and Asia, including the more than 800 million in rural India. Not visible, because their populations are less than 25 million, are several very poor countries in the Middle East and Latin America – Palestine and Honduras for instance.

Finally, there are the just over half a billion people living in the poorest economies of the world – those with GDPs per capita less than 5% that of the U.S. Again – all the countries listed in Table 1, which for ease of presentation is restricted to countries with populations above 25 million, are in Africa and Asia. On the complete list, you would of course find Haiti, for many decades one of the poorest countries in the world. Not only are these countries poor, many are wracked by very high levels of internal violence. Afghanistan and Yemen have been weighed down by long wars of intervention. The Democratic Republic of Congo, whose desperately poor people supply our smartphones with the cobalt, without which these electronic staples of the 21st century could not function (Kara 2018), was the centre point of the Great African War at the turn of the century.

Revisiting Non-equivalent Exchange⁷

This paper’s core assumptions are: a) that the world economy is an extremely hierarchical place; and b) that this hierarchy is the indispensable foundation to the non-equivalent exchange which is the bedrock of international trade and finance relationships. Each of these two points is intrinsically related to the other. The hierarchical World System,

⁷ A version of the arguments for this section are forthcoming in Kellogg (2019)

sketched in the previous section, is a place of extreme inequalities, inequalities that are in part a passive reflection of past injustices, but are also an actively and continuously reconstructed inequality rooted in powerful systems of non-equivalent exchange – systems of non-equivalent exchange which make movement upwards in the pyramid of the world system difficult indeed – and tend to entrench privilege at the top of the world economic pyramid.

Why use the somewhat awkward term “non-equivalent” in place of the more familiar “unequal”? The latter can be understood in two ways – as a technical term describing differences between phenomena, or as a normative term passing judgement on the existence of those differences. The structures of the world economy might very well be unjust – and might well merit the deployment of normative adjectives. But let’s wait on that until we have all the facts in hand. The technical, non-normative term, non-equivalent exchange was the translation choice of Brian Pearce when he made available the insightful analyses of Russian political economist Evgeny Preobrazhensky (1965), and I have adapted it to this analysis.

Non-Equivalence and the Labour Value Discount

Non-equivalence within the hierarchy of the world economy, has its most visible impact in the creation of a labour value discount for investors from the top tier of the world economy, who invest in the bottom tiers. The Conference Board International Labor Comparisons (ILC) has provided detailed comparisons of compensation costs for employees in manufacturing (understood as combining “direct pay, social insurance expenditures, and labor-related taxes”) for several key countries in the world economy. The aim of Table 2 is to demonstrate the relationship between that hierarchy and hourly compensation for labour in the manufacturing process for countries listed in Table 1, and for whom figures have been provided by the ILC.

Table 2 – Potential Labour Value Discount: U.S., Canada and Selected Lower Tier Economies

Tier 1	Hourly compensation, manufacturing		Hourly compensation (Market Exchange) ...	
	Market-Exchange	PPP-adjusted	... Relative to U.S.	... Relative to Canada
Germany	\$43.18	\$49.96		
France	\$37.72	\$41.79		
Italy	\$32.49	\$39.44		
United States	\$39.03	\$39.03		
Spain	\$23.44	\$31.65		
Australia	\$38.19	\$31.21		
Japan	\$26.46	\$31.17		
Canada	\$30.08	\$30.86		
Korea, Rep.	\$22.98	\$29.85		
United Kingdom	\$28.41	\$26.66		
Tier 2a	Market-Exchange	PPP-adjusted	... Relative to U.S.	... Relative to Canada
Argentina	\$16.77	\$24.92	43.0%	55.8%
Poland	\$8.53	\$18.06	21.9%	28.4%
Turkey	\$6.09	\$13.77	15.6%	20.2%
Tier 2b				
Brazil	\$7.98	\$14.28	20.4%	26.5%
China	\$4.11	\$7.18	10.5%	13.7%
Mexico	\$3.91	\$7.26	10.0%	13.0%
Tier 3a				
India	\$1.69	\$6.08	4.3%	5.6%
Philippines	\$2.06	\$5.24	5.3%	6.8%

Created by the author, based on data in Table 1 and ILC (2018). Figures for all countries are from 2015 except for India (2014) and China (2013). Note – unlike Table 1, this Table makes no attempt to differentiate rural and urban in India and China. India (rural and urban) then exists in Tier 3a, China (rural and urban) in Tier 2b.

