

Terms of Trade or Unequal Trade?

by Bernard Frank*

"The different quantities of commodities of the same kind produced in different countries in the same working time have therefore unequal international values which are expressed in different prices, i.e. in sums of money varying according to international prices."
Karl Marx, Capital, vol. I, Moscow, p.560.

"It goes without saying that if capitalism could develop agriculture which is everywhere lagging terribly behind industry it could raise the standard of living of the masses ... But if capitalism did these things it would not be capitalism: for both uneven development and a semistarvation level of existence of the masses are fundamental and inevitable conditions and constitute the premises of this mode of production." V.I. Lenin, Imperialism the Highest Stage of Capitalism, Moscow, p.59.

"Further, a dominated country, or one previously dominated, which does not alter its situation in the capitalist international division of labour, can only reproduce its unfavourable position: the more it increases its output of the products assigned to it by its 'place' the more it connives in worsening its unfavourable position (manipulating prices cannot alter this fact as long as the world capitalist economy continues)." Charles Bettelheim. (1)

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(1) Charles Bettelheim: 'Remarques Critiques' in A. Emmanuel, *L'Echange Inegal*, Francois Maspero, 1968.

The lowest common denominator of all attempts to describe what we will call very imprecisely contemporary 'economic imperialism' lies in the appeal which theories and explanations make to the 'law of unequal development' in capitalism, i.e. to the fact that capitalism not only has not spread its benefits equally among classes and regions and countries, but also that it cannot do so without sapping its own roots. International economic relations involve domination, subversion of previous patterns of activity and social organisation and exploitation, which leads in some cases to unbalanced growth and in others to outright impoverishment. Marginalist trade theory, of course, starting from highly simplifying and static assumptions, reaches (for ideological reasons) quite the opposite conclusion: trade can only benefit two countries which are differently endowed with resources, except when very peculiar conditions on the demand side produce 'immiserising' results. Curiously, these two irreconcilable schools of thought have, to some extent, common ancestry in the form of Ricardo's theory of comparative advantage. This is not as surprising as it first appears when it is considered that Marx's theoretical revolution was largely built on the extension of, and contradiction in, the ideas of the school of Political Economy, and that it is the work of Marx, however inexplicit on trading questions, which is the starting point of contemporary analyses of imperialism.

These, in turn, divide very roughly, into two schools: those like Pierre Jalee who, indignant at poverty in the Third World, interpret events in terms of a conflict of interest between rich and poor nations and, on the other hand, orthodox Marxists for whom the transcending conflict is one of class, despite the many and varied forms of local antagonisms reflecting the complexity of local social formations and of their inter-actions. This article is a critical appraisal of the thesis contained in 'Unequal Trade' by Arghiri Emmanuel, (1) who is in the first camp, but reaches his conclusions in such a way as to have aroused a powerful theoretical riposte from several quarters in the second.

Such a riposte was inevitable, for Emmanuel achieves the astonishing feat of using the definitions, methods and analytical tools of Marx's Capital (as opposed to those of the 'Third World' schools) to reach the following conclusion: that since the end of the 19th century when real wages began to rise noticeably in the main capitalist countries with the dawn of a consumer society, "a de facto common front, if not solidarity, of workers and capitalists of the rich countries in face of the poor nations coexists with a trade union struggle

(1) Arghiri Emmanuel, *L'Echange Inegal*, Francois Maspero, 1968.

within for sharing the spoil".(1) By the very act of pressing for higher wages, unions in advanced countries are making a mockery of the international solidarity of the working class.(2)

II Emmanuel's book has many defects of which not the least is a wild use of torrents of misconstrued empirical data to support theoretical contentions which he does not succeed in establishing by reason. But, before coming to criticism, we need to summarise the argument, although hurrying past the many by-ways which the author explores en route, and to highlight the undoubted insight which his approach offers into the nature of exploitation.

Emmanuel enquires what determines the price of goods traded between developed and underdeveloped countries, and in particular, why the latter always seem to be disfavoured in price formation. He abstracts from the various forms of direct pressure and indirect domination associated with the monopolistic and imperialist stage of capitalism so as to construct a model on the assumption of perfect competition.

