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Rectification, exploitation and the Third World: A critique

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1. Introduction

Rectification is a concept which has often been applied to the relationship between developed and developing countries. Claims to rectification in this realm are generally based on theories stressing the exploitative nature of the contacts between rich and poor countries. The reasoning then is that the developed countries have – unjustly – gained from their relations with the developing countries to such an extent that they now have a *duty* to redress the privation experienced by people in the Third World.[1] Dependency theory clearly is one of the main theoretical perspectives which have nourished the ideas on exploitation and rectification.

Dependency theory has originated as an alternative to Western theories of development.[2] It has launched a largely successful attack on established ideas, such as the idea that previously undeveloped non-Western countries should 'modernize' along the lines of Western development and the idea that international free trade would be beneficial to all trading partners. It is hardly an exaggeration to say that dependency theory has created a 'paradigm' of its own; one of the foremost critics of this theory has written that this approach to the study of the Thirld World 'is in its prime'.[3]

Arguments based on or related to dependency theory have often been used as scientific support for the claim that a *duty of rectification* exists for the developed *vis-à-vis* the developing countries.[4] It is argued that the historical development of the capitalist economies would not have been possible but for the exploitation of the now underdeveloped countries. As a consequence, it is claimed that poverty and other problems of the Third World can be attributed to the activities of capitalist countries or their representatives.

For instance, in a speech in Amsterdam in April 1986 the Zambian President Kenneth Kaunda, probably the most explicit spokesman of Third

World nationalism, stated that the main cause of the poor countries' present distress is the 'heritage of colonialism'. He added that the Western countries now have a *duty* to counter the negative consequences of colonialism by supporting the Third World with money – this transfer of wealth should, moreover, not take place in the form of loans, but in the form of gifts.[5] Likewise, the arguments for the construction of a 'new international economic order', which have been brought forward at several international conferences during the 1970s, have at least partly been inspired by notions of exploitation and rectification. The appeals for a reform of the existing economic system were fostered by the conviction on the part of Third World politicians that the present concessions would be a long overdue reparation for past exploitation.[6]

In the same vein, the granting of independence to the former Dutch colony of Surinam in 1975 has been accompanied by a discussion about the duty of the Netherlands to provide Surinam with a considerable amount of aid. The reason given was that this aid was needed as a means to overcome the negative consequences of the centuries of colonization. One of the considerations of the Dutch government for the actual granting of about three thousand million guilders to Surinam seemed to be its fear of being regarded as neo-colonialist if it would act otherwise.[7]

Since the idea of rectification has been a popular and important political concept, the focus of this article will be on the underpinning of this idea. As will be outlined in section 2, the poverty and hardship of Third World countries have often been explained with reference to several *mechanisms of exploitation*, most notably unequal exchange, the activities of multinational corporations and the progressive deterioration of Third World countries' terms of trade. Section 3 will contain a critique of the idea of rectification along several lines. First, the link between dependency theory and the idea of rectification will be examined. Next, the mechanisms of exploitation will be studied on their own merits, since these mechanisms are often used to support the claims of rectification. In section 4, several concluding remarks will be made.

2. Mechanisms of exploitation

In theories of dependency, as in other related, mainly Marxist theories, several central mechanisms of exploitation have been identified. Paul A. Baran has developed a widely accepted notion of exploitation. He has defined the exploitation of the underdeveloped by the developed countries as the transfer of surplus from the former to the latter countries. In this conception it is both the *actual surplus* and the *potential surplus* that is impeded from being realized in the underdeveloped countries. In Baran's terms *actual economic surplus* is 'the difference between society's *actual* current output and its *actual* current consumption'[8]; the surplus is identical with current savings or accumulation. *Potential economic surplus* is 'the difference between the output that *could* be produced in a given natural and technological environment with the help of employable productive resources, and what might be regarded as essential consumption'.[9]

In dependency and related theories different ways of surplus transfer have been identified. In the first place, many authors have paid attention to the removal of previously accumulated surplus from the developing countries during the first period of European expansion. The behaviour of the Spanish *conquistadores* is often mentioned as an example of these practices.[10]

In the second place, the transfer of surplus value by means of international trade has been studied. The process of so-called unequal exchange is said to lead to a transfer of surplus value, since the lower wage level in the underdeveloped countries leads to lower prices for the products of these countries; hence, the developed countries have an oppurtunity to purchase the latter products at prices below the real value – i.e., the value of the embodied labour – of these products. Unequal exchange can be found during all historical phases in the development of the world capitalist system. As Andre Gunder Frank has written, during the phase of trade capitalism (1550-1770) unequal exchange took the form of the trading of manufactures for luxury goods. During the period of industrialization (1770-1870) the exchange of industrial products for primary goods took the place of the previously flourishing trade. In the period of developed capitalism (1870-1930) the orientation of the underdeveloped countries toward primary products – and, consequently, unequal exchange – was enhanced by the development of typical export countries and the growth of export bourgeoisies, both stimulated by the core countries. The period of monopoly capitalism (1950-now) has witnessed an 'institutionalization' of unequal exchange in multinational corporations.[11]

In the third place, the activities of Western corporations in developing countries have been studied as an instrument for the transfer of capital from the periphery to the core. It has been argued that the investments of these corporations lead to a net outflow of capital from the developing countries, since the corporations have a tendency to 'repatriate' the profits they make in the periphery.

In the fourth place, and connected with unequal exchange, a great number of theorists have studied the deterioration of the terms of trade of the underdeveloped countries. According to dependency and related theorists the production prices of the underdeveloped countries decreased relative to those of the developed countries. As a consequence, the consumers in the core were able to purchase more of the periphery's products with the same amount of money, whereas the people in the periphery witnessed the purchasing power of their production decrease.

2.1 *Unequal exchange* – Of all mechanisms of exploitation which have been outlined above, *unequal exchange* is among the most widely debated ones. Therefore, I will treat it in somewhat more detail.

The best-known author on unequal exchange is no doubt *Arghiri Emmanuel*. The central assumption of his book *Unequal exchange* is that the value of commodities on the international market is not formed in the same way as on national markets, since labour – in contrast with capital – is not mobile across national borders. As a consequence of this, according to Emmanuel, there is no equalization of wages among countries comparable to the equalization of the rate of profit.[12] The wage differences persisting as a result of these characteristics of the world economy are detrimental to the prosperity of the peripheral countries.

