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The Theory of Unequal Exchange: The End of the Debate?

Richard Brown

INSTITUTE OF SOCIAL STUDIES
The Hague — The Netherlands

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INTRODUCTION

The overall objective of this work is to examine the theory of Unequal Exchange, the recent critiques of that, and its interrelation with questions concerning the effects and role of foreign investment in underdeveloped countries.[1] Interest in this debate was stimulated largely by the contribution of Metcalfe and Steedman (1973) and Mainwaring (1974) towards the formulation of a neo-Ricardian model of trade along the lines of a Sraffa (1960) system of circulation and price formation. This led to the subject of this paper which is concerned largely with an attempt to synthesize their and other recent contributions, both Marxist and non-Marxist, to the theory of Unequal Exchange and uneven capitalist development. This paper is a review and critique of existing theory and draws on the work of others, particularly that of Evans (1975a; 1975b). However, it is hoped that by clarifying, questioning and synthesizing these recent developments in theory, the important implications for future directions in the development of theory on international relations and imperialism are highlighted, and a number of important questions of policy in the under-developed countries of today are raised.

The first chapter is concerned mainly with: the carrying-over of the Capital Theory critique of the neoclassical system to the Heckscher-Ohlin pure theory of trade;[2] the formulation of a neo-Ricardian model of trade by Mainwaring (1974); a discussion of Emmanuel's theory of Unequal Exchange and the reformulation of this into Mainwaring's neo-Ricardian system of price formation; and finally, a discussion of the criticisms of Unequal Exchange that led to Emmanuel's reformulations of the model.

In the second chapter we examine Emmanuel's extension of Unequal Exchange to a theory of imperialism and uneven capitalist development. A comparison of this is made with the Prebisch and Singer terms of trade theses and the implications of the theory for trade and investment policies in underdeveloped countries are examined.

The third chapter is largely a critique of Emmanuel's work, particularly his argument concerning the imperialism of trade. Amin's writings on the theory of 'Accumulation on a World Scale' are then presented and discussed as a Marxist alternative to Emmanuel's analysis of the causes underlying unequal trading relations and underdevelopment.[3]

The final chapter attempts to synthesize these theories and contrasts their conflicting implications for foreign trade and investment policies in underdeveloped countries, and raise some important questions that have been neglected and left unanswered by these. In this context Amin's assertion that his critique of Unequal Exchange and formulation of a 'truly Marxist' alternative heralds the end of the debate is questioned.

This paper is the text of the dissertation I wrote under the supervision of Dr. Chris Edwards of the School of Development Studies, University of East Anglia, in 1976. I am indebted to him for his extensive comments on earlier drafts.

NOTES

1. This theory was first presented by Emmanuel (1972).

2. For an excellent review of the contributions to this debate, see Harcourt (1972).

3. See Amin (1973; 1974).

I

UNEQUAL EXCHANGE: A NEO-RICARDIAN THEORY OF TRADE

1.1 *Introduction: The Capital Theory Critique of Neoclassical Trade Theory*

The majority of the literature on international trade has been written from a neoclassical perspective with the Heckscher-Öhlin model constituting the basic pure theory of trade of this school. Despite many objections having been raised as to the validity of the assumptions underlying this model, for a long time it was generally accepted that it was immune from criticism of its internal logic. Corden for example, has argued that, 'If one accepts its restrictive assumptions, a vast number of conclusions can be squeezed out of it.' (1965: p30)

Of major importance to the Heckscher-Ohlin model (HOM) is the nature of capital. It is assumed that a unique measure can be found for all factor endowments including capital, the relative abundance of which determines trading patterns. Recent contributions to capital theory have shown however that unless it is assumed that all capital equipment is homogeneous, it is not possible to define capital as a physical factor endowment (see Garegnani, 1970). The aggregation of heterogeneous capital equipment on the other hand, requires the use of some system of weights for the construction of an appropriate index. An obvious set of weights would be competitive prices. However, prices are not independent of the rate of profit and can only be determined once it is known. Unfortunately for the neoclassicists, the only situation in which such a measure of capital would be invariant with respect to changes in factor prices is when capital-labour ratios are the same in all branches of production in the economy -- an assumption which, '... attacks the very core of a theory which sets out to predict the patterns of trade in the simplest case...' (Evans, 1975b: p39). This flaw in the theory is disastrous for the HOM, for, as Metcalfe and Steedman (1973) have shown, it leads to a breakdown of the model's predictions and conclusions. A further implication of this critique is that marginal productivities can no longer be measured independently of prices and the distribution on income. Consequently, pre-trade price ratios become a function of the distribution of income which must therefore replace physical factor endowments as the central determinant of comparative advantages and the possibility of gainful trade.[1]

It has accordingly been suggested that if theory is to be useful in the understanding of trade in the real world, trade theorists might follow Ricardo in placing income distribution and the production of, and trade in, produced means of production at the centre of trade theory (see Metcalfe and Steedman, 1973). In the section below we therefore examine one attempt to construct a model of trade along the lines of the Sraffa system of circulation and prices, viz. Mainwaring's (1974) neo-Ricardian model of trade.[2]

1.2 *A Neo-Ricardian Model of Trade*

The model set up by Mainwaring (1974) is as follows:

(i) a circulating capital model in which production takes place in self-contained periods;

(ii) the wage (w) is paid out at the end of each period;

(iii) there are two commodities ('good 1' and 'good 2') which are produced by means of labour and the same two commodities;

(iv) the input of labour into a unit of output is fixed for each of the two commodities and is denoted by a_j

(v) the input of a commodity into a unit of output of each commodity is also fixed for the production of the two commodities and is denoted by a_{ij}; and,

(vi) the wage and price of good 1 are expressed in terms of good 2 (the numeraire), and the price ratio of the two commodities ($^{p_1}/_{p_2}$) is denoted by 'p'.

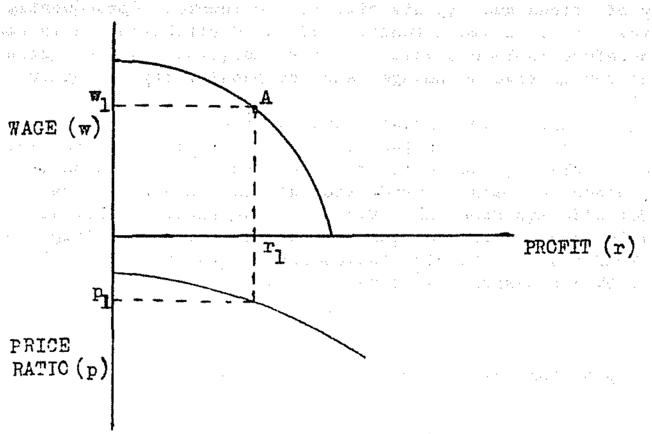
From these assumptions, the following price equations are derived for each of the two goods:

$$\text{Good 1:} \quad p = (1 + r)(a_{11}p + a_{21}) + wa_1 \qquad .....(1.1)$$

$$\text{Good 2:} \quad 1 = (1 + r)(a_{12}p + a_{22}) + wa_2 \qquad .....(1.2)$$

By definition, in a closed economy any one activity is not sustainable on its own. The problem of technical choice can then be presented graphically by superimposing the wage-profit frontiers for each technique (or combination of activities) at different values of the price ratio, so as to form an outer wage-profit envelope. An example of a wage-profit envelope is shown in figure 1 below.

Figure 1



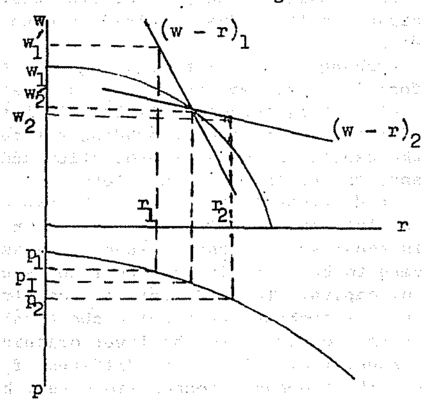
With the rate of profit given at, say, r_1 the technique which supports the highest possible wage will be chosen. In this case, technique A, lying at point A on the wage-profit envelope will be chosen. The maximum possible wage is therefore w_1 and the implied price ratio is p_1.

Mainwaring shows that the concavity or convexity of the wage-profit envelope, and the slope of the price-profit curve in the lower quadrant of the graph, will depend upon the relative 'capital-intensities' or organic compositions of the two activities. The shape and slopes of the curves in figure 1 above imply that activity 1 is more capital-intensive than activity 2; i.e. $(a_{11}p + a_{21})/a_1 > (a_{12}p + a_{22})/a_2$.