Terms of trade pessimists like Hans Singer and Raul Prebisch have several explanations for declining terms of trade chiefly related to the low price and income elasticities of primary products exported to developed countries, to decreasing requirements of primary materials per unit of product, and to the increasing use of synthetic substitutes. Singer even wrote in 1950 that the decline of primary product prices compared with those of manufactured goods constituted the one "grain of truth" in the argument that underdeveloped countries suffer from economic imperialism and exploitation as a result of the plantation type investment imposed on them. Emmanuel upholds the belief that terms of trade must deteriorate for poor countries, despite recent empirical evidence to the contrary, but is far from satisfied that the Singer-Prebisch observations fully explain the phenomena he has in mind.(3) Whatever backward countries produce, they seem destined to trade them on unfavourable terms. How is it, for example, that a suit hand-made in an advanced country can be sold for a much higher price in international trade than a suit made by factory methods in an underdeveloped country? or that a technologically antediluvian raw material like wood, when it comes from Sweden, can be traded at a price which allows Swedish timber workers to be paid a high wage while

(1) A. Emmanuel, *op.cit.* p.210.

(2) *ibid*, p.218

(3) *ibid*, p.126 ff.

oil workers in the Middle East, who use highly sophisticated and automated equipment to produce a raw material with a high income elasticity of demand, earn much less? In many of these examples, the full circumstances of the case are not fully explored, but the point made with some conviction is that whatever their technological level, the exported products of developed countries of the 'centre', to use Prebisch's language, always fetch a higher price because workers there are paid high wages, while in the 'periphery', exports are relatively cheap and becoming more so because of low wage levels. It is not low prices reflecting market conditions which generate low incomes in the periphery, but low incomes which condition low prices. We touch here what some Marxist writers have called the undervaluation of labour power in the periphery. (1)

It is perhaps worth noting in passing that Emmanuel is inconsistent, even at this early stage, in terms of his own assumptions. He observes, correctly, that manufacturers of the centre abandon lines of production when they find that, despite tariff and quota protection, they are being undercut by low wage exports from the periphery. They are able to do so without depressing wage levels in the centre because of the vast potential consumer goods markets which are open to product differentiation. (2) But to refer to product differentiation is to abandon the perfect market assumption since the profits and/or high wages derived from launching novel consumer goods depend on an element of monopoly rent. Furthermore, product differentiation is only possible in a given state of market demand, and high prices for new articles cannot be solely attributed in the short term to wage levels.

To his question as to why wage levels vary from country to country Emmanuel replies that variations are due to social, institutional and even ethical factors. Productivity cannot fully explain differentials. In some instances, the productivity of labour in the periphery is manifestly as high as or higher than that in the centre, yet wages are several times lower; further, even assuming higher productivity in the centre, it is inconceivable that workers in developed countries are on average 30 times more productive than workers in underdeveloped countries (or even 15 times, allowing for lower intensity of work) as the gap in wages would suggest. (3) The real explanation, for Emmanuel, lies in rising social

(1) Christian Palloix, 'La Question de l'Echange Inegal', *L'Homme et la Societe*, October-December 1970

(2) A. Emmanuel, *op. cit.*, p.182.

(3) *ibid.*, p.98.

norms of living standards in advanced countries since the last quarter of the 19th century, spurred on by trade union pressure - though in an *ex parte* concession to Marx he admits that higher average levels of labour qualification (organic composition of labour in his language) are a co-determinant of higher income levels. In a consumer society, where new 'needs' are created by commercial interests, the emergence of new branches of activity to satisfy them sustains an ever rising level of wages.(1) In the periphery, on the other hand, real wages, held down by massive unemployment, remain obstinately at the subsistence level, something which the school of Political Economy assumed as inevitable, and which prevailed universally until well on into the 19th century.

According to this thesis, therefore, the underlying explanation for declining terms of trade resides purely and simply in the growing gap in real terms between stagnant wages in the periphery and rising income levels in the centre. With this not at all implausible, though perhaps rather *simpliste* gesture of obeissance towards the labour theory of value whereby his analysis is supposed to become 'Marxist', Emmanuel proceeds to the most original chapter in his argument. Here he uses the demonstration contained in Book III of *Capital* of how values are transformed into production prices to explain how, behind declining terms of trade, there lies a fundamental inequality in trade between rich and poor countries. Trade is unequal because it involves a hidden element of transfer and thus of exploitation.

In Marx, value, which is the socially necessary labour time required for the production of a commodity, is only made manifest in the act of exchange. Exchange takes place when two parties believe they can gain use values thereby, but in a situation of normal competitive equilibrium such as would characterise simple commodity production, commodities traded for each other are always of equal exchange value. In capitalist production, with mobility of capital, the compulsion to accumulate and the immanent presence of competition, rates of profit $(s/c+v)$ (2) must tend towards a common level.

