FOREIGN TRADE AND THE LAW OF VALUE: PART II*

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I N PART I OF THIS PAPER we traced the derivation of the
Ricardian law of comparative costs, and examined its influ-
ence on both orthodox and Marxist theories of international
trade. In this, the second part of the paper, we derive the corre-
sponding Marxian laws of foreign trade, and show that they in
turn give rise to many phenomena which are often mistakenly
attributed to international monopoly power and/or to unequal
exchange.

I. MARX'S DEVELOPMENT OF THE LAWS OF CAPITALIST EXCHANGE

Value, Price and Profit

In Volumes I and II of *Capital,* Marx develops the inner
connections between value and money-price (form of value) on
the assumption that the center of gravity of market money-prices
are prices directly proportional to values (direct prices). On this
basis he is able to show that the value of labor-power determines
and regulates money wages, and that surplus value forms the
basis of money profit.

In Volume III, the category of profit is further concretized by
allowing for the equalization of profit rates across industries, and
for the formation of a general rate of profit. This in turn neces-

sitates a transformation **in the** *form of value* **from direct** money prices to prices of production. These latter prices now appear as the real regulating prices, the real center of gravity of market prices. As Marx develops it, a commodity's price of production will be lower or higher than its direct price according to whether the industry's organic composition is higher or lower than the average organic composition **for the society as a whole.**

It is at this point that we arrive at the famous transformation problem, about which so much has been written and so little understood. Within the confines of this paper it is not possible to develop the transformation issue in any detail. This is a task I treat at length elsewhere.[1] For our purposes here, three aspects are of significance. First, the procedure by which Marx transforms direct prices can also be viewed as the initial step in an iterative procedure for *calculating* the actual prices of production themselves.[2] This helps establish a fruitful mathematical connection between the prices of production resulting from Marx's procedure and further developed prices of production. Second, it can be shown (in the case of three departments of production, at least) that for each sector both the price of production as Marx develops it and the further developed price of production deviate in the same direction from the sector's direct price.[3] **Lastly,** it can be established that the transformed money rate of profit is directly related to the value rate of profit. Though the two need not be equal in magnitude, it can be said with precision that the former is a trans-form of the latter, subject to essentially the same determination.[4]

For most analyses, knowledge of the above connections is generally sufficient. In this paper, therefore, I have used only

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1 A. **Shaikh,** "Marx's Theory of Value and the 'Transformation Problem,'" in ***The Subtle*** Anatomy *of Capitalism*, Jesse Schwartz, editor (Santa Monica, California, 1977), pp. 106–139.

2 *Ibid*., pp. 130–133.

3 F. Seton, "The 'Transformation Problem,'" *Review **of** Economic Studzes,* **25,** June 1957, pp. 149–160.

4 See M. Morishima, *Marx's Economics* (Cambridge, 1973), Ch. 5–6, and A. Shaikh, *Theories **of** Value **and Themes** of Distribution*, Columbia University Ph.D Dissertation, 1973. In both of these it is established that there is a monotonic increasing relationship between the money rate of profit r and the Marxian rate of surplus-value s/v, for given conditions of production. Of course, the Marxian value rate of profit $s/(c+v)$ is also a monotonic increasing function of s/v, for given production conditions. Thus the money rate of profit is a monotonic increasing function of the value rate.

direct prices and the prices of production derived by Marx, on the implicit understanding of the aforementioned connection between the latter and their further developed form.

2. The Theory of Money

In any period, **if the** distribution of social labor is such that the commodities produced correspond to the various social needs, supply will equal demand, and the money-prices of commodities will equal their "regulating" prices — direct prices if we assume exchange in proportion to values, prices of production at a higher level of analysis. In either case, it is the amounts of labor-time which determine these regulating prices.

If, on the other hand, the distribution of labor is not appropriate to various social needs, then the market prices of commodities will deviate from their regulating prices, and a change will take place in the distribution of social labor so as to reduce the discrepancy between market and regulating prices. For the purposes of this analysis, therefore, we may leave out of consideration the constantly fluctuating market-prices and focus directly on regulating prices.

In any given year, the sum of prices of all the commodities produced must equal the number of coins in circulation times the velocity of circulation. This, as Marx points out, is simply a *tautology.* In order to make it something more, we must embed it in a theoretical structure.

Let us begin by assuming that the regulating prices are direct prices. Then the price of any commodity is its value relative to that of gold, so that the sum of the prices of all the com-**modities produced** in a given **year is given by their total** value relative to the value of gold. Let *TP* stand for the sum of prices, *TW* for the sum of values, and W_g for the value of a *unit* (an ounce) of gold; we then can write

$$TP = \frac{TW}{W_g}$$

In this equation the sum of (regulating) prices is the direct expression of the sum of values of commodities. If the velocity of circulation is k, then the amount of gold G (in the form of one-ounce coins) which is required as a medium of circulation is

$$G \;=\; \frac{TP}{k} = \frac{1}{k}\;\frac{TW}{W_g}$$

The causation in this is clear: the sum of the values of the commodities produced in a given year determines the sum of their money prices, and this in conjunction with the velocity of **circulation** determines the number of (one-ounce) gold coins required for the circulation of the commodities.[5]

Although the preceding relations were derived on the basis of direct prices, they are **not** the least bit altered when we **move** on to prices of production, for the regulating prices of production that Marx derives have the same sum of prices as do direct prices. This means that as far as the sum of the prices of all commodites is concerned, the determination is the **same** whether we assume direct prices or prices of production: the sum of prices equals the sum **of** values divided **by** the value **of an ounce** of gold. As a result, the quantity of gold required is the same in either case.

What happens, then, if there exist more gold coins than the required number? Well, the quantity G is the number of gold coins which circulate because they facilitate the circulation of commodities. Therefore any quantity of coin over and above this amount will be redundant in circulation: it will at first take the form of idle coin, excess coin.[6]

But an excess supply of gold is a very different thing from an excess supply of any other commodity. All other commodities, in order to fulfill their function, must be sold, turned into gold through the alchemy of exchange; but gold itself does not have to be, in fact cannot be, sold. It is money,' the perfect and durable form of wealth which all other commodities seek to obtain. From the earliest stages of commodity production, therefore, gold circulating in the form of coin has existed side by side with

5 K. Marx, *Capital*, Vol. I (New York, 1967), p. 123.
6 K. Marx, *A Contribution to the Critique of Political Economy*, with an introduction by Maurice Dobb (New York, 1972), Ch. 2, Section 3a.
7 Of course, gold bars may appear to be sold for an equal weight of gold in the form of coins; but this is only a change of form from bullion to coin. It is not a sale since there is no price invovled: an ounce of gold is an ounce of gold regardless of its shape. The same **conclusion** apphes to the so-called sale of gold for paper money backed by gold. In this case the paper is a *token* of a quantity of gold equal to that which it buys. Marx discusses the illusions to which token money gives rise (Marx, *A Contribution* .).

non-circulating gold in the form of reserve coin. in the form of hoards, and in the form ofluxury articles.