The PPP-adjusted hourly compensation cost figures provide a window into the living standards of workers in each country. For Tier 1 countries, that ranges from a low of \$26.66 (in the United Kingdom) to a high of \$49.96 (in Germany). In Tier 2a the range is \$13.77 (Turkey) to \$24.92 (Argentina). In Tier 2b the range is from \$7.18 (China) to \$14.28 (Brazil). In Tier 3a PPP-adjusted hourly compensation in the Philippines, is \$5.24. For India it is \$6.08. Visible here, is the vast differences in living standards between different tiers of the world economy.

From the standpoint of international trade and investment however, the competitive advantage in wages is best captured by the percentage difference in hourly compensation, measured at Market Exchange Rates – the country in which they are investing compared to

hourly compensation costs at home. The last two columns capture these figures for the two Global North countries which are members of USMCA – Canada and the U.S.

Until the 20th century, it was widely accepted that labour should be seen as the source of value in the production of goods and services. For Karl Marx, this was more precisely defined as *labour time* being the source of value. The exploitation of labour in a capitalist system is hidden by the fact that the working day contains more labour time than the labour time required for the production of the labourer. The surplus labour time provided by the labourer – that labour time above and beyond what is necessary for the production and reproduction of the labourer – is the surplus value which is the source of profit in a capitalist system. But there is a difference between the *value* of labour power and its *price* (expressed in the form of private wages, the social wage, benefits, etc.). “The value of labour power ... determines the value of labour, or, expressed in money, its necessary price” (Marx 1996:539). In other words – factoring out momentary changes in supply and demand – wages are ultimately anchored in the value of labour power – the socially necessary average labour time required to produce the labourer.

What Table 2 reveals is a world where – if they can leap outside their national economy – capitalists can acquire labour power at a price far lower than were they to purchase that labour power at home. In theory, for instance, an investment in the Philippines or India can enable the Canadian manufacturer to access labour power at around 5% its price in Canada – a phenomenal 95% discount. For Mexico, it is a 90% discount for the U.S. investor, an only slightly less 87% discount for the Canadian.

Now of course there are many other factors. First that labour power has to be available with the requisite level of skill. Second, there has to be available the infrastructure and capital investment requisite to properly employ that labour. Third, the savings in labour power will be offset by increased costs imposed by distance, tariffs and other factors associated with off-shoring. However, the possibilities of “super-exploitation” visible here are straightforward.

The rate of profit for Marx was represented by the formula $s/c+v$ – surplus value divided by the value of capital investment (c) and the value of labour power (v) (Marx 1998:45–52). Within a national economy, those sums will be relatively predictable.

Jumping outside the national economy and capturing the value of labour power (v) at a discount price, has the effect of disrupting this predictability, if done successfully, allowing the investor to substantially lower the price paid for the “ v ” portion of the denominator and to that extent, increasing the rate of profit. This is the rational kernel behind the long drive towards outsourcing we have seen in the era of neoliberal globalization, and the first of the effects of non-equivalent exchange on the structure of trade and investment in our epoch.

Non-equivalence and the Commodity Circulation Discount

The benefits from the labour-value discount, described above, accrue solely to the capitalist investor. However, there is another discount that is shared among all classes in the top tier economies – what I am labelling here the “Commodity Circulation Discount.” It manifests itself when we consider trading relations between the different tiers of the world economy. This paper’s focus on the discrepancy between market-exchange rate measurements of national economies, and their PPP-measurement was inspired by Ranjit Sau, frequent contributor to India’s *Economic and Political Weekly*. He argued that in the lower tiers of the world economy, the difference between the two revealed unequal (non-equivalent) exchange (1993). Table 3 uses Sau’s method applied to the same dataset used in Table 1 (without any attempt, however to disaggregate China and India into urban and rural components), and its results are worth careful examination.