Once the possibility of trade in either commodity exists, it becomes possible to specialise in the production of a single commodity which is supported by imported inputs of the other commodity. This has the effect of widening the technical choice in the country concerned and can be illustrated graphically by superimposing the 'with-trade' wage-profit frontiers for each single activity at the given international price ratio (p_I), on our pre-trade wage-profit envelope. This is shown in figure 2 below where $(w - r)_1$ is the wage-profit frontier for specialisation in the production of good 1 while importing good 2 at the given price ratio p_I. Similarly $(w - r)_2$ is the new wage-profit frontier for specialisation in good 2.

Provided that the rate of profit, and therefore the wage rate and price ratio, differ between two countries which have identical techniques (and therefore, identical wage-profit envelopes), a superior wage-profit combination is attainable from complete specialisation in the production of one good. For example, if r_1 and r_2 are the rates of profit for countries 1 and 2 respectively, w_1 and w_2, and p_1 and p_2 are the corresponding autarkic equilibrium wage rates and price ratios. Given an international price ratio or terms of trade of p_I, a superior wage-profit combination is attainable along $(w - r)_1$ and $(w - r)_2$ for countries 1 and 2 respectively.

Figure 2



If, following Mainwaring, we hold pre- and post-trade profit rates constant in the two countries (at r_1 and r_2), trade and specialisation will enable the payment of a higher wage rate in both countries -- w_1' in country 1 and w_2' in country 2 -- given the terms of trade p_I.

If gains from trade are expressed in terms of attainable wage-profit combinations, it follows from this analysis that in a world of identical techniques of production, but different profit and wage rates, two countries may still profitably enter into trade. Mainwaring also shows however that once some consumption out of profits is allowed for, and the rate of growth is no longer equal to the rate of profit, the capitalists' profit maximising choice of technique may not correspond to the consumption maximising choice. In these circumstances the possibility of losses from free trade arises (see Mainwaring, 1975).

1.3 The Theory of Unequal Exchange

Quite independently of the English, neo-Ricardian critique of neo-classical trade theory -- but several years in advance of Mainwaring's neo-Ricardian model -- the theory of Unequal Exchange was presented by the French economist, Emmanuel, as a Marxist model of international trade and as an attack on comparative advantage and mutually gainful trade (see Emmanuel, 1972). Although Emmanuel uses Marxist concepts, definitions and terminology, at the formal level Unequal Exchange is not dissimilar to the neo-Ricardian model of Mainwaring (1974) in the sense that it deals with the formation of prices using the same Sraffa system.

Evans (1975b) points out that Emmanuel's exposition departs from the neoclassical theory of comparitive advantage in a number of important respects. Firstly, Emmanuel rejects the Ricardian assumption (retained by Mainwaring) about the international immobility of all factors of production, arguing for the treatment of capital as internationally mobile. It follows from this assumption that the rate of profit will tend towards equality in all countries. Secondly, he rejects the neoclassical marginal productivity theory of factor rewards and instead treats capital as a produced input as in the tableaux of Marx's *Capital* and the neo-Ricardian price system. Wage rates on the other hand are assumed to be determined independently by historical and moral forces, and to be higher in the industrially-developed than in the underdeveloped countries.

The model of unequal exchange was presented using Marx's original formulation of the transformation problem, but at an international rather than a national level. It is therefore implicitly assumed that all production activities of the international trading partners are governed by the laws of the capitalist mode of production and that the Marxist law of value extends to the international level.

On these assumptions, a discrepancy between the values and prices of commodities traded at an international level can arise in two ways when the rate of profit is equalised. Firstly, when wages and rates of surplus value are assumed to be equal in the two trading countries, and organic compositions of capital are different, the country with the higher organic composition will exchange at a price above value whereas the reverse is true for the country with the lower organic composition. In this case, the transfer of value is no different from what it is within a national system where organic compositions vary between spheres of production, and is therefore regarded by Emmanuel as not being Unequal Exchange in the 'strict' sense.[3] Secondly, when organic compositions are identical and wages are different (reflected in different rates of surplus value), value will be transferred from the low- to the high-wage country through exchange, when the rate of profit is equalised. For Emmanuel, this is the real or 'strict' sense of Unequal Exchange.[4]

From this model Emmanuel establishes a direct relationship between the international price ratio, or terms of trade, and the cost of labour power. Low prices in international trade are therefore the direct consequence of independently determined low wage rates. In other words; '... under capitalist production relations one earns as much as one spends, and ... prices depend on wages.' (Emmanuel, 1972: p172).

Not only does trade and the mobility of capital lead to a rise in the rate of profit in the high-wage country and a fall in the rate of profit in the low wage country as surplus value is transferred to the former from the latter, but also, Emmanuel suggests, the interests of workers in the two countries are diametrically opposed. This is so because higher wages in the high-wage country must be offset by lower real wages in the low-wage country, given the international rate of profit. In the circumstances, there can, Emmanuel implies, be no common working-class interest world-wide (see Emmanuel, 1972: pp177-93).

Emmanuel then extends his theory of Unequal Exchange to explain increasing income differentials between rich and poor countries. In the remainder of this chapter however, we turn to a closer examination and critique of the model thus far presented.

1.4 A Translation of Unequal Exchange into a Neo-Ricardian System

Although it was formulated as a Marxist theory of international trade and was expressed in Marxist terminology and reproduction scheme, Emmanuel's model is essentially neo-Ricardian in the sense that it is confined largely to the sphere of circulation or exchange rather than production, and deals primarily with the formation of prices using, implicitly, the same Sraffa system as that adopted by Mainwaring (1974).[5]

This implicit formulation is made explicit by Evans (1975a) who has translated the theory of Unequal Exchange outline above, into the same neo-Ricardian system of prices used by Mainwaring (1974).

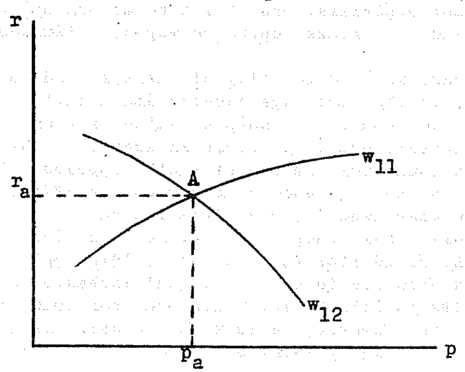
Unlike Mainwaring however, Emmanuel takes the wage rate as the independent variable and the profit rate as the dependent variable with the pre- and post-trade wage being held constant in both countries. We therefore require an expression for the relationship between the rate of profit and the price ratio, holding the wage rate constant.

From equation 1.1 above, we derive the following 'specialisation' expression for good 1:

$$r = \frac{(p - wa_1)}{(a_{11}p + a_{21})} - 1 \qquad .....(1.3)$$

Differentiating r with respect to p ($\frac{\partial r}{\partial p}$) gives a positive term which implies a positive relationship between the price ratio and the attainable rate of profit. Assuming again that activity 1 has a higher organic composition of capital than activity 2, it follows that $\frac{\partial^2 r}{\partial p^2}$ is negative. The specialisation curve for activity 1 is therefore concave to the origin. This is illustrated in figure 3 below by the curve w_{11}

Figure 3



which is the specialisation curve for country 1 with a wage rate of w_1.

Similarly, from equation 1.2 above we derive the expression for the specialisation curve for activity 2.

$$r = \frac{(1 - wa_2)}{(a_{12}p + a_{22})} - 1 \qquad .....(1.4)$$

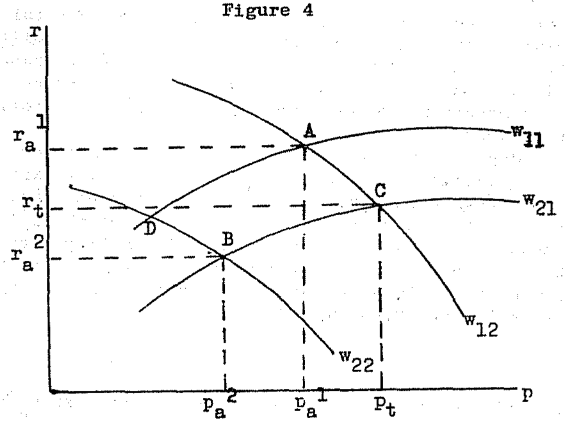
Here, both the first and second derivative are negative which gives us a specialisation curve of the shape indicated by w_{12} in figure 3 above.

The point at which these two curves intersect, A, is the autarkic equilibrium position in country 1 where the wage is set a w_1. This implies a rate of profit r_a and a price ratio p_a and corresponds to the autarkic equilibrium discussed in section 1.2 above and illustrated in figure 1.

Let us now introduce a second country (2) which produces the identical two goods employing identical techniques, but which has a higher, fixed wage rate, w_2. For each value of the price ratio, the attainable rate of profit for each activity in country 2 will therefore be lower than in country 1. This comparison is illustrated in figure 4 below, where w_{21} and w_{22} are the specialisation curves for country 2.