The very nature of commodity production, the unceasing fluctuations of market prices and quantities, requires that every commodity owner have on hand a reserve of money to accommodate day-tn-day variations. Consequently, the first manifestation of a persistent excess of coin over the need of circulation will be the build-up of these reserves above the requisite levels; but then this superfluous gold, being necessary neither for immediate circulation nor for its anticipated variations, will be withdrawn altogether from the vicinity of the sphere of exchange. It will either enter into hoards or will be transformed into articles of luxury:

We have seen how, along with the continual fluctuations in the extent and rapidity of the circulation of commodities and in their prices, the quantity of money current unceasingly ebbs and flows. This mass must, therefore, be capable of expansion and contraction. At one time money must be attracted in order to act as circulating coin, at another, circulating coin must be repelled in order to act again as more or less-stagnant money. In order that the mass of money, actually current, may constantly saturate the absorbing power of the circulation, it is necessary that the quantity of gold and silver in a country be greater than the quantity required to function as coin. This condition is fulfilled by money taking the form of hoards.*

In countries where commodity production is still primitive, hoards take the form of private accumulations of gold scattered throughout the country. But as commodity production, and hence the banking system, develops and expands, hoards become concentrated in banks.[9] Under these circumstances, excesses or deficiencies of gold money relative to the needs of circulation manifest themselves as increases or decreases of bank reserves.[10]

Hoards in the form of bank reserves, however, are very different from private hoards: to the bank, an excess of bank reserves over the legally required minimum is a supply of idle

8 Marx, *Capital*, Vol. I, p. 134.

9 Marx, A *Contribution* . , pp. 136-137.

10 It is Important to note that in Marx's analysis, hoarding arises out of *structural* reasons specific to commodity production and/or capitalist commodity production. In Keynesian analysis hoarding is ultimately based on psychological "propensities."

bank-capital, money-capital which could be earning protit tor the bank but is instead lying fallow. An increase in bank reserves is therefore generally accompanied by a decrease in the rate of interest as the banks strive to convert excess reserves into functioning capital. Conversely, a drop in bank reserves below the legal minimum tends to lead to a rise in the rate of interest. Rather than raising the price level, the immediate effect of an excess of gold-money is to lower the rate of interest: "if this export [of capital] is made in the form of precious metals, it will exert a direct influence upon the money-market and with it upon the interest rate. . . ."[11]

But now it may be asked: does not the fact that the bank puts this extra money into circulation via a lowering of the rate of interest also imply that effective demand is thereby raised? And if so, wnn't this in turn imply that as a consequence of this higher effective demand, prices will eventually rise — so that in the end the Quantity Theory is right after all? Marx's answer is unequivocal: No.

We begin by noting that an increased supply of gold can indeed lead to an increase in effective demand, either because it **is rcspcnt by its original owners, or indirectly because it expands** bank reserves and hence the supply of loanable money-capital, which tends to drive down interest rates, and may in turn increase capitalist borrowing for investment." However, even though this increase in effective demand may temporarily increase prices of some commodities, and hence raise profits in some sectors, it must eventually lead to an expansion of production to meet the new demand. And as production expands, prices will fall until (other things being equal) they regain their original levels. In that case the **sum** of prices of all commodities will have increased, not because the level of prices has increased, but because the mass of commodities produced has itself increased. Thus, insofar as a pure increase in the supply of gold does generate an increase in effective demand (i.e., insofar as it

11 Maix, *Cupitul*, Vol. III, p. 577.

12 There is **no automatic** link in Marx's analysis between a fall in the rate of interest and an expansion in the level of investment. Investment depends ultimately on the possibility of making profits; a lower rate of interest raises the *net* profitability of investments, other things being equal. But this does not by itself imply an automatic expansion of investment; nor does it in any case imply any significant response even when other factors do not intervene.

does not simply expand bank reserves or go into the production of luxury articles), it will also generate an increased need for circulating gold coin.

It is important to note at this point that to Marx, the notion of a capitalism that tends to be more or less at "full employment" is a vulgar fantasy. First of all, Marx points out that it is an inherent tendency of capitalism to *create* and maintain a relative surplus population of workers — the reserve army of the unemployed. [13] Second, even with a given pattern of fixed capital (plant and equipment), expansion of production can easily be undertaken by extending and/or intensifying the working-time in a given working day.[14] Last, it is an intrinsic requirement of capitalist commodity production, which is regulated only by the constant fluctuations of the circulation process, to maintain stocks of various commodities so that the exigencies of circulation may be met without disrupting the continuity of the production process. It is precisely because of these different sorts of reserves that the continuity of the production process is possible alongside constantly varying levels of production and sale.[15]

It is extremely important to grasp this aspect of circulating and fixated capital as *specific characteristic forms* of capital generally, since a great many phenomena of the bourgeois economy — the period of the economic cycle; . . . the effect of new demand; even the effect of new gold and silver-producing countries on general production   would otherwise be incomprehensible. It is futile to speak of the stimulus given by Australian gold or a newly discovered market . . if it were not in the nature of capital to be never completely occupied. . . . At the same time, note the senseless contradictions into which the economists stray — even Ricardo — when they presuppose that capital is always fully occupied. . . .[16]

Having located Marx's criticism of Ricardo's theory of money, we can now turn to its implications for gold flows generated by changes in the balance of international trade. In the case of a trade surplus, for instance, there will be a net inflow of gold into the country and a consequent increase in the country's sup-

13 Marx, *Capital*, Vol. I, Ch. 25.
14 Marx, *Capital, Vol.* II, p. 258.
15 Marx, *Grundrisse*, Foreword by Martin Nicolaus (Middlesex, England, 1973), pp. 582-586.
16 *Ibid*., p. *623.*

ply of gold. Insofar as this leads to an increase in effective demand, production will expand, and with it the needs of circulation. Part of the increased gold supply will therefore go to meet the expanded requirements of circulation; part will pile up in bank reserves; and part will be absorbed in the expanded production of luxury articles made of gold. In addition, once we take international trade into account, a part of the surplus gold may be re-exported in the form of foreign loans in search of interest rates, or as foreign investment in search of surplus-value. These last two possibilities, as we shall see shortly, become important in a Marxian analysis of international exchange.

In any case, Marx emphatically rejects the notion that a "pure" increase in the supply of gold will in general lead to an increase in prices:

It is indeed an old humbug that changes in the existing quantity of gold in a particular country must raise or lower commodity prices within this country by increasing or decreasing the quantity of the medium of circulation.   If gold is exported, then, according to the Currency Theory, commodity-prices must rise in the country importing this gold, and decrease in the country exporting it. . . . But, in fact, a decrease in the quantity of gold lowers the interest rate; and if not for the fact that the fluctuations in the interest rate enter into the determination of cost-prices, or in the determination of demand and supply, commodity-prices would be wholly unaffected by them.[17]

It should be noted at this point that Marx's theory of money implies not only a rejection of the Hume specie-flow mechanism on which Ricardo's results were based, but also rejection of the various modern versions (mentioned in Part I, Section 4) which have replaced it.

