

Apple's Profits and Foxconn Workers' Wages

How an anti-imperialist covers up Chinese capitalism

by Charles Andrews

Most people know that Apple has its iPhone and other products assembled by contractors in China like Foxconn. They drive their workers to inhuman hours and intensity of work.

Every few years someone compares the workers' wages with the price of an iPhone. Perhaps the most recent of these studies is the 2019 paper, "The Rate of Exploitation: The Case of the iPhone," from the Tricontinental: Institute for Social Research directed by Vijay Prashad.¹

Taking the iPhone X as their example, Prashad and his colleagues at Tricontinental do arithmetic that they present as Marxist (p. 34f.):

Total value [*actually, price*²] of an iPhone X: \$999

Materials and other constant capital: \$370.89

Wages (variable capital): \$24.55

Hence:

Profit (surplus value): \$603.56

Rate of exploitation: $s/v = 603.56/24.55 = 2458\%$

The data is accurate enough, the comparison is dramatic, but the reasoning is ridiculous.

The Tricontinental writers believe they have made a "Marxist analysis of the rate of exploitation at play in the production of such sophisticated electronic devices." (p. 3) What they actually did was use money figures that do not correspond to labor-time realities.

Division of the working day

Marx showed that the rate of exploitation, of surplus value to variable capital, is the ratio of surplus labor to necessary labor. The workday can be divided into two parts. One is the time that suffices to produce the goods that the worker consumes; the remainder of the day is surplus labor, time that produces the capitalists' profit, or surplus value.

The workers in a society produce everything. They prepare each others' food, make their clothing, build the car or the bus or subway or whatever they use to

get around, produce their hot plate or stove, and so on. They also make the capitalists' machines, build their factories and offices, and produce all the food and luxuries that the capitalists consume.

In one example in *Capital*, Marx converted a rate of surplus value of 154 percent to the division of a ten-hour workday. Necessary labor is just under four hours and surplus labor just over six hours.³

For the Apple iPhone X, what would \$24.55 of variable capital and \$603.56 of surplus value mean during a ten-hour day? (Ten hours is in fact about what Foxconn employees must put in, six days a week, except when rush production of a new product forces them into overtime beyond that.) It would mean that the necessary labor is less than 24 minutes, while the surplus labor is nine hours and 36 minutes!

It is stupid to say that the food consumed by an assembly worker, his other daily expenses, replacement for the daily wear and tear on his clothes, and so on are produced in 24 minutes of labor. The Tricontinentalists' iPhone rate of exploitation has no anchor in reality.

What went wrong in their fairy tale? Marx gave us a profound explanation of how a self-contained economy works. His results also hold if the foreign trade of a country is a fairly small part of its total economy and even more so when trade is with countries at approximately the same level of productiveness. These conditions do *not* apply between the U.S. and China. We must examine the actual relationships.

International realities

Apple has its own workforce – engineers, technicians, the sales force in its stores, and office staff who handle administration of its global operations. Apple does not employ the workers at Foxconn, Wistron, Pegatron and the other assembly firms it contracts with.⁴ You could calculate a rate of exploitation for Apple based on its own workforce. We won't digress to that, but you can be sure it is a credible number, still proof of exploitation, but not 2458%.

Another error in the crude use of money figures stems from Apple's extraordinary profits. In the Tricontinental example, an Apple iPhone X sells for \$999, at least in the U.S. The value of one such phone, the labor embodied in it, is considerably less, because Apple has top-tier technology protected by patents, and it enjoys a mystique among the public, that enable it to charge a premium price. Samsung, Xiaomi and other smartphone companies also

contract with Foxconn and similar assembly firms, but their phones sell for less than Apple phones, even when the features are comparable. A Tricontinental computation for the same labor assembling these phones for the same wage would come up with a very different result. Marx's rate of exploitation is determined in production; the Tricontinentalists' figure varies with the competitive standing of Foxconn's capitalist customers.

An activist proposal

There is another way to see the systemic untruth of the Tricontinental calculations: consider an activist proposal. Back in 2014 Ralph Nader wrote an open letter to the CEO of Apple about the long hours and low pay at Foxconn, which the *Wall Street Journal* graciously published. He proposed:

“Factory workers in Apple’s supply chain make average salaries of, estimating at the high end, about \$500 per month for about 80 hours of work per week. Doubling monthly salaries and cutting hours in half – reforms that would make great strides towards having Chinese factories meet modern, dignified standards of a living wage from a 40-hour work week – would cost ~\$1500 per month (~\$18,000 per year) for each factory worker.”⁵

Like the good lawyer that he is, Nader began with a strong negotiating position. Suppose Apple countered with an offer simply to double the wage. That would add \$24.55 to the cost of an iPhone, a mere 2.5 percent of the retail price. Surely Apple could do that and continue to prosper. Indeed, the goodwill value would probably be worth it. Apple could publicize its generosity, reduce its advertising budget somewhat, and make people feel good about buying an Apple phone.