Essentially, international trade is nothing else than the exchange of values among countries. According to Emmanuel these values are a reflection of the *labour power* that is used to produce commodities. These values differ from the actual production prices formed on the international market, since the wage level, which determines the productions prices of commodities, is not the same in different countries. It is precisely this characteristic of the international economy which leads Emmanuel to reject the orthodox Ricardian theory of comparative costs: in his view, Ricardo and his followers have advanced invalid arguments for restricting the discussion of international trade to situations in which all participants actually *gain* from this trade. Emmanuel asserts that the equation of the price of production with value has induced mainstream economists to believe that trade is inherently benefical to all participants, thereby losing sight of the exploitative nature of trade between developed and underdeveloped countries.

The wage level of different types of countries is central to Emmanuel's theory of unequal exchange. It is the disproportionate inequality of wages, as compared to the value of labour power embodied in commodities, that leads to the transfer of surplus from the periphery to the core. This process of exploitation can be illustrated by one of Emmanuel's famous examples of unequal exchange in international trade between an underdeveloped country (B) and a developed country (A).

Country	K	c	v	m	V	R	T	p	L
A	240	50	100	20	170	150	25%	60	210
B	240	50	20	100	170	70		60	130
	480	100	120	120	340	220		120	340

in which: K: total capital invested;
c: constant capital consumed;
v: variable capital (labour wage);
m: surplus value;
V: value (c+v+m);
R: cost of production (c+v);
T: rate of profit (Σm/Σk);
p: profit (TK);
L: price of production (c+v+p).
All numbers, except T, are *labour hours*.

In this example, which, according to Emmanuel, denotes unequal exchange in the strict sense[13], two countries produce commodities with a total value of 170 hours of labour each. Since the rates of surplus value vary between countries A and B, the aggregated prices of production (L) are disparate. The rates of profit in both countries have been equalized by the mobility of capital; as there are no impediments to the transfer of capital from one country to another, the rates of profit in all countries tend to be equal.

The prices of production being different from the actual value of the commodities produced in countries A and B, international trade between A and B will lead to a *net transfer of value* from country B to country A. Instead of exchanging the commodities at the rate of 170:170 = 1:1, which would be the result of exchange *based on value*, countries A and B exchange their products at the rate of 130:210 = 0.62:1. In the latter case, one hour of B's living labour is equivalent to 0.62 of A's. It is exactly this inequality which is described as 'unequal exchange'. In Emmanuel's words:

> 'Regardless of any alteration in prices resulting from imperfect competition on the commodity market, unequal exchange is the proportion between equilibrium prices that is established through the equalization of profits between regions in which the rate of surplus value is 'institutionally' different – the term 'institutionally' meaning that these rates are, for whatever reason, safeguarded from competitive equalization on the factors market and are independent of relative prices.'[14]

From the above it can be inferred that wages are considered to be the *independent* variable in the process of price formation. If the workers of a country are able to demand higher wages, the rate of surplus value and the rate of profit in the country concerned will decrease in favour of the wages. In the long run, when capital mobility will have equalized the rates of profit, the prices of production of this country will increase in comparison with the prices in those countries which have not experienced a similar wage rise.[15]

According to Emmanuel, another consequence of the relative rise of the wage level in developed countries is the worsening of the terms of trade of the underdeveloped countries. An increase of the wages in the former countries will lead to a relative rise of the production prices of their commodities. As a corollary of this development the volume of use values (V) exported by the developed countries will diminish, making the underdeveloped countries worse off. The rate of exchange between developed and underdeveloped countries will alter in favour of the former countries: they will be able to buy more commodities abroad with the proceeds from the sale of the same quantity of export goods as before.

2.2 *The activities of Western corporations in underdeveloped countries* – In dependency and related theories, Western (multinational) corporations are seen as one of the most important instruments of the core countries for the exploitation of the periphery. On the whole, the supposedly deleterious effects of multinational corporations' activities have mainly been localized in the post-World War II period, which Andre Gunder Frank has termed the period of *monopoly capitalism*. As I have stressed above, multinational corporations are seen as actors in the process of unequal exchange. Moreover, they are said to have extracted an enormous amount of capital from the underdeveloped countries. In this section, I will pay attention to the latter mechanism of exploitation.

Many authors have stressed the distinction of the post-World War II period as compared with earlier periods in the history of the world capitalist system. According to Andre Gunder Frank the period since the Second World War has been characterized by:

> '[a] transformation of what had been industrial and then financial capitalism into monopoly capitalism. Beginning typically in the United States but then arising also in Europe and Japan, the simple industrial firm or financial house of old was replaced by the nationally-based but world -embracing and really international giant monopoly corporation.'[16]

The most important problem for the peripheral countries, according to Frank, is the enormous outflow of surplus from their economies to the

rich countries. Since the Western-owned companies are far too powerful for the peripheral countries to control them, the latter cannot prevent this capital outflow, although it is extremely harmful to their economies. As a consequence of the outflow of capital the peripheral countries are left with too little means to set up growth-inducing industries.

The main mechanism for the transfer of surplus from the periphery to the core in this context is the investment which core-based companies make in the peripheral countries, thereby using both capital of their own and capital they have borrowed in the periphery. Subsequently, local loans are paid back with part of the profit the companies have made in the periphery. The remainder of their earnings can be 'repatriated' to the parent company in the core countries. In the opinion of Andre Gunder Frank the original investments in the underdeveloped countries are not nearly so important as the amounts of surplus that are 'repatriated', as a consequence of which underdeveloped countries are impoverished.

The main effect of this exploitation is that the unemployment in the periphery shows a tendency to increase steadily. Moreover, income inequality increases, the debt position worsens and national income per capita declines. As Frank concludes, 'the general standard of living in Brazil, and in almost all other poor countries, was *higher before* they became entangled in the relationship of "trade", 'aid", and especially of "foreign investment" than it is today'.[17]

2.3 *Deterioration of the terms of trade* – As I have pointed out above, the theory of unequal exchange is connected with the idea that the terms of trade of primary goods producing underdeveloped countries suffer a continuous deterioration. This mechanism is often perceived to be an exploitative mechanism of its own.