The autarkic equilibrium positions for countries 1 and 2 are given by points A and B respectively, implying rates of profit of r_a^1 and r_a^2, and price ratios of p_a^1 and p_a^2 respectively.

Figure 4



Note that the autarkic equilibrium rate of profit is higher in the low-wage country, i.e. $r_a^1 > r_a^2$.

Hypothetically, there are two possible post-trade equilibria, shown by points C and D. Let us consider position C. Here country 1 specialises completely in the production of good 2 and country 2 in good 1. With perfect international mobility of capital, the rate of profit will be equalised at r_t and the terms of trade will settle at p_t.

It is easy to see that in moving to this trading equilibrium from autarky, country 1 experiences a fall in the relative price of the good in which it specialises (good 2) and in the rate of profit; i.e.

$p_t > p_a^1$ and $r_a^1 > r_t$. For country 2, the high-wage country, the reverse is true -- its terms of trade improve and rate of profit increases.

This neo-Ricardian exposition clearly illustrates the argument that trade between two countries with equal organic compositions and different autarkic wage-profit combinations will force the low-wage country into an unequal trading relationship with the high-wage country, transferring surplus value from it to its richer trading partner. This conclusion is in direct conflict with that of the Mainwaring model discussed above, in which it was argued that in these circumstances both countries may still profitably enter into trade. The reason for this conflict may be found however in the different assumptions underlying the two models. While Emmanuel assumed perfect international mobility of capital, Mainwaring retained the Ricardian and neoclassical assumption of international immobility of both labour and capital. In her model therefore, there is no tendency for the rate of profit to be equalised in the two countries. Instead, the terms of trade are assumed to settle at some level between the two autarkic price ratios with both countries experiencing an increase in the rate of profit, and hence, gaining from trade.

Once we adopt the perfect mobility assumption however, the rate of profit must be equalised at a level lower than the autarkic rate of profit in the low-wage country, which tends to suggest that it is the flow of capital rather than the flow of commodities which lies at the centre of unequal international relations. We shall return to this point in the next chapter. In the meantime however we go on to discuss some problems with the Emmanuel model that are exposed by this translation of it into a neo-Ricardian framework.

1.5 Criticisms and Restatements of Unequal Exchange

We are concerned here only with the criticisms that can be made of Unequal Exchange on Emmanuel's own, neo-Ricardian ground.[6] The most fundamental of these concerns the instability of the equilibrium trading position under the conditions Emmanuel specified for Unequal Exchange. In fact, unless some very peculiar assumptions are made about the behaviour of capitalists, the equilibrium envisaged by Emmanuel and depicted by point C in figure 4 above is unattainable. It can easily be seen that it will never pay for national, profit-maximising capitalists in country 1 to specialise in the production of good 2 as a higher rate of profit is attainable from production of both goods.[7] In the absence of irrational behaviour on the part of capitalists in country 1 we need to impose on the model, the additional assumption of extra-market of 'non-economic' constraints on the actions of producers. This is precisely what happened in India in the late part of the eighteenth century when the East India Company found it necessary to physically smash India's traditional textile industry which then forced her to specialise in the production of primaries (cotton, for example) which were then traded for English textiles (see Barratt Brown, 1974: p97). This raises the interesting question as to whether Unequal Exchange, if it occurs, can only be accounted for by reference to some more fundamental forces located at a different level outside the sphere of exchange relations. Such an explanation however would be in conflict with the general theme of Emmanuel's study; viz. the imperialism of *free* trade.[8]

In response to this criticism, first raised by Evans (1975a), Emmanuel conceded that differences in the rate of surplus value were, alone, insufficient to explain Unequal Exchange. It is necessary to also allow for differences in organic compositions and productivities. The new situation envisaged by Emmanuel (1975) is one in which superior techniques of production and labour productivities in certain spheres of production more than offset the relatively higher wage rates paid in the high-wage country. As he argues:

> Indeed, the universal superiority of one country over the other, expressed by the Ricardian example, is not at all faithful to the real world. Real Portugal and real England are more productive in one sector and less in the other. (Emmanuel, 1975: p22)

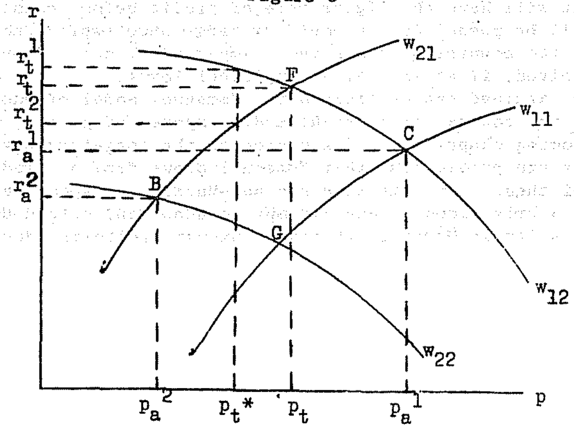
With reference to his model of Unequal Exchange, he then continues:

> For it so happens that the technical superiority of the low-wage countries in the exported primary commodity is considerably greater than their inferiority in the imported industrial one. (Emmanuel, 1975: p23)

In other words, we are almost back to Ricardian comparative advantage in the sense that Unequal Exchange now depends upon the 'specificity' of the goods produced in the trading countries.[9] For 'technical' reasons, the low-wage countries can produce primary goods more 'efficiently' and high-wage countries can produce industrial goods more 'efficiently'.

To illustrate this 'new version' of Unequal Exchange, we assume that higher labour productivity in activity 1 (industrial goods) in country 2 more than offsets the higher level of wages. This is shown in figure 5 below where w_{21} now lies *above* w_{11} (c.f. figure 4 above). Note that the two possible trading positions, points F and G, now lie inside points C and B -- Ricardian limbo region.

Figure 5



Let us consider point F. It obviously pays for capitalists in both countries to move to this free-trading position with the rate of profit equalised at r_t. For both countries this movement leads to an improvement in the terms of trade and to an increase in the rate of profit. Obviously there is nothing 'unequal' about this, now stable, equilibrium trading position. In his restatement of the model however, Emmanuel (1975) also pointed out that his theory had previously been misinterpreted. In his own words:

> The decline of the rate of profit of country B [our country 1] ... is linked with the passage from non-mobility to mobility of capital and not with one from pre-trade to after-trade. (Emmanuel, 1975: p10)

To illustrate this movement it is necessary to assume an initial free-trade equilibrium with the terms of trade lying somewhere between p_a^2 and p_t in figure 5 above. Take p_t^* for example. Country 1 specialises in the production of good 2 and country 2 in good 1. In moving to this pre-profit-equalisation trading position both countries experience an improvement[10] in the terms of trade and an increase in the rate of profit.

Once capital is allowed to move freely between countries, it will flow out of country 2 into the export sector of country 1. This flow will continue until the rate of profit is depressed sufficiently in country 1 and raised sufficiently in country 2 to be equalised. In the process however, the terms of trade turn against country 1 and in favour of country 2 -- $p_t > p_t^*$. The low-wage country has therefore been forced into unequal exchange and surplus value has been transferred from it to the high-wage country.

The major problem with this exposition of Unequal Exchange lies in Emmanuel's assumption that the terms of trade will settle between p_a^2 and p_t (in figure 5 above) prior to equalisation of the rate of profit. This assumption ensures that it is the low-wage country that will have the higher rate of profit before equalisation occurs. Evans (1975a) argues that there is no guarantee that this will be the case and suggests that it is equally, if not more likely that the terms of trade will settle between p_t and p_a^1. In this situation it is the high-wage country that will have the higher rate of profit before equalisation and that will be pushed into unequal exchange once capital moves freely between the two countries. This is an important issue and one that can only be resolved, if at all, at an empirical level.

Having examined and criticised the Emmanuel model of Unequal Exchange in the context of a neo-Ricardian system of prices, we move on in the following chapter to a discussion of the long-term development implications and predictions that Emmanuel draws from his model; to a criticism of these from a Marxian and non-Marxian perspective; and finally, to a brief look at one attempt to adapt and extend Unequal Exchange to a 'truly Marxist' theory of uneven capitalist development.

NOTES

1. The same capital theory critique applies to the work of Pearce and Rowan (1966) on the effects of capital movements on the terms of trade and which is discussed in more detail in Chapter III. See section 3.2.2. below.

2. For an excellent discussion of the distinctions between neo-classicism, neo-Ricardianism and Marxism, see Rowthorn (1974).

3. Bettleheim (1974) and Amin (1974) have shown that for the same product if organic compositions are different, real wages and the rate of surplus value must also be different, in which case it can be argued, we do have Unequal Exchange in the 'strict' sense, as defined below.

