THE POLITICAL ECONOMY OF UNEQUAL EXCHANGE - A CRITIQUE OF THE THEORY OF ARGHIRI EMMANUEL

PhD Thesis

S. BARRIENTOS

UKC 1988

ABSTRACT

This thesis is an examination of the political economy of Arghiri Emmanuel's theory of unequal exchange. Emmanuel's theory is studied both as a theory of trade and as a theory of imperialism. Emmanuel's original aim was to develop a modified labour theory of value to explain why in the course of international trade some nations grow rich at the expense of poor ones. This thesis argues that Emmanuel's theory of international exchange value failed as an attempt to extend the labour theory of value to international trade; it rests instead on a Smithian 'adding up' theory of value, where value is defined by the sum of the rewards to the factors. Further, it is argued that Emmanuel's attempt to explain the determination of the rewards to the factors in terms of physical bundles of goods is inadequate as an explanation of value. Consequently, it is shown that he is unable to account for the origins of surplus value or profit. As a result Emmanuel's conclusions regarding the formation of international values do not move beyond sophisticated neo-Mercantilism - where one nation grows richer at the expense of another by adding on to its cost of production a 'surplus upon alienation'. Thus Emmanuel's neo-Mercantilist theory of international exchange value and trade is shown to be logically consistent with his theory of Mercantile imperialism. But it is argued this theory is inadequate as a theory of imperialism as it is merely descriptive and fails to identify the underlying determination of the transfer of surplus from one nation to another. Having established the main failures of Emmanuel's theory of unequal exchange the thesis concludes by examining its relevance to a theory of financial imperialism.

CONTENTS

ABBREVIATIONS

U.E.	Emmanuel, A. Unequal Exchange: A Study of the Imperialism of Trade NLB, London, 1972.
C. I; II; III	Marx, K. Capital Volumes I; II; III Lawrence and Wishart, London, 1974
T.S.V. I; II; III	Marx, K. Theories of Surplus Value Lawrence and Wishart, London, 1969

CHAPTER I

INTRODUCTION

CHAPTER I

INTRODUCTION

This thesis sets out to critically examine the political economy of Arghiri Emmanuel's theory of unequal exchange in trade. The publication in 1969 of Emmanuel's Unequal Exchange: A Study of the Imperialism of Trade was important for two reasons. Firstly, it provided an important and significant contribution to modern, post-war theories of imperialism, which had been dominated for a long time by the theory of monopoly capitalism and dependency theory. Emmanuel's work provided a rare attempt to analyse imperialism from the standpoint of a theory of international economic relations based on an application of the labour theory of value. Secondly, in order to carry out this analysis, Emmanuel sought to challenge the orthodox theory of comparative advantage in international trade. Specifically, by rejecting the assumptions on which orthodox trade theory was built, he aimed to show that it was possible to integrate a modified form of the labour theory of value into a theory of international value, as the basis for a theory of international trade. As a result of this analysis, Emmanuel argued against the orthodox belief that, given perfect competition, free trade would automatically benefit all participating nations. On the contrary, Emmanuel developed a theory of unequal exchange in trade, which he also argued, was the primary cause of imperialism - through trade the rich countries grew richer at the expense of the poor. Emmanuel's work was thus simultaneously both a theory of trade and a theory of imperialsim - and this marked the originality of Emmanuel's contribution. But in order to carry out this analysis, Emmanuel had to go back and re-examine the origins of the labour theory of value within the work of Classical Political Economy and Marx. Since the publication of his book, Emmanuel's thesis of unequal exchange and the conclusions he draws have been the subject of much controversy. However, there has been little analysis of the background to Emmanuel's thesis, and the way in which he interpreted and applied classical political economy in order to develop his theory. I believe that an investigation of the political economy of unequal exchange gives us important insights into the nature of the theory of unequal exchange itself, and thus its relevance as a theory of imperialism. This thesis, therefore, concentrates on such an investigation.

In order to develop his theory, Emmanuel started by challenging the orthodox economic theory of trade, originating in Ricardo's comparative cost doctrine, and continued by the Heckscher-Ohlin-Samuelson theory of trade based on relative factor endowment. Emmanuel rejected the original assumptions made by Ricardo and maintained by orthodox trade theory since, that whilst the factors of production are mobile nationally, they are immobile internationally. Emmanuel argued that this assumption was incorrect, that the factor capital is mobile internationally which leads to the equalisation of the rate of profit internationally, and that only the labour factor is immobile, so that wages are not equalised internationally. The wages of workers in 'rich' countries are thus, he argued, relatively much higher than those of workers in 'poor' countries. Emmanuel then set out to re-examine the political economy of the theory of international value, and argued that on the basis of these assumptions, it was possible to integrate the labour theory of value into the theory of international value as the basis for a theory of international trade. He therefore took up the gauntlet thrown down by Bertil Ohlin, who had argued that the theory of international trade was the achilles heel for the supporters of the labour theory of value. What Emmanuel argued on the basis of his modified international labour theory of value was that through free trade, unequal exchange took place between countries, because the high wage rich countries were able, through the mechanism of international exchange, to sell their commodities at equilibrium prices above their values, whilst the low wage poor countries sold their commodities at equilibrium prices below their values[1]. Hence through trade, the relative commodity terms of trade were slanted in favour of the 'rich' countries, and through trade a transfer of surplus takes place from the rich to poor countries, resulting in what Emmanuel terms: the imperialism of trade. Emmanuel summed up his contributions in the conclusion of his book as follows:

> "We have thus succeeded in integrating unequal exchange and the theory of international value into the general theory of value tout court, as propounded by the classical economists and by Marx, and proving that the former, far from being the weak spot in the latter, as the opponents of the labour theory of value have hitherto claimed, constitutes on the contrary an additional proof of its validity, since it succeeds precisely in explaining such phenomena as the long-term worsening of a certain category of prices, something that all the tricks played with the fundamental deficiences of demand have proved unable to account for. In short, we have had to show that the formation of international value is a special case of the general theory of labour value in its developed form as the theory of price of production." [U.E., p.266]

In order to develop this thesis, Emmanuel's work involves an important examination of the theories of Classical Political Economy and Marx, and their application to a theory of international exchange value. Such an approach has been markedly lacking in other post-war theories of imperialism, and in my view signifies the importance of Emmanuel's contribution. However, the theories of Classical Political Economy and Marx encompass a very broad range of views. Following its publication, Emmanuel's work was the subject of much controversy and criticism, especially amongst writers such as Professor Charles Bettleheim and Christian Palloix[2]. The main line of criticism was concerned primarily with Emmanuel's interpretation of, and use of, Marx's work. Central to the elaboration of Emmanuel's thesis was his use of Marx's formula for the transformation of values into prices of production - a formula which has always been controversial within Marxist theory. Emmanuel partly answered the criticisms levelled at him, but also stated that he did not aim to produce a work of Marxist orthodoxy, but aimed at addressing himself to "economists of all tendencies in a common language" [U.E., p.323]. This concurs with the fact that, from the beginning of his work, Emmanuel sought not only to apply the work of Marx, but Classical Political Economy in general.

However, Emmanuel was unable to avoid some of the criticisms made, particularly of his use of Marx's transformation formula. And this led him to seek an alternative model for elaborating his theory of unequal exchange, which he found through the application of Piero Sraffa's system of price equations [Srafffa, 1960] to the theory of international trade. Emmanuel's Sraffian model was first published in English in Appendix V of Unequal Exchange (1972). However, despite developing an alternative Sraffian model of unequal exchange, Emmanuel has never (to my knowledge) formally abandoned the Marxian model. Rather for him the two models have tended to co-exist as alternative treatments of the theory[3].

The elaboration of Emmanuel's Sraffian model occurred at the same time (though generally independently of) an increasing interest by a small number of economists in the application of Sraffian theory to the theory of international trade [see I. Steedman, 1979a and 1979b]. It is primarily Emmanuel's Sraffian model which has been used by other economists to further elaborate and extend the theory of unequal exchange [see for example, D. Evans 1980 and 1981]. This application of the work of Sraffa to the theory of unequal exchange, and the problems associated with Emmanuel's Marxian treatment of unequal exchange, have led his theory to be characterised as "neo-Ricardian"[4]. However, these developments have, in my view, detracted attention from the significance of Emmanuel's original aim: to integrate the labour theory of value into the theory of international trade, and in order to do this, to attempt to re-examine and consider the applicability not only of the work of Marx, but of Classical Political Economy as a whole (including Smith, Ricardo, James Mill and John Stuart Mill) to international trade and development. Although the Sraffian model of unequal exchange stems directly from Classical Political Economy (Sraffa's work was based on the application and extension of Ricardo's corn model), to my knowledge there has been little consideration since the publication of Emmanuel's original work of the broader implications of Classical Political Economy to the theory of unequal exchange in trade and imperialism. The Sraffian model of unequal exchange tends to start from a given set of price equations with little discussion of their origins and underlying assumptions. I believe that if a theory of unequal exchange is going to be built on the basis of Classical Political Economy, either as an alternative to orthodox trade theory, and/or as a theory of imperialism, then there has to be a thorough understanding of the origins of that theory, and of its relation to Classical Political Economy.

