Surplus Labour in Asia and One Possible Future Path of Global Capitalism

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1. One thing that we learnt from Keynes is that ‘future is fundamentally uncertain’. Global capitalism is going through very uncertain times that we may need to speculate to get greater clarity about the future (or at least to rule out certain possibilities) at the cost of being inaccurate or wrong since we do not know the several contingencies that may arise in the future. However, if we have to make some statements about the future, we have to partly learn from the past.

2. We would like to focus on three things that we know from the past.

- As Braudel and later Arrighi argued, every bout of financialization seems to have been followed by a change in the hegemonic center of global capitalism. Whether it was the Italian city-states ceding their economic hegemony to the Dutch, and the Dutch ceding it to the English, and the English to the Americans, this has been a recurring pattern. This bout of financialization too may lead to a similar change. There is an anomaly this time round, which we need to keep in mind – the prevalent hegemon has tended to absorb huge amounts of capital from competing centers – whether it was Japan earlier, or China today.

- Twentieth century capitalism exhibited a pattern of medium term switches between regimes that addressed inadequate aggregate demand and regimes that addressed inflationary/profitability crises. Great Depression led to a new regime that then led to the stagflation of the 1970s, and then the response to the 1970s produced the crisis of 2008. If this pattern continues in global capitalism, then we might see a regime that responds to the current under-consumptionist crisis in the global economy. This might indicate that at some point, after years of protracted struggle, we will see the institution of a new regime that addresses aggregate demand questions more directly.

- For a sustained durability of a regime that emphasizes aggregate demand, there is also need to have reasonably large amounts of reserve army so that the corresponding inflationary crisis does not happen anytime soon (Example of Japanese wage-push inflation in the early 1970s once they ran out of their reserves). Even if there are impressive productivity gains that reduce the need for labour reserves, this productivity growth could slow down as the Golden Age showed in the 1960s. Since international migration has not shown any perceptible increase in the past 50 years or so (it was around 2.5% of the world population in 1960, and it is just over 3%), there is need to focus more on the within-country possibilities of migration and reserves of labour, or intra-regional reserves and
migration. In particular, if we go with Marx’s distinction of different parts of the reserve army, there are three varieties – the floating segment, latent, and the stagnant. If we take out the stagnant part as a component that is weakly integrated into capitalist production, and the floating component as one that is already integrated into the workforce, it is the latent segment (workforce that is still located in agricultural workforce) that is of crucial importance here. Arthur Lewis later picked up on this idea of latent reserve army and developed his model of economic development with unlimited supplies of labour.

3. Indeed, from the past if we may speculate that there may indeed be a change in the regime of capitalism, and further, a change in the center of accumulation in capitalism, we need to look at possible candidates for the new centers. As the whole world has been speculating that the East Asian, Southeast Asian and South Asian regions may be the ones from where the new hegemonic power may arise from, we can examine the trends. (In the global GDP, manufacturing share has fallen from about 40% in the 1970s to about 30%. Agriculture has fallen from about 10% to about 5%.) The share of Asia has risen from 15% to about 30% during this period at the expense of Europe and North America. The other regions have remained more or less stagnant in their shares. This new Asian bloc may be led by the rise of China, and other fast growing countries. If we assume that this is what might happen, what might be the durability of such a regime of capitalism (and I am not taking into account the whole ecological contradiction in this speculative exercise)? Here the question of the latent reserve army in these regions becomes important.

4. What is the state of latent reserve army in East Asia, Southeast Asia and South Asia? Estimating such a thing as surplus labour is fraught with many risks such as keeping agricultural technology constant (when it need not be) and so forth. However, if we do indulge in this exercise, we get some interesting results. Sugihara’s arguments about the East Asian path are relevant here. Although East Asia started on an industrious revolution path, after WWII, they combined the industrial path of the West i.e. the capital intensive technologies were brought in along with the disciplined and cheap labour from their countries and created a relatively labour intensive and equal path of development. East Asian region has run out of its surplus labour. In fact there is a dependence on migrants in Japan and tiger economies. (There is net in-migration into these countries.)