Let us begin with a modern version of the Quantity Theory, based on the Cash Balance approach. It will be recalled that the classical Quantity Theory of Hume and Ricardo argued that an outflow of gold from a country would lead to a fall in the money supply and hence in the price level. In the modern Cash Balance version, on the other hand, it is argued that the decrease in the money supply implies a decrease in the cash balances of individuals and firms; in order to "not let their cash balances shrink too far," people in the deficit country curtail their consumption

17 Marx, *Capital*, Vol. 111, Ch. XXXIV, p. 5.51

and investment **spending, and this drop in aggregate demand in turn** leads to lower prices and wages.[18] The opposite movement takes place in the surplus country, and eventually an absolute advantage gives way to a comparative one.

An alternate path to this same result is to tie the price level to the level of money wages. In this version, since the competition of cheap cloth and wine from abroad means a reduction in domestic wine and cloth production in the backward country, the resulting trade deficit will be associated with a rise in unemployment. Money wages in the backward country will consequently fall, and with them money prices; in the advanced country, the trade surplus is associated with expanded employment, a rise in money wages, and hence a rise in money prices. Once again, this leads to the eventual rule of comparative advantage.[19] It should be noted, incidentally, that even if money wages were relatively sticky downwards, the above result would be said to hold since all that it requires is a movement in one of the two price levels so as to arrive at those relative prices which would ensure the rule of comparative advantage.

We see, therefore, that the Cash Balance approach relies on a fall in effective demand in the backward country to lead to a fall in money prices. But this connection between effective demand and the permanent level of price is precisely what Marx denies. Similarly, since in Marx the price levels of commodities are determined by their value relative to that of gold, the money wage cannot permanently influence the price level: the Keynesian price theory therefore will not work either.

All discussions so far have been in terms of the gold standard, in which the "ultimate" basis of international currency **is a** money **commodity (which** we **call gold for convenience). In** most theoretical discussions the gold standard is treated as being equivalent to a regime of *fixed* exchange rates. Modern derivations of comparative advantage therefore also claim to hold true for the case of fixed exchange rates.

That brings us back once again to the possibility of purely

18 L. B. Yeager, *International Monetary Relations: Theory, History, and Policy (New* York, 1966), p. *64*.

19 A. Amin, *Accumulation on a World Scale: A Critique of the Theories of Underdevelopment, 2* volumes (New York, 1976), p. 47 It should be noted that Mandel is critical of Amin for accepting this vulgar theory (E. Mandel, *Late Capitalism* [London, 1975], p. 352, footnote 23).

flexible exchange rates as a mechanism to bring about specialization according to comparative costs. As noted in Part I, Section 4, the actual gold standard operated with a flexible exchange rate bounded by limits (gold-points) based on the costs of transporting gold. This meant that in its normal variations it was a system of flexible exchange rates, whereas in its "limited" mode it operated as a fixed exchange rate system.

Out of this long experience orthodox theory falsely abstracted the concepts of fixed and flexible exchange rates as two polar regimes. Purely flexible exchange rates are presented as a mechanism whereby in theory a world capitalist system can be made up of fully "independent" national currencies.[20] As a theoretical possibility this idea has always had an uneasy existence: the history of currency "floats" strongly suggests only a limited flexibility,[21] and the history of the international money system is very much a history of increasing monetary integration, not separation. In a sense, the notion of a purely flexible exchange rate determined solely by supply and demand considerations is one more manifestation of the general neoclassical method in which all prices are determined only by supply and demand. In opposition to this, Marx's method emphasizes the intrinsic limits to these apparent variations: in the case of prices, these limits arise from labor-times; in the case of exchange rates, they stem from the existence of the money commodity (as in gold-points).

II *THE LA W OF VALUE AND FOREIGN TRADE*

We have seen that Marx's analysis of the exchange of commodities within a nation differs from Ricardo's. In what follows we shall see that these same differences necessarily imply an equally distinct Marxian analysis of international exchange.

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20 *Yeager, op. cit.*, p. *104.*
21 *Ibid.*, pp. 176–180.

1. *Comparative Costs Reexamined*

Table 1

	England		Portugal		
Cloth	100 hrs → 50 oz gold		45 oz gold ← 90 hrs		*Cloth*
Wine	120 hrs → 60 oz gold		40 oz gold ← 80 hrs		*Wine*

We begin once again with the familiar Ricardian tableau. Portugal is absolutely more efficient in both branches of production, and given the value of gold as two worker-hours per ounce, this all-round greater efficiency translates directly into **an abso**lute cost advantage.[22] Portuguese capitalists will therefore export both cloth and wine, and England will have to counterbalance its ensuing trade deficit by shipping gold to Portugal.

According to Ricardo, the gold outflow from England would lower all prices there, since it would lower the domestic supply of money; conversely, **the gold inflow into Portugal would** raise the prices of all Portuguese commodities. As we have seen, this process implies that sooner or later English cloth would undersell its Portuguese counterpart, so that in the end two-way trade would always reign. No nation need fear trade, for it benefits all.

But the mechanism which leads us to this harmonious conclusion rests squarely upon the operation of the classical quantity theory of money. And this we know to be false. Let us therefore begin again.

Because of their absolute advantage. Portuguese capitalists in both branches are able to undersell their English competition. Portuguese cloth and wine invade English markets, and English gold begins to flow back to Portugal. In England, therefore, the supply of gold decreases, while in Portugal it increases.

It is at this point that Marx's theory of money becomes critical. In contrast to Ricardo, Marx expressly denies any link between "pure" changes in the supply of gold and the level of prices.

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22 **Absolute** advantage **may be defined as the ability to produce a commodity at a lower cost-price, given the same unit prices of material inputs and of labor-power. It is therefore the same as being more efficient.**

Instead, according to Marx's analysis, the primary effect of an outflow of gold from England will be to diminish the supply of loanable money capital. On the other hand, as English cloth and wine production succumbs to foreign competition, the de- **mand for** money **capital** will **also decrease. Nonetheless,** when these sectors have reached their minimal size (there will always be Englishmen who will *never* buy from foreigners), the continu- ing drain of gold will tend to raise the rate of interest; insofar as this curtails investment, production of other commodities will decline. In England, therefore, the drain of bullion will lead to lower bank reserves, curtailed production, and a higher rate of interest.

In Portugal, the effects are just the opposite. As gold flows into Portugal, **par** t **of** it **will lx** absorbed **by** the expanded circula- tion requirements of cloth and wine production; part will be absorbed in the form of luxury articles; and the rest will be absorbed in the form of expanded bank reserves. This last effect will increase the supply of loanable money-capital, lowering in- terest rates and tending to expand production in general. Thus, in Portugal the inflow of gold will raise bank reserves, expand production, and lower the interest rate.

What we find, therefore, is that according to Marx's analysis England's absolute disadvantage will be manifested in a chronic trade deficit, *balanced* by a persistent outflow of gold. On the other hand, Portugal's greater efficiency in production will man- ifest itself in a chronic trade surplus, balanced by a persistent accumulation of gold.