According to Samir Amin, 'the worsening in the terms of trade for the underdeveloped countries began with the rise of monopolies, imperialism, and the "aristocracy of labour".[18] It is especially during the last century (from about 1880 onward) that monopoly capitalism has expanded into the underdeveloped areas and created a single division of labour in the world economy. In this division of labour, the underdeveloped countries have specialized in primary products (raw materials, agricultural products), while the developed countries have industrialized and have begun to export manufactured products.

The specialization of production in the world capitalist system has manifested itself in the nature of the respective national economies. As is most important with respect to the terms of trade, the effects of technological progress on the national price and wage levels are different in developed industrial and underdeveloped agricultural economies. In the industrialized world technological progress leads to an increase in wages *and*, because of the monopoly character of industry, to a maintenance of the price level. In the predominantly agricultural countries this process is unlikely to take place; in these countries there is a huge surplus of labour and, consequently, wages are not increased. The surplus of labour persists and becomes even larger, since the gains from technological progress, which flow to the landowners, are not reinvested but are mainly spent on luxurious consumption. In the industrialized countries, on the other hand, the profits resulting from production are reinvested, thereby creating an additional demand for labour in the capital goods industry.[19] As a result of these divergent patterns of development in the respective countries, the terms of trade of the underdeveloped countries show a tendency to deteriorate.

Moreover, Andre Gunder Frank has pointed to the supposedly adverse effects of the activities of multinational corporations in the underdeveloped countries. As we have seen above, in Frank's opinion these corporations usually extract more capital as a profit from the developing countries than they have invested there. As a consequence, many developing countries are said to suffer from a chronic balance of payments deficit and to experience steadily worsening terms of trade.[20]

3. A critique of the idea of rectification

This section will serve two different aims. First, in section 3.1 it will be argued that the derivation of a duty of rectification from dependency theory is incorrect, since dependency theory is basically a structuralist and even determinist theory which does not allow a fundamental reform of the existing international politico-economic order such as the one prescribed by the 'rectificationists'. Secondly, in sections 3.2 through 3.6, the general concept of rectification will be discussed.

3.1 *Dependency theory and rectification* – As I have already pointed out above, dependency theory has often been used as an academic legitimation of the political claim to rectification. In section 3.1.2 I will present the problems connected with trying to derive rectificatory claims from dependency theory. First, in section 3.1.1, I will briefly outline the central tenets of dependency theory.

3.1.1 *The central tenets of dependency theory* – Although it is difficult to

make generalizing statements about the precise content of dependency theory, it is no exaggeration to say that there are several broad lines of agreement among the dependency theorists. In this section, the central theses of dependency theory, as I perceive them, will be presented.[21]

First, most dependency theorists agree on the slow but sure development of a so-called *world capitalist system*. According to these theorists, this world system has originated in Europe around 1500 and has expanded to all parts of the world since that time.[22] The fundamental characteristic of the world capitalist system – in contrast to all other politico-economic systems in world history – is the existence of *one division of labour*, which links and integrates all countries of the system. As one author has written, this might be thought of a 'a series of metropolis-satellite links stretching from the Bolivian peasant in an unbroken chain to the rich New York capitalist'.[23] According to the *dependentistas*, it is the extra-European world which has been forced to produce almost exclusively primary products, such as raw materials, agricultural products, etc.

The second aspect most dependency theorists agree on is the essential *polarization* in the world capitalist system. A primary distinction has been made between – depending on the concepts used – *core* and *periphery* or *metropolis* and *satellites*. As in traditional Marxist theory it is assumed that there are existential, and hence unsolvable, conflicts of interest between different groups – in dependency theory the basic conflicts of interests are not those between different social classes but those between core and non-core, or peripheral, *countries*. The relationship between these two groups of countries is one of *exploitation*. According to the *dependentistas*, the ruling strata of the core have expressly created a structure in which they are enabled to exploit the peripheral countries, either with or without the support of the rulers in the latter countries. As we have seen in section 2, Paul A. Baran has defined this exploitation in terms of the transfer of surplus from the underdeveloped to the developed countries.[24] This way of characterizing the relationship between core and periphery has become dominant among the dependency theorists. Among others, Andre Gunder Frank, Samir Amin and Arghiri Emmanuel have stressed this method of exploitation.[25]

The third point of agreement among the authors of the dependency approach concerns the correlation between *development* in the core and *underdevelopment* in the periphery. It is no exaggeration to depict this as the *pièce de résistance* of dependency theory. As it has been stated by Andre Gunder Frank:

> 'Economic development and underdevelopment are the opposite faces of the same coin. Both are the necessary result and contemporary manifestation of

internal contradictions in the world capitalist system. Economic development and underdevelopment are not just relative and quantitative, in that one represents more economic development than the other; economic development and underdevelopment are relational and qualitative, in that each is structurally different from, yet caused by its relation with, the other.'[26]

Samir Amin has concluded from his study of 'unequal international exchange' that:

> '[a]nalysis of accumulation on a world scale shows that this accumulation always takes place to the advantage of the center: it is not the advanced countries that supply capital to the underdeveloped ones, but vice versa. This explains why the development of the latter countries is blocked – the "development of underdevelopment". From this it follows that development is possible for the countries of the periphery only if they break out of the world market.'[27]

It is clear from both quotations that the development of the core and the underdevelopment of the periphery are seen to be indissolubly linked throughout the history of the world capitalist system. It is argued that the core countries have gained so much from their relations with peripheral countries that the development of the former group has led to the underdevelopment of the latter one.

In the context of dependency theory, underdevelopment is fundamentally different from a mere lack of development: the concept of underdevelopment presupposes an historical relation of *exploitation* and a *diversion of funds* away from productive investment. It is argued that the indigenous capital of the periphery has been prevented from being accumulated, it being used to finance the luxury consumption of the ruling classes and to keep up a force of repression, thereby destroying the possibility of investment in industry and manufacture.

3.1.2 *The incompatibility of dependency and rectification* – William T. Bluhm has shown that political theories can be devided into two categories, one of 'naturalist' and another of 'noumenalist' theories.[28] In Bluhm's conception naturalist theories identify 'reality' and the 'empirical world', since they assume that '[n]o intelligible essences or other forms of nonempirical reality lie beyond or behind this world to lend it being and significance'. Noumenalist theories, on the other hand, equate 'the "best" or "rational" political order with a divinely ordained set of values (i.e., ends, goals) and rules of behavior which are understood as having the fullest or most perfect reality'. According to Bluhm, naturalist and noumenalist theories represent two broad schools of thought about the real, the good and about

ways of knowing them; in other words, both have their own ontological, ethical and epistemological assumptions.

