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In Praise Of Cheap Labor - By Paul Krugman

For many years a huge Manila garbage dump known as Smokey Mountain was a favorite media symbol of Third World poverty. Several thousand men, women, and children lived on that dump--enduring the stench, the flies, and the toxic waste in order to make a living combing the garbage for scrap metal and other recyclables. And they lived there voluntarily, because the $10 or so a squatter family could clear in a day was better than the alternatives.

The squatters are gone now, forcibly removed by Philippine police last year as a cosmetic move in advance of a Pacific Rim summit. But I found myself thinking about Smokey Mountain recently, after reading my latest batch of hate mail.

The occasion was an op-ed piece I had written for the *New York Times*, in which I had pointed out that while wages and working conditions in the new export industries of the Third World are appalling, they are a big improvement over the "previous, less visible rural poverty." I guess I should have expected that this comment would generate letters along the lines of, "Well, if you lose your comfortable position as an American professor you can always find another job--as long as you are 12 years old and willing to work for 40 cents an hour."

Such moral outrage is common among the opponents of globalization--of the transfer of technology and capital from high-wage to low-wage countries and the resulting growth of labor-intensive Third World exports. These critics take it as a given that anyone with a good word for this process is naive or corrupt and, in either case, a de facto agent of global capital in its oppression of workers here and abroad.

But matters are not that simple, and the moral lines are not that clear. In fact, let me make a counter-accusation: The lofty moral tone of the opponents of globalization is possible only because they have chosen not to think their position through. While fat-cat capitalists might benefit from globalization, the biggest beneficiaries are, yes, Third World workers.

After all, global poverty is not something recently invented for the benefit of multinational corporations. Let's turn the clock back to the Third World as it was only two decades ago (and still is, in many countries). In those days, although the rapid economic growth of a handful of small Asian nations had started to attract attention, developing countries like

Indonesia or Bangladesh were still mainly what they had always been: exporters of raw materials, importers of manufactures. Inefficient manufacturing sectors served their domestic markets, sheltered behind import quotas, but generated few jobs. Meanwhile, population pressure pushed desperate peasants into cultivating ever more marginal land or seeking a livelihood in any way possible--such as homesteading on a mountain of garbage.

Given this lack of other opportunities, you could hire workers in Jakarta or Manila for a pittance. But in the mid-'70s, cheap labor was not enough to allow a developing country to compete in world markets for manufactured goods. The entrenched advantages of advanced nations--their infrastructure and technical know-how, the vastly larger size of their markets and their proximity to suppliers of key components, their political stability and the subtle-but-crucial social adaptations that are necessary to operate an efficient economy--seemed to outweigh even a tenfold or twentyfold disparity in wage rates.

And then something changed. Some combination of factors that we still don't fully understand--lower tariff barriers, improved telecommunications, cheaper air transport--reduced the disadvantages of producing in developing countries. (Other things being the same, it is still better to produce in the First World--stories of companies that moved production to Mexico or East Asia, then moved back after experiencing the disadvantages of the Third World environment, are common.) In a substantial number of industries, low wages allowed developing countries to break into world markets. And so countries that had previously made a living selling jute or coffee started producing shirts and sneakers instead.

Workers in those shirt and sneaker factories are, inevitably, paid very little and expected to endure terrible working conditions. I say "inevitably" because their employers are not in business for their (or their workers') health; they pay as little as possible, and that minimum is determined by the other opportunities available to workers. And these are still extremely poor countries, where living on a garbage heap is attractive compared with the alternatives.

And yet, wherever the new export industries have grown, there has been measurable improvement in the lives of ordinary people. Partly this is because a growing industry must offer a somewhat higher wage than workers could get elsewhere in order to get them to move. More importantly, however, the growth of manufacturing--and of the penumbra of other jobs that the new export sector creates--has a ripple effect throughout the economy. The pressure on the land becomes less intense, so rural wages rise; the pool of unemployed urban dwellers always anxious for work shrinks, so factories start to compete with each other for workers, and urban wages also begin to rise. Where the process has gone on long enough--say, in South Korea or Taiwan--average wages start to approach what an American teen-ager can earn at McDonald's. And eventually people are no longer eager to live on garbage dumps. (Smokey Mountain persisted because the Philippines, until recently, did not share in the export-led growth of its neighbors. Jobs that pay better than scavenging are still few and far between.)

