Global inequality chains: how global value chains and wealth chains (re)produce inequalities of wealth

Liam Campling and Clair Quentin

Introduction

Inequality within countries and between individuals globally are among today’s crucial development issues. These concerns are generally met with a policy response in the form of measures to enhance ‘competitiveness’ by articulating local firms with the world economy. The principal framing of these measures is by reference to GVCs, which are both the method and units of analysis in a framework seeking to interpret the fragmented muddle of global production (see, for example, World Bank, 2020). Broadly, a GVC is an international chain of market actors bringing commodities from extraction or production of raw materials to the point of consumer retail. The GVC framework has been adopted and adapted by major international financial and development institutions (the OECD, WTO, World Bank, and others), especially for the
purposes of framing development aid conditionalities (Neilsen, 2014; Werner et al, 2014).

As it is currently conceived, however, the GVC analytic is a poor lens through which to view wider issues such as wealth distribution and gender inequality, and uncritical deployment of it in a policy making context consequently risks expanding and deepening adverse equality outcomes globally, rather than addressing them. We analyse the key shortcoming of the GVC model as being its uncritical focus on ‘value added’ at each juncture in the chain. ‘Value added’ within a market entity means gross revenues minus costs other than wages, or (which is an accounting identity) profit plus wages. By definition, therefore, an uncritical focus on value added as it arises along a chain fails to take into account the distributional effects of the partition of value added into wages for workers and profit for asset owners. It also ignores the further distributional effects of the tax system of the jurisdiction in which the value added arises. This is a serious flaw in the model, since global inequality is increasingly being viewed in terms of the relative tax burdens of the majority of people as compared to large corporations and rich people (Palpacuer, 2008). In addition, an uncritical focus on ‘value added’ excludes any possibility that value is created elsewhere in the chain, and is merely captured rather than substantively ‘added’ by any firm in which it arises – a process which even mainstream economics is to some extent groping towards with a recognition of the decline in labour’s share of wealth (Autor et al, 2017) and the rising market power of multinational corporations and its use to capture higher mark-ups (De Loecker et al, 2020).

This paper addresses these shortcomings by (i) critiquing notions of work and value in mainstream GVC analysis and (ii) expanding the GVC analytic to accommodate the onward journey of ‘value added’. Specifically, we expand the GVC framework by integrating it with the related global wealth chain (GWC) framework. The unit of analysis in the GWC framework is chains which ‘hide, obscure and relocate wealth to the extent that they break loose from the location of value
creation and heighten inequality’ (Seabrooke and Wigan, 2014: 257); broadly, they are the routes by which the wealth which arises from ‘value creation’ accrues to asset owners without attracting significant amounts of tax.

Our framework deploys these two existing analytics as the horizontal and vertical movements of a two-dimensional analytical framework, which we call the ‘global inequality chain’ (GIC). We use the terms horizontal and vertical to refer to (respectively) the movements of commodities towards consumption and money towards beneficial owners of assets.

The structure of GVCs and value capture

Considering first the horizontal component of the GIC analytic, the global value chain. We are necessarily sketching GVC analysis at the level of its most basic – and widely accepted – insights; for genealogies of and debate on the framework, see Bair (2005), Campling and Selwyn (2018) and Coe and Yeung (2019). Broadly, the GVC places in view a chain – or network – of market actors, one actor’s output being another’s input until a consumer product is purchased at the end of the chain. The pattern is one whereby (assuming the value chain is read from left to right) processes on the left are raw materials extraction, agriculture and/or standardised manufacture, and towards the right are international logistics and finally retail (Figure 2.1).

Inherent in the idea of the global value chain is that it operates across national borders. As a general rule the processes of production on the left are seen to take place in low- to middle-income countries and consumer retail generally takes place where there is substantial purchasing power. Crucially, there is no presumption that any actor in the chain is under formal common control with any other; portions of any given chain may represent the internal processes of a multinational corporate group, while many links in the chain will be between entities which are, on a formal level at least, independent market actors (Figure 2.1).
A major strength of the GVC literature is the attention that it gives to the features and mechanisms of coordination and control of firms by other firms intersecting with but not necessarily requiring such formal control: what the literature calls ‘chain governance’. The firms exercising control through these governance mechanisms are referred to as lead firms. The principal approach to governance in GVC analysis is a theory of inter-firm linkages as coordination or as ‘drivenness’ by lead firms over other firms in the chain (Gereffi et al, 2005; Gibbon et al, 2008). Inter-firm relations of control tend to be exercised by lead firms located in nodes of a chain typified by concentration and centralisation and associated high barriers to entry (Hymer, 1979; Nolan et al, 2008). The focus of GVC analysis on exchange relations between firms is insightful because it is an important site of contestation where the capture of value can occur and legal arrangements affecting production are set. These can take the form of contracts, private standards and/or other forms of control of production that cut across the boundaries of single firms and are used to capture the surplus value produced within other capitals in the chain and/or to pass on risk and costs.