4. For an illustration of the two forms of Unequal Exchange using numerical examples, see Emmanuel (1972: pp. 52-64).

5. This point is discussed at greater length in section 3.2.2 below.

6. Criticisms of Unequal Exchange from a Marxist perspective are discussed in Chapter III, section 3.2.

7. This also raises the question of why capitalists in the high-wage country do not produce entirely in the low-wage country where the rate of profit is higher for both activities. This question is raised again in the final chapter.

8. We return to a discussion of this criticism in Chapter III, section 3.2.

9. The question of specificity is raised again in section 3.3 below in the context of Samir Amin's critique and reformulation of Unequal Exchange. See also section 4.2.

10. This situation corresponds to that discussed by Mainwaring (1974). See section 1.2 above.

II

UNEQUAL EXCHANGE, THE TERMS OF TRADE AND UNEVEN DEVELOPMENT

2.1 *Introduction*

Essentially, there are two parts to the theory of Unequal Exchange. The first part, discussed in the previous chapter, sets out the conditions under which free trade, given the international mobility of capital, forces low-wage countries into unequal trading relations with high-wage countries. Assuming that these conditions are met, what can be said from the theory of Unequal Exchange about the long-term development prospects in the low-wage country? The aim of this chapter is to examine the second part of Emmanuel's theory which deals with this question; to compare this with similar theories of unequal centre-periphery trading relations; and finally, to discuss the policy implications that can be drawn from this theory of uneven development.

2.2 *Unequal Exchange as the Cause of Uneven Development*

Emmanuel (1972) emphasises that there is more to his model than a simple, unilinear relationship between wages and prices. This relationship, he asserts, is essentially 'dialectical' and 'cumulative' and can be used to explain the ever-increasing income differential between low- and high-wage countries and to show: '... that capitalist production relations are fundamentally contrary to elementary logic and the natural order of things' (Emmanuel, 1972: p172).

In terms of his theory, high wages 'cause' economic development in two ways. Firstly, they stimulate the development and adoption of labour-saving, productivity-enhancing production methods by raising the cost of labour power to the capitalist. Secondly, they encourage new investment by expanding the size of the domestic market and increasing effective demand. Both of these are considered by Emmanuel as essential preconditions for economic development which in turn enables the payment of higher wages. Hence, a 'dialectical' relationship.

The interaction between movements in wage levels and economic development is also cumulative, because of the mechanism of Unequal Exchange. The rapid increases in real wages enjoyed by workers in the high-wage countries increases the inequality in trade between them and the low-wage countries, transferring ever-increasing amount of surplus value from the latter to the former. This in turn gives rise to an increase in the rate of investment and growth in the high-wage countries and to the creation of new needs among the workers which in turn leads to a further rise in wage levels, and so on -- a cumulative process.

At the same time as the high-wage countries are growing richer, the low-wage countries are becoming poorer. As a larger proportion of total reinvestible surplus is transferred to the rich countries, the rate of investment in the low-wage countries declines. This narrows the size of the domestic market which discourages investment from abroad. The ensuing unemployment exerts a downward pressure on real wages which, together with the lack of new investment, discourages the adoption of labour-saving, productivity-enhancing production methods.

Through this cumulative mechanism of Unequal Exchange, a policy of free trade is said to cause greater divergences in the 'level of development' between low- and high-wage countries. This inequality in trading relations and tendency for living standards to diverge is, according to Emmanuel (1972) reflected in a deterioration of low-wage countries' terms of trade.[1]

2.3 *The Terms of Trade Theses of Prebisch and Singer Compared*

The idea that deteriorating terms of trade can 'cause' underdevelopment in poor countries is by no means new to the literature on trade theory. Bhagwati (1958) was concerned about the possibility of 'immiserising growth' from a policy of free trade. He showed that if the demand for a country's exports was not perfectly elastic with respect to price, specialisation in the production of the export good could lead to a deterioration in the terms of trade which more than offsets the expansion of output and causes real income to decline.[2] This is very similar to the argument of Mainwaring (1974) in which the private, profit-maximising choice of technique does not correspond to the socially-optimal, consumption-maximising choice.[3] In both cases however such 'incorrect' patterns of specialisation could be rectified simply by imposing an appropriate tax or subsidy which gives the 'correct' price signal.[4]

A little later, Singer (1958) and Prebisch (1959) presented their 'terms of trade' theses as explanations of growing income differentials between the industrially-developed 'centre' and largely primary-exporting 'periphery'. Our aim here is to examine these arguments with a view to establishing the extent to which Unequal Exchange can be considered merely as an extension of this earlier work - a view that is certainly not held by Emmanuel.[5]

When comparing these theories with Unequal Exchange we must be careful not to make the same mistake as Emmanuel (1972) who failed to make one important distinction between the Prebisch and Singer versions. His assertion that the terms of trade thesis is essentially subjective in the sense that it attempts to explain the mechanism of deteriorating terms of trade for the periphery in terms of an analysis of demand alone, is certainly not applicable to the Prebisch version.

For Singer, the demand for and hence the price of the primary exports of underdeveloped countries have undergone a systematic decline in comparison with the industrial exports of the centre. This decline is attributed to a relatively low income elasticity of demand for basic foodstuffs (Engel's Law), and to a fall in the proportion of raw material inputs per unit of final industrial output, due to technological advance and the development of synthetic substitutes. In these circumstances technological change in the export sectors of the periphery will be reflected in a fall in prices.

In the export sectors of the centre on the other hand where demand is relatively more income elastic, technological change leads to higher incomes in the form of wages and profits. The centre therefore gains both as producer of manufactures and as consumer or primaries, whereas the periphery loses both as consumer of manufactures and as producer of primaries.

Whether improvements in productivity are reflected in a fall in prices or in a rise in wages and profits therefore depends entirely on the nature of the product -- on whether primary or secondary products are involved. Emmanuel (1972) is very critical of this hypothesis which, he asserts:

> ... is in the last analysis only a sophisticated reformulation of the fashionable doctrine that ... the former category of goods encounters always and everywhere a less satisfactory demand than the latter. (1972: pp81-2)

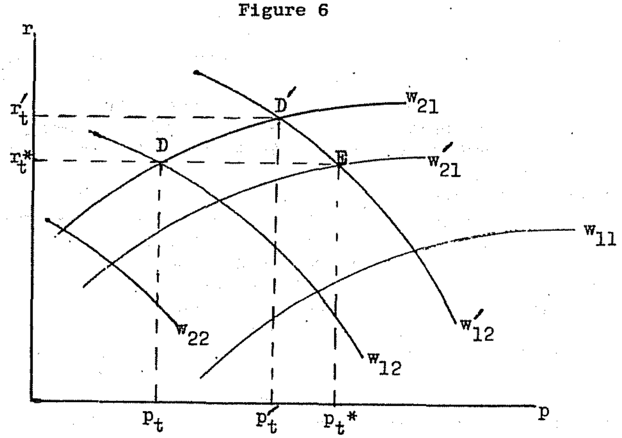
Although this hypothesis might be applicable in the case of foodstuffs, it is unlikely that it applies to all other primaries such as raw materials and minerals for industry, the demand for which has a high income elasticity and has kept up with that for manufactures. This is supported by the evidence that from the late nineteenth to the mid-twentieth century, the terms of trade deteriorated for all primary exporting countries in the periphery -- for exporters of raw materials as well as food. Even more interesting however is the fact that primary exporters in the centre did not experience a similar deterioration of their terms of trade during this period -- nor did the periphery during most of the nineteenth century when one would have expected them to.[6] Observations such as these make if difficult to accept Singer's thesis even if one accepts the subjectivist view of value that he adopts.

In making the same criticism of Prebisch (1959) however, Emmanuel opens himself to attack, for hiw own view is very similar to that of Prebisch; viz. the worsening of the terms of trade is caused by the steady increase in the wage level in the advanced countries alone. For Prebisch, the long-term tendency for the terms of trade to deteriorate for producers of primaries lies not in the specific nature of their products but rather in the superior ability of trade unions in the industrialised countries to secure for themselves the benefits of increased productivity. In times of rapid growth, prices in the centre are pushed up by strong trade union action, and in times of recession they are kept high by union resistance to real wage cuts.