The benefits of export-led economic growth to the mass of people in the newly industrializing economies are not a matter of conjecture. A country like Indonesia is still so poor that progress can be measured in terms of how much the average person gets to eat; since 1970, per capita intake has risen from less than 2,100 to more than 2,800 calories a day. A shocking one-third of young children are still malnourished--but in 1975, the fraction was more than half. Similar improvements can be seen throughout the Pacific Rim, and even in places like Bangladesh. These improvements have not taken place because well-meaning people in the West have done anything to help--foreign aid, never large, has lately shrunk to virtually nothing. Nor is it the result of the benign policies of national governments, which are as callous and corrupt as ever. It is the indirect and unintended result of the actions of soulless multinationals and rapacious local entrepreneurs, whose only concern was to take advantage of the profit opportunities offered by cheap labor. It is not an edifying spectacle; but no matter how base the motives of those involved, the result has been to move hundreds of millions of people from abject poverty to something still awful but nonetheless significantly better.

Why, then, the outrage of my correspondents? Why does the image of an Indonesian sewing sneakers for 60 cents an hour evoke so much more feeling than the image of another Indonesian earning the equivalent of 30 cents an hour trying to feed his family on a tiny plot of land--or of a Filipino scavenging on a garbage heap?

The main answer, I think, is a sort of fastidiousness. Unlike the starving subsistence farmer, the women and children in the sneaker factory are working at slave wages *for our benefit*--and this makes us feel unclean. And so there are self-righteous demands for international labor standards: We should not, the opponents of globalization insist, be willing to buy those sneakers and shirts unless the people who make them receive decent wages and work under decent conditions.

This sounds only fair--but is it? Let's think through the consequences.

First of all, even if we could assure the workers in Third World export industries of higher wages and better working conditions, this would do nothing for the peasants, day laborers, scavengers, and so on who make up the bulk of these countries' populations. At best, forcing developing countries to adhere to our labor standards would create a privileged labor aristocracy, leaving the poor majority no better off.

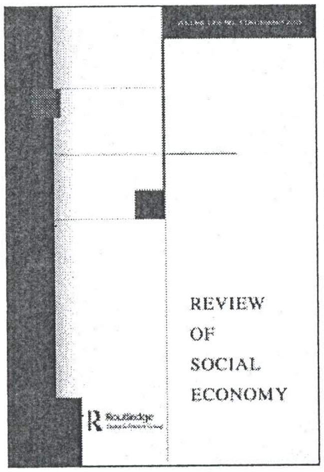
And it might not even do that. The advantages of established First World industries are still formidable. The only reason developing countries have been able to compete with those industries is their ability to offer employers cheap labor. Deny them that ability, and you might well deny them the prospect of continuing industrial growth, even reverse the growth that has been achieved. And since export-oriented growth, for all its injustice, has been a huge boon for the workers in those nations, anything that curtails that growth is very much against their interests. A policy of good jobs in principle, but no jobs in practice, might assuage our consciences, but it is no favor to its alleged beneficiaries.

You may say that the wretched of the earth should not be forced to serve as hewers of wood, drawers of water, and sewers of sneakers for the affluent. But what is the alternative? Should they be helped with foreign aid? Maybe--although the historical record of regions like southern Italy suggests that such aid has a tendency to promote perpetual dependence. Anyway, there isn't the slightest prospect of significant aid materializing. Should their own governments provide more social justice? Of course--but they won't, or at least not because we tell them to. And as long as you have no realistic alternative to industrialization based on low wages, to oppose it means that you are willing to deny desperately poor people the best chance they have of progress for the sake of what amounts to an aesthetic standard--that is, the fact that you don't like the idea of workers being paid a pittance to supply rich Westerners with fashion items.

In short, my correspondents are not entitled to their self-righteousness. They have not thought the matter through. And when the hopes of hundreds of millions are at stake, thinking things through is not just good intellectual practice. It is a moral duty.

In Praise of Cheap Labor: Bad jobs at bad wages are better than no jobs at all.