In GVC analysis ‘drivenness’ signifies ‘a relation of power’ (Daviron and Gibbon, 2002: 140), or more accurately market power using mechanisms of control – as opposed to necessitating direct ownership – that include quasi-monopoly
and/or quasi-monopsony. For example, a lead firm may be able to quasi-monopsonistically capture a share of other players’ appropriation of surplus value upstream a chain through the centralisation of ownership of access to markets (such as the relationship of supermarkets to the producers of fresh food); a lead firm may use intellectual property over brands, design and/or technology to pass on costs and risk and capture surplus value from firms competing bitterly to supply components and services in its outsourced global production network (such as Apple, Foxconn and its multiplicity of second- and third-tier suppliers); or a firm may command leadership in a chain through its quasi-monopoly over access to a resource (as in the creation of scarcity in the diamond commodity chain by De Beers). Identifying which enterprises in a GVC actually capture greater portions of surplus value is an empirical question, but the role of capitalist competition in determining the form of GVCs and the emergence of lead firms within them is examined, for the purposes of a critique of the concept of ‘upgrading’ within GVCs.

The policy and mainstream academic discourse is that articulation with value chains is a measure of development success and, outside of local economies, this means procuring from and/or supplying lead firms, whether directly or indirectly (World Bank, 2020). However, this framing misses that these firms ‘lead’ because they are (at least for a period) the (temporary) winners of capitalist competition in a node (or more) of a GVC. Lead firms incorporate weaker firms and small producers in GVCs and capture value in the sphere of circulation by, for example, limiting the mark-up pricing power of suppliers by encouraging and very often inducing high levels of competition among them (Milberg and Winkler, 2013). The implication for workers in such supplier firms is that demands for improved wages or working conditions are more virulently resisted by owners (Baud and Durand, 2012).

Weaker firms and small producers can take many forms. An obvious source of labour-power to them is the countless
millions of people who are not paid at levels sufficient for their social reproduction, thereby allowing for the survival of small capitals below the average rate of profit. These include (self-exploiting) petty commodity producers in Africa and Asia, where the work of women and children in the household or extended families is often exploited, unpaid, by men; informalised, casualised and flexibilised workforces the world over; the women who form the majority of China’s export-oriented manufacturing workforce, largely rural migrants denied access to social policy in the regions within which they work, and where it is estimated that 80 per cent of even the formal industrial workforce is paid below the legal minimum (Ngai and Chan, 2012); the systematic feminisation of low-paid work (meaning further downward pressure on wages) in firms in Latin America that are articulated with GVCs, reproducing and reproduced by gender relations in local communities; armies of immiserated workers at ‘the bottom’ of the economy in South Asia; and the millions of people enduring slavery and forced labour across the planet in their adverse incorporation with the world economy.

GVC upgrading and the ‘smile curve’

Since the 1970s, economies in the Global South have seen new industries emerge and jobs created, and upgrading is the category used to demonstrate how GVCs offer opportunities for ‘development’. In its ideal–typical, linear formulation, upgrading and the capturing of associated ‘development’ gains involves linking with lead firms in a particular chain (Gereffi, 2001: 1622), and moving ‘up’ the chain to more rewarding functional positions or to making products that are more profitable and provide better returns to producers (Gibbon and Ponte, 2005; Havice and Campling, 2013). This idea of ‘value added’ processes which can be used (and in particular can be used, putatively, by market actors in developing countries) to ‘add more value’ into the chain (and therefore
implicitly extract more wealth out of it) is illustrated by the famous ‘smile curve’ which places actual production at the bottom of a U-bend of value capture, with other processes such as design, branding, marketing and after-sales service situated higher up the horns of the curve to reflect their greater ‘value added’ (Figure 2.2).

We argue from the perspective of a Marxian theory of value (Quentin and Campling, 2018), however, that the smile curve does not reflect actual production of value, and indeed is more or less an inversion of where value is actually produced. Instead, the smile curve reflects the special role that material processes of production play in creating the surplus value which is available for capture. The less well remunerated productive workers are, the greater the surplus available for capture in the system as a whole. But given that surplus value can be captured without ownership of productive assets, the downward pressure on the incomes of productive workers can be exerted indirectly by virtue of the downward pressure on the incomes of firms owning productive assets (such as the diversity of ‘small capitals’).