The aim of this thesis is to undertake such an examination - to look in depth at the political economy of unequal exchange. In order to do so I concentrate primarily on an examination of Emmanuel's original work, Unequal Exchange (1972), as it is here that Emmanuel originally develops his thesis on the basis of an examination of Marx and Classical Political Economy and therefore that the origins of the theory are most clearly stated. I also examine in some depth Emmanuel's Marxian model of unequal exchange, before going on to examine his Sraffian model, and I will argue that, despite their superficial dissimilarity, there are strong theoretical links between the two models. I undertake this examination from a standpoint sympathetic to the idea of attempting to integrate the labour theory of value into the theory of international trade and imperialism, which was Emmanuel's original stated aim in his work. However, I take a position which is critical of Emmanuel, because I believe that, even in his Marxian model, Emmanuel fails from the outset in his objective of integrating the labour theory of value into the theory of international value, and that the necessity for his alternative Sraffian model is a confirmation of this failure.

My arguments regarding Emmanuel's thesis, though, go much further than this. I start in Chapter II by examining Emmanuel's original thesis in some detail, and its place in the general context of modern theories of trade and development (imperialism). I then go on in Chapter III to examine his Marxian model in relation to Marx's original work. I argue here that Emmanuel's interpretation of Marx was far from accurate and that although Emmanuel uses Marx's tables of the prices of production, this provides only a very formalistic superstructure, and does not reflect Marx's own theory regarding the transformation of value into price. However, none of my arguments here regarding Emmanuel's work are necessarily new, and as I have already stated, Emmanuel himself did not aim to develop an orthodox Marxist theory. I then go on in Chapter IV to examine the other main stated influence on Emmanuel's work, that of Classical Political Economy. If Marx's work is only providing the hollow framework for Emmanuel's theory, then classical political economy might be providing the meat. Here, I challenge the generally accepted view that Emmanuel's theory of unequal exchange is "Neo-Ricardian". On the basis of an examination of Emmanuel's Marxian model, I argue that the theory of value which Emmanuel is integrating into the tables of the prices of production is not a Ricardian labour embodied theory, but a Smithian adding up theory, where the value of commodities is determined by the sum of the rewards to the factors. It is this theory of value, I argue, which Emmanuel then transforms into prices of production when determining internal equilibrium prices. But this theory of value is a negation of the labour theory of value, and therefore from the beginning, Emmanuel fails in his aim of building his model on the basis of the labour theory of value.

I then go on in Chapter IV to examine the extension of his Smithian adding up theory of value to the formation of international equilibrium prices, given Emmanuel's assumptions of the mobility of capital with the international equalisation of profits; but immobility of labour with significant wage differentials between countries. Here I argue that because of his use of a Smithian adding up theory of value, Emmanuel fails to explain the source or origin of either surplus value or profit. Hence, the unit of surplus value which Emmanuel 'adds on' in inverse proportion to wages in the formation of national values is purely arbitrary (Emmanuel's assertion that high wage countries have low surplus value, and low wage countries have high surplus value is thus unsubstantiated). When Emmanuel then transforms these national values into international prices of production, there is then according to the assumptions of the model (via the equalisation of the international rate of profit), a transfer of surplus from the low wage to the high wage country, i.e. unequal exchange in trade. But my argument is that this application of a Smithian adding up theory of value to the theory of international trade is in essence simply a sophisticated theory of neo-Mercantilism similar to that of Sir James Steuart, Smith's predecessor. By failing in his Smithian adding up theory to explain the origin or source of surplus, and arbitrarily asserting a differential surplus resulting from differential wages prior to the formation of the international rate of profit, Emmanuel is essentially putting forward a neo-Mercantilist theory of 'profit' or 'surplus upon alienation', where the rich countries sell at prices above their values and buy at prices below their values; or to put it more generally, the rich countries develop at the expense of the poor countries, with no explanation as to where the surplus upon alienation comes from. Therefore, although I am critical of Emmanuel's theory of wages, my main criticism of his work is to do with his assumption that surplus value is always in inverse proportion to wages, without being able (given his Smithian adding up theory) to explain the origin of that surplus.

In Chapter V, I then go on to examine further the problem of the transformation of value into price, and how this, and the criticisms levelled at his Marxian model, led Emmanuel to develop the alternative Sraffian model. The Sraffian model, I argue, confirms Emmanuel's failure to integrate the labour theory of value, as the Sraffian model is essentially built to derive relative prices directly from physical inputs and outputs without the need to use labour values at all. Further from this, the Sraffian model is essentially a cost of production model, where wages and profits are both treated as parts of the surplus which is 'added on' to the cost of the technically determined physical inputs. Again, with the Sraffian model, I argue, the origin of the surplus is not explained, and given the wage is treated as part of the surplus (for reasons which I explain) when this model is applied to international trade, and one country is assumed to have a higher wage than another, essentially it is assumed that one country can appropriate a larger (unexplained) wage-'surplus' than another, and through the consequent commodity terms of trade, buy low and sell high. Again, this is a sophisticated form of neo-Mercantilism, except that now it is the wage element which is being blamed for the differential although unexplained surplus. Both the Marxian and Sraffian models of unequal exchange, therefore, involve different form of a cost of production plus 'adding up' theory of value, which when applied to international trade, involve either through the differential surplus value (resulting from the differential wage) or directly from the differential wage itself, a transfer of an arbitrary and unexplained surplus from poor to rich countries, and because the source of this surplus remains unexplained, in both cases it relies on an essentially neo-Mercantilist 'surplus upon alienation'. In neither model does Emmanuel succeed in fulfilling his original aim of integrating the labour theory of value into the theory of international trade, and on that basis provide a theory of imperialism.

Finally, in Chapter VI I examine the implications of my theoretical exploration of the origins of the theory of unequal exchange for the theory of imperialism. Throughout his work Emmanuel holds consistently to a theory of Mercantile imperialism. This, I argue, is quite consistent with the neo-Mercantilist theory of unequal exchange he develops, but would contradict a theory of international exchange based on the labour theory of value. The problem with a Mercantile theory of imperialism, I believe, is that it is purely descriptive and lacks any explanatory power. Because it fails to explain the source of surplus, (a) it is unable to explain the source of internal development, and (b) given it is argued that surplus is only 'added on' in exchange, unequally in international trade, it rejects any non-trade mechanism for imperialism. But I also argue that, despite the failings of Emmanuel's approach, the fact that he has set out in the first place to develop a theory of unequal exchange based on the integration of the labour theory of value into the theory of international value, a project which I believe could be successful, Emmanuel inadvertently touches upon a number of important issues relevant to a theory of imperialism. However, I argue that these would indicate the way towards a theory of financial imperialism, which would also incorporate, but not be solely dependent on a theory of unequal exchange in trade. However this is a path which Emmanuel himself vehemently rejects. In sum, therefore, I believe that Emmanuel's attempt to build a theory of unequal exchange in trade on the basis of the labour theory of value is in contradiction with his sole adherence to a Mercantile theory of imperialism, but that this contradiction is resolved by his failure to achieve his own aim of integrating the labour theory of value into the theory of international trade and that (unwittingly perhaps), what he actually develops is a neo-Mercantilist theory of unequal exchange which is quite consistent with his Mercantile theory of imperialism.

Finally, I only very briefly touch upon some of the developments of the theory of unequal exchange since the publication of Emmanuel's work.

A number of writers (including Evans, Braun and Andersson) have sought to develop and/or modify the theory of unequal exchange, but this thesis is concerned specifically with the origins of the theory as elaborated by Emmanuel, and therefore later theories are only briefly mentioned. Likewise, I have not entered into a debate concerning the problems with pure neo-classical trade theory, nor the Sraffian trade models developed as a critique of that pure trade theory. The paradigms of neo-Classical economic theory and Classical Political Economy are fundamentally distinct, and I have concentrated solely on the relation between the latter and Emmanuel's theory of unequal exchange. As such, this thesis aims solely to provide a deeper critical understanding of the theoretical foundations, within the framework of political economy, of the theory of unequal exchange. It does not aim to provide an alternative to Emmanuel's theory; although, hopefully, by increasing our understanding of the origins of the theory of unequal exchange, this thesis provides a contribution towards the debate over alternative theories.

CHAPTER II

THEORIES OF TRADE AND DEVELOPMENT: AN OVERVIEW

CHAPTER II

THEORIES OF TRADE AND DEVELOPMENT: AN OVERVIEW

One of the reasons why Emmanuel's work provides an interesting theoretical contribution is that he is simultaneously trying to do two things - provide an alternative to orthodox trade theory and elaborate a theory of imperialism (hence the subtitle of his book Unequal Exchange. A Study of the Imperialism of Trade). One of the main elements of orthodox trade theory, based originally on Ricardo's doctrine of comparative advantage, was the view that, given perfect competition and free trade, all countries, whatever their specialisation, would benefit from international trade. This view had long been opposed by Marxists, who argued (from different standpoints) that imperialist exploitation hinders the development of many colonial and less developed countries, so that all nations do not benefit internationally. There has always been a deep gulf between these two positions, both theoretically and in terms of their conclusions. Emmanuel, though, attempts to straddle both positions. His aim is, by integrating (a modified form of) the labour theory of value into the theory of international trade, to develop a theory of trade which simultaneously explains imperialism - the reasons why 'poor' nations are less developed than 'rich' nations. Before going into what is the main concern of this thesis - an examination of the political economy of Emmanuel's theory of unequal exchange in trade - I think it is important to look at the context within which this theory was developed. This chapter, therefore, aims to provide a brief overview of orthodox trade theory, theories of trade and development, and Marxist theories of imperialism, all of which have had an important background influence on Emmanuel's work. Finally, in this chapter, I provide a brief summary of Emmanuel's theory of unequal exchange before going on to provide a detailed critical assessment of it, with reference to political economy, in later chapters.