Table 3 – Potential Discount, Circulation of Commodities: U.S., Canada and Selected Lower Tier Economies

Tier 1	GDP per capita		Relative Valuation ...	
	Market-exchange	PPP-adjusted	... If U.S. Dollar is the standard	... If Canadian Dollar is the standard
United States	\$59,500	\$59,500		
Germany	\$44,500	\$50,600		
Australia	\$53,800	\$48,500		
Canada	\$45,000	\$46,700		
Japan	\$38,400	\$43,300		
United Kingdom	\$39,700	\$43,300		
France	\$38,500	\$42,900		
Italy	\$32,000	\$39,400		
Korea, Rep.	\$29,700	\$38,300		
Spain	\$28,200	\$38,000		
Tier 2a	Market-exchange	PPP-adjusted	... If U.S. Dollar is the standard	... If Canadian Dollar is the standard
Poland	\$13,900	\$29,100	.476	.494
Turkey	\$10,500	\$26,500	.398	.412
Russian Federation	\$10,700	\$25,500	.421	.436
Iran, Islamic Rep.	\$5,600	\$20,800	.268	.278
Argentina	\$14,400	\$20,800	.693	.718
Tier 2b				
Mexico	\$8,900	\$18,300	.488	.506
Thailand	\$6,600	\$17,900	.369	.383
Iraq	\$5,000	\$16,900	.297	.308
China	\$8,800	\$16,800	.525	.545
Brazil	\$9,800	\$15,500	.634	.658
Algeria	\$4,100	\$15,300	.266	.276
Colombia	\$6,400	\$14,500	.443	.459
South Africa	\$6,200	\$13,500	.456	.473
Peru	\$6,600	\$13,400	.489	.507
Indonesia	\$3,800	\$12,300	.313	.325
Egypt, Arab Rep.	\$2,400	\$11,600	.208	.216
Tier 3a				
Ukraine	\$2,600	\$8,700	.305	.316
Philippines	\$3,000	\$8,300	.358	.372
India	\$1,900	\$7,100	.275	.285
Vietnam	\$2,300	\$6,800	.346	.359
Angola	\$4,100	\$6,600	.617	.640
Myanmar	\$1,300	\$6,200	.204	.212
Tier 3b				
Nigeria	\$2,000	\$5,900	.335	.348
Pakistan	\$1,500	\$5,500	.280	.290
Sudan	\$2,900	\$4,900	.591	.613
Ghana	\$2,000	\$4,500	.455	.472
Bangladesh	\$1,500	\$3,900	.392	.407
Kenya	\$1,600	\$3,300	.485	.503
Tanzania	\$900	\$2,900	.318	.330
Nepal	\$800	\$2,700	.315	.327
Tier 4				
Yemen, Rep.	\$1,100	\$2,600	.426	.441
Afghanistan	\$600	\$2,000	.279	.289
Ethiopia	\$800	\$1,900	.404	.419
Uganda	\$600	\$1,900	.325	.337
Madagascar	\$400	\$1,600	.289	.300
Mozambique	\$400	\$1,200	.342	.354
Congo, Dem. Rep.	\$500	\$900	.522	.541

Created by the author, based on data in The World Bank (2019b, 2019c)

The last columns in the table, “Relative Valuation”, are generated by dividing GDP per capita at market exchange rate by GDP per capita, PPP-adjusted. I have provided one column, using the US Dollar as the standard, and a second using the Canadian dollar as the standard. When Sau created his version of this table, the relative valuation of India’s currency was .261. He inferred from this “that India’s presently exported merchandise of 20 billion dollar [sic] is otherwise worth about four times as much” (Sau 1993:1927). This table shows the relative valuation of India’s currency has changed hardly at all – sitting at .275, implying that exports from India to the U.S. are still undervalued by almost three-quarters, slightly less for exports to Canada. For Mexico, the undervaluation (discount) is closer to fifty percent. This might be somewhat overstating the case. These figures would only track relative valuations this precisely if all inputs into the exported goods were paid for in local currency and were sold abroad in US or Canadian dollars. In a globalized world, there are many inputs into the manufacture of goods for export which are paid for in US dollars. Notwithstanding these qualifications, it does demonstrate the maximum potential for non-equivalent exchange in a world of systemically strong and systemically weak national currencies. The fact that this maximum is not always realized, does not mean that it does not exist as a huge potential source of non-equivalent exchange.

Importantly, this approach takes the focus off the flow of cheap *goods* from the Global South to the Global North, but rather puts it on the flow of *value* from the Global South to the Global North – a flow of value made inevitable by the massive non-equivalence of the currencies which meet for exchange purposes on the world market.