Above it has been shown that dependency theory focuses on the existence and historical development of the so-called world capitalist system. Its generalizations are explicitly meant to be *empirical* judgements of past and present reality. The shift of attention to other phenomena in this reality, as compared with traditional theorizing in this realm, is a corollary of dependency theory's 'paradigmatic shift', not necessarily of inherently different ontological assumptions. Dependency theory is clearly rooted in a *materialist* analysis of world history: all singular events and processes are related to the economic interests of groups and nations. The analysis of the main tenets of dependency theory has made clear that the pursuit of gains and profits is interpreted as being the ultimate driving force behind the actions of important actors in the world economy.

Although the *dependentistas* have tried to analyze the empirical world in terms of the development of a world capitalist system, exploitation and the causal relationship between development and underdevelopment, dependency theory cannot be regarded solely as an attempt at *naturalist* theorizing. In this respect, there is a striking parallel with Marxist theory. With some minor alterations, the following quotation of William T. Bluhm might be applied to dependency theory:

> 'The naturalist metaphysics of Marx seems, in fact, to rule out of court all values but technical mastery, power. Yet one has always the feeling that Marx and Engels are trying to say that the freedom of their utopia is only the necessary condition for the realization of man's age-old dream of righteousness, justice, and the flowering of the spirit.'[29]

Likewise, dependency theory is not entirely made up of naturalist argumentation. It clearly has noumenalist features: for instance, *dependentistas* assume that there is an immanent force in world history which will lead individual states and nations to the realization of their essence, i.e., to a just society, in which everybody can live in freedom, without the fear of being exploited. It is only in this type of society, which is generally referred to as socialism[30], that all people have the opportunity to realize their own life plans.

As in Marxist theory, the dependency theorists' knowledge about the course of history is obtained in a 'scientific' way, viz. by the identification of so-called immanent laws of history. As Bluhm has argued, it is necessary to assume that one is in the possession of an 'intuitive faculty', a 'teleological reason' to be able to obtain this type of knowledge.[31] This epistemological assumption is obviously part of the noumenalist tradition.

The 'scientific laws' which have been formulated by the *dependentistas* mainly deal with the world capitalist system. In dependency theory the *system* and the laws operating within it dominate the *parts*, i.e., the countries constituting the international system. The theory is typically *holistic*, since it assumes that the *whole* is more than the *sum of the parts* and that the circumstances and the behaviour of the *parts* can only be understood and explained in conjunction with the *whole*. As Tony Smith has phrased it:

> '[dependency theory] forces the particular case to express its identity solely in the terms provided by the general category... [I]t refuses to grant the part *any* autonomy, *any* specificity, *any* particularity independent of its membership in the whole.'[32]

As it has been outlined above, dependency theory interprets world history as a process of incorporation of previously non-capitalist countries into the world capitalist system, a process which continues until the present day – at first by formal annexation, later – after the Second World War – by informal, neo-colonialist domination. The event of incorporation implies the subjection of previously sovereign territories to the laws of the world capitalist system: from the moment of incorporation onward, the incorporated country will suffer from surplus extraction by the developed countries.

The laws of the world capitalist system are assumed to be strict and not permitting individual core countries to alleviate the pressure of exploitation, at the risk of worsening their position *vis-à-vis* other countries. Therefore, the only way out for the exploited countries is *revolution*: the exploited peripheral countries must overthrow the order which has been imposed upon them by the core countries. It is only after the destruction of the world capitalist system that the peripheral countries can build up a just socialist order, without being burdened by the core countries' exploitative actions. In the logic of this theoretical stance it is impossible, even futile, to aim for a *rectification* of the losses of past exploitation as long as the world capitalist system still exists, since then the system's need for accumulation and exploitation wil continue to dominate the policy of the developed countries.

The conclusion of the argumentation presented in this section must be that dependency theory does not leave room for rectificatory measures. From the structuralist and determinist nature of dependency theory it follows that the laws of the world capitalist system determine the policies of individual states and that the only way to escape the exploitative relations of the international capitalist economic order is to dissociate one's own

country from the world economy. The determinism, moreover, leads to the idea that no short-term changes are needed, since in the long run a revolution will inevitably change all international economic relations. For these reasons, dependency theory should not be used as a legitimation for the claims to rectification.

3.2 *Unequal exchange* – Dependency and related theories alike have analyzed unequal exchange as an important mechanism of exploitation. The effects of this mechanism have been a corner-stone of the claims to rectification. At least three points of contention can be identified.[33]

In the first place, the fact that the theory of unequal exchange is based on the *labour theory of value* has been criticized, since the latter theory is inadequate for the explanation of economic processes, especially when they concern relations between more and less developed countries. The labour theory of value is founded on the assumption that the value of commodities can be expressed in units of homogeneous abstract labour. Since, however, most commodities are produced by a combination of labour, tools and materials, the value of these tools and materials must be reduced to the labour which was needed to produce them. As Kolakowski has emphasized, this leads to a *reductio ad infinitum*[34]; as a consequence, the determination of the exact value of commodities is virtually impossible. More importantly, labour cannot be said to be homogeneous. There are enormous differences in the nature of labour, especially where labour in Western and non-Western countries is concerned. Apart from the 'visible' effects of education on the quality of labour there are so-called non-reproducible skills, which lead to irreducibly heterogeneous types of labour.[35] Among the 'visible' effects are the skills people obtain in performing their jobs in the production process; the non-reproducible skills are, for instance, creativity and the mental capicity to adjust to rapid changes in the production process, and these are not to be 'learnt' at school. Both problems – the indetermination of the value of commodities and the heterogeneity of labour – make that the labour theory of values useless for the analysis of economic processes.