1. THE ORTHODOX THEORY OF INTERNATIONAL TRADE

Economic thought has been concerned with the question of foreign trade from its inception. Some of the earliest theories of foreign trade were put forward by the Mercantilists. These were the merchant traders who, from the sixteenth to eighteenth centuries, plied the main trading routes between Europe and foreign continents. International merchant trade was established before capitalist production or commodity exchange had displaced feudalism within the internal European 'economies'. As such, international merchant trade was largely peripheral and external to the feudal mode of production. The Mercantilists believed that the wealth of a nation was acquired solely through international trade, and not through internal production. Wealth (which for them equalled the stock of bullion a country possessed) could be acquired by buying low and selling high. Profit, or 'profit upon alienation', was therefore the differential added on by the merchant in trade, the larger the profit upon alienation, the larger the addition to the stock of the wealth of the nation. Internal exchange or trade, they believed, simply constituted a vibration of that wealth, and provided no addition to the nation's stock of wealth. The Mercantilists mainly developed their (partial) theories in order to provide support for their economic policies - the guaranteeing by the State of their monopolies of the main trading routes. Without these monopolies, they argued, trade would collapse, and with it the wealth of the nation[1].

Adam Smith was one of the first economic thinkers to seriously challenge the views of Mercantilism. As an ardent supporter of the emerging manufacturing system, Smith argued the wealth of a nation was not derived from international trade, but internal production based on labour. In line with his economic philosophy and views, Smith was a strong supporter of free trade, and was opposed to any regulation of international trade. Smith believed that, whilst wealth was created internally, free trade could be beneficial to a nation based on his theory of 'Absolute Advantage'. If nation A had an absolute advantage in producing good X, and nation B had an absolute advantage in producing good Y, through trade nation A could exchange its surplus good X for Y and vice versa for B. This allowed each nation to do two things: (a) expand production beyond domestic requirements, and through trade acquire goods it could not itself produce (which has been termed the 'vent for surplus' effect); and (b) Smith believed the expansion of the market through trade would lead to an increase in the division of labour, and through that an increase in dexterity, skill, technological progress and growth (the 'productivity' or 'growth' effect). Therefore, Smith was a strong advocate of free trade, but did not believe that the wealth of a nation was created in trade, rather trade allowed the nation to expand its internal production of wealth. Thus Smith vehemently opposed Mercantilism, and the regulation of trade it advocated.

Following Smith, the theory of trade was further extended by David Ricardo. Theoretically, the question of trade only occupied a very small part of Ricardo's work[2]. He was writing at the beginning of the nineteenth century in Britain, when industrialisation was beginning to take off, and he represented the interests of the rising class of industrial capitalists. Ricardo's main concern was to enquire into the source of wealth, and its distribution amongst the three main classes: the landowners, the owners of capital and the labourers. He argued that the source of all value is labour, and within the Classical School of political economy, the labour theory of value found its most advanced expression in the work of David Ricardo. Put very simply, Ricardo believed that the exchange value of all commodities is determined by the quantity of labour required to produce them. Ricardo also argued that although it is labour alone which creates value, the labourer himself is not rewarded according to the value he produces.

The reward to labour, or wages, is determined rather by the necessary means of subsistence needed to sustain the labourer, i.e. the value of his basic food. The value of the labourer's wage is necessarily less than the value he creates in production (otherwise production would not take place), and the difference between wages and the exchange value of the goods produced by labour is profit. The source of all profit, therefore, for Ricardo, is labour, and the amount of profit is in inverse proportion to wages. This is because, given it is not wages which determine the value of a commodity, but the quantity of labour expended on it, the higher wages are, the lower profit must be, and vice versa[3]. This is only a very brief outline of Ricardo's labour theory of value, but it was to this theory that Ricardo devoted most of his work.

At the beginning of the nineteenth century, the industrial capitalist class, whose interests Ricardo represented, was still only in its ascendency. It had to contend with the dominant landed aristocracy, with whom its interests were often at variance. At the time the Corn Laws still operated in England. These imposed a heavy tariff on all corn imported into the country, and were of great benefit to the landed aristocracy, as they were able to maintain a high price for their corn, unthreatened by the import of cheaper corn from abroad. Central to Ricardo's labour theory of value was the belief that the price of corn determined wages, corn being a substantial part of any labourer's diet. Therefore, if the price of corn was high, wages were kept high, and if the price of corn fell, wages fell. Wages being in inverse proportion to profit, it was obviously in the interest of the industrial capitalists to have low corn prices. Representing the interests of the manufacturing class against the land-owners, Ricardo was a very vocal opponent of the corn laws and all other restrictions on trade, and it was in this context that he developed his theory of foreign trade[4]. Ricardo's main concern was not to enquire into the terms of foreign trade, rather it was to show the benefits of free trade for all the trading parties. The arguments he developed in favour of free trade were essential to his arguments against the corn laws, and other trading restrictions. However, given his main concern was analysing the nature of production, and showing that the source of value lay within production, not trade or exchange, his theory of trade was not only a very small part of his work but also, as we shall see, was very much peripheral to his labour theory of value.

In his labour theory of value, an important factor was the free movement of labour and capital between and within the different spheres of production, so that there would always be an equalisation of wages and profits. However, Ricardo believed that this free movement of labour and capital only took place within a country, it did not take place between countries:

> "In one and the same country, profits are, generally speaking, always on the same level; or differ only as the employment of capital may be more or less secure and agreeable. It is not so between countries. If the profits of capital employed in Yorkshire should exceed those of capital employed in London, capital would speedily move from London to Yorkshire, and an equality of profits would be effected; but if in consequence of the diminished rate of production in the lands of England from the increase of capital and population wages should rise and profits fall, it would not follow that capital and population would necessarily move from England to Holland, or Spain, or Russia where profits might be higher." [Ricardo, 1973, pp.81-2]

As a result of this, Ricardo believed that the labour theory of value only operated within a country, it did not operate on an international level between countries. The reason, therefore, that he supported free trade was only indirectly connected with the main body of his theoretical work. Trade would only affect production, and profits, if it meant the import of cheaper goods consumed by labour, leading to a diminution in wages and consequently a rise in profits. But trade could not increase the wealth of a country (i.e. the total value it possessed), as that could only be derived from the productive use of labour within a country.

The main reason for free trade was that, one country could produce certain goods much cheaper than another country and vice versa. If each country concentrated on the production of its cheaper goods, and then exchanged a portion of them for the goods of the other, trade would be mutually advantageous to both of them.

This theory of trade has become known as the theory of comparative advantage or comparative costs. To elaborate his theory, Ricardo took the example of two countries, England and Portugal, each able to produce two commodities, cloth and wine. He assumed that it took England 100 men per year to produce cloth, and 120 men per year to produce wine. Portugal, on the other hand, took 90 men per year to produce cloth and 80 men per year to produce wine. These figures can be set out as follows:

	Wine	Cloth
England	120	100
Portugal	80	90

In this example, if England concentrated her production on cloth, and then exchanged cloth for wine with Portugal, she would be able to receive her wine for the equivalent of 100 men's labour (the labour required to produce the cloth), rather than 120 men's labour if she produced the wine herself. Therefore it is to her advantage to exchange cloth for wine (i.e. trade with Portugal) rather than produce the wine herself. Conversely for Portugal, although she can produce cloth using less men (90) than England (100), if she concentrates on producing wine using 80 men and then exchanges her wine for cloth with England, she can receive her cloth for the equivalent of 80 men, rather than the 90 men it would have taken her to produce her cloth at home. Consequently, in this example, even though Portugal can produce her cloth cheaper than England, it is to her advantage to trade her wine for cloth with England because the cost of her wine is even less still[5]. In other words, it is the comparative cost of the production of any two or more commodities <u>within</u>

a country which makes specialisation in production and trade with other countries advantageous. And the comparative advantages of trade are reaped by all countries which participate in trade.

This theory of trade is separate from the labour theory of value which, as we have seen, Ricardo did not believe operated on an international lavel because of the immobility of capital and labour. Whilst it might be possible for the equivalent of 80 men's labour (in the form of Portuguese wine) to exchange for the equivalent of 100 men's labour (in the form of English cloth) between two countries, such an exchange would not be possible within a country, where exchange only operates according to labour value equivalence. As Ricardo says:

> "The labour of 100 Englishmen cannot be given for that of 80 Englishmen, but the produce of the labour of 100 Englishmen may be given for the produce of the labour of 80 Portuguese, 60 Russians, or 120 East Indians. The difference in this respect, between a single country and many is easily accounted for, by considering the difficulty with which capital moves from one country to another, to seek more profitable employment, and the activity with which it invariably passes from one province to another in the same country."
>
> [Ricardo, 1973, pp.82-3]

The question arises, though, that if the exchange of two commodities between two countries is not determined by the relative quantity of labour contained within the two commodities (i.e. the labour theory of value), what then determines the proportion in which they exchange. The only thing Ricardo said on this was that:

> "Cloth cannot be imported into Portugal unless it sell there for more gold than it cost in the country from which it was imported; and wine cannot be imported into England unless it will sell for more than it cost in Portugal."
>
> [Ibid, p.84]

He goes on to elaborate the elements of a quantity theory of money to explain the nominal prices of commodities traded between one country and another, and the balance of trade between countries. But for him trade is essentially barter, with money only facilitating profitable exchange. The underlying question, therefore, of what determines the proportion in which two commodities will exchange, is only briefly touched upon. But then Ricardo, as has been mentioned, was primarily concerned with outlining the advantages of free trade; and given he did not believe that the labour theory of value applied in international exchange, the theory of trade was not central to the main body of his work.