Actually, the wage is only one point of interest to Apple. When Apple contracts out assembly, what it really cares about is just-in-time management. It demands that Foxconn coordinate minimized inventory, maintain secrecy before product announcements, and ramp up huge spurts of output for a limited time, such as at product introduction. In 1998 “Steve Jobs wanted someone who knew how to build just-in-time factories and supply chains as Michael Dell had done. ... Tim Cook cut inventory from one month’s worth to 2 days worth of inventory.”⁶

Chinese capitalism

Of course, Apple will not do what Nader asked, not even half of it. Why not? The answer is not generalities that capital squeezes out every last penny, that

Apple aims for maximum profit, and so on. There are specific, compelling economic forces in operation. They operate *in Chinese capitalism*.

First, the assembly workers are employed by Foxconn and the other companies previously mentioned. The contract firms assemble products for Dell, Samsung, LG, HP, as well as Chinese phone firms like Xiaomi. Big as these corporations are, they do not possess the dominant market glow and the super-high margins that Apple enjoys. The cost of contract assembly to them matters a lot. Obviously, Foxconn would not pay one wage to employees who put together Dell computers and twice that wage for essentially the same work on Apple products. But if Foxconn doubled the wages of all its workers, competitor contractors would lure away Dell and other Foxconn clients.

Second, China has many more workers who sweat long hours at low pay in domestic firms. They produce refrigerators, other appliances big and small, and many other things, for domestic sale and for export. In class terms there is, at bottom, one labor market in China. One class, the capitalists (including state-owned firms), buys labor power from the other class, the workers. Most of the capitalists are domestic, while some are foreign.

In this labor market there are long hours, noxious chemicals and unsafe machinery, forced overtime, and barracks discipline. The one legal trade union in the whole country is at best a charity, not an organization of collective struggle. People are on their own to find a job. They come from villages and small towns to the coastal metropolitan areas where capital chooses to build and produce. When things get so bad at a company that the workers boil over in anger, demand relief, and walk out, hired goons or police or both rush to the scene, beat up the workers, and make arrests.

The inequality of income in China is close to that in the United States.⁷ China has its super-rich like Jack Ma⁸, its “ordinary” capitalists, a layer of better-off professionals, and vast legions of factory workers, construction laborers, delivery persons on bicycles, as well as cooks, food servers and sales clerks in small shops.

We have not computed the rate of exploitation in China. It is no doubt well over 100% – that is, workers spend more than half the workday producing surplus value for the capitalist class – but it is also not so high as 2500%, which would have resulted in an economic and/or political explosion long ago.⁹

Scientific economics and revolutionary politics

Marx founded scientific economics. He set the labor theory of value on a rigorous foundation that it had lacked in Adam Smith and David Ricardo. He discovered surplus value. These signal results were part of a larger triumph. Marx turned history into a science. He made historical and social investigation powerful and true; he did not reduce it to a line of arithmetic that gives an incredible result.

Marx, as Lenin emphasized and practiced himself, always made a solid investigation of a specific problem, which is usually called the concrete analysis of concrete conditions.¹⁰ As soon as you do that in the case of the Apple iPhone, the Tricontinentalist number falls apart.

The ideological payoff

The Tricontinentalists' concentration on the Apple iPhone and their wildly erroneous figure of exploitation supports a flawed worldview. It gives prominence to U.S. corporations and to workers in China who make stuff for them – while it glosses over Chinese capitalism and the regime that enforces it.

Institute director Vijay Prashad, despite publishing this paper about the huge exploitation of workers in China, insists in other places that China is not capitalist but socialist!¹¹ He says that China is engaged in a socialist *process*. It is a ploy by which he walks around the capitalist essence of the economy (the capitalist *process*, if you please), the class divide, the oppressive labor. In support of this politics the Tricontinentalists chose a convenient slice of reality, Apple and the assembly workers who make iPhones, then botched analysis of it.

In the middle of the last century China was on the socialist road. Workers had rights and dignity. The shops and factories were not entangled in a capitalist jungle, clawing to accumulate and grow faster than the other guy. Life got better, and it was a shared, roughly equal prosperity. But within two years after Mao Zedong died in 1976, the course was reversed. This is what the Tricontinentalists do not tell you.

In the socialist period the Chinese people did enormous work. They terraced and leveled land, dug irrigation systems, and bore extreme hardships in the beginnings of industry. The Deng Xiaoping group enjoyed this head start when they wheeled around to the capitalist road in 1978. No one can deny that China moved at breakneck pace through *capitalist* industrialization. China turned itself into a major industrial economy, like Japan from the end of World

War Two to the 1970s, but from a more impoverished starting point and on a vastly larger scale.

Prashad overlooks the contrast with another rapid but *socialist* industrialization: the Soviet Union from 1927 to 1953. The Soviet people fought and built their way out of feudal agrarianism – without giving birth to outrageously rich moguls; with the security of planned migration from farm to factory; and without handing over millions of workers to Foxconn discipline and exploitation for the benefit of Apple, WalMart, and Wall Street.