5. What about China, Indonesia and South Asia? What is the nature of the production structure in these economies? China seems to have followed the revised East Asian path of combining the Western and East Asian paths as Sugihara theorized. There is a debate about the extent of surplus labour in the Chinese economy. The estimates of Cai Fang at CASS suggest that there is very little surplus left in the Chinese economy or it has already run out. Cai Fang came out with his own estimates of surplus labour population, and its absorption rates both in terms of employment absorption and rise of wages in the relevant segments. His conclusion is that if we take out workers who are above 40 in rural areas, China has almost exhausted its surplus reserves or reached the Lewisian turning point.
6. In the Indonesian economy, according to recent estimates by Susumu Hondai and others, the surplus labour is around 15 millions. It is a miniscule amount that could get absorbed in very quick time. Indonesian workers are also being absorbed in big numbers in Malaysia, Singapore and other economies in the Southeast Asian region. What is the method of estimation? It is based on the following idea: if the labour share in crop-wise estimations of surplus labour is higher that the production elasticity of labour as estimated in the production function for a certain crop, then there is surplus labour. Based on this difference, surplus labour can be estimated.

7. Regarding the Indian economy, there is very little literature on this topic. We tried to estimate the surplus labour or the latent reserve army in the Indian economy using the Hondai method. Our results suggest that there are around 150 million workers who could be considered surplus in Indian agriculture given this method with all its problematic assumptions. While the number may appear high, the rates of absorption have also increased in India from agriculture to non-agricultural sectors. While it is a movement of labour from the informal sector to informal sector, the absorption patterns are interesting –

i) The latest census preliminary findings suggest that the rural-urban migration patterns have become quite significant in the Indian economy, with the recorded increase in the urban population, exceeding that of the rural population in the last decade. A significant part of the 91 million increase in the urban population comes from migrants who are pushed out of agriculture.

ii) Clearly, absorption is into the informal sector. However, the informal sector (rural and urban combined) also contributes to almost 50% of the total GDP according to some estimates.

iii) Real wages in the informal sector are growing very slowly or have stagnated, while in the IT sector they are rising at about 10% per annum. Clearly the labour market is segmented.

How do we understand the workers who are located in the informal non-agricultural sector? Are they part of the latent reserve army or should they be considered as employed? India is clearly following two paths that seem divergent. First, it is following a capital intensive path in the formal sector. In the informal sector, in an undirected way, it is following a labour absorbing path.

Should the workers who are being absorbed in the informal sector be considered part of the stagnant reserve army in terms of their employability in the formal sector? Depending on what position we take, our estimates of surplus labour may vary in the Indian economy. This sort of a segmentation in the labour force structure will intensify if the current capital-intensive model continues to be deployed. However, once the agricultural surplus labour dries up, would there be inflationary pressures even within the informal labour market?
8. From all indications, the other large South Asian economies also possess surplus labour – Bangladesh and Pakistan in particular. We do not have estimates of these numbers so far.

9. Even assuming that there will be higher intra-regional migration flows in this part of Asia, the total surplus labour is not very significant and may be absorbed in a decade or two.

10. Even if there is a change in the hegemonic center of accumulation along with a regime change in capitalism, the durability of the new regime would be constrained by this factor. The new regime may face inflationary pressures in a decade or two and force another regime change. The conclusion is that the future regime of capitalism that we are speculating about (even if we keep the ecological issue aside) may be much more unstable than the ones that we have witnessed in the 20th century. The 30-40 year duration of the previous regimes may be a thing of the past. Moreover, the Chinese and Indian growth strategies have resulted in an explosion of economic inequalities in their respective countries. Probably, this is the time to go beyond the different regimes of capitalism and ask deeper questions about alternatives to capitalism itself.