This dilemma of what it is that determines the proportion in which two commodities are exchanged between two countries on the basis of comparative cost theory was later taken up by John Stuart Mill. He essentially agreed with Ricardo's theory of comparative costs and also with Ricardo's assumption that capital and labour were not mobile between countries as they were within a country. Mill argued that the value of a commodity imported into a country was not determined by the cost of its production in its country of origin, but rather by the cost of production in the recipient country of the commodity for which it was traded. He took the example of one pipe of Spanish wine being traded for one bail of English cloth. If the pipe of Spanish wine took 10 days to produce and the bail of English cloth 20 days to produce, in England the pipe of Spanish wine would cost a bail of cloth and therefore the equivalent of 20 days, <u>not</u> 10 days labour. But <u>why</u> is it that one pipe of Spanish wine should exchange for one bail of English cloth still perplexes Mill. Unable to solve the problem on the basis of comparative costs, he resorts to an old theorem rejected by Ricardo, the theory of supply and demand determining exchange value. "We must accordingly" says Mill in a frank statement, "as we have done before in a similar embarrassment, fall back upon an antecedent law, that of supply and demand: and thus we shall again find the solution of our difficulty" [J.S. Mill, 1880, p.353].

The fact that, despite his agreement with Ricardo's theory of trade, Mill should supplement it with the law of supply and demand is not necessarily surprising. Ricardo had overtly rejected the notion that supply and demand determined exchange value, which he explained instead by the labour theory of value. However, he left the dichotomy that the labour theory of value did not operate in international exchange. John Stuart Mill, though, did not agree with the main elements of Ricardo's labour theory of value, either internationally or nationally. For him, labour was the source of wages, but labour could only determine the overall value of a commodity if it alone was required in production. Mill did not believe that labour explained profits. Profit he attributed to the recompense of the capitalist for his abstinence from personally employing his capital, but rather "allowing it to be consumed by productive labourers for their use". This, Ronald Meek calls Mill's "rather vague labour plus abstinence" theory akin to the theory of cost of production [Meek, 1973, p.246].

To move from a 'cost of production theory' to the theory of supply and demand as an explanation of international exchange is not such a contradiction, I believe, as to move from the labour theory of value to the theory of supply and demand. The cost of production theory already implies a determination of value in exchange (the rewards to labour and capital being an exchange relation) and the theory of supply and demand categorically locates value in exchange (the distribution of the goods between the buyer and seller). The labour theory of value, on the other hand, locates value in production (the quantity of labour required to produce the good), and is therefore the antithesis of the theory of supply and demand. Consequently, John Stuart Mill did not solve the dilemma of the proportions in which commodites exchange internationally within the context of Ricardo's overall framework. Rather, he shifted the dilemma onto a different plane, through his abandonment of the labour theory of value, and in this sense it could be said, he avoided the problems.

Following John Stuart Mill, anything even slightly resembling Ricardo's labour theory of value was completely rejected within orthodox economic thinking. This shift was consumated by the 'Marginal Revolution' generally associated with Jevons, and marked the beginning of the Neo-classical school of economic thinking. Jevons was more concerned with the allocation of scarce resources than he was the theory of value: but in line with this concern, he completely rejected the notion that value was determined by production, and rather attributed value to the marginal utility of any good. As Jevons said in his famous statement on the theory: "Cost of production determines supply; supply determines final degree of utility; Final degree of utility determines value" [Jevons, 1970, p.187]. Despite certain reformulations and refinements, the theory of marginal utility became the corner-stone of Neo-classical economic thinking. Alfred Marshall, one of the later contributors to this tradition, combined it with a theory of opportunity costs in determining value. He believed that whilst demand is determined by marginal utility to the buyer, supply is determined by the marginal 'sacrifice' and 'effort' to the seller, or in other words the opportunity cost of production. It is the interaction of these two, marginal utility (demand) and opportunity cost (supply) which for Marshall underlies value and price[6]. There were various lines of a argument within Neo-classical theory, some closer to cost of production theory than others, but they all had one thing in common: a consumation of the abandonment of the labour theory of value initially called into question by John Stuart Mill. No longer was the source of value to be located in production, rather it was to be located in exchange.

Whilst Neo-classical theory completely rejected Ricardo's labour theory of value, it continued to hold to his theory of comparative costs in trade, particularly in the form developed by John Stuart Mill which incorporated into it the theory of supply and demand. Arghiri Emmanuel finds the continued acceptance by Neo-classical theory of Ricardo's principle of comparative costs in trade quite an amazing feat, and it is on this point that he opens his book Unequal Exchange.

> "When we look back over the history of economic doctrines during the last 150 years or so, we are struck by the brilliant race that has been run by the theory of comparative costs. In a branch of learning in which hardly anyone agrees with anyone else, either in space or in time; in which practically nothing is generally accepted and each generation of scholars changes academic truths into paradoxes and paradoxes into classical rules ... David Ricardo's famous proposition emerges from the fray as a truth that is unshakable, if not in its applicability and scope, then at least in its foundations. The sternest of detractors, the Austrians, the Marginalists, have called everything in question in Ricardo's work and demolished it - with the exception of the chapter on foreign trade. To get Ricardo and Walras, John Stuart Mill and Pareto, Cairnes and Jevons, Marshall and Viner, all to agree in this way is an achievement that is quite out of the ordinary." [U.E. p.vi]

But is it really such an extraordinary feat as it might at first seem? Firstly, within Ricardo's work, as we have seen, the labour theory of value was quite separate from the theory of comparative costs; and after the latter theory was modified by Mill, the distance between the two theories was made even greater. Mill had shifted the theory of comparative costs out of the realm of production altogether, and into the realm of exchange. As such, there was no fundamental conflict between it and the variations on the theory of marginal utility and supply and demand adopted by Neo-classical economics. Second, the fact that Ricardo himself had apparently 'abandoned' his labour theory of value when analysing international trade could be used to imply that even the "old man" himself recognised problems with the labour theory of value. Third, Neo-classical theory continued Ricardo's assumption that because of the immobility of capital and labour internationally, the factors determining value and price between countries were different to those determining value and price within a country. Therefore, whilst Neo-classical economists might often have had disagreements over the exact determinations of value nationally, those disagreements were not automatically extended to the international level of trade. Fourth, and probably most important, Ricardo's main aim had been to show that trade was mutually advantageous to all the trading parties, and given the principle of comparative advantage has remained central to all orthodox trade theory since there would be a certain hesitancy in fundamentally challenging Ricardo's doctrine.

We can see, therefore, that whilst Emmanuel had reason to say that it was amazing for Ricardo's theory of comparative costs in trade to have survived for so long, there were also some quite concrete reasons why this might have been the case. On the surface it might have seemed paradoxical, but in reality it was less so. However, Ricardo's theory of trade did not remain completely unscathed within orthodox trade theory. By the early part of this century, attempts were made to completely dis-associate it from any 'unholy' alliance with Ricardo's labour theory of value. The theory of trade which has become prevalent over the last fifty years was first put forward in an article by E.F. Heckscher, and more fully developed by Bertil Ohlin in his book Inter-Regional and International Trade published in 1933[7]. Ohlin rejected Ricardo's theory of comparative costs as the basis of international trade, as he believed it to be based on the labour theory of value, because it took 'labour' as the sole cost of production. (We have seen earlier, though that for Ricardo it was not the cost of labour but the quantity of labour embodied in a commodity which underlay his labour theory of value. Viewing the cost of labour to be essential is closer to John Stuart Mill's interpretation of the labour theory of value than Ricardo's, an interpretation perpetuated by the Neo-classical school.) Ohlin argued, however, that to take labour as the sole cost of production was an unrealistic assumption; and also that a theory of trade based solely on this assumption was only taking into account the conditions of supply, ignoring the conditions of demand.

Against Ricardo's comparative cost doctrine, the Heckscher-Ohlin theory rests on the case that different countries have different factor endowments. Some countries, it is argued, have an abundance of labour, other countries have an abundance of capital. In international trade, each country can specialise in producing commodities containing its relatively abundant factor. As a result, it can produce these goods at a lower cost, and in trade exchange them for goods containing its less abundant factor. In other words, a labour abundant country will concentrate on producing relatively labour intensive goods, and exchange them for manufactured goods from a capital abundant country; labour abundant countries, therefore have a comparative advantage in exporting labour intensive goods, and capital abundant countries a comparative advantage in exporting capital intensive goods. The Heckscher-Ohlin theorem rests on a number of limiting assumptions, including equal availability of technology internationally, no factor intensity reversals, perfect competition and free, costless, trade. There are also problems in the Heckscher-Ohlin theory resulting from the definition of factor abundance. Either a price definition or a physical definition can be used, but if a purely physical definition is used, then demand bias within a country towards its factor abundant goods could negate the Heckscher-Ohlin theorem. And the price definition also is not without its problems, as the model says nothing regarding the complicated inter-relation between supply and demand conditions underlying the relative factor prices. However, the importance of the Heckscher-Ohlin theory was that it shifted the analysis away from Ricardo's comparative cost doctrine into a Neo-classical framework, where comparative advantage could be defined in terms of relative factor endowments and the operation of the price mechanism.