This explanation bears a close resemblance to Emmanuel's (1972) Unequal Exchange. As Amin (1974) points out; 'It matters little that Prebisch wrongly identifies the exports of the underdeveloped countries with exports of basic products.' (p83). It was this that led to Emmanuel's incorrect criticism of Prebisch concerning the specific nature of the products exported from the periphery. However, this identification of the periphery's exports with basic products has no bearing whatsoever on Prebisch's argument which is based entirely on the evolution of wages. (It is quite ironical that in his restatement of Unequal Exchange, Emmanuel (1975) comes to the same conclusion himself; viz. that Unequal Exchange can only be explained once it is assumed that low-wage countries have a technical advantage in agricultural goods and high-wage countries in manufactured goods.)[7]

The similarity between Prebisch and Emmanuel's theses is perhaps best illustrated when, following Evans (1975a), we translate Prebisch's theory into the same neo-Ricardian system of prices as the Emmanuel theory was expressed in above.[8]

Figure 6



In figure 6 above we assume an initial equilibrium trading position represented by point D, with the rate of profit equalised at r_t* and the terms of trade given by p_t. Country 1, the low-wage country, experiences an improvement in labour productivity in the export sector which pushes its specialisation curve, w_{12}, out to w'_{12} implying a higher rate of profit at each level of the price ratio, given the wage rate. *Ceteris paribus* this would imply a new equilibrium at point D′ with the rate of profit rising to r'_t. However, if trade union pressure in country 2 leads to a rise in real wages there, the specialisation curve w_{21} will be shifted to the right to, say, w'_{21}. This is so because, for each level of the price ratio or terms of trade (p), the attainable rate of profit (r) will be lower, given the higher wage rate. The new equilibrium is then located at point E. In relation to equilibrium position D, the low-wage country is worse off in the sense that its terms of trade have deteriorated and the profit and wage rates have remained constant despite the increase in labour productivity. In the high-wage country on the other hand, where there has been no change in productivity, the rate of profit has remained constant but the wage rate has risen. In other words, the benefits of technological change in the low-wage country have been transferred to workers in the high-wage country through a deterioration in the former's terms of trade.

When examined in this context it is evident that there is in fact almost no difference at all between the mechanism of deteriorating terms of trade in the Prebisch thesis, and the mechanism of Unequal Exchange described by Emmanuel.

2.4 *Some Policy Implications of Unequal Exchange*

The most important conclusion that all theories discussed in the previous section share is that the transfer of surplus value through unequal trading relations is the main cause of uneven development between poor and rich countries. If this conclusion is correct, development can be engendered in low-wage countries simply by their breaking-out of unequal exchange. Emmanuel (1972) discusses two methods of achieving this.

Firstly, exchange relations between rich and poor countries could be maintained but made equal by increasing wages in the poor countries to the same level obtaining in the rich countries.

The second method of engendering development would be to break-out of exchange with rich countries altogether by adopting a strategy of greater diversification in production and autarky, but at the same time encouraging the inflow of foreign capital.

As regards the first possibility, Emmanuel asserts that:

> A sudden leveling up of their wage levels to those of the advanced countries being, of course, out of the question a priori, they can only seek means to keep for themselves and prevent from leaking abroad the excess surplus value that they extract from their own workers. Somebody has to benefit from these low wages. (1972: p267)

Yet, at an earlier stage in his analysis he suggested that in order to 'start the process of development', wages can easily be raised in the export branches where comparative productivity is exceptionally high (Emmanuel, 1972: pp131-2).

The question of increased wages is also raised in the context of his second possible development strategy; viz. diversification and autarky. In terms of his hypothesized 'dialectical' and 'cumulative' relationship between wages and development, a strategy of diversification and autarky is, on its own, insufficient as development requires rapid increases in labour productivity which, he argued, can only be brought about by an increase in the rate of investment and the adoption of labour-saving production methods. Both of these presuppose an increase in wages, in his model. The rate of investment both domestic and foreign, he argued was largely a function of the size of the domestic market which depends on the level of wages and employment. Similarly, the development and adoption of labour-saving techniques depends on higher wages which raise the cost of labour power for the capitalist.

It appears therefore that whether the low-wage country opts for an autarkic strategy or not, Emmanuel is asserting that an increase in wages is not only possible, but is in fact a necessary prerequisite for development. Criticism of this and other aspects of Unequal

Exchange are taken up in the following chapter in which one attempt to modify Emmanuel's Unequal Exchange to take account of these criticisms is also examined in some detail.[9]

NOTES

1. Emmanuel suggests that this holds for *all* measures of the terms of trade, including the 'commodity', 'income' and 'single-factoral' measures. For a discussion of the various concepts and data on these see Commonwealth Secretariat (1974) and Barratt-Brown (1974: Ch. 10).

2. For a discussion of this argument, see Cordon (1974: 176-9).

3. This argument was discussed in Chapter I, section 1.2 above.

4. For a diagramatic exposition of the neo-Ricardian case, see Evans (1975: 40-2).

5. Emmanuel rejects both the Singer and Prebisch theories as 'subjectivist'. For his discussion of these, see Emmanuel (1972: 80-7).

6. For an excellent survey of empirical data on the terms of trade, see Barratt Brown (1974: Ch. 10).

7. We return to a more detailed discussion of this point in Chapter III, section 3.3.

8. See Chapter I, section 1.4 in which a diagramatic exposition of this model was formulated.

9. We are referring here to Amin's exposition of the theory of Peripheral Capitalism. See Amin (1973; 1974).

III

UNEQUAL EXCHANGE: A REFLECTION RATHER THAN A CAUSE OF UNEVEN DEVELOPMENT

3.1 Introduction

Since its initial exposition by Emmanuel, the theory of Unequal Exchange as an explanation of imperialism and the mechanism of uneven capitalist development has been hotly disputed.[1] Much of the criticism has been made from a Marxist perspective and centred around some of the more important assumptions underlying the theory, which, if valid, has far-reaching implications for Emmanuel's analysis and the policy prescriptions he draws from this. With one notable exception, viz. Amin (1973; 1974), there has been little effort towards the formulation of an alternative theory of trade that would replace Unequal Exchange as a 'truly Marxist' interpretation. Amin goes as far as to suggest that if we accept some of these Marxist criticisms, Ricardo's subjective analysis of comparative advantage would then be the only possible rationalisation of international trade (Amin, 1973: p11).

The aim of this chapter is, firstly, to draw together some of the more important criticisms of Unequal Exchange -- Marxist and non-Marxist -- concerning Emmanuel's treatment of;

(a) wages as the independent variable in his system; and

(b) relations of exchange rather than production as the level at which exploitation is located, with particular emphasis on the implications of this for the role and effects of foreign capital in the periphery.

Following these criticisms is a discussion of Amin's (1973; 1974) 'Peripheral Capitalism' which, it is argued, can be considered as an attempt to modify Unequal Exchange by integrating it with a Marxist theory of uneven development.

In the final section of this chapter the policy implications of Peripheral Capitalism for trade and investment policies in the periphery are examined and contrasted with those of Emmanuel's exposition.

3.2 Criticisms of Unequal Exchange

3.2.1 The Treatment of Wages as the Independent Variable

Although Emmanuel (1972; pp126-130) considers his theory to be 'dialectical' in the Marxist sense of the word, to explain unequal exchange he is, in effect, treating wage rates as the independent variable of a unilinear -- cause and effect -- model. He rationalises this assumption by drawing rather selectively from passages in Marx (1972) on the 'historical' and 'moral' elements of the wage under capitalism (Emmanuel, 1972: pp105-23).

Bettleheim (1972), one of the strongest critics of Emmanuel, rejects this interpretation of Marx, who, he argues, was asserting that wages in each separate social formation are determined primarily by the level of development of its productive forces (production techniques and productivity, for example) and by the relations of production that have shaped and continue to shape the development of these forces. In addition to these forces, Marx asserted, he continues, that wages were also subject to other 'historical' and 'moral' determining elements. Bettleheim interprets this as implying that:

> ... wages, though not *wholly* determined by one particular level (economic, political, or ideological) of the structure, are nevertheless entirely integrated in the complex structure of a concrete social formation and are thus in no way 'independent' of this structure. (1972: p288)

If this interpretation is correct and wages cannot be treated as the independent variable, and must instead be related to levels of productivity, Emmanuel's whole theory falls apart. On the other hand, if we follow Amin (1973) and argue that Bettleheim's reading of Marx implies that wages are determined *autonomously* within each separate social formation, '... it is no longer possible to speak of the effects of the law of value at the world level ... and we can no longer speak of international commodities.' (Amin, 1973: p11). As Amin correctly argues, such a view conflicts directly with that held by Marx who demonstrated his acute awareness of the crucial importance of the 'international' nature of imported American corn in influencing the lower real wage and higher rate of profit in England during the nineteenth century. That this is a fair interpretation of Bettleheim's position is somewhat doubtful however, particularly in the light of his comment that:

> It is the nature and specific combination of the productive forces and production relations in the poor countries, *under the aegis of world-wide capitalist relations* [my emphasis], that form the *objective basis* of the 'poverty' of certain countries, the dominated countries, and explain both their low wages and the 'unequal exchange' that may in some circumstances result from this. (1972: p288)

Therefore, irrespective of one's interpretation of Bettleheim's reading of Marx, it appears that both he and Amin are arguing that in order to explain the lower level of wages in certain social formations, and therefore, the unequal exchange that may result from this, we need a theory that both provides an adequate explanation of the uneven development of productive forces and also recognises the international nature of commodities and value of labour power.