In a very different context, the Polish-Canadian economist Stanisław Swianiewicz – sole survivor of the Katyn massacre – described the relationship of 1930’s era Soviet cities to the countryside as mediated by institutions which acted as a “pump” to “draw agricultural products from the country to meet the needs of the Government” (Swianiewicz 1965:87). The mechanism here is different, but the effect is the same. Non-equivalent exchange is structured into a situation when the relative valuation of a national currency is significantly lower than the country to which it is selling goods and services, creating a “pump” drawing value from that country to “meet the needs of” in this case the Global North. The existence of Walmart, for instance, is premised on this structure of non-

equivalent exchange. The implications of this for Canada's relationship to the countries in which Canadian miners operate, are obvious.

Turn again to *Capital*, this time Volume I (Marx 1996:157–166).⁸ Using “M” to represent Money, “C” to represents Commodities and “>M” to represent “M+ΔM”⁹ – the increase in the quantity of money which is the object of putting money into circulation in the economy – Marx derived the formula “M – C - >M” – the “general formula of capital ... within the sphere of circulation”. Marx's great insight is that this formula also holds in the sphere of production. The purchase of one special commodity – labour power – makes possible an increase in value, and therefore a move from M to >M. The value of labour power is determined by the amount of labour time taken to produce it, but the purchaser of this special commodity is at liberty to employ it for longer than that amount of labour time – the direct source of surplus value, and ultimately profits. When the “general formula of capital” crosses the borders of a hierarchical and unequal world economy, an extra impetus is given to the move from M to >M. If the “M” in the country of production is represented by a weak currency, and the value embodied in the commodity is priced in that currency, then when it arrives in the hands of a buyer in an economy with a strong currency, that buyer can acquire the value embodied in the commodity at a discount.

Call this the Walmart effect. The value embedded in the commodities on the shelves of this, the world's largest corporation, are produced, typically, in China. We see from Table 1 that the potential Labour Value discount – a discount which from the standpoint of investment benefits solely the capitalist investor – is on the order of 90%. But the potential total commodity discount for all aspects of the commodity is in the realm of 50%. This will benefit the capitalist when it is a commodity used in the production process (coltan, cobalt,

⁸ This paper has on occasion used references from Karl Marx. His insights into exploitation and the dynamics of capitalism are important. But his writings are not always a model. In the very section being quoted here he writes: “The capitalist knows that all commodities, however, scurvy they may look, or however badly they may smell, are in faith and in truth money, inwardly circumcised Jews” (Marx 1996:165). From any standpoint, this kind of imagery is offensive and unacceptable.

⁹ In fact, Marx used the symbol M' (“M prime”). The mathematical prefix “>” which indicates “greater than” is exact, and easier to represent typographically.

etc.). The implications of this for Canada's relationship to the countries in which Canadian miners operate, are obvious. It will benefit the worker when it is embodied in a commodity used in consumption – TVs, smart phones, washing machines, clothing, shoes and every one of the millions of such commodities which flood our retail outlets.

Revisiting Keynes and the International Clearing Union

If what I have sketched out here is true, it shows the irrational nature of calls to boycott goods made in Mexico, or any other lower-tier economy (OPSEU 2019). Such calls do nothing to address the systemic nature of trade and investment inequalities in the world, trade and investment inequalities embedded in the hierarchical nature of the world system, and the non-equivalent exchange which pumps value up the hierarchy through wage differentials, and structured inequalities in currency values.

Addressing this systemically structured inequity in the world system will take more creativity than calls for boycott. That structured inequality cannot be easily addressed when national currencies, measured at market-exchange rates with the U.S. dollar as a standard, confront each other on the world market. Regional currencies are one way that this problem can be mitigated – and in Europe the creation of the Euro has in fact created a currency which confronts the US dollar on the world stage more or less as an equal. The Alba countries have envisaged a similar regional currency – the sucre – as the currency of choice for inter-regional trade and investment (Hart-Landsberg 2010). It has had only limited use within the region however – and has little chance of replicating the success of the Euro. There are no upper tier economies in Latin America, and the sucre will simply transplant the problem of under-valued currencies from the national to the regional level.