Obviously such a situation cannot continue indefinitely.[23] If we stick to commodity flows alone, then as English bank reserves decline, so too will the credibility of the English £; eventually, the £ must collapse, and with it the level of trade between England and Portugal.

The end need not come in such a straightforward manner, however. We noted earlier that as English reserves shrink, the rate of interest in England will rise; conversely, as money-capital piles up in Portugal, the rate of interest will fall. At some point, therefore, it will be to the advantage of Portuguese capitalists to lend their money-capital abroad, in England rather than at

23 **We exclude the case where** England is also **producer of gold,**   that is **obviously a special circumstance.**

home. When this happens, short-term financial capital will flow from Portugal to England.[24] England's rate of interest would then reverse itself and begin to fall, while Portugal's would rise, until at some level of short-term capital flows the two would be equal.

It may seem that at this point the situation would be balanced; England running a chronic trade deficit which it covers by means of short-term international borrowing, and Portugal running a trade surplus which enables its capitalists to engage in international lending. But of course this is not quite correct: capitalist loans are made in order to get profit (in the form of interest). Thus England would have to eventually pay back not only the original loan, but also the interest on it. The *net* effect must be an *outflow* of gold from England, albeit at a later date. All other things being equal, the piper must be paid: in the end, beset by chronic trade deficits and mounting debts, England must eventually succumb to the consequences of its backwardness and restrict imports to a level consistent with its capacity to export. Of course, in the case of Ricardo's extreme example, **E&and has no capacity to export since by assumption it is** less efficient in both of the two branches of production. But when we consider the whole range of products possible in two different regions of the capitalist world, it then becomes evident that even an underdeveloped capitalist region (UCR), in spite of its *general* backwardness, may nonetheless produce certain commodities in which it has an absolute advantage over corresponding production in a developed capitalist region (DCR).

Since we are still considering direct prices, the only possible exports of the underdeveloped region will conform precisely to these types: those commodities it can produce at a lower value (higher efficiency) and/or those commodities peculiar to it only. On the whole, these types of commodities will reflect some specific local advantages great enough to overcome the UCR's generally lower level of efficiency: a good climate, an abundance of particular natural resources, a propitious location, and so on. Lower wages, however, will not matter here, since in the case of

[24] **Under the gold standard, in the event of a drain of gold, the central bank of a country would frequently make money scarce precisely in order to raise the interest rate and attract short-term foreign capital (Marx,** *Capital*, **Vol. III, Ch. XXXV, p.** *575).*

direct prices the level of **w a g e s** affects profits but has no effect on prices. Under these circumstances, then, the underdeveloped region will be able to eke out a few exports; although of course its overall trade will in general still be in deficit, and its position will still be that of a debtor region. Trade will serve not to eliminate inequality, but to perpetuate it.

    This result is not substantially modified by the consideration of prices of production. Since within a given region the average price of production is equal to the average direct price, the overall advantage of the DCR remains unchanged. What may change, however, are the trading positions of individual sectors. Within each region, sectors with high organic compositions will have prices of production above their direct prices, and sectors with low compositions, prices of production below their direct prices; but this dispersion effect holds true in both regions, to differing degrees, so that it is quite possible that in either region some previously marginal sectors may enter international competition while others drop out.[25]

    Up to now, we have implicitly assumed that the more efficient producers in the world market (the ones with an absolute cost advantage) will drive out all others. But, as we noted earlier, less efficient capitals can continue to exist in a particular market. They can do so either because they play only a marginal role in the world market (such as supplying only a portion of the domestic market of a particular country or region, and/or filling in the fluctuations in the world market and hence acting as part of the "reserve army" of capitals), or because they are necessary to supply that part of the world demand which cannot be supplied by the more efficient capitals. In either case, as long as they enter **into** the same market **as** the more efficient **capitals,** their individual values will enter into the social value governing price and production in that market. But in either case, they continue to exist precisely as backward producers, under the continual threat of extinction.

    Above all, it must be kept in mind that these results represent the automatic tendencies of free and **_unhampered_** trade

25 **It should be noted that we are speaking here of a theoretical difference from the previous stage of analysis, not of an actual movement from direct prices to prices of production. The same comment applies to all the successive concretizations in this paper.**

among capitalist nations at different levels of development. It is not monopoly or conspiracy upon which uneven development rests, but free competition itself: free trade is as much a mechanism for the concentration and centralization of international capital as free exchange within a capitalist nation is for the concentration and centralization of national capital. We will return to this point after we consider the effects of wage differences and of foreign investment.

Incidentally, it is worth remarking that trade between capitalist nations with more or less the same level of development will have a characteristically different pattern. Suppose we consider the example lying at the heart of the Hecksher-Ohlin-Samuelson model, in which two capitalist countries possess similar technologies and similar **levels** of productivity, so **that neither** nationality possesses an overwhelming advantage in efficiency. In this case, factors such as climate, location, availability of resources, experience, inventions, and above all the competitive struggle among capitalists, become decisive in determining the pattern of absolute advantage (wage differences will be treated in **the next section). Just as within a nation equally matched capitals** may produce similar but differentiated use-values (such as cars, etc.), so too between equally matched nations similar but differentiated use-values may be traded in both directions. In general, we would expect a much more balanced pattern of trade in this case, with a large variety of goods being produced in both countries, and with the advantage in particular commodities shifting back and forth in the short-run. This picture of trade within a region is quite different from the structural imbalance of trade between the developed and underdeveloped regions.

2. The Effects of the Flows of Productive Capital

In the preceding sections we have dealt with international flows of commodities and of money-capital. What remain to be **introduced are the determinants of the international flows of** productive capital (direct investment).[26]

26 **It is important to keep in mind the distinctions between the flow of** commodity-capital, **money-capital, and productive-capital, because they have different determinations and can have different (net) directions. The commonly used term "export of capital" is quite misleading, since it has been used variously to mean export of productive-capital; of both productive and financial capital; of productive** and finan-

Let us recall the results of commercial capital (i.e., commodity) flows alone: on the average, the less developed structure of production of the UCR translates into higher international prices for the vast bulk of its products. In general, the UCR will manage to eke out exports only m those sectors where local advantages such as climate, availability of resources, etc. are so great as to offset their generally lower efficiency, or where local capitals manage to survive as inefficient producers in the world market, in spite of their backwardness."