Paul Krugman is a professor of economics at MIT whose books include The Age of Diminished Expectations *and* Peddling Prosperity.



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Moral Dilemmas and Factual Claims: Some Comments on Paul Krugman's Defense of Cheap Labor

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Abstract In 1998, Paul Krugman published a collection of short polemical essays on economic themes under the title *The Accidental Theorist And Other Dispatches from the Dismal Science*. Among those essays was one entitled "In Praise of Cheap Labor: Bad Jobs at Bad Wages Are Better than No Jobs at All". This brief article is an extended comment on that piece, which happened to contain factual claims central to the empirical research program of one of us, and ethical and political issues of concern to us both. Our view is that in his essay on cheap labor, (as indeed in many of the others in the collection), Krugman makes some pungent and telling criticisms of other writers on economic matters and—in this particular case—of some analytically weak and ethically dubious claims which are frequently espoused by contemporary anti-capitalist and anti-globalization radicals conventionally regarded as being on the political left. But at the same time—or so we shall argue—his own polemic is, in important ways, undermined by the narrowness of the theoretical framework within which it is constructed, and most especially, by Krugman's almost total lack of an *historical perspective* in which to see either contemporary debates over global capitalism or the ethical issues at their heart.

Keywords: Cheap labor, Economic theory, History, Radicalism

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KRUGMAN'S CASE IN OUTLINE

As its provocative title indicates, Krugman centralizes in his argument the necessary *relativity* of "cheap labor" as an economic concept, a relativity which came to be central to one of us in the course of operationalizing research on the export garment industry in India (Cawthorne, 1993; 1995; 1997). Amongst Krugman's more significant factual claims related to this relativity, are the following:

(1) ". . . while wages and working conditions in the new export industries of the Third World are appalling, they are a big improvement over the previous less visible rural poverty" (1998: 81).

(2) "While fat-cat capitalists might benefit from globalisation, the biggest beneficiaries are, yes, Third World workers" (1998: 81).

(3) "And so countries that had previously made a living selling jute or coffee started producing shirts and sneakers instead. Workers in those shirt and sneaker factories are, inevitably, paid very little and expected to endure terrible working conditions. I say 'inevitably' because their employers are not in business for their (or their workers') health; they pay as little as possible, and that minimum is determined by the other opportunities available to workers" (1998: 82).

(4) "These . . . improvements [in countries with new export-oriented industries] have not taken place because well-meaning people in the West have done anything to help—foreign aid, never large, has lately shrunk to virtually nothing. Nor is it the result of the benign policies of national governments, which are as callous and corrupt as ever. It is the *indirect* and *unintended* (our emphasis) result of the actions of soulless multinationals and rapacious local entrepreneurs, whose only concern was to take advantage of the profit opportunities offered by cheap labor. It is not an edifying spectacle; but no matter how base the motives of those involved, the result has been to move hundreds of millions of people from abject poverty to something still awful but nonetheless significantly better" (1998: 83).

(5) "Even if we could assure the workers in TW export industries of higher wages and better working conditions this would do nothing for the peasants, day laborers, scavengers . . . who make up the bulk of these countries' population . . . [this] would create a privileged labor aristocracy . . . and it might not even do that". (1998: 84–85).

(6) Deny [employers cheap labor] and you might well deny them the prospect of continuing industrial growth. . . . as long as you have no realistic alternative to industrialization based on low wages, to oppose it means that you are willing to deny desperately poor people the best chance they have of progress for the sake of what amounts to an aesthetic standard i.e. the fact that you don't like the idea of workers being paid a pittance to supply rich Westerners with fashion items" (1998: 85).

As we see from these quotations, Krugman insists that labor in the export industries of the Third World, is "cheap," is "paid very little" and often works in "appalling" conditions, but that nonetheless it is the "major beneficiary" of foreign investment in Third World manufacturing by multi-national companies and others.

Now, the only reason why these two observations are perfectly consistent for Krugman, is that he is clearly using two criteria of Third World worker welfare simultaneously. That is, by the first criterion–involving a comparison of the wages and working conditions of Third world workers with their "First World" counterparts—their wages are "low" and their working conditions "appalling," *but* by the second criterion—involving a comparison of those wages and conditions with the levels of material welfare "enjoyed" by peasants and so-called "informal sector" urban and rural workers in those same Third World economies–their wages and conditions are comparatively good and justify describing them as (in aggregate) the "major beneficiaries" of the expansion of export industries.

