

An Essay on Globalization¹

By Frank W. Elwell

Immanuel Wallerstein argues that the recent globalization arguments of social scientists usually miss the fact that capitalism has depended upon a world-wide division of labor for production and marketing goods from the beginning. This may be so, but the increase in trade in the latter half of the 20th century has still been remarkable. Table 1 illustrates the growth of American trade as a percentage of the American Gross Domestic Product (GDP) for selected years from 1960 to 2000. As illustrated, the dollar value of imports and exports as a percentage of GDP climbed from 9 percent in 1960 to 26 percent in 2000. Part of this increase, particularly the rise in the dollar value of imports, is undoubtedly the result of the gradual erosion of American hegemony. Increasingly, American companies had to compete for their own domestic markets. Initially in the 1970s and 80s, the old-line oligopolies had trouble holding on to their market shares. In the 1950s and 60s Japan and Western European capitalists were building new plants using the latest in technology and disciplined/organized work forces, while American corporations were taking huge profits, and enlarging their bureaucracies. European and Japanese markets were often highly competitive internally, the best then receiving government subsidies to conquer new markets abroad. Now, China, Korea and other Pacific Rim nations are competing as well. American corporations were in choreographed competition with each other from the end of WWII to the early 1980s, most being satisfied to maintain their market share. Now they must compete fiercely with the enterprises of other nations.

¹ An excerpt from *Macrosociology: Four Modern Theorists*. 2006. Paradigm Publishers, pp. 95-99.

Table 1: Trade as a percent of GDP (actual dollars)

| | Exports | Imports | Total | GDP | Percent |
|------|----------------|----------------|--------------|------------|----------------|
| 1960 | 25,940 | 22,432 | 48,372 | 526.4 | 9% |
| 1970 | 56,640 | 54,386 | 111,026 | 1,038 | 11% |
| 1980 | 271,834 | 291,241 | 563,075 | 2,789 | 20% |
| 1990 | 535,233 | 616,093 | 1,151,326 | 5,803 | 20% |
| 2000 | 1,070,054 | 1,445,438 | 2,515,492 | 9,817 | 26% |

Sources: GDP: Economic History Service <http://eh.net/hmit/gdp/> Trade: U.S. Census Bureau, Foreign Trade Division

Wallerstein's prediction of the decline and fall of capitalism relies heavily on declining profits as a result of increasing labor costs, the weakening of state power on their behalf, and increasing internalization of environmental costs associated with production. To this point, however, U.S. corporations appear to be countering these increased costs through several strategies. Like their world competitors, American corporations have used robots, automation and computer and communications technologies to downsize their workforce, turned more frequently to contingency workers, outsourcing manufacturing jobs to periphery and semiperiphery areas, and tightened the coordination, manipulation and the wages of the permanent workforce that has remained. Table 2 shows that this strategy has been successful in maintaining and even increasing profit margins. The table displays an average of Total U.S. Corporate Profits (after taxes) for each decade since World War II. As shown, total U.S. corporate profits, which include all domestic and foreign affiliates of U.S. corporations, averaged 24.9 billion in the 1950s, climbing rapidly to an average of over 372 billion in the 1990s. In fact, average corporate profits in the 1990s were 2 times the average profits of the 1980s, 3 times the average of the 1970s, and 8 times the average of the 1960s.

Table 2: Average Annual U.S. Corporate Profits by Decade: 1950 to 2000

| | 50-59 | 60-69 | 70-79 | 80-89 | 90-99 |
|--|--------------|--------------|--------------|--------------|--------------|
| Average Corporate Profits (millions) | 24,948 | 42,384 | 120,002 | 157,937 | 372,242 |
| % From Foreign Investment ¹ | 9 | 11 | 16 | 24 | 23 |

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Also displayed in this table is the average annual percentage of total corporate profits generated overseas. As can be seen, this percentage averages 9 percent through the 1950s and 11 percent in the 60s. In the 1970s this percentage begins to climb rapidly, reaching about 23 percent through the 80s and 90s. This is not a measure of trade, rather it represents the percentage of total profit made by American corporations (and individuals) in investments overseas. For example, in 1998 total corporate profits were \$469.9 billion. Of this total, 102.9 billion, or 22 percent of the total U.S. corporate profit for that year, was taken from foreign investments, more than any single domestic industry.

Table 3 displays the after-tax domestic profit for U.S. corporations averaged by decade. It also shows the percentage contribution for selected industries. As can be seen, total domestic profit by U.S. corporations averaged \$22.7 billion annually in the 1950s. In that decade "Manufacturing" accounted for 53 percent of all domestic profits; "Finance" accounted for 16 percent, "Services" for only about 2 percent. The slide in the percentage of profits taken from domestic manufacturing begins to take place in the 70s and 80s, and becomes quite pronounced in the 90s falling to just 26 percent of the domestic industry total. Does this mean that manufacturing is no longer profitable in the U.S.? No, total domestic profits for manufacturing averaged about \$50 billion a year in the U.S. in the 1980s, but more than \$82 billion a year in the 1990s, a growth of some 64 percent. Profits in U.S. manufacturing are strong and still growing; manufacturing still is the most profitable of all domestic industries. However, the profits of other industries are presently growing at a much faster rate than that of manufacturing.