The Hechscher-Ohlin theory was further developed by Paul Samuelson, and became known as the Heckscher-Ohlin-Samuelson (H-O-S) theorem[8]. Particularly, it was extended to an analysis of factor prices, and it was argued that free trade could substitute for factor mobility in equalising the rewards to the factors internationally (Factor Price Equalisation). Again, very briefly, if a country concentrated on production of goods employing its abundant factor, then demand for that factor would increase, the country's relative abundance in that factor would decrease, the marginal productivity of that factor rises, and the reward to that factor rises. Conversely, switching away from production of goods employing the less abundant factor leads to a relative increase in the abundance of that factor, a relative fall in its marginal productivity, and a fall in its factor reward. Given all countries concentrate on production employing their relatively abundant factor, (i.e. capital abundant countries capital intensive goods and labour abundant countries labour intensive goods), and given all the limiting H-O-S assumptions, then there will be a tendency towards factor price equalisation internationally. The labour abundant country employing more labour will have the same wage rate as the capital abundant country which employs much less labour.

Whilst the Heckscher-Ohlin model marked the decisive shift away from Ricardo's theory, there was one fundamental assumption that was still to remain: the view that trade was mutually advantageous to all trading parties. We saw that Ricardo had elaborated his theory of trade primarily in response to the corn laws, and that enshrined in the theory of comparative costs was the notion that free trade could only be advantageous to each country participating. In the example of trade between England and Portugal, by concentrating production on a commodity which required less men to produce than on a commodity which required more men, and then trading the first commodity containing less labour for the second commodity abroad, a country could only gain (it could not lose), because its comparative costs were less than if it had concentrated on production of both commodities at home. In rejecting Ricardo's theory of comparative costs, Heckscher and Ohlin did not reject the fundamental notion of the comparative advantages of trade to all countries. The basis on which they retained this was that every country had different factor endowments and natural resources. Through trade, each could benefit from access to the products of the other. However, whilst Ricardo's primary aim was to prove the comparative advantages of trade, Heckscher and Ohlin, having asserted it as a fact, tended to assume its validity. As has been pointed out by Bhagwati amongst others, unlike Ricardo, they were not primarily concerned with proving the advantages of free trade rather the main thrust of their work was to analyse the pattern of trade, and in fact it was Bertil Ohlin who was the first to make a clear distinction between 'normative' and 'positive' questions in trade theory [Bhagwati, 1964].

Since the development of the H-O-S theorem, there have been a number of problems and criticisms raised of the theory, from within the realm of pure trade theory itself. These have ranged from the Leontieff paradox, where Leontieff in an attempt to prove the empirical validity of the theory found that rather than the US (in 1947) being an exporter of capital intensive goods as expected, the reverse was the case; through various alternatives, such as Linder's demand-side approach to a complete critique provided by Neo-Ricardian trade theorists such as Steedman based on the Sraffian critique of Neo-classical economics[9]. However, from the standpoint of this thesis, another strand of criticism is of greater importance. Since the 1940s, there has been increasing interest in the problems of trade and development, and the inability of the H-O-S model to explain under-development. It is to this problem which we will now turn.

2. TRADE AND DEVELOPMENT

Having assumed that different countries are naturally endowed with different quantities of the factors of production, Ohlin's main thesis centres on the fact that a country will export goods containing its abundant factor and import goods containing its scarce factor. In other words, each country will specialise in production of the goods it can produce cheapest, and through trade every country will have access to the cheapest goods. This argument has been used to support the division of the world between manufacturing and primary producing countries as being mutually advantageous to both sectors. Those countries which are naturally rich in agricultural and primary produce should concentrate on that, whilst those otherwise endowed should concentrate on manufacturing production. Through trade, the former countries will then have access to cheap manufactured goods, and the latter countries will have access to cheap primary produce.

After the Second World War, however, the view that both sectors would automatically benefit from free trade was challenged by Raul Prebisch and Hans Singer, who based their arguments on a United Nations study which examined the movements in the net barter terms of trade of primary products against manufactured goods in world trade from 1876 to 1938. It revealed that during this period, the primary producing countries suffered a deterioration in their terms of trade in the region of 40%[10]. After the publication of this report there was much questioning of the basis on which it was carried out: how can you accurately measure the terms of trade, do adverse movements in commodity prices in reality reflect adverse movements in the terms of trade etc. These criticisms were raised particularly by western economists whose theories enshrined the principle of the comparative advantages of trade[11]. But the UN study was to act as a major stimulus to the work of other economists, particularly those in the primary producing 'third world' countries, who believed that it was impossible to avoid the central conclusion drawn from the report: that over a period of more than half a century, the prices of primary goods had declined relative to manufactured goods, and that whilst the industrialised countries benefited, the primary producing countries had not.

This was a major challenge to the orthodox belief, which had prevailed since the time of Ricardo, in the comparative advantages of free trade for all trading parties. Prebisch and Singer's explanation of the deteriorating terms of trade for primary producing countries which has become known as the 'Prebisch-Singer' thesis, can be summarised as follows. They looked at the possibility of changes in productivity accounting for the relative decline in the prices of primary products against manufactured goods, but found that in fact productivity had increased faster in manufacturing production than primary production, on which basis it should have been the prices of manufactured goods which declined relative to primary goods, and not the other way round. However, they believed that the fact that rising productivity in manufacturing industry had not led to a corresponding fall in the prices of manufactured goods could be accounted for by the rising standard of living enjoyed by the industrialised countries. Hans Singer has succinctly summarised the argument in this way:

> "Discussing, then, changes in productivity as a governing factor in changing terms of trade, the following explanation presents itself: the fruits of technical progress may be distributed either to producers (in the form of rising incomes) or to consumers (in the form of lower prices). In the case of manufactured commodities produced in more developed countries, the former method, i.e. distribution to producers through higher incomes, was much more important relatively to the second method, while the second method prevailed more in the case of food and raw material production in the underdeveloped countries. Generalising, we may say that technical progress in manufacturing industries showed in a rise in incomes while technical progress in the production of food and raw materials in underdeveloped countries showed in a fall in prices." [Singer, 1950, p.478]

In other words, the fruits of technical progress may be distributed in two ways: (i) through a fall in prices or (ii) through a rise in incomes. Increases in productivity in the primary producing countries, argues

Singer, are reflected in the former but increases in productivity in the industrialised countries are reflected in the latter. As a result, the industrialised countries gain from trade at the expense of the primary producing countries, or as Raul Prebisch puts it "while the centres kept the whole benefit of the technical progress of their industries, the peripheral countries transfered to them a share of the fruits of their own technical progress" [Prebisch, 1950, p.10].

Prebisch and Singer account for the rise in income in the industrialised 'centre' but not the primary producing 'periphery' by the pressure of trade unions and better organisation of the masses in the former. Prebisch has developed this argument to its fullest with reference to the trade cycle. Put very simply, he says that during the upswing in the trade cycle, supply exceeds demand, with the result that prices and profits rise. During the downswing however, demand exceeds supply, and prices and profits should correspondingly fall back. But whilst this does happen in the 'periphery', Prebisch argues, it does not happen to the same extent in the 'centre'.

> "The reason is very simple. During the upswing, part of the profits are absorbed by an increase in wages occasioned by competition between entrepreneurs and by the pressures of trade unions. When profits have to be reduced during the downswing, the part that had been absorbed by wage increases loses its fluidity, at the centre, by reason of the well known resistance to a lowering of wages. The pressure then moves toward the periphery, with greater force than would be the case if, by reason of the limitations of competition, wages and profits in the centre were not rigid. The less that income can contract at the centre, the more it must do so at the periphery" [Prebisch, 1950, p.13].

It is the organised workers in the 'centre' attaining a portion of the increased profits in the upswing, therefore, which prevents the prices of industrial goods falling as much as they should in the downswing. This does not happen in the primary producing countries of the 'periphery', so that prices there fall more in the downswing than in the centre. As a result of this influence on the operation of the trade cycle, the gap between the prices of industrial and primary goods is progressively widened, and hence there has been a perpetual deterioration in the commodity terms of trade of the primary producing countries.

This 'cyclical' explanation for the deterioration of the terms of trade of the 'periphery' is also supplemented by a more 'structural' one. Hans Singer held quite strongly to the theory known as 'Engels Law', which states that as incomes rise, the proportion of income spent on food diminishes; or, as applied to the case of primary produce, as the incomes of the industrialised nations rise, the proportion of raw materials they use per product falls. In other words, with the rise in income in industrialised nations, the demand for manufactured goods increases faster than the demand for primary products. This is another reason why the prices of manufactured goods do not fall as much as those of primary goods, and again favours the 'centre' to the detriment of the 'periphery'. Thus, according to this view, it was not just cyclical factors, but what countries produce that underpins the deteriorating terms of trade for the periphery. The main solution to the problems of development in the 'periphery' put forward by Prebisch and Singer is that those countries too should industrialise, through the method of import substitution industrialisation (ISI), in order that they too could reap the same benefits as the industrial 'centre'.

The Prebisch-Singer thesis, therefore, provides an important challenge to the reality of the assumption, hitherto made by all orthodox trade theory, that all trading parties will automatically reap the same benefits, and they also rejected the argument that specialisation in production is of benefit to both industrialised and primary producing countries. The Prebisch-Singer thesis, therefore, was one of the first to raise the possibility of unequal exchange in trade. But they did not attribute this inequality to the trade mechanism _itself_, rather they attributed it to the specific circumstances within which the trade mechanism operated, so that trade was simply the vehicle for unequal exchange. Their belief that it was because of the specific nature of their production that industrialised countries should be able to reap benefits from trade unattainable by the primary producing countries logically led to their proposition that by industrialising, the countries of the 'periphery' would be able to overcome their disadvantageous position.