3.2.2 Relations of Production vs. Relations of Exchange: The Question of Foreign Capital

Closely related to the issue of wage determination is the Marxist criticism that Emmanuel has attempted to analyse the mechanism of the transfer of surplus value entirely in the sphere of exchange relations, which, from a Marxist perspective must necessarily be rooted at the level of production (Bettleheim, 1972: p300).[2] When looked at from this point of view, the mechanism of unequal exchange (and deteriorating terms of trade of Prebisch, (1959) and Singer, (1958)) is centrally concerned with the redistribution of reinvestible surplus *already generated* and in the commodity form. Consequently, this analysis fails to provide an adequate explanation of how the transfer of surplus value is renewed in each new time period.

The consequences of this limitation are illustrated most vividly by Emmanuel's treatment of foreign investment when he considers the movement from pre- to post-equalisation of the rate of profit through the inflow of capital into the social formation with the lower wage rate. Evans, for example, suggests that:

> At the very least ... [this movement] will bring to the social formation with the lower development of productive forces a more efficient organisation of the labour process -- in neo-classical terms, superior skills of management, or in Marxist terms, a raising of the amount of value produced in a given time by each worker ... -- leading at constant use-values in the wage bill to a fall in the value of labour power, a rise in surplus value and a rise in the total value produced. None of this is reflected in Emmanuel's examples .... (1975a: p62)[3]

Although Emmanuel is certainly guilty of not reflecting these changes in this scheme, it is perhaps a little unfair to conclude from this that he was unaware of the possible improvements in techniques of production and labour productivity that could result from the inflow of foreign capital. In fact he raises these very issues when discussing the cumulative effects of unequal exchange and the 'blocking of development'.[4] In the context of his autarkic solution, he considers the inflow of foreign capital as a necessary pre-requisite for the raising of productivities and 'level of development' -- as an agent for development. There is a contradiction between this and his view of foreign investment in the model of unequal exchange itself. It will be recalled that in the model, the inflow of foreign capital was regarded as a cause of uneven development (by equalising the rate of profit and thereby pushing the low-wage country into unequal exchange). We must conclude from this apparent contradiction that in Unequal Exchange, foreign investment is not *per se* the 'villain of the piece'. Only when wage and productivity levels between different social formations are not identical does the inflow of foreign capital cause Unequal Exchange in the 'strict sense'.[5] When they are identical, foreign investment is an agent for development -- exchange will be equal and no surplus value will be transferred out of the low-wage country.

This view can be challenged on a number of grounds. Here, we shall consider two of these.

Firstly, Kidron argues that even if wage and productivity levels are identical, surplus value will still be transferred through trade if this involves the exchange of 'productive' for 'unproductive' labour. He cites the large-scale export of armaments (which, he argues, embody unproductive labour) to underdeveloped countries in exchange for primaries (which embody productive labour) as a case in point. Irrespective of wage and productivity levels, this exchange Kidron asserts, is necessarily unequal in the sense that surplus value is being transferred from the poor to the rich countries (1974: Ch.5).

The idea that labour-power expended in the production of armaments is 'unproductive' stems from the notion that:

> ... productive labour today must be defined as labour whose final output is or can be an input into further production ... and in late capitalism only part of the surplus can be used for the expansion of capital. The rest is waste product. (Kidron, 1974: pp38-9)

This definition of 'unproductive' labour has been used by Kidron to advance the theory of the Permanent Arms Economy; i.e. the tendency for the size and scope of 'luxury' of 'wasteful' production in late capitalist societies to increase and to act as a brake on, or even reverse the tendency for the rate of profit to decline.[6]

This definition of unproductive labour and the conclusions Kidron draws from his analysis based on this definition has been severely criticised. Howell (1975) for example, argues that had Kidron addressed himself to the question as to whether or not the luxury producer is 'productive':

> ... it would have become obvious that the luxury producer not only reproduces the value of his own labour-power but simultaneously produces a surplus-value, a value not existing previously and not paid for by the capitalist. (Howell, 1975: p58)

Thus, although the final output of the luxury sector is not an input into further production, the surplus-value generated in this sector does enter into the determination of the average rate of profit. (If this was not the case the rate of profit would have to be zero in all cases of simple reproduction in which the entire surplus is assumed by Marx (1961) to be unproductively consumed by the capitalist). Once this point is recognised, labour-power expended in the production of armaments, or any other luxury good for that matter, cannot be considered 'unproductive'. By the same reasoning it cannot be argued that the exchange of armaments for primaries represents an exchange of 'unproductive' for 'productive' labour and we must therefore reject Kidron's assertion that such exchange is necessarily 'unequal' in the sense that it implies the transfer of surplus value from primary-exporting to luxury-exporting countries.

Secondly, drawing on the work of Pearce and Rowan (1966), we could argue that Emmanuel's theory and treatment of foreign investment ignores the possibility of surplus value being transferred by a deterioration in the country's terms of trade caused by the effect of an inflow of capital on the balance of payments.[7] What we are concerned with here is essentially what has become known as the 'transfer problem' -- the problem of effecting transfers of real wealth from one country to another.[8] The problem arises from the fact that this transfer of wealth is likely to generate changes in aggregate expenditure in the two countries and thereby alter the real terms of trade betwen them and so affect the real 'value' of the initial transfer. In terms of this argument, the initial inflow of capital would cause a once-and-for-all balance of payments surplus for the receiving country. The resulting adjustment would turn the terms of trade in favour of the receiving country which, in terms of Emmanuel's Unequal Exchange, counteract the deterioration of the terms of trade that is necessary to equalise the rate of profit. Pearce and Rowan (1966) argue that this effect is likely to be short-lived, which therefore poses no real problem for Unequal Exchange. More important and long-lasting however are the effects that the subsequent outflow of profits and interest payments have on the balance of payments and terms of trade. These outflows could generate continuous balance of payments deficits and therefore lead to a continuous deterioration of the terms of trade for the country to which the capital was initially transferred. This consideration has serious implications for Emmanuel's position as it implies that the presence of foreign capital, irrespective of wage and productivity levels, is in itself sufficient to cause unequal exchange and the transfer of surplus value from the country concerned.

In conclusion, in his analysis of the role of foreign capital in the mechanism of Unequal Exchange and uneven capitalist development, Emmanuel not only ignores the possible indirect effects of an inflow of foreign capital on the balance of payments of the recipient country, and the effect that this could have on the terms at which goods from the periphery exchange with the centres, but more important, he fails to consider any possible effects that this inflow of foreign capital could have outside the world of Ricardian exchange relationships. In effect, he, '... reduces the existence of capitalist relations to the international circulation of surplus value' (Palloix, 1973: p79). What is lacking in his theory and what needs to be included in any attempt to formulate a more suitable alternative, is an adequate explanation of the ability of capitalism to reproduce the international division of labour and to renew unequal trading relations with due attention given to the role of foreign capital in this process. It is to one attempt to do this that we now turn.

3.3 *Peripheral and Central Forms of Capitalism: An Attempt to Integrate Social Relations of Production with Unequal Exchange*

In his analysis of the relationships between central and peripheral social formations in the world capitalist system Amin (1973; 1974) attempts to formulate an alternative theory to Emmanuel's Unequal Exchange by; (i) treating the value of labour power at an international as opposed to a national level; and, (ii) introducing relations of production into his system. It is asserted that once these modifications are made, foreign capital can no longer be considered as an agent for development in social formations characterised by, what Amin labels, the 'Peripheral Capitalist' mode of production (1973: p49).

Whilst sharing Emmanuel's view that as commodities are 'international', the problem of the value of labour power must be examined at the world level, Amin rejects his two assertions that; (i) commodities exchanged on the world market are 'specific' in the sense that they are produced either in the low-wage periphery or in the high-wage centre, but not in both;[9] and, (ii) the study of international trade can be contained within the framework of relations between national capitalist modes of production (1973; p35).

The first assertion is rejected on the grounds that most of the raw materials that are exported from periphery are also produced at the centre, or have close substitutes. Amin (1973: p37) makes the additional observation that techniques of production in most export sectors in the periphery are the same as those used in the same sectors in the centre. These observations raise the rather thorny problem of explaining why the centre does not abandon production in those lines where production would be much cheaper in the periphery. We would also need to explain why it is that capital does not move out of the centre entirely and produce in the periphery for export back to the centre.[10]

Amin rejects the second assertion on the grounds that the wage goods of workers employed in the export sectors of the periphery are very often not derived from capitalist production, but rather from some co-existing pre- or non-capitalist mode. Any analysis of Unequal Exchange must therefore incorporate some analysis of the relationship between co-existing modes, and extract from this, the implications of the domination by the capitalist mode.