In the second place, there are other problems with respect to Emmanuel's conception of unequal exchange. One of these is Emmanuel's assumption that commodities have *real values*, which are unrelated to the *prices* of these commodities on the world market. From this premise Emmanuel has derived the conclusion that the differences between *total values* – calculated on the basis of the 'embodied homogeneous labour' – and *total production prices* resulting from the operation of market forces tend to accrue to the countries with a high wage level, i.e. to the developed capitalist countries. The conception of *real value* is highly contestable, however. On the one hand, the concept of real values, as contrasted with the empirical prices of the market, is to a large extent metaphysical. It assumes that one can have insight into the question as to what should be called the 'just reality' which provides one with yardsticks to derive the 'real' and 'just' values. On the other hand, the possible contribution of capital to value is denied, and this is clearly counter-intuitive. As Kolakowski, among others, has written: would commodities that would have been produced without labour, i.e. in a fully automatized production process, be considered to have no value?[36]

The final problem of Emmanuel's conception of unequal exchange is connected with his depiction of the economic process. As I have pointed out above, Emmanuel considers the level of wages to be the determining element in the economic process. If, in Emmanuel's reality, there is a general wage rise in one of the countries, this country will experience an amelioration of its terms of trade and, as a consequence, it will obtain more value through the exportation of its own products. Moreover, those countries that do not increase their wages will experience a deterioration of the terms of trade. In his economic argument, Emmanuel does not pay attention to price elasticities. He overlooks the fact that an increase of the average wage level in one country without a corresponding increase of average productivity will probably lead to a rise of its export prices and, consequently, to a reduction of the volume of its exports. This means that the exact value of the price elasticity of import demand in foreign countries will determine whether a country is to benefit or to lose from an increase of wages.

3.3 *The activities of multinational corporations in Third World countries* – The supposedly deleterious effect of multinational corporations' activities in Third World countries is one of the most hotly contested elements of theories of exploitation. In this context it is mainly the 'repatriation' of profits to the developed countries by those corporations which is attacked. In my opinion, two questions are especially important, viz. the problem of so-called 'superprofits' and the problem of the harm to the developing countries caused by multinational corporations.

The problem of 'superprofits' is of considerable importance, since it is often claimed that a decrease of the rate of profit in developed countries necessitates an expansion of economic activity to the developing countries. In a recent article, the distinguished economist Bela Balassa has presented figures on the rate of profit which is being realized in the developing countries.[37] In the period 1979-1984, the profit of United States' manufacturing firms located in the developing countries averaged 10 percent, with the profits of firms based in Latin America – by far the most important area for U.S. corporations – being a mere 8 percent. By contrast, the profits in domestic activities averaged 13 percent during this period. About 40 percent of the profits have been reinvested in the countries from which they originated, which means that one can hardly speak of a large outflow of capital.

In addition to these results from contemporary research, it is possible to take a broader historiographic look. As Patrick O'Brien has shown, the average historical rates of profit earned on capital in commerce with the periphery appear to be normal and are not likely to have been an excessively large source of capital for the European countries.[38]

Although the multinational corporations 'repatriate' part of the profits they make in developing countries, this does not imply that the activities of these corporations are necessarily harmful to these countries. On the contrary, the investment of capital is not limited to the actual spending of money, but has a so-called 'multiplier' effect. As a consequence, the economies of developing countries are stimulated by foreign investment. Moreover, as the Marxist scholar Bill Warren has stressed, foreign investment never is a zero-sum activity: it is more often than not the case that both the developed and the developing countries gain from this type of economic activity.[39]

3.4 *The progressive deterioration of the terms of trade* – The deterioration of the terms of trade of the developing countries has often been interpreted as an indication of the impoverishment of these countries. It has been argued that the price level of primary products decreases, while the price level of manufactured goods increases. As a consequence of these two movements the developed countries are claimed to be paying less and less for their imports of raw materials and agricultural products, while the developing countries experience their export revenues to fall.

An important caveat about the use of figures expressing fluctuations in the terms of trade is directed at the real, i.e. economical-statistical, meaning of these figures. Since terms of trade figures are basically ratios of *prices*, they do not necessarily correspond with the welfare consequences of a rise of export prices or a fall of import prices: to grasp the implications for the welfare position of a country, one needs to have data expressing the reactions of supply and demand to these price fluctuations. For example, an increase of import prices might prove a benefit for the economy of a Third World country – although it results in a deterioration of the terms of trade – if it leads to a shift of demand from imported to locally manufactured goods. A related weakness of terms of trade data is that they do not reflect whether a deterioration of the terms of trade is the result of an improvement of productivity. In the case of productivity improvements there is a problem similar to the one above: as production prices tend to fall when a certain amount of products is made with less labour, export prices may fall as a consequence. This is reflected as a 'deterioration' of the terms of trade, although, strictly speaking, it need not – and usually does not – result in a worsening of the economic position of the country concerned.

Even if these reservations are taken into account, it is obvious that many authors have based their argumentation on a distorted image of the development of the Third World countries' terms of trade. As Patrick O'Brien has made clear, the terms of trade of the developing countries have improved continuously from around 1850 until 1883 followed by fluctuations which might be summed up as stability until the outbreak of the First World War. As O'Brien has calculated, the purchasing power of Third World exports has improved from the 1820s till 1910 by 30 to 50 percent. The period from 1913 until 1950 has been characterized by stability (1913-1929), serious deterioration (1929-1939, the period of the Great Depression) and recovery (1945-1950).[40]

Several authors, however, have reached a radically different conclusion. John Spraos and Prabirjit Sarkar, for instance, have recently concluded that the developing countries suffer from a deterioration in their terms of trade *vis-à-vis* the developed countries.[41] Although both acknowledge that the exports of developing and developed countries do not solely consist of primary or manufactured products, in their empirical analyses these scholars have assumed that the developing countries can be considered as primary producers and that the developed countries can be seen as producers of manufactures. As Bela Balassa has indicated, the identification of countries with the production of goods may well lead to seriously distorted judgements about reality. A more differentiated analysis of developments in trade has led Balassa to the conclusion that:

> 'the developing countries improved their terms of trade relative to the industrial countries in the period after the Korean War. It is further observed that primary and manufactured products exported by the developing countries increased more in price than goods in the same categories exported by the industrial countries and that improvements in the terms of trade were inversely correlated with the level of economic development.'[42]

The research cited here does not present a clear-cut overall picture of the developments in the terms of trade. Instead, it suggests differentiation, both with respect to groups of countries and to types of products. In connection with the present subject the most important conclusion must be that there is no unambiguous proof of long-term exploitation through unilateral deterioration of the terms of trade. As a consequence, no adequate legitimation for claims to rectification can be constructed.