Prebisch and Singer, therefore, were the first to develop a theory of unequal exchange in trade. Whilst there are some formal similarities between their work and that of Emmanuel, Emmanuel builds his theory on different theoretical foundations, and has a number of criticisms of the Prebisch-Singer argument. Emmanuel believes that it is correct to locate the underdevelopment of some countries against others in the unequal exchange of trade. However, he does not think that the account of the deteriorating terms of trade for the countries of the 'periphery' provided by Prebisch and Singer is adequate. Emmanuel rejects Singer's adaptation of Engel's law to explain the deteriorating terms of trade for the 'periphery', because he says it fails to take account of many luxury products, which form a large part of primary output. Also, although he agrees that wages are higher in the countries of the 'centre' than the 'periphery', Emmanuel believes Prebisch's account for this on the basis of the trade cycle is contradictory; and, as we shall see later, Emmanuel does not believe that wage rises are a result of increases in productivity or prices.

More importantly, though, Emmanuel does not believe that you can divide the world neatly between 'rich' and 'poor' countries on the grounds that the former only produce manufactured goods, and the latter only produce primary products. He says, for example, that sugar which comes from poor countries, is more "manufactured" than wines from France; and that coffee, cocoa and cotton undergo far more processing before being exported than timber from the rich countries of Sweden and Canada.

Whilst Emmanuel agrees that the terms of trade have deteriorated for some countries against others, this is not a result of some kind of "curse" on particular types of primary produce, but rather because of the categories certain countries themselves fall into.

> "Are there really certain products that are under a curse, so to speak; or is there, for certain reasons that the dogma of immobility of factors prevents us from seeing, a certain category of countries that, whatever they undertake and whatever they produce, always exchange a larger amount of their national labour for a smaller amount of foreign labour? This is the most fundamental of the questions I shall have to answer in this study." [U.E., p.xxxi]

Therefore, Emmanuel wants to explain the deteriorating terms of trade for third world countries not in terms of the particular type of goods they produced. He seeks an explanation for unequal exchange in trade rather in the structural relation between 'rich' and 'poor' nations within the international system itself.

In order to do this, Emmanuel does not seek to modify this or that aspect of orthodox theory, but to re-examine the underlying assumptions on which all orthodox trade theory was built. We have seen that in the work of David Ricardo, there was a dichotomy between the labour theory of value and the theory of international trade because he did not believe that the factors of production were mobile between countries. Conssequently his theory of trade was separate from the main body of his economic thesis on value. This separation of trade theory from the main body of economic theory was maintained by the Neo-classical school until Heckscher and Ohlin, rejecting Ricardo's theory of comparative costs, integrated the theory of trade into a general theory of price. The Heckscher-Ohlin thesis represented a final rejection of any aspect of Ricardo's work, and severed any association, however, indirect, between the theory of trade and the labour theory of value. In challenging all orthodox trade theory, and the way in which it was developed, Arghiri Emmanuel returns to the original work carried out by David Ricardo. He argues that the assumptions on which Ricardo built his theory were wrong. Whilst it is true, says Emmanuel, that there is no significant mobility of labour between countries, it is an empirically proven fact that there is a constant movement of capital internationally. Investors will always direct their capital away from countries with a low rate of profit towards countries with a higher rate of profit; and as a result of this movement of capital, a process of equalisation of profit takes place between countries. On the basis of these assumptions Emmanuel argues contrary to Ricardo that a modified form of the labour theory of value <u>does</u> operate on an international scale. The main body of Emmanuel's work, therefore, is spent analysing the operation of the labour theory of value nationally and internationally in order to arrive at a general theory of value applicable to both.

> "In short," says Emmanuel, "I have undertaken to attempt the task that Ohlin reproached the supporters of the labour theory of value for neglecting: the task of integrating international value in the general theory of value." [U.E., p.xxxiv]

It is from his theory of the international operation of the labour theory of value that Emmanuel then derives a theory of trade which accounts for what he calls 'unequal exchange' between countries and the consequent division of the world between countries which are rich and poor.

3. MARXIST THEORIES OF IMPERIALISM

One of the distinguishing features of Emmanuel's theory, therefore, as opposed to Prebisch and Singer's analysis, was that Emmanuel was attempting to construct a theory of unequal exchange in trade on the labour theory of value, and he was simultaneously attempting to develop a theory of trade which explained imperialism. Whilst Prebisch and Singer's work provided an important general context to the development of Emmanuel's theory, I do not believe we can fully understand Emmanuel's work unless we also examine the other important influence on him: post-war Marxist theories of imperialism, and particularly the dependency theorists.

Marx himself did not have a worked out theory of imperialism, as it has developed within an advanced internationally integrated capitalist system. He was writing during the early rise of industrial capitalism in the west during the mid-nineteenth century. At that time, colonial subjugation was well under way, but its essential features were to extract raw materials for western industry and provide markets for western industrial products, and was therefore mainly based on a trading relation. Marx argued that this relation would lead to the development of capitalism on a world scale.

> "The bourgeoisie, by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian nations into civilisation ... It compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it compels them to introduce what it calls civilisation into their midst, i.e. to become bourgeois themselves. In one word, it creates a world after its own image." [K. Marx, 1970, p.39]

However, what Marx was unable to analyse was the form that the capitalist relations of production would take once this process he described was completed. Whilst he saw the subjugation of backward countries by richer ones, or as he put it "... barbarian and semi-barbarian countries [being made] dependent on the civilised ones, nations of peasants on nations of bourgeois, the East on the West" he was unable to analyse exactly how that subjugation might change once the former "barbarian countries" themselves had also become capitalist. Consequently, in his theoretical work on the capitalist relations of production, Marx left, as Tom Kemp has pointed out, the elements of a theory of imperialism; but there has been much debate within Marxism since then as to exactly how these elements combine to form what has become known as the imperialist system.

> "A number of theories of imperialism were elaborated which differed from each other at least in part because they built mainly upon certain aspects of Marx's analysis of capitalism rather than upon others. In this respect there is no 'orthodox' Marxist theory of imperialism which can be delivered directly and 'authoritatively' from his works."
> [T. Kemp, 1967, p.23]

Some of the first analysis of imperialism within Marxism took place at the beginning of the twentieth century, particularly within the second and third internationals. A number of Marxists participated in the debates on imperialism at the time[12], but two of the best known are Bukharin and Lenin. In his writing Bukharin emphasised two aspects of Marx's analysis in Capital as being of relevance to a theory of imperialism: the falling rate of profit and the concentration and centralisation of capital. He argued that an important aspect in the drive to imperialist expansion and capital export abroad was the falling rate of profit at home, and that the concentration and centralisation of capital would result in a world capitalist economy dominated by international trusts, monopolies, cartels and banks [N. Burkarin, 1972]. Generally, Bukharin's analysis of imperialism was similar to Lenin's. Indeed, to a certain extent there was a division of labour between them, with Bukharin concentrating on a more theoretical elaboration of imperialism, and Lenin on a more empirical and polemical elaboration. However, it is Lenin's Imperialism, the Highest Stage of Capitalism which is the most often quoted, although the theoretical tenets on which it rests are generally assumed, without being expanded. Lenin's work does however, give a summary of what he considered to be the main features of imperialism, and the now famous 'five points' are as follows:

> "Imperialism is capitalism at that stage of development at which the dominance of monopolies and finance capital is established; in which the export of capital has acquired pronounced importance; in which the division of the world among the international trusts has begun, in which the division of all territories of the globe among the biggest capitalist powers has been completed. [V.I. Lenin, C.W. 22, 1964, pp.266-7]

Lenin and Bukharin, therefore, were essentially concerned with analysing imperialism as a product of the capitalist accumulation process, in which the concentration and centralisation of capital led to the formation of monopolies and the merging of industrial and banking capital, resulting in the dominance of finance capital; and the falling rate of profit led to the export of capital, which meant that international economic relations were no longer based on trade, but reflected the penetration of capital throughout the international economy resulting in the internationalisation of the capitalist relations of production in every corner of the globe. Imperialism for them thus reflected capitalism at its highest and most advanced stage of development.

Following Lenin's work, a big shift took place within Marxist theory, and particularly with reference to the theory of imperialism. This shift can partly be explained by the rise of Stalinism in the USSR and suppression of much of the previous debate [see Brewer, 1980, p.131]; but also by developments within the west during and following the Second World War - particularly the new era of capitalist prosperity, the rise of Keynesian economics, and the granting of independence to many colonies. Many Marxists argued that the conditions of capitalism had changed, and new conditions required new theories. As a result, the post-war theories of imperialism are markedly different from the earlier ones.

The work of Arghiri Emmanuel is one of the more recent attempts to develop a theory of imperialism within the west, based on an assessment of the conditions under twentieth-century capitalism, within a broad framework of Marx's theory. In developing his theory, Emmanuel completely rejects the analysis of imperialism carried out by Lenin and other members of the Bolshevik Party at the beginning of the century, and the re-assertion of that theory today.