No friend of U.S. workers

The Tricontinentalists see the U.S. population mainly as consumers who buy the Apple iPhone. Their worldview barely has a place for the outsourcing of millions of U.S. jobs to China.¹² However, the iPhone is not the big issue in the lives of most U.S. workers. What matters is that they no longer make the kitchen faucets, power hand tools, tire jacks, light bulbs, drywall, and solar panels that are now imported from China.

In the United States, “Detroit” once referred not only to a city but to an industrial complex that was dense in the Midwest and spanned the country. Today, “Silicon Valley” alludes to a few campuses of high-tech innovation. They do not generate nearly enough good jobs to replace the ones lost to outsourcing. U.S. capitalism is no longer capable of the relative mass prosperity that the working class fought for and won in the first half of the twentieth century.¹³

There are two big powers in the world today, the United States and China. The former rots within while the latter hides its internal contradictions and is expansionist. The working class around the world faces this global reality. Let us understand it with reasonable accuracy. The working class that nurtures a movement and a party with such understanding will be a working class that overthrows capitalism and raises the banner of no rich and no poor, dedicated to the common good and the realization of our humanity in our work.

Notes

¹ “The Rate of Exploitation: The Case of the iPhone,” September 22, 2019, https://www.thetricontinental.org/wp-content/uploads/2019/09/190928_Notebook-2_EN_Final_Web.pdf via

<https://www.thetricontinental.org/the-rate-of-exploitation-the-case-of-the-iphone/>

² Price, not value. “The vulgar economist has not the faintest idea that the actual everyday exchange relations can not be directly identical with the magnitudes of value.” Letter by Marx to Kugelmann, July 11, 1868, https://www.marxists.org/archive/marx/works/1868/letters/68_07_11-abs.htm

³ Karl Marx, *Capital*, Vol. I, “The Rate of Surplus Value,” Section 1. Simply, 154 is to 100 as six hours is to four hours.

⁴ Patrick Moorhead, “Who Are Apple's iPhone Contract Manufacturers?”, *Forbes*, April 13, 2019, <https://www.forbes.com/sites/patrickmoorhead/2019/04/13/who-are-apples-iphone-contract-manufacturers/?sh=3ef597944e6d>

⁵ “Ralph Nader to Apple: Fewer Buybacks, More Worker Pay,” *Wall Street Journal*, Oct 24, 2014, <https://online.wsj.com/public/resources/documents/LetterfromRalphNadertoAppleCEOTimCook.pdf> via <http://blogs.wsj.com/moneybeat/2014/10/24/ralph-nader-to-apple-fewer-buybacks-more-pay-for-workers/>

⁶ “How, precisely, did Tim Cook fix Apple’s broken supply chain?”, Quora, May 1, 2015, <https://www.quora.com/How-precisely-did-Tim-Cook-fix-Apple%E2%80%99s-broken-supply-chain>

⁷ The Gini coefficient, a measure of income inequality, is approximately 0.46 in China and 0.48 in the U.S. See <https://www.scmp.com/economy/china-economy/article/3075497/coronavirus-chinas-income-inequality-could-expand-2020> and <https://www.forbes.com/sites/andrewdepietro/2020/01/07/income-inequality-rise/>

⁸ Cry no tears for Mr. Ma over his recent troubles with the government. “The strengthened antitrust supervision over the IT enterprises ... is by no means intended to strangle these big corporations.” “Antitrust probes will ensure healthy development of platform economy”, *China Daily*, Dec. 24, 2020, <http://global.chinadaily.com.cn/a/202012/24/WS5fe499c6a31024ad0ba9e604.html>

⁹ Things were bad in 1989 but nowhere near 2500%. When students launched a so-called democracy movement in Beijing's Tiananmen Square, millions of workers in that city and others marched in the streets, raising *their* demands against inflation and economic insecurity. The government, with some effort, put together an army of troops who raised their machine guns and mowed down workers arrayed in peaceful ranks in the streets. See the eyewitness account in William Hinton, *The Great Reversal*, Monthly Review Press, 1990.

¹⁰ Mao Zedong urged that we seek truth from facts. There are objective facts, and we must find the truth in them – the processes that make the facts and change them. Deng Xiaoping said seek truth from facts, too, but he reverted to an older, pragmatic meaning: look at the immediate problem and guess what might be a solution. Deng had contempt for deep truth.

¹¹ “We Are Trying to Build Humanity’—Vijay Prashad on Chinese Socialism & Internationalism,” Qiao Collective, May 5, 2020, <https://www.qiaocollective.com/en/articles/conversation-vijay-prashad> . Prashad is also a Senior Fellow at Renmin University of China (http://en.rdcy.org/indexen/index/leader_cont/pid/1094/id/681306.html)

¹² Charles Andrews, “Not Populism, Not Socialism, but Communism Will Get It Done,” May 31, 2020, <http://www.idcommunism.com/2020/05/not-populism-not-socialism-but-communism-will-get-it-done.html>

¹³ See this writer's *The Hollow Colossus*, <http://www.hollowcolossus.com>