Table 3: Profits of U.S. Industry Averaged by Decade

| | 50-59 | 60-69 | 70-79 | 80-89 | 90-99 |
|--|--------------|--------------|--------------|--------------|--------------|
| Domestic Corporate Profits (millions) | 22,731 | 37,883 | 86,909 | 132,662 | 317,680 |
| Domestic Industries Percent: | | | | | |
| Construction | 1.6 | 2 | 3 | 4 | 5 |
| Manufacturing | 53 | 50 | 44 | 38 | 26 |
| Wholesale trade | 5 | 6 | 12 | 13 | 8 |
| Retail trade | 7 | 8 | 9 | 10 | 11 |
| Finance, insurance, and real estate | 13 | 16 | 16 | 12 | 25 |
| Services | 1.5 | 2 | 3 | 7 | 9 |
| All others | 16 | 16 | 13 | 16 | 16 |

Source: Computed from profit data gathered by the Bureau of Economic Analysis, U.S. Department of Commerce.

Recall that Wallerstein posited that hegemonic powers gain ascendancy first through dominance in agricultural and manufacturing productivity, then in commerce, and then in finance; and lose this ascendancy in this order as well. Consistent with this “financialization” hypotheses, finance and insurance are well on their way to becoming the dominant sector in the American economy. The "Finance, insurance and real estate" industry accounted for a full 25 percent of all domestic profits in the 90s, almost equal to that of manufacturing. A breakdown of this growth provided by the Bureau of Economic Analysis reveals that the increase is made up almost entirely of growth in the profits of "Depository institutions" and "Commercial and mutual depository institutions" beginning in 1990 and rising rapidly throughout the decade. This was probably the result of federal deregulation of the banking and savings and loan industries, and the investment of deposits into a rapidly growing economy (recall, the GDP, which was large already in 1987, doubled in just 14 years). The profitability of the two types of depository institutions combined rose from 53.6 billion in 1987 to 141.6 billion in 1999. With the passage of "The Financial Services Modernization Act of 1999" growth in profitability of banking will accelerate (Dye, 2002, p. 43).ⁱⁱ

Other industries that increased their profitability, in the 1990s, though not so rapidly, were "Services" which went from 3 percent of all profits in the 70s to 9 percent in the 90s and Construction, which climbed to 5 percent of all domestic profit. The growth in services in large part appears to be due to changes in the delivery of health services, which climbs from 4.8 billion in profits in 1987 to 16 billion in 1999. In the 1970s and 80s medicine was more likely to be practiced by private practitioner physicians, hospital care provided through government or charitable hospitals. Since the 1980s the U.S. has seen a sharp rise in corporate medicine, which gives medicine tremendous impetus for growth, innovation and the efficient delivery of services (at least those services which are potentially profitable), but which, in Harry Braverman's (1974) memorable phrase, must pay tribute to profit. A second service category that grew rapidly in the 1990s is "Other" services, which consists of engineering and management services, membership organizations, and for profit social services. This category begins at 1.5 billion in profits in 1987 and rises to 9.3 billion in profits by 1999.

Such is the growth of capital in the U.S. in the latter half of the 20th century. It is this drive for increasing profit on the part of corporations and individuals that fuels the vigorous growth of industries. What then are these profits used for? Some capital, of course, is used to pay dividends to the stockholders of the corporation. Individual stockholders siphon off some portion for living expenses, comforts and displays of status, and reinvest the rest in economic enterprises in order to increase their capital. Corporations also use their profits to expand their core business, hiring new employees, purchasing new technologies, further refining the detailed division of labor, all with an eye toward increasing profitability. Should the corporation see larger profit opportunities elsewhere, it will decide to invest in plants or businesses overseas, start new

enterprises at home, or buy out other businesses that could ultimately increase the organization's profit potential.

The major function of capitalism, then, is to expand capital. It does this by increasing economic activity. This expansion, in turn, increases employment, wealth and ultimately population. This then expands capital even further. It is, as both admirers and detractors have all remarked, quite a dynamic engine. For any macro-social theory or analysis to ignore the operations and functions of this engine in the modern world—or to fail to take into account the structure, functions and interests of the capitalist world-system—is to engage in empty academic exercise.

ⁱ Consists of receipts by all U.S. residents, including both corporations and persons, of dividends from foreign corporations, and for U.S. corporations, their share of reinvested earnings of their incorporated foreign affiliates, and earnings of unincorporated foreign affiliates, net of corresponding payments.

ⁱⁱ Following Wallerstein, Kevin Phillips also argues that this financialization of the economy is the mark of a hegemonic power in decline.