However, even the flow of commodity-capital alone necessarily carries with it the possibility of modernization: the capitalists within the UCR may (and do) import advanced methods of production and thus switch over to the superior technology of the DCR. But there are many factors which militate against this: the vastly greater cost and scale of advanced techniques, the complex interdependence required among different techniques for any one to be viable, and the greater socialization required of the work-force. The greatest obstacle is the presence of the advanced capitals of the DCR themselves, whose crushing superiority can be brought into play as soon as a profitable opportunity arises. For these reasons, when trade is free and open, modernization from the inside is usually overwhelmed by another more powerful inherent tendency: modernization from the outside, through direct investment.[28]

cial **capital** *minus* **profits, interest and royalties repatriated; and finally, of all of the preceding minus value transferred due to unequal exchange and/or declining terms of trade. It is hardly surprising, therefore, that Marxists disagree** about **the size,** direction, impact and determination **of the** so **called "export of capital."** See, **for instance, Al Szymanski, "Marxist Theory and International Capital Flows,"** *Review* **of** *Radical Political Economics* **6, 3, Fall 1974, pp.** 20–40; **A. Emmanuel, "White Settler Colonialism and the Myth of Investment Imperialism,"** *New Left Review* (73), May– **June 1972, pp. 35-57; S.** Amin, *op. cit.,* **pp. 116117; and E. Mandel, op.** *cit.,* **Ch. 11.**

27 **The UCR work-force is often less conditioned to capitalist production than corre-** sponding workers in the DCR, so that other things being equal, even with the same **technology in both regions the productivity of UCR workers would be lower. But in** practice **other** things **are never equal. The UCR work-force is generally subject to a longer and more intense working day, which often more than offsets its lower direct productivity. Thus, at this level of analysis, it is the difference in technology and/or natural resources, etc. which is decisive in determining the interregional differences in efficiency.**

28 **This by no means implies that it is impossible for a particular underdeveloped** capi- **talist country to modernize from the inside, any more than it is impossible for** a particular small capitalist **to make the leap into the big-time. I am only concerned** here **to analyze the overwhelming tendencies of free trade and competition** among **capitalist nations.**

Precisely those factors which work against modernization from the inside tend to work in favor of modernization through foreign investment: capitalists from the DCR have much larger capitals available for investment, are familiar with modern techniques, and have access to the world market and to all the necessary skilled workers. On the other hand, precisely those **factors** which make modernization from the inside potentially profitable also favor modernization from the outside. As we shall see, the low level of wages in the UCR plays an important role.

During the analysis of commodity trade, wage differences did not appear to be an important factor. In the case of direct prices, price is determined immediately by value: wages affect only the mass and rate of profit. In the case of prices of production, the wage rate affects the average rate of profit and therefore can affect the extent to which individual prices of production deviate from direct prices; but the average price is still directly connected to value. Up to this point, it has been sufficient to focus on differences in productive efficiency as the most important manifestations of uneven development, even though differences **in wage** rates **between DCR and UCR also are** symptomatic of the disparity between their levels of development. Once we admit the possibility of international movements of productive capital, however, wage disparities between capitalist regions become an important factor in their own right.

Consider the case of an individual capital in the DCR. If we ignore transportation costs, then the same price rules everywhere. Thus it will take more or less the same amount of gold to build and supply a given type of plant anywhere in the world. Other things being equal, as far as the location of a plant is concerned the sole difference between countries will therefore arise from the differing costs of labor-power; that is, from the combined effects of the differences in direct productivity, in the **length and intensity of the working-day, and in wage rates.**

In *Unequal Exchange,* Arghiri Emmanuel points out that although the direct productivity of labor is generally lower in the **UCR,** the wage rate is lower still: whereas the direct productivity "of the average worker in the underdeveloped areas is 50 to 60% of that of the average worker in the industrialized areas . . . the average wage in the developed countries is about 30 times the

average wage in the backward countries."[29] This means that al-
though a given number of workers in a given type of plant in the
UCR will produce roughly one-half the output that could be
provided at home, each worker costs the developed country's
capitalists only 1/30 of what workers cost at home: **the net** effect
is that the average wage bill of a plant located in the UCR would
be 1/15 of what it would be at home: cheap labor attracts foreign
investment.

It must be emphasized at this point that cheap labor is not
the only source of attraction for foreign investment. Other
things being equal, cheap raw materials, a good climate, and a
good location (if transportation costs are taken into account) are
also important in making individual sectors of production attrac-
tive to foreign capital. But these **factors are** specific **to certain**
branches only; cheap wage-labor, on the other hand, is a general
social characteristic of underdeveloped capitalist countries, one
whose implications extend to all areas of production, even those
yet to be created.

One immediate consequence of considering direct invest-
ment is that the export industries of the **UCR** emerge as the
prime targets of foreign capital. As we have already seen, when
we treat flows of commercial capital, the internationally viable
sectors of the UCR are those whose products have no foreign
counterparts, so that they face no competition from imports; or
those which do face foreign competition but can overcome it due
to local advantages such as plentiful raw materials, etc., which
enable them to offset their generally inferior technology and
lower labor productivity; or those which continue to exist as inef-
ficient capitals because the advanced capitals cannot meet all of
the existing world demand. Such sectors, if they exist at all, be-
come the export sectors of the UCR. Once the possibility of
foreign investment is taken into account, these export sectors
become leading candidates for foreign takeover and moderniza-
tion from the outside. Even if foreign capitalists had to ship over
workers from their own country, their superior technology
would still enable them to take advantage of the cheap raw mate-
rials, etc., to make exceptional profits. In addition, since labor in

29 A. Emmanuel, *Unequal Exchange: A Study of the Imperialism of Trade* (New York, 1972),
p. 48. **Direct productivity refers here to productivity of different sets of** workers using
the same technology.

the UCR is available at a lower net cost the export sectors appear even more attractive to foreign investors.

The sectors confined solely to domestic production are not exempt from this process, however. Insofar as there exist within this group certain industries in which the superior technology brought in by foreign capital and the existing lower net cost of domestic labor power combine to lower the potential costs of production (cost-prices) for the advanced foreign capitals, and providing the domestic markets (and potential international markets) for these potentially cheaper commodities are sufficiently large, these industries too will be prey to the foreign invasion. It is not necessary, incidentally, that pre-existing profit rates in the UCR be generally higher than those in the DCR. The lowered cost-prices made posssible by the more advanced techniques of the foreign capital can enable it to locate in the UCK even though the profit rates on the existing (inefficient) methods of production are generally lower there than they are in the DCR.

From the point of view of local capital the effects of foreign investment will generally be disastrous. With the influx of more efficient foreign capital, the domestic capitals in the affected industries will either be driven into marginal roles or forced into still unaffected areas or into new industries created in response to the needs of the foreign-dominated sectors.

We have up to now confined ourselves to analyzing the effects of direct investment on industries already existing in the UCR. Since only a few industries survive the rigors of commodity trade, the question that arises is: will direct investment help **offset the devastation of competition from** foreign imports. or will it make matters worse?

From the point of view of local capital, the answer seems unambiguous: worse! Struggling to exploit their workers in peace, they find themselves beset by foreign devils: first their industries are ruined by cheap imports, and then those that survive are taken over **by** foreign **capital! It is no wonder that** protectionism becomes their religion.

The invasion and takeover of existing industries in the UCR does not, however, exhaust the possibilities inherent in direct investment. It must be remembered that all capitals compete against each other. This means that when capital from the DCR

takes the form of foreign investment it competes not only with capital from the UCR but also with capital still at home. When it can take advantage of the cheap labor in the UCR, new capital from the DCR can set itself up in *opposition* to existing *home indus-tries* by opening plants abroad and exporting the (cheaper) products.