3.5 *The dynamics of European development* – Although it is not the object of this article to explore the exact causes of European development in the last several centuries, it may nevertheless be useful to pay attention to the dynamics of this development. As it has been demonstrated in section 3.1.1, one of dependency theory's main theses is that the core countries have been able to develop at the expense of the periphery. In the words of Andre Gunder Frank, development and underdevelopment are even to be interpreted as 'two faces of the same coin'. This idea, which has been launched by several *dependentistas*, has found its way, in more or less 'vulgarized' form, into the writings of many '*non-dependentistas*'. Above, I have made an attempt to cast doubt on the assumption that core-periphery relations are inherently and necessarily exploitative. In this section I will consider the dynamics of European development in order to discover to what extent this development is the result of indigenous processes.

For readers of literature emphasizing the contribution of the periphery to the present wealth of the core countries it may be a surprise to discover that the commercial contacts between the European and the Third World countries have never been intense. Both the exports to and the imports from the Third World have hardly ever been more than 25 percent of total European exports and imports. The share of developing countries in European exports reached a maximum of 26.7 percent in 1953 and has fallen since to 13.9 percent in 1972. The share of developing countries in European imports reached a maximum of 25.6 percent in 1953 and has fallen to 14.8 percent in 1960. As a consequence, Europe's gross national product has never been more than marginally (1-4 percent) dependent on the exports to and the imports from the Third World.[43] Next to this, it is important to note that until the 1950s the industrial countries have *themselves* produced the quantities of primary products they needed. With respect to sources of energy the industrialized countries even produced more than they needed; the surplus was exported to the non-industrialized countries.[44] Moreover, as it has been remarked in section 3.3, the average rates of profit earned on European capital in commerce with the periphery appear to be normal.

Apart from this 'negative proof' with respect to the peripheral contribution to the development of the core countries, it is possible to refer to the unique constellation of factors which stimulated European development. In a lucid account of long-term economic change in Europe, E.L. Jones has demonstrated that Europe's political, technological and geographical characteristics have been favourable to economic development, especially when these are compared with the circumstances existing in the Ottoman, Mughal and Manchu Empires.[45]

In the realm of politics, European history has been characterized by the avoidance of despotism and plundering. Quite early in the history of Europe, the nation-state came to be the most important political entity; it proved to be an excellent mechanism of political organization, since Europe did not have the disadvantage of having to control a vast empire.

With respect to their technological development, it is striking that European countries managed to accumulate capital rather easily. On the one hand, this has been made possible by the relatively large amount of creative people who directed their talents to improving the means and methods of production. On the other hand, birth control has contributed a great deal to the accumulation of capital.

Finally, the geographical location of Europe proved to be extremely conducive to trade, especially overseas. Because of this characteristic Europe gained relatively cheap access to large external markets and to the rich resources of the Americas.

3.6 *The idea of rectification* – In dependency and related theories it is assumed that the proceeds of the labour of the inhabitants of Third World countries have partly been taken away (in other words: have been stolen) by people who did not perform the labour and, consequently, are not entitled to its fruits. Futhermore, it is often assumed that the Third World countries would have been much more developed were it not for centuries of exploitation.[46]

Apart from the fact that this is not an adequate interpretation of history – as has been argued above – there are several problems in upholding the claim that the Western countries have a duty to redress the situation of underdevelopment of the Third World. In the first place, it is not at all obvious that the Third World would have attained a much higher level of development in the absence of contacts and commercial relations with the West. As many scholars have argued, the former colonies would have been more likely to resemble countries such as Afghanistan, Ethiopia or Thailand, which have never been colonized, than Australia, New Zealand, Japan, Western Europe or the United States. The different historical experiences of Australia and Argentina are often mentioned in this connection: at the beginning of the twentieth century both countries had attained an equal level of prosperity, both specialized in wool, hides and

cereals, yet still Argentina's economic growth is now lagging far behind Australia's. This example illustrates that there are more factors responsible for the economic performance of countries than just their external ties.

The consequences of the above have been analyzed by George Sher in an article on the problems of rectification.[47] Following his approach, one might suppose that in the *actual* world, *Wa*, a country X has been exploited and, as a consequence, does not have the potential nor the incentive to be economically active. In the actual world such a country might become underdeveloped. In a *rectified* world, *Wr*, which lacks the exploitation of *Wa*, country X possesses both the potential and the incentive to be economically active. In this rectified world, X might attain a higher level of development and a higher average income. If *Wa* and *Wr* would be separated by several centuries it is not at all clear that X, after such a long time, is entitled to all that it would have achieved in *Wr*, since there can be, and probably are, more circumstances responsible for its lack of development. As George Sher has formulated:

> 'Where the initial wrong was done many hundreds of years ago, almost all of the difference between the victim's entitlements in the actual world and his entitlements in a rectified world can be expressed to stem from the actions of various intervening agents in the two alternative worlds. Little or none of it will be the automatic effect of the initial wrong itself. Since compensation is warrented only for disparities in entitlements which are the automatic effect of the initial wrong act, this means that there will be little or nothing left to compensate for.'[48]

It is obvious that the developed countries have caused great damage to several countries in Africa, Asia and Latin America, both during and after the colonization of these countries. It is not to be denied, however, that the latter countries have often gained from their contacts with the developed countries. When it is possible to connect present wrongs directly with the past actions of Western countries, these countries can be considered to have a duty to compensate for the wrong acts. When it is impossible to prove such a direct causation – as would be likely after so many years – there is 'little or nothing left to compensate for'. The problem of compensation is even enhanced if one takes into account that the population has changed in composition; then the question arises whether one generation can be said to be responsible for the actions of preceding generations, when later generations have benefitted by the (wrong) acts of earlier ones. This problem cannot be solved in this article, but it makes clear that the formulation of a duty of rectification gives rise to numerous other questions that have to be answered before an acceptable 'theory of rectification' can be formulated.