The paradigmatic form that such downward pressure takes may be ownership of intellectual property, such as a brand which
‘serves as an entry barrier and as a source of unequal distribution of value added in the GVC’ (Mayer and Milberg, 2013: 7). But all commercial efforts potentially exert this downward pressure to the extent that they are disaggregated on the level of ownership from material production and distribution. The immediate promise of upgrading, whether real or illusory, is therefore to do the dirty work of exploiting productive labour without being forced to relinquish maximal amounts of the resulting surplus to others. In the longer term, it is to leave behind altogether the risks attendant upon trying to make a profit at one of the core fault lines of capitalism: the one that subsists between productive workers and the owners of means of production. Mainstream discourse regarding smile curves suggests that they are ‘deepening’, meaning that the ‘value added’ by processes other than material production is increasing as a proportion of total value added (Figure 2.2; OECD, 2013).

Global wealth chains

GWCs are the routes by which surplus accrues to the beneficial owners of capital while attracting as little tax as possible. They include tax evasion and tax avoidance as traditionally understood, the methods used by multinational companies and host jurisdictions to maximise after-tax corporate profits, and tax-enhanced investment strategies such as private equity. They also include onshore subsidies for asset owners such as tax relief on private pensions, corporate tax incentives (see for example the UK’s ‘patent box’ legislation at Part 8A Corporation Tax Act 2010), and other forms of state complicity in tax-free accumulation.

Common themes in GWC analysis are (i) cross-border financial flows, (ii) the use of secrecy jurisdictions and/or offshore banking, (iii) the use of the legal regime of one jurisdiction to undermine another, (iv) the use of intangible assets (which are highly mobile) to shift profits away from the jurisdictions where they are deployed so as to yield profits, and
(iv) financialisation. It therefore brings within its purview such diverse phenomena as money laundering, double tax treaty networks, tax competition between jurisdictions, complex derivative financial products, and collective investment schemes. As with GVCs, scholars who study GWCs are particularly concerned with questions of how the elements of the chain are brought into connection with each other, and how governance is articulated and distributed through the chain (Seabrooke and Wigan, 2014).

Capital always seeks to maximise its after-tax return, and GWCs are therefore potentially positioned as a pervasive phenomenon along the entire value chain, rather than being restricted to particular categories of actor. Typically, for example, popular tax justice arguments in the Global North will be levelled at multinational companies, but the owners of a successful small business in a low-income country are just as likely to be evading tax as multinational companies are to be avoiding it (International Monetary Fund, 2015: Appendix VI). Indeed, a corollary to upgrading in GVCs is what might be termed ‘financial upgrading’ in GWCs, where enhanced participation in GVCs might lead to criminal tax evasion being ‘upgraded’ to non-criminal tax avoidance. An example might be a situation where a successful locally-owned enterprise whose undeclared profits are being unlawfully transferred to an offshore bank is bought by a private equity partnership, with the consequence that its untaxed profits are being lawfully transferred to an offshore bank by means of deductible interest payments (Figure 2.3).

GWC analysis deals with the specificities of how wealth is appropriated tax-free at identifiable junctures in the chain, but for the present purposes (which are to do with the overall structure of what we call the global inequality chain) it is only necessary to note five general points. First, multiple entities along the value chain may feed the same wealth chain, as would be the case, for example, where they are all subsidiaries of a single multinational corporate group, whereas other entities in the chain may have GWCs all of their own. The value chain may therefore be
Figure 2.3: Schematic illustration of ‘financial upgrading’ where a company is acquired by a private equity fund, reproducing but decriminalising its wealth chain participation.
divided into discrete cells of ownership or control and wealth chains are treated as arising from each cell (Figure 2.4). Second, it should be noted that the wealth chains arising from any such cell are likely to ramify towards different specific ultimate asset owners, and indeed where a business is both debt-financed and equity-financed by different persons there will be an immediate bifurcation into two wealth chains. Our schematic deployment of the GWC concept ignores these dendritic wealth chain morphologies for the purposes of simplicity.

Third, the relation between profitability and the percolation of profits up the GWC should not be assumed to take place in a chronological sequence of profit followed by percolation; owing to such pervasive GWC phenomena as financialisation and even just accruals-based accounting, it is possible and indeed common for wealth to accrue before cash profits have arisen.