Amin then analyses trade between a capitalist system and a simple petty commodity mode of production and suggests that the concept of unequal exchange can be extended to situations in which the differential in 'the reward to labour' (as opposed to the 'wage') is greater than the differential in productivities, irrespective of the partners' mode of production[11] (1973: pp40-3). Amin then suggests that in order to prevent the periphery from sharing the benefits of increased productivity in the capitalist centre, the capitalist economy must take measures to ensure that the pre-capitalist periphery is not in a position to set its own price -- it must 'impose' its price on the pre-capitalist economy. This can be done either by producing the identical commodity in the centre at a lower price (by using more 'efficient' techniques, for example), or by setting-up more efficient production in the pre-capitalist economy. Either of these measures would ensure that prices of commodities exported from the periphery are kept low, thereby maintaining conditions of accumulation and reproduction in the centre.[12]

The flow of foreign capital into the periphery gives rise to a rather unique social formation which is characterised by the integration of modern technology and low-wages. In other words, there is *no* correspondence between the level of development of the productive forces and the wage rate -- a correspondence which is found however in a central, capitalist mode of production.[13] It is this characteristic that distinguishes the Peripheral form of capitalism from the Central form and that can be used to explain Unequal Exchange; viz. the necessity for the centre to impose its price structure on the periphery (which, in effect, becomes the international price structure) while also ensuring that the distribution of productivities is different from that which characterises the central form of capitalism.

In other words, to ensure that the benefits of increased productivity in the centre are not shared with the periphery and that assumption is not affected, the Peripheral form of capitalism must be reproduced. In order to do this, pre-capitalist modes must be maintained (or produced) and dominated by the capitalist mode so as to ensure the provision of a steady supply of cheap labour power. This domination results in specific distortions -- which include the imposition of the centre's price structure and the lack of any correspondence between the level of development of the productive forces and the wage rate -- which can then be used to explain, among other things, unequal exchange.

From this point of view, unequal exchange must be considered only as a reflection of uneven development, both of which can only be explained in terms of the necessity for the Central form of capitalism to reproduce the Peripheral form. It follows from this analysis that the inflow of foreign capital into the periphery will not have the same 'development effect' as it would in the centre -- the effect that Emmanuel assumed it would have; viz. a raising of the level of productive forces *and* of wages, leading to 'development'. Amin concludes that to claim that multinationals are agents for development, '... is purely and simply to revert to Rostow's line of reasoning' (1973: p49).

3.4 Policy Conclusions of Amin's Peripheral Capitalism

In his discussion of appropriate policy measures for the periphery Amin (1974) asserts that development must have as its purpose: '... the abolition of the three characteristics of underdevelopment' (p28) which he considers are:

(i) the unevenness of productivity between sectors;
(ii) disarticulation of the economic system; and,
(iii) domination from outside.[14]

Amin rejects Emmanuel's treatment of Unequal Exchange as something independent of capitalist production relations, arguing instead that Unequal Exchange is a reflection or symptom of the three characteristics of underdevelopment of 'Peripheral Capitalist' social formations and which

> ... cannot be explained without bringing in the policy (economic policy, and policy in general) followed by the capital that dominates in the periphery, as regards organisation of the surplus of labour power. How capital organizes proletarianization in the periphery, how the specialisations that it imposes there give rise to a permanent and growing surplus of labour power in relation to demand ... [needs to be explained]. (Amin, 1974: p63)

This leads Amin to a total rejection of Emmanuel's 'reformist' policy prescriptions which are intended to overcome unequal exchange and uneven development, leaving the ties with foreign capital and the existing relations of production intact. In his view; 'Any development policy that accepts the framework of integration into this world market must fail, for it can only be a matter of pious wishes for 'needful external aid' etc. ...' (Amin, 1974: p32). For Amin therefore, the choice faced by policy-makers in the periphery is between: (i) retaining the existing links with foreign capital from the centre and perpetuating underdevelopment and unequal exchange; or (ii) breaking away completely from world capitalism (severing both investment and trading links with the centre) and asserting themselves as 'complete nations' (Amin, 1974: p33).

Amin is adamant that this is an 'all or nothing' decision for it is only by making a complete break that the 'conditions for the prosperity of the periphery' can be assembled. The possibility of a gradual transition from the peripheral to the central form of capitalism is rejected on the grounds that the capitalist road to which a mere 'freeing of individual energies' leads, is; '... limited, peripheral, dependent -- it is the actual road of the limited capitalist development of today.' (1974: p34). It goes without saying that on the basis of this analysis Emmanuel's claim that foreign capitalists are agents for development in the periphery is totally rejected by Amin.[15]

In the final, concluding chapter an attempt is made to synthesize the major strands of the theories discussed in this work with specific reference to the effects and role of foreign investment in the periphery and its relation to trade between it and the centre. By way of a conclusion of a brief discussion is devoted to some of the more important questions that are neglected and/or left unanswered by these theories. Of particular importance in this respect is the much neglected role played by transport costs and tariffs in determining patterns of investment and trade, especially in relation to Amin's problem concerning the production of and trade in non-specific goods in both the centre and periphery. [16]

NOTES

1. In this regard, see Bettleheim (1972); Pilling (1973); Palloix (1975); Amin (1973; 1974); Barratt Brown (1974); Kidron (1974); Evans (1975a).

2. For an attempt to defend his position, see Emmanuel 1972: Appendix II.

3. The same point is raised by Samuelson (1974).

4. This was discussed in some detail in Chapter II, section 2.2 above.

5. For a definition of Unequal Exchange in the 'strict sense', see section 1.3 above.

6. For an exposition of this theory, see Kidron (1974) Chapter 2.

7. I am grateful to Dr. Chris Edwards who first brought this point to my attention.

8. For a good discussion of the 'transfer problem', see Pearce (1970), Chapter 6.

9. This point was raised in our earlier discussion of Unequal Exchange, see Chapter I, section 1.5.

10. Amin's (1973: p39) and other possible explanations are assessed in Chapter IV.

11. One could argue however that this is a totally different concept of unequal exchange to the one envisaged by Emmanuel (1972); viz. the difference between prices before and after equalisation of the rate of profit.

12. The idea that the price structure of the centre is 'imposed' on the periphery, thereby keeping prices low implies some sort of conspiracy on the part of all foreign capitalists acting together. This explanation is critically assessed in the next chapter.

13. This point was discussed earlier in the context of the Marxist critique of Emmanuel's assumption of the independence of wages. See section 3.2.1 above.

14. For a discussion of these, see Amin, 1974: 15-20.

15. See section 2.4 above for a discussion of Emmanuel's policy prescriptions.

16. An important exception here is Evans who incorporates an analysis of the effects of tariffs in his discussion of Mainwaring's (1974) neo-Ricardian model. See Evans, 1975a: 41-2.

IV
SUMMARY AND CONCLUSIONS

4.1 A Synthesis

The overall objective of this work was to discuss the theory of Unequal Exchange, the recent critiques of that and its interrelation with questions concerning the effects and role of foreign investment in underdeveloped countries. These developments in the theory not only have important implications for future directions in the development of theory on international relations, but also raise a number of important questions of policy in the underdeveloped countries of today.

Arising out of the capital theory critique of conventional trade theory was the development of a neo-Ricardian model of trade, the main purpose of which was to perform a 'debunking' function by showing that with all the usual assumptions which underlie the Heckscher-Ohlin model (identical production techniques and patterns of consumption, perfect competition and constant returns to scale) the possibility of gainful trade becomes a function purely of pre-trade differences in income distribution (and hence, in profit and wage rates). By retaining the Ricardian assumption of international immobility of both labour and capital, Mainwaring's neo-Ricardian model of trade made little in the way of a direct contribution to an understanding of the effects of capital movements between trading partners. Instead, the rate of profit was assumed to be given, or determined independently within each social formation, the wage rate being determined once the rate of profit was known.

Emmanuel's Unequal Exchange was then discussed as a variant of Mainwaring's model, with the major differences being identified as his adoption of a classical theory of real wages (in his model, determined independently by 'moral' and 'historical' forces in each social formation), and the introduction of the assumption of international mobility of capital. The close similarities between Unequal Exchange and Prebisch's terms of trade thesis were also discussed.[1]

A number of interesting questions were raised in the discussion of the role of foreign capital in this model of Unequal Exchange. It was argued that in so far as international movements of capital equalised the rate of profit, it could be concluded that foreign capital and *not* trade is the 'villain of the piece'. Contrary to the policy implications that Emmanuel draws from his model, this implies that if low-wage countries practised decentralised socialism, the planners' ability to determine the internal rate of profit would enable gains to be made from trade.[2] Instead however, Emmanuel argues in favour of a policy of autarky in trade relations and diversification in production with foreign investment playing the role as agent of development. This apparent contradiction in his treatment of foreign capital was explained in terms of his neglect of other important effects such investment could have, both in the sphere of circulation and in the sphere of production.