(1) *ibid*, p.168.

(2) In this, the standard notation,
c is maintenance and depreciation costs of fixed capital plus raw material costs,
v is the wage cost,
s is the surplus (excess of price over prime costs = net profits, interest and rent), all per unit of time.

Goods are no longer traded at their values but at production prices. Now, it is clear from the logic of the model used by Marx that some branches of industry, those which are capital-intensive (with a high organic composition of capital ($c/c+v$), are going to gain in this process while others lose. Similarly, a high rate of surplus value (s/v) will lead a loss in transformation while a low rate will produce a gain. The equalisation of the rate of profit will, by transforming values into production prices, transfer surplus from one branch to another so enabling branches with high organic compositions of capital or low rates of surplus value to realise more surplus in absolute amount than would otherwise be the case.

Marx uses this model to describe price formation and concentration within a capitalist economy. Emmanuel justifies his use of it in international trade on the grounds that capital is mobile internationally and that rates of profit will tend throughout the world to a common level. Labour, on the other hand, is relatively immobile with the result that socially necessary labour times for the production of similar goods vary from country to country. By 'country' he understands an area within which common historical factors have given rise to a relatively uniform level of labour productivity and wages.

The best way to see how the transformation process works in Emmanuel's application is to take one of his numerical examples, which are formally identical to Marx's in Book III of *Capital* except that constant capital is split between 'K' total constant capital and 'c' constant capital consumed or intermediate consumption.(1)

TABLE I	Pre-trade					Post-trade				
	K	c	v	s	Value	Cost of Production (c+v)	Rate of Profit s*/K	Profit (p)	Production price (c+v+p)	Surplus transferred (p-s)
Country A	240	50	100	20	170	150	25%	60	210	+40
Country B	240	50	20	100	170	70	25%	60	130	-40
Total	480	100	120	120	340	220		120	340	0

(1) *ibid*, p.110.

Table I shows two countries with different rates of surplus value (s/v) producing identical values. The country with higher wages and lower rate of surplus value gains in trade because the application of equal rates of profit to the prime costs of each ($c+v$) enables it to sell at a price above the value of its output, and vice versa for the country with low wages. This is unequal trade in the strict sense. Marxist writers, long before Emmanuel, have pointed out the non-equivalence in trade between branches of differing organic compositions of capital. For example, it can be seen that if v and s are the same in both A and B, production prices are still different from values if, for instance, K_B is less than K_A . Emmanuel, however, denies that this is really unequal trade because it can just as well occur within a capitalist country where rates of profit are equalised as in international trade, and it is in the specificity of the latter that he is interested.

If trade involves a loss, specifically a loss of potential surplus which might have been available for reinvestment within the underdeveloped country had it been able to sell its produce at its value, what are the lessons to be drawn? Apart from the demonstration of inter-working class antagonism, which, incidentally, does not necessarily follow because it is the capitalists in the periphery who are the exporters and who are therefore, presumably, the first line losers from unequal trade, Emmanuel proceeds to derive practical recommendations which are at best commonplace and at worse impracticable. At all events, they are anything but revolutionary. Autarchy, the refusal of trade on unequal terms, or at least as much import substitution as possible to escape from trade is the logical solution.(1) Our author does not recognise the fact that where import substitution is practised without a revolutionary divorce from world capitalism it has paradoxically led to more dependence on foreign trade than before. More realistically, he also suggests commercial agreements among underdeveloped countries, "a sort of common market", for fostering trade among them. This feasible reformist solution has nevertheless been slow in bearing fruit in Latin America. Moreover, to suggest it without reservation, implies a refusal to take into account the realities of world capitalism and contemporary forms of domination.

Despite its basically non-revolutionary character Emmanuel's book is addressed to a Marxist readership - it is presented and criticised in the same volume by Charles

(1) *ibid*, p.187.

Bettelheim - and discussion of it has mostly arisen among Marxists.