From a nationalist point of view, the effects of foreign investment on the UCR have a double content. On the **one** hand, we have seen that in the absence of foreign investment the existing underdevelopment of the UCR will manifest itself in the form of structural trade deficits and foreign debts — or else in the form of an import level restricted to the level supportable by the export sector. From this point of view, insofar as the socio-**political** transformations necessary for modernization from the inside are riot forthcoming, foreign investment appears as the agency of tnodernization from the outside. *This helps create the typial dual character* of *UCR exports:* large-scale modern industries in which foreign capital predominates, side by side with back-ward industries in which local capital predominates. It thus ex-pands and strengthens the export sector, and taken by itself, it tends to improve the balance of trade. In addition, direct in-vestment functions as an important balance of payments item which **can** either offset an existing trade deficit, or permit one to be incurred.

On the other hand, precisely because of the overwhelming superiority of foreign capital, direct investment accelerates the devastation of local (capitalist and non-capitalist) production which free trade itself brings about, while the introduction of modern techniques i equii es increased **imports of machinery and** materials from the DCR. The very existence of concentrated and centralized capitals which can enter a market as soon as a profit-able opportunity presents itself, constitutes a *powerful blocking mechanism* against the development of the indigenous forces of production. [30] The destruction of native industry displaces more **workers** than can be newly employed in the relatively high or-

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30 **The same blocking effect, of course, also** occurs within **a developed capitalist country. It is in the very nature of** concentration **and centralization that the big become** ever more **powerful relative to the small. This does not at all imply that the** big capitals ca or **do suspend** competition **among themselves, or that they can thus** escape the laws **which this competition** in **turn imposes upon them.**

ganic composition modernization sectors, while the higher mass of profit of these new industries need not appear as reinvestment in the UCR (or reinvestment anywhere at all, since part of these profits and their associated revenues can fuel luxury consumption). In addition, when it takes over and modernizes existing export sectors, foreign investment also lowers exports prices and hence brings about a deterioration in the commodity terms of trade of the UCR. This in turn tends to worsen the trade balance and thus offsets to a greater or lesser extent the initial positive effect of direct investment on the balance of payments. Finally, to the extent to which profits are repatriated, part of the surplus value generated in the UCR is directly transferred abroad, which once again appears as a negative item on the balance of payments.

We see, therefore, that foreign investment can have a complex series of effects, as far as the UCR as a whole is concerned. Moreover, it can be detrimental not only to local industry in the UCR but also to certain capitals in the DCR. It is for this reason that the cry for protectionism can rebound on both sides of the development gap **Where** commercial **capital** dominates, or where foreign investment is still no threat to home capital, then only the plaintive wail of UCR capitalists is heard in favor of protectionism. But when foreign investment develops to the point of competing with home production itself, then protection quickly becomes the reality of the day. Only the free traders remain, tirelessly selling the patent medicine of comparative costs.

3. *Transfers of Value*

One of the conclusions of the previous section was that foreign investment helps create the typically dualistic structure of UCR exports. We now need to examine what this dual structure in turn implies for interregional transfers of value.[31] To do this, we begin by noting that there are two major types of transfers to be considered.[32]

[31] **The transfers of value we speak of here are those brought about by the deviations of prices from direct prices. As such they are quite** distinct **from repatriation of profits, interest, etc., which are transfers of the various components** of *profit in* **general (i.e., of profit of enterprise, interest, rents, royalties,** dividends, **etc.).**

[32] **There is in fact a third type of transfer of value, from petty commodity production to**

The most familiar type of transfer is that brought about by the formation of a general rate of profit. Industries with high organic compositions ($C/V's$) will have prices of production above direct prices, while those with low $C/V's$ will have prices of production below direct prices. Thus the formation of prices of production transfers surplus value from industries with low $C/V's$ to those with high ones.

These transfers of value *between* industries arise from the deviations of prices of production from direct prices — i.e., from prices corresponding to social value. But the very formation of an industry's social value implies transfers of value *within* an industry, since the social value is itself the average of the individual values of different producers within the industry.

Within an industry, different **producers** in general work under different conditions of production. This is in part due to differences in fertility of lands and mines, and in part to differences in methods of production. In the latter case, while the inferior producers tend to be progressively marginalized, the constant introduction of new methods of production tends to make the previously **superior capitals into relatively** inferior ones, so that at any one moment several different methods always coexist.

No matter what their conditions of production, all the producers in an industry compete in the same market. In the market each commodity represents the average labor-time, and hence the average *conditions* of production.[33] Commodities produced under better than average conditions will then have individual values below the social (average) value, since it takes less labor-time than the average to produce them; while those produced under worse than average conditions will have individual values higher than the social value.

It follows that if the commodity were sold at a price proportional to its social value (i.e., at its direct price), then more efficient capitals, having low individual values, would realize more value than they produce, and vice versa for less efficient capitals. In other words, direct price itself implies that within a given

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capitalist production. While this is important for any **concrete** analysis, it remains **outside of the scope of the present discussion.**
33 Marx, *Capital*, **Vol. III, p. 180.**

industry, surplus value is transferred from less efficient to more efficient producers.[34]

Of course, commodities sell on average at prices of production, not direct prices. But the net value transfers involved are nonetheless the resultants of two distinct **types** of transfers: intra-industry transfers, which depend on differences between individual and average producers within the same industry; and inter-industry transfers, which depend on differences in the organic compositions of the average producers in different industries. *For any individual set* of *capitals,* defined for instance by their location, nationality, or degree of development, *the net transfer of surplus value will be the sum* of *the two effects*.[35] The table summarizes the direction of the transfers involved, with the first sign **in each box referring to the efficiency effect, and the second to** the transformation effect.

Table   2

Transfers of Value

	High $\dfrac{C}{V}$	Low $\dfrac{C}{V}$
High Efficiency	+ +	+ −
Low Efficiency	− +	− −

Let us now return to the typically dual structure of the export sector of the UCR: a few high efficiency producers in high organic composition industries (oil, copper, etc.), and many low efficiency producers in relatively low organic composition industries (e.g., agricultural production).[36] We refer here only to capitals producing within the UCR and existing within the world market, either as exporters or as domestic competitors of foreign imports.

From Table 2 it is clear that the former set of capitals will

34 Efficiency here is defined in the same way as absolute advantage in footnote 22.
35 These joint effects form the basis of Marx's analysis of intra-industrial *differentials* in profitability. The theory of ground rent then appears as a special case (Marx, *Capital*, Vol. III, Ch. X and Part VI).
36 Amin, *op. cit.*, pp. 57-58. Note that at this point we are not concerned with the *ownership* of these export industries — i.e., whether it is foreign or local.

gain doubly in surplus-value through the formation of international prices of production, while the latter set will lose doubly. Therefore, for the region as a whole, the net effect is quite ambiguous. Indeed, it is perfectly possible for all of the structural patterns of international uneven development which we derived earlier from the law of value to exist, while at the same time there is a *zero or even positive net transfer of value* for the UCR export sector as a whole. A positive transfer could occur if, as appears to be empirically true, the modern portion of the UCR export sector were much larger than its backward one.[37]

It is of course possible that even if the above were true for export sectors as a whole, the underdeveloped region might still lose value through its purchase of imports. This would be true, for instance. if the **DCR producers** of these **imports** were **high** efficiency producers in higher than average organic composition industries, so that their price of production would be higher than their individual value.[38] In this case, as purchaser of these commodities the UCR would incur a loss in value on the side of imports. When this is coupled with the possibility of a gain in value **nn the side of exports, it becomes clear that** the net effect can easily be zero.