But there is then a further move in Krugman's argument, for having operated with two types of comparative measure simultaneously, he then, in effect, values the second measure above the first—arguing in effect that *from the perspective of these Third World workers themselves*—the second measure is far more important or significant than the first. And it is more significant or important because it matters more to such workers that, in entering such industries they become better off than they were before, *even if* (and even if they know that?) they are still paid "very little" in comparison with their First World counterparts.

COMMENTS ON KRUGMAN'S ARGUMENT IN GENERAL

From the background of Cawthorne's research on the growth and development of an export-oriented clothing industry in India,[1] we would like to make a number of comments on Krugman's more general claims. These are: (1) in comparison with much Marxist and neo-Marxist work on Third World industrialization, Krugman's piece, although polemically expressed, seems relatively intellectually sophisticated in its simultaneous use of these two criteria of judgment. For much radical work[2] on this same topic seems to focus only or overwhelmingly on Krugman's first criterion (the "cheapness" of Third World industrial labor in comparison with its western counterpart) and almost totally

1 The major findings of this research relevant to this article are to be found in Cawthorne (1993) and (1997) but see also Cawthorne (1995).

2 For an early example, see Froebel *et al.* (1980).

ignores or neglects his second criterion. Indeed, exclusive focus on this first criterion is the basis of common radical complaints about the "super-exploitation" of Third World labor, by multi-nationals companies and others.

Despite this merit of Krugman's piece, however, it can also be said that it also demonstrates its own intellectual oversimplification in not considering, or in directing the reader's attention away, through powerful simple sounding polemic, from a number of other technical complexities which come into play in describing any labor anywhere as either "cheap" or "dear".

Most notably, it is true—as Krugman asserts—that labor in the Indian clothing industry is "cheap" relative to its western counterpart, and that it is often at the same time relatively well paid in comparison with many/most locally available alternative uses of that labor.[3] But neither of these (true) propositions tell us how "cheap" or "dear" such labor is to employ for Indian (as against overseas) capitalists. Therefore they equally do not tell us how much economic "room" there may be for raising real wages and improving working conditions for Indian textile workers *without* raising supply prices to foreign buyers of those textiles.

This is an extremely important oversight, for if this room is considerable (that is, if local Indian capitalists could absorb rising labor costs in other ways without raising supply prices) then the effect of at least some improvements in wages and conditions would not be to imperil either the continued expansion of that industry, or (therefore) employment growth within it, as Krugman's argument claims.

In other words then in the analysis below we wish to problematize some aspects of Krugman's argument, but it is important for us, and for readers' of this piece, to be clear about precisely *what* aspect we are problematizing.

Krugman's piece has the impatient tone of the realistic, "hard headed" economist disposing of the confused or empirically ill-grounded moaning of emptily moralistic radicals. The latter he accuses of implicitly (or explicitly) demanding that Third World peoples and states abandon or forego the only economic ace card they have to play in the real world—cheap labor—in the name of some moralistic alternative which such radicals cannot clearly specify and which, in fact, sacrifices "their" (Third World workers) real welfare to the (confused) demands of "our" (western liberal radicals) bad consciences.

Our argument does not take issue with this *generalized* critique of many

3 Although again, there are exceptions. Everything depends on where the worker is located in the industry. If in a small workshop he or she will be paid smaller wages than in a large factory. If the worker is a female, she will be, almost invariably, worse paid than a male, and if a woman outworker, she will be paid pittance no matter how one measures it.

western development radicals, because, unfortunately, we think it contains a great deal of truth, although there are some honorable exceptions to its strictures.[4] Our argument rather takes issue with Krugman's supposed hard-headed realism. We want to suggest in what follows that, in important ways, his argument too is oversimplified, because *it is not realistic enough*—i.e. it does not take account of some important complexities of the real situation on the ground in (at least one) third world export industry.