In the sphere of circulation, the inflow of foreign capital and the subsequent outflow of interest and profit payments give rise to what is termed the 'Transfer Problem' which, as Pearch and Rowan (1966) have shown, could alone account for a long-term deterioration of the terms of trade for the country in which such investment is made. In the sphere of production relations, Emmanuel's analysis neglects some important issues relating to the dominance of foreign capital and the generation of surplus value in low-wage countries. By restricting his analysis to the sphere of circulation, Emmanuel concerns himself only with the redistribution of surplus value already generated and consequently does not consider the policy as regards organisation of the surplus of labour-power that follows the inflow of foreign capital into low-wage countries.

Amin's attempts to integrate an analysis of social relations of production into a theory of Unequal Exchange and uneven capitalist development was then discussed as a Marxist alternative to Emmanuel's neo-Ricardian model. For Amin, Unequal Exchange can only be explained with reference to the emergence of the Peripheral form of capitalism (as opposed to the Central form) resulting from the inflow and dominance of foreign capital in low-wage social formations. Perhaps the most interesting contribution made by Amin lies in his analysis of the interrelationships between the highly productive capitalist sector and the low productivity 'traditional' or non-capitalist sector, characteristic of peripheral social formations. This has close links with the work of Meillassoux (1972) on the absorption of agricultural communities into the capitalist economy and their maintenance as reserves of cheap labour, and with the work of Wolpe (1972) who extends a similar theory to the analysis of Apartheid in South Africa. From this analysis of the Peripheral form of capitalism, Amin concludes that any development policy that does not provide for a complete break with world capitalism -- in the spheres of both exchange and production relations -- must fail.

4.2 The End of a Debate?

Amin (1973) asserts that his analysis heralds the end of the debate on the question of Unequal Exchange and uneven capitalist development, among a number of other hotly debated issues.[3] However, in the process of discarding Emmanuel's Unequal Exchange, Amin raises a number of important questions which he either deals with inadequately or neglects altogether. This is particularly true of his attempt to explain the apparent paradox of production of the same commodity in both the low-wage periphery and in the high-wage centre. It is his treatment of this phenomenon and the further issues raised by it that is discussed in this concluding section.

To recap, in setting-out his theory of 'Accumulation on a World Scale', Amin (1974) takes over Emmanuel's assertion that the rate of surplus value (or exploitation) is higher in the low-wage periphery than in the centre -- that the value of labour-power is lower in the periphery. When he adopts the assumption of non-specific goods in world trade however, Amin presents himself with the problem of explaining why the same good is produced in both the centre and the periphery and why capitalists do not abandon production in the high-wage centre altogether, and instead, produce everything in the periphery at lower wage costs for export back to the centre.

In dealing with these problems Amin argues that foreign capital organises production in the periphery with a view to 'protecting' its own autonomous dynamics by producing there the same commodities which the domestic economy provides, at a higher level of productivity. This, he suggests, enables capitalists from the centre to 'impose' their price structure on the periphery and keep the value of labour power low by 'forcing' the non-capitalist modes to become integrated with the capitalist trade system.[4] This analysis raises questions concerning: firstly, the ability of capitalists to organise themselves for the purpose of furthering their overall interest as a class, and neglects issues of competing, individual interests within the capitalist class,[5] and secondly, the need to use extra-economic forces in order to ensure unequal exchange.[6]

In attempting to answer the question of why capital does not emigrate to the periphery where the value of labour power is relatively lower, and produce everything there for export back to the centre, Amin resorts to 'historical' arguments and questions concerning the need to maintain balance of payments equilibrium (Amin, 1973: p39). Although these considerations are obviously not unimportant, there are a number of other explanations of this phenomenon, some of which, if valid, threaten the very core of the theory on which his subsequent postulates depend. Three possible explanations are discussed below.

Firstly, a rather obvious but often neglected consideration is the possible effect of transport costs. In the case of transport-intensive commodities, these may render profitable for the individual capitalist, production of the same or similar commodities in both low- and high-wage countries.[7] Cement is an example of such a commodity where the saving on labour costs at the factory level in the low wage-cost country may be more than offset by high transport costs. In such instances production in both the periphery and the centre is perfectly rational from the point of view of capitalist profitability.

Secondly, when land is an important cost of production in the periphery, the higher marginal cost of additional land for the individual capitalist may render profitable, production of less land-intensive synthetics in the centre. Of much relevance to this question is Murray's (1976) discussion of 'founders' benefits' and the internationalisation of landed property. He suggests that:

> Where modern landed property is concerned, the early bird catches the worm ... and continues In principle the protective elements of colonialism, the preferential tariff and monetary zone, the specific investment privileges and legal discriminations, all could be done away with as long as the landed property rights were still vested and secured for the colonial landlord. (Murray, 1976: p17)

When 'founder's benefits' are not available to the individual capitalist on additional land for production, the higher cost may be greater than the cost of producing a less land-intensive substitute in the centre.

A third consolation that Amin neglects in his analysis is the widespread existence of high, protective tariff barriers in the periphery. In fact, if we retain Emmanuel's and Amin's assertion that the value of labour power is lower in the periphery it becomes difficult, if not impossible to explain the need for tariff protection. Evans correctly argues that:

> .. the widespread existence of tariff protection in low-wage countries is prima facie evidence against the proposition that these countries are characterised by a below-average value of labour-power ... (Evans, 1975a: p60)

Furthermore, Robinson (1974) has produced a certain amount of empirical evidence in support of the view that despite higher wage rates, the cost of labour in efficiency units is in fact lower in the centre. Both Kidron (1974) and Barratt Brown (1974) have similarly argued that the value of labour power is lower in the centre.[8] Accepting this assertion, adn given the further assumption of 'non-specificity' of commodities, in the absence of protective tariffs one would expect the operation of the law of value at an international level to squeeze producers in the periphery out of the world market. The existence of capital investment in the periphery can then only be explained by the law of value not being allowed to operate at an international level, due to the price of international commodities being 'artificially' raised for the periphery. In other words we reach a conclusion that contradicts that held by Amin; viz. it is precisely because the law of value does not operate at an international level that capital does not concentrate in the country with the lower unit wage costs.

It could be argued that this view does not take account of the costs to total social capital of interfering in the efficiency of circulation. Protective tariffs may lead to higher prices for workers and certain groups of capitalists. Evans (1975a) however, suggests that if one accepts the assumption of the independence of the rate of profit, it could be argued that from the point of view of capital, motivated by the need to generate surplus value and accumulate, the gains from extenidng accumulation and the labour process to the periphery more than offset the costs to inefficient circulation (Evans, 1975a: pp50 and 63). Thus, by preventing the law of value from operating, protective tariffs enable the capitalist to extend accumulation on a world scale.

This argument raises the interesting question of competing fractions within total social capital. It does not follow that all groups of capitalists have an interest in producing behind tariff barriers -- particularly those for whom high tariffs imply higher costs of intermediate goods. In addition, it raises the question of why the State, responsible for setting-up the machinery for the imposition of tariffs, has a common interest with foreign capital and is 'permitted' to introduce measures that may well be felt most by national capitalists and indigenous labour.[9]

These are some of the important questions that the limited scope of this dissertation does not enable us to explore more fully, but, by raising them I hope to have demonstrated that the debate on Unequal Exchange and the many closely interrelated issues, particularly those concerning the determinants, effects and role of foreign investment in underdeveloped countries, is by no means ended as Amin has suggested. Until questions such as those that have been raised in this discussion have been satisfactorily dealt with, the debate will remain very much an open one.

NOTES

1. For a discussion of the similarities between Unequal Exchange and the Lewis (1954) model of dual development, see Ross (1976). See also Evans (1975b) Appendix, in this respect.

2. See Mainwaring (1974) in this respect.

3. These include such issues as the 'transformation problem' and the 'falling rate of profit'.

4. Amin asserts that both 'economic' and 'extra-economic' forces are necessary for this purpose. See Amin, 1973: p42.

5. This question is raised again below in the context of the question of tariff protection.

6. It is interesting to recall that this is the same assumption on which Emmanuel's first version of Unequal Exchange hinged, and for which he was criticised by Evans (1975a). On the question of force in unequal exchange relations, see Bradby (1975).

7. We are assuming here that unit wage costs are lower in the low-wage periphery. The validity of this assumption is questioned in the context of the discussion of tariff protection below.

8. See Kidron, 1974: Ch. 5 and Barratt Brown, 1974: Ch. 10 (Table 24, p232 in particular).

9. See Lee (1972) for a discussion of these issues.

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