One area we might revisit is one of the lost ideas of John Maynard Keynes, an idea like the treatment of non-equivalent exchange sketched above, rooted in untangling the problems of unequal currencies. Here I rely on the research of University of Manitoba's Radhika Desai.¹⁰ Her treatment of Bretton Woods foregrounds the prescience of John Maynard Keynes, and his insights into the working of the world economy. "Keynes" she

¹⁰ This section adapted from Kellogg (2015)

argues “recognized that, in contrast to the nineteenth century’s imperial geopolitical economy, the twentieth century’s geopolitical economy comprised national capitalisms”. Therefore, he advocated, “creating structures of international economic governance that permitted national governments a great deal of autonomy ... With this in mind he proposed an International Clearing Union (ICU) to regulate and facilitate international trade and payments” (Desai 2013:88). Keynes desire for internationalism, however, was up against another imperious necessity – desire of the US to use its post-war pre-eminence to supplant Britain as the world’s dominant power and imperialist hegemon. The US was laying the foundations for empire through financialization, with a central role for the US dollar. The US strategy was ... to make “the dollar the world’s currency and New York the world’s financial center” (Desai 2013:21).

The instabilities built into such a project were clear to Keynes. “... [A] national economy, no matter how large, without colonial surpluses to export, was bound to either fail to provide international liquidity or do so only in unstable and financially dangerous ways. That was why, at Bretton Woods, Keynes called for a world reserve currency multilaterally managed by nation-states, which he called ‘bancor’” (Desai 2013:63). Both Keynes and his US rivals placed state economic action at the center of their plans. For Keynes, a multilaterally governed world currency would require “multilateral forms of international economic and financial governance” between states (Desai 2013:65). The US rejection of this world currency, and its insistence on the US dollar filling that role, elevated one of its key para-statal institution, the US Federal Reserve, into the center of world politics.

There were benefits to this arrangement – almost irresistible benefits. With the US dollar increasingly replacing gold as the world’s store of value, there was a permanent demand for US-dollar denominated paper of various sorts – a demand not constrained, for a time, by domestic current account or trade deficits. But such an arrangement only works when the domestic economy backing the national currency dressed up as world money, is an overwhelmingly dominant domestic economy, with no serious rivals in the world system. The problem for the US was that at the birth of the US dollar as world money, its economy was at the apogee of its position relative to other contending states. The decades

since have seen the recovery and rise of Japan; the recovery and partial unification of Europe; and the spectacular development of first the tiger economies (South Korea, Singapore, Taiwan and Hong Kong) overshadowed now by the game-changing emergence of China. Increasingly, as its relative position slowly sank in the world economy, the US would find itself confronted by the Triffin dilemma (Triffin 1960). A national economy can create liquidity and sustain its currency through capital exports. But the US dollar was not just to be simply coin of the realm – it was to be coin of the world. “Running balance of payments deficits was the only way to provide the world with liquidity, but it was self-defeating, as deficits undermined the dollar’s value” (Desai 2013:22). This was hidden in the first post-war years. But in 1958 when other currencies became convertible, a “dollar glut” suddenly became visible, so that, “after 1958, gold flowed out of the United States” (Desai 2013:94–95). This was to recur repeatedly until the early 1970s when Nixon finally broke the link between the US dollar and gold, only to reappear at the end of the 1970s when massive inflation forced the hand of the federal reserve to systematically raise interest rates (the famous “Volcker shock”). The Triffin dilemma is also the direct background to the Great Recession of 2008-2009 in our era.

Conclusion

The international trading system is broken, and the two directions on offer – a hard turn to protectionism versus a doubling down on 1990s-era globalization and free trade – present us with false solutions. We need to take a hard look at the structured inequalities of the world economy, unequal wages, unequal national currencies, and hence non-equivalent exchange in international trade. Without systemic change to this inequitable structure, we will be unable to come up with a solution to the international trading system’s clear dysfunctionality. We need to decentre the US dollar from its role as world money, and take seriously the approach of Keynes for the creation of a common “trading” currency which might, to some extent, “level the playing field” allowing for something approaching fair trade. Without systemic change to this inequitable structure, we will be unable to come up with a solution to the international trading system’s clear dysfunctionality.

Trump and his racist new right have no trouble ignoring serious political economy and suggesting the facile (but extremely dangerous) idea that an “America First” strategy can solve U.S. economic, trade and investment problems. Were the policies which flow from this approach to be fully implemented, at best they would propel the world economy to the kind of slowdown experienced in the early 1930s. Only a little knowledge of the 1930s is required to imagine what their worst outcomes could be like. But developing a progressive trade and investment alternative requires a sharp rethinking of assumptions carried over from an earlier era. To *not* engage in this deep – and difficult – rethinking of political economy is to risk jumping into political strategies that are at best futile, at worst, dangerous.

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