KRUGMAN AND CHEAP LABOR IN THE INDIAN GARMENT INDUSTRY

There are a number of possible ways of measuring cheap labor, all of which had to be considered in attempting to apply the concept to the Indian cotton knitwear industry. Ultimately the following seemed most appropriate and illuminating: (1) labor costs as a proportion of total input costs; (2) labor costs as a proportion of total revenue; (3) wages paid to labor relative to the cost of labor in similar local industries; (4) wages paid to Indian labor compared to, say, Australian labor in the same industry; and (5) wages paid to Indian labor compared to legal minimum wages. Only having disaggregated the different ways in which labor might be construed as cheap was it possible to begin thinking more clearly and more definitively about this issue.

Where the costs of labor are measured as a proportion of total input costs what matters most in India is the size of the enterprise. The larger factories, whose profit margins are substantially higher than the smaller workshops, have lower overall costs of labor as a proportion of total costs relative to smaller workshops. Labor is therefore a lot cheaper for the larger factories which dominate the industry. Although wages are lower in the smaller workshops, they are not so much less that profit margins in small workshops can reach the level of the large factories. Wages are squeezed harder and harder along the sub-contracting chain, as tends to be the case in this industry worldwide, with women more generally, and women outworkers in particular, everywhere tending to be paid pittances *however* measured.

However, in a situation of growth and accumulation[5] downward pressures on wages are weak and agitation by workers for improved working conditions and better wages has a better chance of success. This was evident from highly

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4 See, most notably, Kay (1978); Warren (1980) and a number of other writers and analysts influenced by this kind of approach, including Kitching (1982).

5 Which has been the case until very recently in this industry in India, see Chatterjee and Mohan (1993); Ramaswamy and Gereffi (1998).

successful strikes in Tiruppur, a south Indian town in which the cotton knitwear industry is concentrated, in the mid 1980s.[6] Moreover wages in any particular locality at a particular point in time tend to oscillate around a norm with workers highly mobile between firms, thus producing a going rate for the job. But there are some noticeable variations between large and small factories.

The largest input cost for all producers in India was constituted not by labor but by raw materials. Calculations made by Cawthorne and other students of the Indian export clothing industry suggest that wages account for approximately 20 percent of unit costs, raw materials 55 percent, and overheads some 12 percent.[7] In addition the Indian data suggests that at the very least 8 percent of the selling price quoted to an Indian intermediary or a foreign overseas buyer or agent is accounted for by profit mark-up. On the basis of these facts alone, therefore, it is possible to say that wages in this industry could rise very significantly without affecting the price which makes the country an attractive site for outsourcing if (a) raw material costs could be reduced if (b) overhead costs could be reduced or (c) manufacturers were prepared to take less in profits. Since in India small and large capitalists frequently manage to evade any state encroachment on their profits through the tax system there is little difference between their gross and net profits, and therefore greater space than there would otherwise be for raising wages at the expense of profits without imperiling accumulation.

The precise size of this space or room for wage rises without supply price rises depends, of course, on the real rate of profit in the Indian garment industry. It should be emphasized that this is considerably in excess of the 8 percent price mark-up charged by producers to buyers or exporters of garments. To this we have to add the gross profit margin in production since, (as noted), tax evasion in the industry is so widespread as to nullify the standard distinction between gross and net profits. Although, for these tax evasion reasons and others, producers were very reluctant to provide even the roughest estimates of their profits, such data as Cawthorne was able to obtain[8] suggested that profits as a proportion of turnover were not less than 10–15 percent, which implies the ratio of profits to costs would be much higher than this.

We think that such a figure makes problematic, for this industry and sector at least, Krugman's claim that if wages were to rise, this would automatically

6 Cawthorne (1993).

7 Cawthorne (1997). These calculations come from data from individual firms as well as Ravindran (1994). In the advanced industrial countries the proportions of labor costs and materials costs tend to be reversed.

8 Cawthorne (1990: table 10: 47).

affect supply prices and make South Indian production less attractive for foreign buyers.