> "According to fashionable theory" says Emmanuel, "imperialism's essential feature is the investments of multi-national corporations ... But I do not believe that direct or portfolio investments and capital movements in general constitute the essence of imperialism, and this is what I shall try to demonstrate further on. The essential element is trade."
> [Emmanuel, 1972, pp.47-48]

The reasons Emmanuel gives for the rejection of the theory of 'investment' imperialism are not only theoretical, but empirical as well. During the post-war period, a larger part of the investments of multinationals have been directed towards the 'advanced' nations of Canada, Australia, South Africa and Rhodesia than, for example, Tanzania or Uganda. Also Emmanuel argues, more 'capital' has been returned <u>to</u> the imperialist nations as a result of repatriation of profits and interest payments than has been exported <u>from</u> them in the same period; therefore, Emmanuel rejects the view that capital export is an essential feature of imperialism. The theory of imperialism which Emmanuel puts forward, centres on the role of trade, and what he calls the 'unequal exchange' which takes place between the developed and underdeveloped nations within international trade.

Emmanuel, however, was only one of a number of western writers to take up an examination of the nature of imperialism in the more recent period. The distinction of Emmanuel's work is that he attempts to break from <u>any</u> connection between monopoly capital and imperialist exploitation. It could be argued, though, that there are still many similarities between Emmanuel's theory and other recent works on imperialism; and I do not believe that Emmanuel's theory can be fully understood out of the context of the general attempts to elaborate a new theory of imperialism within post-war Marxism. One of the first and most important influences within the west on Marxist theory after the War was the work of Baran and Sweezy. Baran and Sweezy, at first separately and later together, set out primarily to examine two things: firstly, the development of capitalism, and particularly what they called 'monopoly capitalism', as it had progressed since Marx and Lenin, and secondly, within this context, some of the causes of Development and Underdevelopment, i.e. imperialism. The main joint work of Baran and Sweezy was their book Monopoly Capital published in 1966, but this was essentially a synthesis of their earlier, separate, works published originally in 1957 and 1942. Baran and Sweezy basically said they agreed with Marx's analysis of capitalism and Lenin's theory of imperialism based on the dominance of monopoly capital; but, they argued, the problem with both their works was that they were anchored within a framework of competitive capitalism. This was alright up until the beginning of the twentieth century, but since the rising to dominance of monopoly capital, the laws of motion governing capitalist development, as analysed by Marx, had been surpassed. As stated by Sweezy, analysing the way in which competitive capitalism at a certain stage turns into monopoly capitalism: "This metamorphosis, in its turn, reacts on the functioning of the system, altering some of its laws and modifying others" [P. Sweezy, 1942, p.196].

Their work was mainly concerned, therefore, with describing what they saw as the essential features of the 'monopolistic stage' of capitalism. An important tenet in this was that the law of value no longer dominated under monopoly: prices were determined by the monopolies rather than the market, and because of the lack of competition, monopolies were not forced to accumulate at the pace of free enterprise capitalism. Using Baran's theory of 'actual' and 'potential' surplus, it was argued that under monopoly capitalism, a large 'potential' surplus remained untapped relative to the 'actual' surplus, and consequently monopoly represented the stagnation of the capitalist system. This theory of 'economic surplus', in line with their view that the law of value no longer dominated under monopoly capitalism, is not the same as Marx's theory of surplus value. Baran argues that:

> "The 'actual economic surplus' as defined above is merely that part of surplus value that is being accumulated; it does not include, in other words, the consumption of the capitalist class, the government's spending on administration, military establishment, and the like. [P. Baran, 1978, p.132][13]

Baran makes this distinction because he says that under monopoly capitalism a large part of the economic surplus is either wasted or spent on luxury, and not invested productively hence the large 'potential' surplus which remains unmaterialised. Therefore, Baran and Sweezy's concept of 'surplus' is not an expression of the exploitation of labour, as Marx's theory of surplus value was, rather it expressed the ratio between investment in production and wasted consumption, between what is 'actually' produced and what 'potentially' could be produced. In developing this theory of monopoly capitalism, it was not Marx therefore who bore the main influence, but rather more recent economic theory, and in particular, the neo-Keynesian economist Michael Kelecki. As Baran and Sweezy said in their joint work:

> "The leader in reintegrating micro and macro theories was Michael Kalecki, who not only 'discovered the 'General Theory' [of Keynes] independently' but also was the first to include what he called the 'degree of monopoly' in his overall model of the economy ... And anyone familiar with the work of Kalecki and Steindl will readily recognise that the authors of the present work owe a great deal to them.
> [P. Baran and P. Sweezy, 1966, p.66]

In developing their theory of monopoly capitalism, against competitive capitalism, therefore, Baran and Sweezy believed that a whole new body of theory was needed to replace that which was outmoded in Marx.

Baran and Sweezy also relate their analysis of the development of capitalism and monopoly capitalism to the problems of the underdeveloped nations. They argue that the key to capitalist development is the reinvestment of the economic surplus. Historically, however, this surplus has been extracted from the underdeveloped countries by the developed countries and has been used to further the latters' development. As a result, Baran argued that capitalist development was unable to take place in the backward nations, and they remained dominated by 'feudalist-mercantile' regimes, with whom the imperialists worked hand in hand. This state of affairs has been perpetuated and raised to a higher level under monopoly capitalism. Essentially, because of the diminishing of competition, monopoly capital is better able to plan ahead, and it wants to maintain its exploitation and domination for ever.

> "Like all other historically changing phenomena, the contemporary form of imperialism contains and preserves all its earlier modalities, but raises them to a new level ... Propelled by well organised, rationally conducted monopolistic enterprise, it seeks today to rationalise the flow of these receipts so as to be able to count on it in perpetuity. And this points to the main task of imperialism in our time: to prevent, or, if that is impossible, to slow down and to control the economic development of underdeveloped countries."
> [P. Baran, 1978, p.340]

These two aspects of their work, the break between competitive capitalism and monopoly capitalism, and the extraction of economic surplus from underdeveloped countries by imperialist countries, as briefly summarised here, were two essential features of the theoretical development of Baran and Sweezy initiated at the beginning of the post-war period. Since then, there have been many disagreements with, and further elaborations of their theory. But generally, it could be said that they set the stage for much of post-war Marxist analysis, and later theories of imperialism. What they provided was a theoretical basis for a break with the 'classical' interpretations of Marx's theories as still being applicable, and the framework of a theory of imperialism based on the distribution of economic surplus. And whilst we have seen that Arghiri Emmanuel, for example, had little truck with this "fashionable" theory that monopoly was an essential characteristic of imperialism, it will be argued that he has all the same remained to a certain extent with this broad framework; rather he has taken the rejection of the 'classical' or 'Leninist' theory of imperialism further, by arguing that it is not through monopoly that economic surplus is transferred from the 'poor' to the 'rich' countries, but it is through the mechanism of unequal exchange in international trade.

However, it is not just the work of Baran and Sweezy which has provided an influence on the more recent attempts to elaborate a theory of imperialism in the west. We have already discussed the work of Raul Prebisch, who worked for the UN Economic Commission for Latin America (ECLA). The work of ECLA was mainly concerned with elaborating a programme for development for Latin America within a general framework of the capitalist relations of production, although they also adhered to a Keynesian prescription, that an important part of development was planning through state intervention in the economy. However, there also began to emerge in the 1960s in Latin America a school of opinion to the left of ECLA, which criticised ECLA's perspectives from a socialist standpoint. One of the best known figures of this school was Andre Gunder Frank, and he represented the view that underdevelopment was structurally inherent within capitalism; that within the international capitalist structure there was a 'metropolis-satellite' relation, and that the satellite (or underdeveloped) countries were dependent upon the metropolis countries. The only way of breaking this dependent relation, he argued, was socialism. Frank's view arose partly as a response against ECLA's policy perscriptions, and their belief that a solution to the problems of development was possible within capitalism; but it also contained many similarities with ECLA's analysis. From the Marxist standpoint, Frank drew heavily on the work mainly of Paul Baran but also Paul Sweezy. David Booth has described these two influences on Frank as follows:

> "On the view I wish to advance here it is useful to regard the Frankian account of capitalist underdevelopment as a synthesis

> of the ideas of the ECLA/structuralist current and those of Marxism, or to be more precise, those of a Marxism rooted on the one hand in the Cuban revolution and on the other in the economics of Monthly Review." [D. Booth, 1975, p.52] (Monthly Review was produced by Baran and Sweezy)

'Dependency Theory' as it became known, was worked on and elaborated by many other theoreticians within Latin America as well as Gunder Frank; and when the revival of interest in Marxist theories of imperialism took place in the west in the 1970s, 'Dependency Theory' had an important influence there as well.

Andre Gunder Frank's work was partly a response to the failure of ISI to succeed in achieving the aims of industrialisation and development ECLA had hoped for. Despite ISI relative underdevelopment and dependence remained characteristic of Latin America. An essential feature of ECLA's theory was that they recognised the division between a developed 'centre' and underdeveloped 'periphery' within the international economy, but they believed that the backwardness of the 'periphery' was a consequence of the fact that capitalism had not yet developed within Latin America, capitalism being seen as synonymous with industrialisation. They believed that the old feudal regimes and the international division of labour had held back industrialisation, but that if the latter could be promoted, capitalism would be able to develop giving the same advantages as those enjoyed already by the developed 'centre' and putting Latin America on an equal footing. It was the failure of ECLA's policy perscriptions to achieve this end which prompted the work of Andre Gunder Frank. He took ECLA's analysis and, as David Booth has commented, 'turned it on its head'.