4. Concluding remarks

In this essay several possible grounds for rectification have been studied. The assertions about the mechanisms of exploitation have been examined in sections 3.2 through 3.4 and have all, for various reasons, proven to be problematic. The conception of unequal exchange appeared to be theoretically flawed. The activities of multinational corporations were concluded to be not necessarily exploitative; of course, this is not to say that no wrongs occur in the relationship between these corporations and developing countries. Moreover, the idea of a steady deterioration of the periphery's terms of trade proved to be unsupported by empirical data. In addition to this, the periphery's contribution to the development of the industrialized countries appeared to be relatively limited – this development has been caused mainly by factors internal to the industrialized countries. Finally, where there is obvious reason to rectify wrong acts performed in the past, it proved to be very hard – if not outright impossible – to make rectifications in a meaningful way, since it is nearly always unfeasible to localize the victims.

If we consider the arguments summarized above, it is obviously problematic to build a plausible argumentation on theories of rectification when one wants to aid developing countries. If one would try to do so, this aid would fall an easy prey to critics. P.T. Bauer, for example, has made a convincing attack on 'rectificationist' ideas in several of his articles.[49]

If, however, one is concerned about the situation of poverty in many countries of the Third World the above clearly is a disappointing result. Indeed, if rectification would be the only argument in favour of development aid to poor countries, the rejection of claims to rectification would be very ominous. Therefore – and I hope I have made clear the reasons for it – theories formulating a *duty* of the developed *vis-à-vis* the developing countries should not be based on pseudo-historical arguments such as rectification, but, for instance, on moral arguments.[50] Although this would be less comfortable politically – it will no longer be sufficient to stress the West's guilt; it will be necessary to argue and convince other people – it is more satisfactory if judged from a theoretical and intellectual point of view.[51]

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Notes

1. See Stanley Hoffmann, *Duties beyond borders: On the limits and possibilities of ethical international politics* (Syracuse University Press, Syracuse 1981), p. 158-160.

2. An adequate account of the development of dependency theory is given by e.g. Magnus Blomström and Björn Hettne, *Development theory in transition: The dependency debate and beyond: Third World responses* (Zed Books, London 1984).

3. Tony Smith, 'The dependency approach', in: Howard J. Wiarda (ed.), *New directions in comparative politics* (Westview, Boulder and London 1985), p. 124. Cf. his 'Requiem or new agenda for Third World studies?', *World Politics* 37, no. 4 (July 1985), p. 532-561.

4. Cf. P.T. Bauer, *Equality, the Third World and economic delusion* (Weidenfeld and Nicolson, London 1981), p. 66-85; Tony Smith, *The pattern of imperialism: The United States, Great Britain and the late-industrializing world since 1815* (Cambridge University Press, Cambridge 1981), p. 234-249; G. van Benthem van den Bergh, 'De schuldvraag als oriëntatiemiddel', in: *De staat van geweld en andere essays* (Meulenhoff, Amsterdam 1980), p. 7-46.

5. Dries van Ingen, 'De grote verdwijntruc: De verwording van de voedselhulp aan West-Afrika', *NRC-Handelsblad*, Zaterdags Bijvoegsel (November 1, 1986), p. 6.

6. See e.g. Robert K. Olson, *U.S. foreign policy and the New International Economic Order: Negotiating global problems, 1974-1981* (Westview, Boulder; Frances Pinter, London 1981).

7. See the articles on this subject which have been collected in: Rijksvoorlichtingsdienst, *Beleid Beschouwd*, no. 2925 (February), p. 3, 10, 12, 16.

8. Paul A. Baran, *The political economy of growth* (Monthly Review Press, New York 1957), p. 22.

9. Idem, p. 23.

10. E.g. Andre Gunder Frank, *World accumulation 1492-1789* (Macmillan, London and Basingstoke 1978), p. 36-45.

11. See Andre Gunder Frank, *Dependent accumulation and underdevelopment* (Monthly Review Press, New York and London 1979);Ian Roxborough, *Theories of underdevelopment* (Macmillan, London and Basingstoke 1979), p. 53.

12. Arghiri Emmanuel, *Unequal exchange: A study of the imperialism of trade* (Monthly Review Press, New York and London 1972), p. ix.

13. Emmanuel makes a distinction between unequal exchange in the *strict sense* and unequal exchange in the *broad sense*. In the former case inequality arises from the differences in wage level between two countries. In the latter case inequality is

the result of a differing 'organic composition of capital' – i.e., the ratio of the variable to the constant part of capital – and as such is not peculiar to the relations between developed and underdeveloped countries. An example of unequal exchange in the broad sense is:

Country	K	c	v	m	V	R	T	p	L
A	240	50	60	60	170	110	33,3%	80	190
B	120	50	60	60	170	110		40	150
	360	100	120	120	340	220		120	340

14. Idem, p. 61, 64.
15. Idem, p. 189-193.
16. Andre Gunder Frank, *Capitalism and underdevelopment in Latin America: Historical studies of Chile and Brazil*, revised and enlarged edition (Monthly Review Press, New York and London 1969), p. 296.
17. Andre Gunder Frank, *Latin America: Underdevelopment or revolution: Essays on the development of underdevelopment and the immediate enemy* (Monthly Review Press, New York and London 1970), p. 155.
18. Samir Amin, *Unequal development: An essay on the social formations of peripheral capitalism* (Monthly Review Press, New York and London 1976), p. 170.
19. Idem, p. 163-171 and Samir Amin, *Accumulation on a world scale: A critique of the theory of underdevelopment* (Monthly Review Press, New York and London 1974), p. 64-90.
20. Frank, *Capitalism and underdevelopment in Latin America*, p. 306-307.
21. The references to the dependency approach will be limited here to the work of Samir Amin and Andre Gunder Frank, since they are the two foremost scholars in this tradition.
22. Most dependency theorists do not include the socialist world into the world capitalist system. See e.g. Amin, *Accumulation on a world scale*, p. 2-4; Andre Gunder Frank, *Critique and anti-critique: Essays on dependence and reformism* (Macmillan, London and Basingstoke 1984), p. 208-299.

This position is different from the one taken by Immanuel Wallerstein. See e.g. *The capitalist world-economy* (Cambridge University Press, Cambridge; Editions de la Maison des Sciences de l'Homme, Paris 1979), p. 1-36.