But will the consideration of wage differences change all of this? In a word: No. To see why, let us modify the previous analysis by allowing for high wages and rates of surplus value in the DCR, and low wages and rates of surplus value in the UCR — keeping the previous world average wage and rate of surplus value unchanged.[39]

The simplest place to begin is with the transfer of value **within** an industry arising from the differences between indi-

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37 Amin argues that in 1966 three-quarters of UCR exports were produced by the "ultramodern capitalist sector (oil, mining and primary processing of minerals, modern plantations) ." (Amin, *op. cit.,* p. 5 7) .

38 Even this possibility is by no means obvious. Leontiefs famous study finds that U.S. exports are *less* capital-intensive than U.S. production as a whole. Since the U.S. is so important in the world market, **this** suggests that UCR Imports could well be from average or even below average C/V sectors of the world market.

39 Marx's treatment of rent makes it clear that the rates of exploitation of various workers depends only on the length of their working days and on the social values of their labor-powers, and *not* on their respective productivities. The conclusion that interregional wage differentials imply opposite differentials in rates of surplus value is implicitly based on the assumption that the **wage** goods in either region are primarily international values.

vidual values and social values. For any individual capital, a change in its rates of surplus value brought about by a change in the wage rate will alter the proportions of the necessary and surplus labor-time in the working day. But it will not in itself change the length of the working day, and therefore it will not change the value added by living labor; nor does it **change** the value transferred by this labor. Wage changes, in other words, change the profitability of individual capitals but not their productivity. Thus they leave unaffected the structure of individual values and social values. It follows that interregional wage differentials do not have any effect at all on the intra-industry transfers of value brought about by the formation of social values.

The effects of wage differences on inter-industry transfers of value arising from the formation of prices of production are a little more complex, because any interregional wage differentials which leave the world average value rate of profit unchanged will not, in general, leave industry averages unchanged. But for the two sets of world industries in which the export sector of the **UCR is embedded, the effects** are opposing ones and tend to cancel each other out. In the high organic composition world sector, capitals located in the UCR are the high productivity producers, which implies that for equal quantities of output they require less labor-time than their DCR counterparts. The reverse is true in the low organic composition world sector. If the world average proportion of UCR employment to DCR employment is between the employment ratios of the above two world sectors any wage differentials which leave the world average wage unchanged **will** rend to raise the average wage rate **in** the **high** organic composition industries (where the higher wages of the DCR producers will predominate because of their relatively higher employment per unit output), and lower it in the low organic composition industries. This implies a lowered rate of surplus value (and hence value rate of profit) in the former sector, and correspondingly raised rates in the larrer.

It will be recalled that in the absence of wage differentials, the **high** organic composition sector has a value rate of profit below the world average, and the low organic composition sector a value rate above the world average. Since interregional wage differentials tend to lower the industry **average value rate of**

profit in the former sector and raise it in the latter, they increase the differentials between the sectoral value rates of profit and the world average. This in turn implies that in the presence of interregional wage differences, the formation of international prices of production will require a larger transfer of surplus value into the high organic composition sector, but *also* a larger transfer out of the low organic composition sector. It follows that Table 2 remains a valid description of the different types of transfers of surplus value. The only effect of wage differentials is to increase the magnitudes of these two opposing flows, so that it is still perfectly possible to have a zero net transfer of surplus value between regions.

In summary: interregional wage differentials per se need not **affect either the net transfers of value** between **industries or** between capitals within an industry. *In and of themselves, therefore, they do not necessarily give rise to a net transfer oj surplus value between regions of the capitalist world market.*

It does not follow, of course, that wage differences are of no consequence for individual capitals. For any capital located in the **UCR, the lower wage there** means **more** surplus value **catractcd** from a given number of workers, and hence higher profits. Even if the transfers of surplus value remain the same, the mass of surplus value produced is greater and therefore the mass of surplus value realized in the form of profit is also greater. For high-efficiency, high organic composition capitals located in the UCR, their already higher profitability arising from their higher efficiency is even further enhanced by the lower regional wages; and for the low-efficiency low organic composition capitals in the UCK, the low wages tend to offset their low productivity and *can therefore become a means of perpetuating backward methods of production,* which survive (and'may even prosper) because of these low wages.[40]

In an appendix to this paper, available from the author on request, a numerical example is provided as an illustration of all of the above phenomena.

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40 Marx notes that low wages may prevent mechanization **and hence the raising of the productivity of labor, because when wages are low, the savings on variable capital due to the displacement of workers by machines may not be sufficient to offset the greater flows of constant** capital **due to the mechanization (Marx,** *Capital*, **Vol. I, Ch. XV,** Section **2, p. 394).**

The important point to realize in all of this is that the underdevelopment of the UCR does not *necessarily* imply a negative transfer of value on its part. This only serves to underscore the earlier and even more important point that it is the uneven development brought about by international competition that lies at the heart of the matter, not any transfers of value which may or may not result from this uneven development. Even with a zero net transfer of values, all the forces which we analyzed earlier would continue to enhance the "development of underdevelopment."

For the sake of completeness, it is necessary to refer briefly to the implications of the foregoing discussion for current theories of unequal exchange: specifically, for the versions put forward by Emmanuel, Amin and Mandel.[41] Though considerations of space preclude detailed discussion of these authors, some general points can nonetheless be made.

The path-breaking work in this domain is that of Arghiri Emmanuel. In effect, Emmanuel assumes that each region is the sole producer of its products,[42] and that the high organic composition industries of the world market are concentrated in the DCR, while those with low organic composition are concentrated in the UCR. He thus ignores *intra*-industry transfers altogether. Since the formation of prices of production transfers surplus-value from high to low organic composition industries, and since interregional wage disparities greatly exacerbate this transfer, Emmanuel concludes that the very existence of international prices of production implies a large and persistent drain of surplus value for the UCR. Hence the term "unequal exchange."[43]

At the opposite pole from Emmanuel is Ernest Mandel. Mandel begins by rejecting the notion that profit rates are equalized internationally. Thus he ignores inter-industry trans-

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41 A. Emmanuel, *Unequal Exchange*, S. Amin, *Accumulation on a World Scale* and *The End of a Debate* **(manuscript, United Nations African Institute for Economic Development and Planning, September 1973); and E. Mandel,** *Late Capitalism*. **An earlier version of this paper contained a more detailed critique of unequal exchange theories. This section, left out for lack of space, is available on request from the author.**

42 Emmanuel, *op. cit., p.* 421.

43 Emmanuel notes that it is only the transfer occasioned by interregional wage disparities which is specific to the UCR-DCR relation. Thus he calls only this portion of the overall transfer "unequal exchange" *(ibid*., p.161).

fers altogether.[44] Instead, he emphasizes the differences between individual value and social (i.e., international) value — a comparision which of course holds good only for different producers of the same commodity (i.e., within the same industry).[45] UCR exporters are characterized as low efficiency producers in low organic composition industries, with the opposite holding true for DCR exporters.[46] Since there is no equalization of profit rates, the only transfers of value are from low to high efficiency producers — which are, incidentally, independent of regional wage differences. Thus Mandel's derivation of unequal exchange is the antithesis of Emmanuel's: the latter locates it in inter-industry transfer of value, the former in intra-industry transfers.