It is absolutely vital, in this context, to stress that what attracts overseas buyers to the Indian garment industry *is not low wages as such, but cheap prices*—or goods supplied at prices notably lower than they could be produced in the buyers' home economy. Radicals often dismiss such a distinction on the grounds that the fundamental determinant of low supply prices is low wages, but this is an oversimplification in that any supply price contains a raw material component, an overhead component and a profits component, as well as a wage component. If, as in this case, the wage, or labor component is a relatively small contributor to the final supply price, the former can be raised and the latter not rise, if either the raw material, overheads or profit component can be made to take the strain of such wage rises (or working conditions improvements) at least in the short term. The Indian data suggests that raw materials prices are relatively fixed or inflexible for garment producers, as are overheads, but that neither wages *nor profits* are fixed or inflexible in the same way.

Hence, and as neo-Ricardian economic analysis in particular[9] often suggests, there is room for raising wages *at the expense of local Indian profits* (as well as vice versa). And this is quite apart, of course, from the possibilities of other forms of state intervention (subsidies to overheads or to raw material prices for example) which could open up yet further space for wage increases or conditions improvements without raising supply prices or (therefore) imperiling the growth of the industry or the employment/welfare benefits which, as Krugman stresses, it produces for many of the workers it employs.

It is of course important to add that this space for improving the wages and conditions of workers at the expense of (short term) profits is at its greatest when the industry as a whole is experiencing rapid growth of output and employment as already noted.

CONCLUSIONS: KRUGMAN'S ETHICS AND THE IMPORTANCE OF HISTORY

In our view Paul Krugman is right to insist that moral rectitude is not simply on the side of those who rail against the exploitation of Third World cheap labor conducted for the benefit of prosperous western consumers by iniquitous western multi-nationals. Because, so long as such radical critics have no

9 For a good popular account of this form of analysis, see Hodgson (1982).

alternatives to suggest for the improvement (however relative) of Third World living standards, they are, in effect, supporting the view that the mass populations of the non-European world should forever remain subsistence peasants, or landless agricultural laborers, or in some other form of pre-capitalist economy and society in which the prospects for any *mass* escape from absolute poverty are minimal.

Krugman is equally right to insist that the mass entry of non-European peoples into manufacturing sectors since, roughly, the late 1960s or early 1970s, represents the first significant opportunity, since the onset of European economic imperialism in the fifteenth century, for such people to gain a share—however limited—of the benefits of high value-added economic activity, the kind of activity which, until that point, had been more-or-less monopolized by western and (more recently) Japanese working classes.[10]

But here again, Krugman's argument, though morally and politically acute in some ways, is also limited by the conventional economists' frame of reference in which it is set. His argument is also deeply ahistorical in ways that are both typical, almost defining, of economics as a discipline, and in ways which, again, have moral and political implications to which he is blind.

Because an obvious question is—"why now?".[11] That is, why is it only in the last 30 or so years that we have seen the mass entry of (some) non-European peoples into modern manufacturing employment, and (in particular) into export oriented manufacturing employment? The answer cannot be "because of the cheapness of their labor," because that labor has been abundant and cheap for the most part of this century, and most especially in the entire period since the

10 The expansion of non-western manufacturing working classes is just part of a world wide process of structural adjustment in which some sections at least of manufacturing employment in the west are in decline (bringing formidable problems of unemployment and social crisis in communities previously dependent on that employment). In this situation, western radicals may, if they are not careful, find themselves, in effect, arguing, in a deeply conservative or even reactionary way, for the maintenance of old patterns in the global division of labor, patterns which were exclusionary of Third world people from global capitalism's most dynamic sectors. Rarely, however, are the deep moral and political issues here faced by such radicals. Rather the issue is avoided by a refusal to see manufacturing expansion in the non-European world as the positive effect of the same process of which manufacturing decline in the west is the negative effect. This moral avoidance is achieved by an implicit *denial* of any positive effects of Third world manufacturing employment expansion, a denial in which concepts such as "cheap labor exploitation" frequently play a central role.

11 It should be remembered that, as Dicken (1998: 291) and others frequently point out, there are a number of successful garment exporting countries which are high-wage countries, for example, Italy and Hong Kong although China, (a low-wage economy) does now dominate world export production in garments (and comes second to Germany in textiles).

second world war.[12] On the contrary, it is clear that in the early 1970s two rather different factors combined to produce a situation in which that labor was—in effect—both "made available" for use in export manufacturing for the first time, *and* became in demand by both manufacturers themselves and other suppliers (western based wholesalers and retailers of manufactured goods) for the first time.