Fourth, where a member of a multinational group is in a tax haven jurisdiction it should generally be treated analytically as part of the wealth chain rather than the value chain. It could be argued that some tax haven entities ‘add value’ insofar as substantive (albeit materially unproductive) economic activity takes place within them. In these cases the presumption should nonetheless be that the separation of functions which gives rise to that formally distinct business process is driven by the needs of the wealth chain rather than the needs of the value chain. So, for example, in the case of Amazon’s UK/Luxembourg tax structuring, the Luxembourg entity had (on a formal level at least) substantive economic functions distinct from the functions being performed in the UK entity. In reality, however, the business operations were conducted without regard to which entity was formally conducting them and the purported separation of functions was found, in a judgment of the High Court, to be ‘wholly unreal and divorced from the commercial reality of the situation’ (Cosmetic Warriors Ltd & Anor v amazon.co.uk Ltd & Anor [2014] EWHC 181 [Ch]).

Finally, and perhaps most importantly, in order to analyse the entanglements of GVCs and GWCs it is necessary to
Figure 2.4: The global inequality chain, showing the regressive tax effects of global wealth chains

Tax avoidance, tax evasion, tax breaks for companies, interest deductibility, transfer mispricing, briefcases full of cash, secrecy jurisdictions, tax rulings, tax treaty shopping, tax relieved investment products etc.
take a position on the role of intangible assets vis-à-vis the production of value. Broadly speaking there are two positions which may be taken on this (see Quentin, 2020). If one were to adopt what might be classed as a ‘subjective’ approach to value, for instance in accordance with either the marginalist school or the ‘value-form’ school of Marxian value theory, one would be likely to treat business functions which give rise to intangible assets as value-producing, in which case those business functions are best characterised as GVC nodes. By contrast if one were to adopt what might be classed as an ‘objective’ approach to value, for instance in accordance with traditional Marxian value theory or certain neo-Ricardian approaches, one would be likely to treat business functions which give rise to intangible assets as serving to originate instruments of value *capture*, in which case those functions are best characterised as GWC elements.

The reason it is necessary to adopt a position on this question is because intangible assets are de facto GWC elements, insofar as they are deeply and pervasively implicated in specifically tax-enhanced profitability (Collier and Andrus, 2017: 345–7). Broadly speaking it is a matter of moving to tax havens the formal legal assets associated with intangibles and having tax-deductible payments made from other jurisdictions in respect of the use of those assets. In the light of the analysis set out with regard to value creation and value capture as manifest in the ‘smile curve’, this chapter adopts the approach that business functions which give rise to intangible assets are non-value-producing in any event. This position has the additional advantage that those functions can be treated exclusively as GWC elements rather than complicating composite elements.

At first blush it seems counter-intuitive to insist that no value is being created by the highly profitable businesses in the digital economy, but it is necessary to recall that the vast majority of today’s apparently dematerialised business processes are always connected to physical delivery of goods and services in one way or another (Baglioni and Campling,
Uber, for example, may be analysed as a GWC entity attaching to the automotive and petroleum GVCs. Google and Facebook are GWC entities in the GVCs of more or less anything that is advertised. Apparent overlap between wealth chains and value chains nonetheless occurs but it is limited to sectors where the value chain’s apparent end product, being not really a commodity but a quasi-commodity arising from legal regimes rather than production, is inherently outside the classical production boundary, such as consumer-facing financial services, residential rental or streaming media.

The global inequality chain

We are now in a position to combine the GVC analytic with the GWC analytic so as to yield the ‘global inequality chain’: the two-dimensional analytical model proposed in our introduction. The starting point is the horizontal progression of the GVC from raw materials to the point of consumption, with ‘value added’ arising at each node along the chain. Rising vertically, not from each node of the chain but from each group of nodes insofar as they are under common ownership or control, are GWCs which represent, as an upward path, the journey of ‘value added’ from business processes along the chain to asset owners. Value is therefore (1) created along the chain roughly in proportion to where the materially productive labour takes place, (2) captured elsewhere in the chain in the form of the ‘value added’ realised by materially unproductive business processes, and (3) distributed away from the node where it is so captured, as between capital, labour and the state, by reference to the impact of the wealth chains arising from the node or nodes in question.

Each jurisdiction is compelled by GWCs to shift its tax base disproportionately towards labour (and, which amounts to much the same thing, towards consumption of wage goods by workers resident in the jurisdiction) and away from capital. Since labour captures a suppressed share of value from each
market actor in the value chain and consumption taxes are proportionally higher for those without a surplus of income to save, the consequence of this is a systemic tendency towards regressive taxation and underfunded states (Figure 2.4).