Lastly, there is the position of Samir Amin. Amin begins by **insisting** that UCR exports are in fact characterized by the dual structure we derived earlier: high-efficiency, high organic composition producers in a large ultramodern sector, and low-efficiency, low organic composition ones in the smaller backward sector.[47]

It is at this point that Amin makes a crucial error in his **analysis. We have already noted that within an industry,** competition forces all producers to sell at the same price. But this means that since producers having different efficiencies will have different unit costs but the same selling price, they will in general have different rates of profit. Thus within an industry individual profit rates will generally differ. Whereas competition of capitals *equalizes* average profit rates across industries, it at the same time *differentiates individual* profit rates within an industry. Amin, however, does not appear to be aware of this, and in his numerical examples assumes equalization of profit rates both across industries (like Emmanuel) *and* within industries. Naturally, this mistaken procedure leads him to claim that his treatment of the subject "constitutes the strong argument in support of [Emmanuel's] view."[48] In point of fact, the conditions which Amin

44 Mandel, **op.** *cit.*, p. 353.
45 Ibid., pp. 351, 358.
46 *Ibid.*, p. *354.*
47 Amin rejects on empirical grounds Emmanuel's notion that each region's products are specific to it only (Amin, *End of the Debate*, pp. 35-36). He argues instead that **UCR** exports are both non-specific and produced under a typically dualistic structure (Amin, *Accumulation*, *pp.* 57–58).
4 8 Amin, *Accumulation*, p. 57.

analyzes should have led him to exactly the opposite conclusion: namely, that there is no necessary tendency for a net transfer of value from the UCR to the DCR.

Amin's advance over Emmanuel is his insistence on the **dualistic character of UCR exports,** a characterization shared by Mandel. But Amin's mistake is his conflation of competition within an industry with competition between industries, for this leads him to expect equal profit rates even within an industry — and hence for any individual capital. In a sense, Mandel shares Amin's error also, because this mistakenly implies that profit rates for any set of capitals, such as in a particular region, will be equal. And it is precisely this implicit expectation which leads Mandel to reject the international equalization of profit rates on rhe grounds that profit rates differ systematically by region.[49] But, as the previous analysis of transfers of value indicates, a systematic difference by region is perfectly consistent with equalization across industries.

The net transfer of value from UCR to DCR will be equal to the UCR imports minus the UCR exports, valued at their respective *individual* values.[50]

The foregoing analysis is not meant to argue that transfers of surplus value do not in fact exist. It is meant to emphasize that these transfers, if and when they exist, are in themselves phenomena of international uneven development, not its major causes. Their significance, indeed their net direction, must be assessed in the light of this understanding.

III. *SUMMARY AND CONCLUSIONS*

The purpose of this paper has been to work toward the treatment of the laws of international exchange from the Marxist perspective. This is a theoretical task, one which has its roots in the law of value as it is developed in the successive volumes of *Capital.* As such, the analysis is not meant as a substitute for the concrete reality of international trade or of its historical devel-

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49 Mandel, *op. cit.*, **p. 353.**
50 Of **course we could always decompose this net transfer into** intra- **and** inter-industry **transfers, by Introducing social value (average direct prices) into the analysis, and, insofar as market prices differ from prices of** production, **by introducing the latter also. Such a decomposition would enable us to** identify **the various components of the net transfer, but it would, of course, not change** its **magnitude.**

opment. No attempt is made, for instance, to explain the historical roots of uneven development; nor is primitive accumulation ever treated. Instead, the point is to uncover the sorts of forces which are inherent in the international interactions of capitalist nations so that we may be better prepared **to deal with their** concrete existences.

But the matter has another aspect too. The orthodox theory of international trade has always been, as Amin puts it, an "ideology of universal harmonies."[51] And the theoretical basis of this ideology has in turn always claimed that in competitive capitalism international trade will negate inequalities among nations.

In its original form, this law was presented by David Ricardo as the extension of his labor theory of value to the area of international trade. Because of the superficial similarity between Marx's and Ricardo's theories of value, the Ricardian law soon came to be accepted as a Marxian one too. Orthodox theory, on the other hand, while rejecting Ricardo's labor theory of value, at the same time appropriated his law of international trade into its own framework. This law thus came to be widely accepted by Marxists and non-Marxists alike.

Of course, the law has always been in gross contradiction with the facts. Consequently Marxists everywhere have been forced to attack it and the conclusions which follow from it. But because of its virtually unquestioned validity in terms of competitive capitalism, the general line of attack has been to overthrow the notion of competitive capitalism itself in order to overthrow the law. Naturally, under monopoly capitalism Marx's analysis of price phenomena is also said to be no longer valid. And so the Ricardian law is jettisoned by abandoning the theory of value itself.

In recent years, a new alternative has apparently arisen, in the form of various theories of unequal exchange. These theories have their origin in the path-breaking and challenging work of Arghiri Emmanuel, **and are widely represented as over-**throwing the Ricardian doctrine of comparative costs while at the same time retaining Marx's analysis of value. But this is an illusion. These theories do not reject the Ricardian law on its own grounds. **Instead,** they *modify* it to take into account what they

51 Amin, *Accumulation* . . , p. 6.

consider to be features of modern capitalism. Explicitly or implicitly they leave the law unchallenged for the case of so-called competitive capitalism, and in most versions of unequal exchange, it is assumed to operate even under modern capitalism, albeic with altered effects.

It is a central object of this paper to show that the law of comparative costs does not follow from Marx's theory of value. Indeed, what does follow is a law of absolute costs; once this is established, a whole series of phenomena which Marxists have been forced to derive from either monopoly capitalism and/or unequal exchange now become consequences of free trade itself. Instead of negating uneven development, free trade is shown to enhance it. Instead of closing the gap between rich and poor countries, direct investment is seen to tighten the grip of the strong over the weak.

None of these results is derived from transfers of value between developed and underdeveloped regions of the capitalist world. On the contrary, since uneven development on a world scale is a direct consequence of free trade itself, these transfers of value and the theories of unequal exchange which rely on them emerge as secondary phenomena, not primary causes, of underdevelopment. In fact, a critical examination of the theories of unequal exchange shows that even the net direction of value transfers cannot be simply established.

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