Irritation with the heterodox conclusion about working class solidarity is quite understandable. A careful look at the numerical example above reveals that a quite different conclusion can be derived if country A, despite its high wages, also has a high rate of surplus value - if S_A is greater than S_B , trade will cause a transfer of surplus from country A to country B. Yet, as Bettelheim points out in his very important 'Critical Remarks', advanced capitalist countries may have a rate of surplus value which is as high, if not higher, than that in underdeveloped countries, in conjunction with a high organic composition of capital and higher intensity and productivity of labour. Workers are all exploited by the same power of capital and the termination of their common state of exploitation lies in a common struggle. Furthermore, the determination of the model is not quite right. As things stand in the numerical example, the entrepreneur in country B has a rate of profit of nearly 42% before trade with A; after opening economic relations, his rate of profit falls to 25%. Wherein lies the motive? Certainly not among the variables invoked by Emmanuel.(1)

These errors do not invalidate the whole of Emmanuel's thesis. He is quite right to remind us of Marx's own remarks on the non-equivalence of prices in trade. Marx shows how a country where labour is more productive and used more intensively will expend less labour time in the production of a given exchange value than a backward one. Therefore, in terms of that exchange value, "the relative value of money will be less in the nation with the more developed capitalist mode of production ..." and "... nominal wages, the equivalent of labour power expressed in money, will also be higher in the first nation than in the second".(2) Because the price obtainable through trade is higher than the price obtainable at home for the high productivity country entrepreneurs seek to sell abroad so as thereby to increase the volume and rate of surplus value.(3)

Emmanuel is also right to evoke the undervaluation of labour power in underdeveloped countries - a factor understood by Marx, as the above quotation shows, and still fundamental to the understanding of imperialism. Where he is inadequate, however, is in his explanation of how it

(1) Christian Palloix, *Problemes de Croissance en Economie Ouverte*, F. Maspero, 1968, p.113.

(2) K. Marx, *Capital*, vol I, Moscow, p.560.

(3) *ibid*, p.524.

arises. Wage levels are not a pure exogenous variable independent of the situation of the particular branch, in the particular country, in the world capitalist system as a whole. To paraphrase Bettelheim, the capitalist mode of production, in its blind and spontaneous way, allocates different activities to different areas, and it is the nature and role of these activities and the productive relationships which underlie them, along with local and historical circumstances, which together define wage levels. Among the historical circumstances typical of underdeveloped countries is the existence of a low productivity subsistence agriculture whose low living standards depress wage levels in activities directly dominated by capitalism in the modern sector through a sort of 'transparency of wages'.(1) This subsistence sector itself is undergoing transformation as a result of its contact with the dominant capitalist mode of production which, instead of destroying it outright, subjects it to a process of what Bettelheim calls 'conservation-dissolution', a slow death in the course of which it is compelled to yield agricultural wage goods to workers in the modern sector below their value so as to cheapen the cost of labour power to the capitalist exporter. These special circumstances surrounding the formation of value in countries of the periphery lead Christian Palloix to doubt if it is useful to refer at all to a scale of international value by which international exchange can be measured.(2) Emmanuel relies on the existence of international values in order to demonstrate and measure the transfer of surplus.

The most fundamental criticism of Emmanuel is the most general one, namely, that he refuses to leave his Ricardian world of simply determined models of advantage and disadvantage expressed in conventional categories and to recognise the ideological potential behind these categories and also the basic features of capitalist development: these are ever-increasing concentrations of capital and geographical polarisations of wealth - in a word, the unequal development described in the quotation from Lenin at the beginning of this article. Behind unequal trade lies an inequality in productive relations of which the former is only a symptom. The capital of the centre dominates that of the periphery in a host of different ways even when it does not actually control it. It exploits the labour power of workers in

(1) Christian Palloix, *op. cit.*

(2) cf. Palloix's forthcoming book devoted to the analysis of imperialism which deals with the questions of under-valuation and the law of value. His article in *L'Homme et la Societe* also refers to this point.

the periphery through the intermediary of local comprador and entrepreneurial bourgeoisies. It manipulates productive forces, introducing new techniques and specialisations into the periphery at moments of time convenient to its own strategy. It established its hegemony and mastery when it first penetrated pre-capitalist social formations in the periphery, and, with its sustained technical advance, it has hitherto always retained the initiative as to the mode of exploitation.

The utter failure of Emmanuel's thesis of the exploitation of poor nations by rich ones to illuminate the nature and role of economic imperialism appears most clearly when we climb down from the model (based on simplifying assumptions) back into the real world of monopoly capitalism, dominated not so much today by finance capital as in the first decades of the 20th century, but by the international firm, master of both finance and technique. More and more international trade is interior to the multinational firm, which regards the whole world, centre and periphery alike, as its legitimate sphere of operation. Confronted with this phenomenon, there is no choice but to look for and remedy the features of exploitation in the sphere which Marx originally identified as fundamental, i.e. in the relationships of production between capital and worker.