23. Roxborough, *Theories of underdevelopment*, p. 45.
24. Baran, *The political economy of growth*, p. 22-43.
25. Frank, *Capitalism and underdevelopment in Latin America*, p. 6-20; idem, *Crisis: in the Third World* (Heinemann, London 1981), *passim*; Amin, *Accumulation on a world scale, passim*; Emmanuel, *Unequal exchange, passim*.
26. Frank, *Capitalism and underdevelopment in Latin America*, p. 9.
27. Amin, *Accumulation on a world scale*, p. 136.
28. William T. Bluhm, *Theories of the political system: Classics of political thought and modern political analysis* (Prentice Hall, Englewood Cliffs, N.J. 1978), p. 9-13.

29. Idem, p. 421.
30. See e.g. Amin, *Unequal development*, p. 370-385; Frank, *Latin America: Underdevelopment or revolution*, chapter 25.
31. Bluhm, *Theories of the political system*, p. 10.
32. Smith, *The pattern of imperialism*, p. 78.
33. I will not go into the Marxist criticism, since it is not interesting enough for a non-Marxist treatment of unequal exchange. Such Marxist treatment of Emmanuel's ideas can be found in e.g. Charles Bettelheim, 'Theoretical comments', Appendix I, in: Emmanuel, *Unequal exchange*, p. 271-322; Geoffrey Pilling, 'Imperialism, trade and "unequal exchange": the work of Arghiri Emmanuel', *Economy and Society* 2, no. 2 (May 1973), p. 164-185; Krishna Bharadwaj, 'A note on Emmanuel's "Unequal exchange" ', *Economic and Political Weekly* 19, no. 30 (July 28, 1984), Review of Political Economy, p. 81-87; Nirmal Kumar Chandra, 'Theories of unequal exchange: A critique of Emmanuel and Amin', *Economic and Political Weekly* 21, no. 30 (July 26, 1986), Review of Political Economy, p. 77-84.
34. Leszek Kolakowski, *Main currents of Marixsm: Its origins, growth and dissolution*, vol. I: The founders (Oxford University Press, Oxford 1981), p. 325.
35. See e.g. John Elster, *Making sense of Marx* (Cambridge University Press, Cambridge 1985), p. 129-132.
36. Kolakowski, *Main currents of Marxism*, vol. I, p. 330.
37. Bela Balassa, 'Dependency and trade orientation', *The World Economy* 9, no. 3 (September 1986), p. 267-268.
38. Patrick O'Brien, 'European economic development: The contribution of the periphery', *Economic History Review, Second Series* 35, no. 1 (February 1982), p. 1-18.
39. Bill Warren, *Imperialism: Pioneer of capitalism* (Verso, London 1980), esp. p. 139-157.
40. Patrick O'Brien, 'The Third World in the international economy, 1850-1950: Some historiographical perspective', *Rivista di Storia Economica, Second Series* 1 (1984), esp. p. 153-157 and 162-169.
41. John Spraos, *Unequalising trade? A study of traditional North/South specialisation in the context of terms of trade concepts* (Clarendon Press, Oxford 1983); Prabirjit Sarkar, 'The Singer-Prebisch hypothesis: A statistical evaluation', *Cambridge Journal of Economics* 10, no. 4 (December 1986), p. 355-371.
42. Balassa, 'Dependency and trade orientation', p. 264. Cf. Nigel Harris, *The end of the Third World: Newly Industrializing Countries and the decline of an ideology* (Penguin, Harmondsworth 1987), p. 122-124.
43. Paul Bairoch, 'Geographical structure and trade balance of European foreign trade from 1800 to 1970', *Journal of European Economic History* 3, no. 3 (Winter 1974), p. 557-608.
44. Paul Bairoch, 'Le bilan économique du colonialisme: Mythes et réalités', in: L. Blussé, H.L. Wesseling and G.D. Winius (eds.), *History and underdevelopment: Essays on underdevelopment and European expansion in Asia and Africa* (Centre for the

History of European Expansion, Leiden; Editions de la Maison des Sciences de l'Homme, Paris 1980), p. 36-37.

45. E.L. Jones, *The European miracle: Environments, economies and geopolitics in the history of Europe and Asia* (Cambridge University Press, Cambridge 1981).

46. Probably the most explicit formulation of this idea is to be found in: Baran, *The political economy of growth*. Cf. the following passage on India: '...there can be no doubt that had the amount of economic surplus that Britain has torn from India been *invested in India*, India's economic development to date would have borne little similarity to the actual somber record. ...it should not be overlooked that India, if left to herself, might have found in the course of time a shorter and surely less tortuous road toward a better and richer society', p. 148, 150.

47. George Sher, 'Ancient wrongs and modern rights', *Philosophy and Public Affairs* 10, no. 1 (Winter 1981), p. 3-17.

48. Idem, p. 13.

49. See e.g. 'Foreign aid and its hydra-headed rationalization' and 'Background to aid', in: P.T. Bauer, *Equality, the Third World and economic delusion*, p. 86-137 and 138-150, and 'Foreign aid: Issues and implications', in: P.T. Bauer, *Reality and rhetoric: Studies in the economics of development* (Weidenfeld and Nicolson, London 1985), p. 38-62.

50. Of course, this is not to say that no moral theory of rectification could be formulated. In his *Anarchy, state, and utopia* (Basic Books, New York 1974), Robert Nozick has attempted to develop a moral theory, one element of which is the *rectification* of past injustice. He has not worked out the historical elements of his theory, however, since he is only interested in contemporary acquisition and distribution.

51. In this context, Charles R. Beitz has made one of the most elaborate, yet not entirely convincing, attempts at formulating principles for an international theory of justice; see his 'Justice and international relations', *Philosophy and Public Affairs* 4, no. 4 (Summer 1975), p. 360-389, and his *Political theory and international relations* (Princeton University Press, Princeton 1979).

Drawing on Rawls' theory of justice, Beitz has argued that the application of principles of justice should not be restricted to national political systems, but should instead guide the political thinking and the political action based on it for humanity as a whole.

Central to Beitz' argument is the roughly equal entitlement of all people to the world's natural resources. Since the distribution of these resources across the world is uneven, yet arbitrary from a moral point of view, Beitz reckons that people in a so-called *original position* – not knowing what type of society they would come to live in – would agree on redistribution of the natural resources. As Beitz has formulated: 'Not knowing the resource endowments of their own societies, the parties would agree on a resource redistribution principle that would give each society a fair chance to develop just political institutions and an economy capable of satisfying its members' basic needs' (*Political theory and international relations*, p. 141).