It is sometimes supposed that imposing the burden of tax on local labour rather than globally mobile capital is beneficial because of the possibility of attracting international investment but in practice the development outcomes have been adverse. This was a hypothesis laid out by Hymer (1970) on the efficiency contradictions of direct foreign investment, which has been variously elaborated since (for example, Ietto-Gillies, 2007), and more recently substantiated by Yamin and Sinkovics (2009) in a review of the literature on tax systems designed to attract investment in low-income countries which found subsequent declines in infrastructure investment. But the phenomenon is not limited to the development context: regressive taxation and the underfunding of states is a pervasive phenomenon along GVCs (Lahey, 2015; OECD, 2016), and this is the reason that, when we integrate GWCs into the global value chain analytic, we label the resulting two-dimensional analytic the global inequality chain.

The global inequality chain reproduces inequality, and as an analytical model helps anatomise the ways in which inequality is reproduced, in a number of ways. First, as explained earlier, the general inequalities arising from regressive taxation intersect with specific systemic inequalities along the GVC; for example, the disproportionate burden placed on women in the sphere of social reproduction in circumstances of fiscal constraint.

Second, the global inequality chain analytic makes a contribution to existing critiques of ‘upgrading’ within GVCs, by foregrounding the risk of increased appropriation of surplus by a market actor in a developing country being ineffective to improve outcomes because it brings with it tax-abusive ‘financial upgrading’ as described. This might happen in any number of ways. We give the example of acquisition by a private equity partnership, but equally a locally owned firm once acquired by
a transnational lead firm will find itself able to take advantage of that lead firm’s global tax structuring (ActionAid, 2012).

Third, substantive inequalities in the wealth chain itself are likewise aggravated or reinforced by the tax system, such that wealth flowing from those disadvantaged at value chain level flows to those advantaged at wealth chain level. So, for example the tax system in a specific jurisdiction, in taxing consumption and subsidising private equity, might be seen to effect a transfer of wealth from the customer base of a pharmaceuticals retailer consisting predominantly of low- to middle-income women to the predominantly male high-income personnel of the private equity fund which owns it (Women for Tax Justice, 2014).

Conclusions and ways forward

We have combined analytic frameworks relating to globalised production and consumption and the global tax system to argue that – in their present form – both systems reproduce global inequalities between firms, countries, classes and genders. We argued that the smile curve and related incarnations of a hierarchy of ‘value added’ in the social and international division of labour are not based on the production of value but its capture, principally through legal arrangements of property relations (for example, class monopoly rent). We then linked the GVC with the GWC model so as to map how the burden of tax is predominantly borne by labour rather than capital along the chain. This two-dimensional analytic (i) highlights the class and gender dynamics of value production and appropriation, and the mechanisms by which adverse features of those dynamics are exacerbated and perpetuated through the tax system, and (ii) provides a schematic map upon which specific problems of that nature can be projected.

For those more familiar with the global production system than tax, the key message of our combined analytic is that simplistic ‘upgrading’ objectives which ignore capital’s drive to maximise post-tax profit are of little use in redressing the
balance of global inequality. Instead, reallocating the tax burden vertically up the wealth chain towards capital is a fundamental requirement if pursuing such objectives is going to materially (in both senses) enrich anyone other than local elites. For those more familiar with the tax system the key message is that profitability within multinational enterprises may reflect surplus extraction rather than wealth creation; value capture rather than value creation. This means that tax reforms intended to ameliorate global inequalities must recognise the possibility that the tax base constituted by corporate profitability may have to be reallocated for tax purposes not merely to jurisdictions where other group members are active (for example, apportioning tax from a retailer’s business activities to the country where products are sold rather than offshore), but outside the corporate group altogether, to elsewhere in the value chain where the value captured by ‘lead firms’ is actually created (Quentin, 2017). By way of illustration: pursuant to such reforms, taxing rights over the profits of clothing retailers in wealthy countries would largely find themselves reallocated to places like Bangladesh, Cambodia and Indonesia, where the clothing is made and places like China and India where cotton is grown, notwithstanding that the lead firms profiting from global apparel value chains generally have no corporate tax footprint at all in those jurisdictions.

Finally, the combination of the two analytics enables us to theorise certain key features of 21st century global capitalism (in particular financialisation, and the deployment of intellectual property as an instrument of market domination) as operating on two orthogonal axes of contention; the increasing dominance of rent-seeking over production within the private sector, and the increasing dominance of private sector surplus absorption over public sector surplus absorption.

Note

1 Authorship is equal. This chapter draws on D. Quentin and L. Campling (2018) Global inequality chains: integrating mechanisms of value
distribution into analyses of global production, *Global Networks*, 18(1): 33–56. All figures in this chapter are taken from that article.

**References**