The first development—such labor being made available to the world market by Third World states—came about through widespread changes in the direction of state economic policy in the Third World (i.e. the movement away from import substitution and other protectionist development strategies). The second development—such labor coming in demand by those who had not previously demanded it—came about as a result of changes in industrial location and supply policies by western firms (both multi-national firms and others) as a result of the squeeze on profitability produced by the oil crises and the ending of the western post-war long boom in the 1970s.[13]

Why are these (well enough known) historical points important? Because they show that there are moral and political shortcomings to the simple Smithian understanding of capitalism perfectly manifested in Krugman's chapter. For while it is true (of course) that such benefits as are now accruing to non-European workers from their getting a share of the dynamic capitalist action, are due not to western philanthropy but to the crude economic self interest of western multi-nationals and others (the Smithian point), it is also true that such crude self interest alone would not have been enough to produce such a result—broader political and economic changes in global capitalism as a system were required.

Moreover one of those changes—the widespread abandonment or watering down by Third world states of previously popular autarchic or quasi-autarchic approaches to development policy—represented a rejection of economic strategies often broadly endorsed by precisely those western and other radicals

12 Indeed the best known of the growth models produced by the first generation of development economists in the immediate post-war years had, as the core of their development strategy, the deliberate industrial mobilization of labor surpluses locked up, supposedly unproductively, in peasant agriculture. See, as the two best known examples, Lewis (1954) and Fei and Ranis (1964) "A Theory of Economic Development," *American Economic Review*, 1961. The Lewis piece was reprinted in A. K. Argawala and J. P. Singh (eds) *Economics of Development* (1958: 400–449). All of these models tended to fall into disrepute because of, among other things, their association with failed import substitution development strategies. But certainly in the Lewis case, this was very unfair. In currently fashionable terminology Lewis's growth model clearly outlines a "mixed" import substitution and export orientation industrial strategy.

13 On the profits squeeze of the 1970s, see for example, Armstrong *et al.* (1984) and for an excellent general account of the changes in the international division of labor which have occurred in response to it, see Hobsbawm (1994), especially chapter 14.

who now so lament the current super-exploitation of Third World workers. In other words then, in order for much larger numbers of Third World to gain access to opportunities for a (somewhat) better material life, certain nationalist political and economic ideologies had to be defeated, both in practice and (therefore) in theory. And those ideologies had themselves been, at least in part, a product of the very same radicalism that now rails against the iniquitous doings of multi-national companies in the open global economy.

Here it is important—indeed vital—to understand a further historical point: that one of the great moral and political imperatives of Third World economic nationalism in the entire post-independence period had been the attempt to protect Third world peoples from yet further exploitation by imperialist forces, an exploitation which (in this view) had been a central characteristic of the whole colonial period, pre-independence. These attempts at economic protectionism and at finding a route to development which was to be free, or relatively free, of such exploitation, may have been seriously misconceived and naïve in some ways, and, in the end, self-defeating. But they were themselves the product of an honorable and humanely motivated moral and political reflection on an earlier period of the world capitalist economy. This earlier period—often conventionally referred to as the "colonial period" of world history—had been, we should remember, the most globally open to international capital movements, of any in human history.[14]

In short then, capitalism as an economic system and the political and moral views and theories to which it gives rise (both among its proponents and—especially—among its opponents) are both a lot more complex and a lot more historically specific than anything known about in Krugman's world view—a world view which one might best characterise as both honest and naïve. For what is lacking in that world view above all is any sense of the agonizing *difficulty* of the moral and political choices which the development of capitalism as a form of economy and society poses, and has always posed, for human beings—a difficulty which arises precisely from the *historically specific* and *historically formed circumstances* in which such choices have to be made It is no empty rhetoric, but only an assertion of the deepest truth, to say, with Max Weber, that capitalism is both the great liberator and the great enslaver of human kind, that it is the latter *because* it is the former, and that the precise ways in which it is both the former and the latter, change continually as it develops. Unfortunately one can find no appreciation of this historically informed moral

14 On this see Glyn and Sutcliffe (1992).

dialectic in Krugman's sunny optimism any more than one finds it in the facile pessimism of the radicals he rightly but unpleasantly lambasts.

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