> "It was partly the poor performance of foreign firms according to these very criteria [i.e. ECLA's belief that industrialisation through foreign investment would lead to development - SB] which drew many young economists, among them Andre Gunder Frank, to place a question mark over the ECLA model." [D. Booth, 1975, p.60]

Frank argued that it was not the old remnants of feudalism, nor the lack of industrialisation, which determined Latin America's role as part of the 'periphery'. On the contrary, Frank believed that capitalism was not necessarily synonymous with industrialisation, that in fact Latin America had been capitalist since the sixteenth century when merchant capital first came to Latin America and that underdevelopment was an inherent feature of the structural division of capitalism between metropolis and satellite countries. Frank believed that it was only through gaining independence from the centre or metropolis that development could take place, but he argued that the only way of breaking the dependent relation and gaining this independence was through overthrowing capitalism itself and achieving socialism.

Frank further developed this theory of the exploitation of satellite by metropolis using Baran's theory of economic surplus. He agreed with Baran that there is a large 'potential' surplus which is not produced under monopoly capitalism, and that a large part of the 'actual' surplus produced is wasted and spent on luxury consumption. For Frank, therefore, it is the "monopolistic expropriation/appropriation of economic surplus" which is the key to understanding development and underdevelopment, and he argues that there is a "chain like" structure through which metropolis/satellite exploitation takes place, linking the international to the national to the local level, so that even the smallest peasant, through this chain, is exploited by monopoly capital. Imperialism, therefore, is essentially the expropriation of economic surplus from the satellites by the metropolis.

> "Thus the metropolis expropriates economic surplus from its satellites and appropriates it for its own economic development. The satellites remain underdeveloped for lack of access to their own surplus and as a consequence of the same polarisation and exploitative contradictions which the metropolis introduces and maintains in the satellite's domestic structure." [A. Gunder Frank, 1969, p.9]

Thus we can begin to see what David Booth has called the "synthesis" in Frank's work between ECLA's centre/periphery analysis and Paul Baran's theory of economic surplus.

The other influence which David Booth pointed to is what he called the Marxism of the Cuban revolution. This is important because up until the Cuban revolution the view dominated in Marxist circles within Latin America, initiated by the Communist parties, that Latin America was essential feudal, and that it would have to undergo a period of capitalist industrialisation before socialism could be achieved. Ernesto Laclau has called this a left version of the "liberal" belief in capitalist industrialisation, and is not dissimilar to the view taken by ECLA. This view was obviously proved wrong by the success of socialism in the supposedly "feudal" society of Cuba, and the Cuban revolution put on the agenda the possibility of socialism throughout the backward countries of Latin America. This, therefore, provided another important stimulus to the work of Gunder Frank, and particularly the view that socialism provided the only possible solution to underdevelopment.

In rejecting the theory that Latin America had yet to undergo a phase of capitalist development before socialism was possible, Frank did not argue that it was possible to go straight from feudalism to socialism. Rather, he argued, as has been mentioned, that Latin America was <u>not</u> feudalist, but capitalist, and had been so for many centuries. As he said: "Capitalism began to penetrate, to form, indeed fully to characterise Latin American and Chilean society as early as the sixteenth century conquest" [A. Gunder Frank, ibid., p.xii]. This view has triggered a strong debate, not just over whether or not Latin America can be essentially characterised as capitalist today, but even more over the criteria upon which it can be argued that capitalism has existed in Latin America since the sixteenth century. One of the more recent critiques of this theory was done by Robert Brenner in 1977. He argued that the main assumption underlying this theory was that the roots of capitalist evolution were to be found in the rise of a world 'commercial network', developing into a 'mercantile capitalist system'.

> "In this way, Frank set the stage for ceasing to locate the dynamic of capitalist development in a self-expanding process of capital accumulation by way of innovation in the core itself. Thus for Frank, the accumulation of capital in the core depends, on the one hand, upon a process of original surplus creation in the periphery and surplus transfer to the core and, on the other hand, upon the imposition of a raw-material producing, export-dependent economy upon the periphery to fit the productive and consumptive requirements of the core." [R. Brenner, 1979, p.29]

Brenner goes on to argue that it is not the trading relations of mercantile capital, but class relations which determine the existence of capitalism as a social system, and therefore Frank is wrong to say that capitalism has dominated in Latin America since as long back as the sixteenth century. We will discuss this debate later with reference to the work of Emmanuel. But I think it is fair to say that for Frank, similarly to Baran, imperialism was essentially a question of the <u>distribution</u> of the economic surplus between metropolis and satellite nations; that because of the particular world structure inherent under capitalism, economic surplus is transferred from satellite to metropolis, thus causing the former's underdevelopment, and contributing to the latter's development.

Arghiri Emmanuel, who developed his theory within the west, does not fall within the 'Dependency School', and in many ways his is quite an original contribution to the discussion of imperialism within post-war Marxist circles. However, I would argue that, although their approaches might be different, both Frank and Emmanuel are basically working within the same problematic. We saw earlier how Frank extended ECLA's analysis of 'centre-periphery' as being central to the relation between developed and underdeveloped nations into his own theory of 'metropolis/satellite'. The differnece was that Frank saw this structural relation, which he argued was insurmountable within capitalism, as the inherent cause of underdevelopment. He then developed his view on the basis of Baran's theory of economic surplus, which differs from Marx's theory of value and surplus value, arguing that it was the transfer of 'economic surplus' to the metropolis from the satellites which caused and perpetuated the latter's underdevelopment. However, one obvious weakness with this theory is that, whilst it describes a particular pattern of international relations, i.e. the transfer of surplus between satellite and metropolis, it does not analyse how this transfer is carried out, and to that extent does not explain the relation between developed and underdeveloped countries. In his work on imperialism, Emmanuel assumes an international division between 'rich' and 'poor' countries as a historical product. However he does, similarly to Frank, see the source of the relation between rich and poor countries as being the transfer of surplus from one to the other. But, unlike Frank, Emmanuel does not leave it there. The main body of Emmanuel's work is to attempt to elaborate an analysis of the mechanism by which this surplus is transferred. His thesis is that the central feature of imperialist exploitation by rich of poor countries is through unequal exchange in trade. However, we can already see that both Emmanuel and Frank located the source of imperialism as being within the distribution and exchange relations of international capitalism, insofar as they both believe that countries are poor because a part of their surplus is transferred to the rich countries.

Another similarity between Frank and Emmanuel is that they both drew inspiration from the work of ECLA. While Andre Gunder Frank drew on one aspect of ECLA's work, the 'centre-periphery' analysis, and developed it into his theory of 'metropolis-satellite', Emmanuel drew on another aspect of the work of the Commission, Prebisch's critique of the comparative advantage in international trade for the underdeveloped countries, and developed it into his theory of unequal exchange in trade. Thus, while Frank used the work of ECLA to help develop a descriptive account of the structural relations of imperialism, Emmanuel used the work of ECLA to help develop an analysis of the mechanisms by which that relation was maintained. To that extent we can see that both Emmanuel and Frank were working within a similar problematic, despite the apparent differences in their approaches. This similarity in their work is further drawn out if we examine the fact that they both viewed imperialism as a consequence of the way in which exchange and distribution is carried out under capitalism. Anthony Brewer has both pointed to and criticised them for this.

> "Emmanuel's position has much in common with those of Frank, Wallerstein and dependency theorists, in that it is an essentially static system in which the focus is on the redistribution of surplus rather than on production, and its main weaknesses stem from the way in which production is introduced as an afterthought (the social context of wage determination, the 'organic composition of labour', the difficulties of infant industries)" [A. Brewer, 1980, p.229]

The extent to which it is, or is not, a weakness to concentrate on the 'redistribution of surplus' rather than production in relation to imperialism we will be examining later on in this thesis, but Frank and Emmanuel's shared view that it was the redistribution of surplus between rich and poor countries which caused underdevelopment was a central feature of both their works on imperialism.

We can now begin to see a certain dynamic within the post-war theories of imperialism developed within Marxism, which qualitatively distinguishes them from the 'classical' theories of imperialism. In their analysis, Baran and Sweezy retained the outline of Lenin's concept of 'monopoly capitalism', but introduced within that a new theory based on the distribution of 'economic surplus' between rich and poor countries; this was extended by Frank in his 'metropolis-satellite' theory. But despite retaining the concept of monopoly capitalism, in changing the theoretical content of that concept on the basis that conditions had changed, they shifted the analysis of imperialism from the accumulation process of capital (production) to the distribution of surplus (exchange). Arghiri Emmanuel has further consumated this shift by rejecting any essential role by monopoly capital in imperialism at all; but in theoretically elaborating an analysis of the mechanism for the distribution of surplus between rich and poor countries, Emmanuel has attempted to transcend Baran's concept of 'economic surplus', and returned to Marx's theory of value itself. Therefore, Emmanuel has attempted to substantiate a theory of imperialism based on the distribution of surplus, not with recourse to an argument that 'conditions have changed' under monopoly capitalism (Baran and Sweezy), but on the basis of the continued validity of Marx's original theoretical framework for analysing capitalism. However, Emmanuel would argue that 'investment' never did play any important role in imperialism, rather imperialism has always been located in trade, and this is tenable on the basis of Marx's theory; under Emmanuel therefore, the shift from a theory of imperialism based on production to a theory of imperialism based on distribution and exchange has been consumated. Hence Emmanual's aim of simultaneously providing a theory of trade and a theory of imperialism[14].

4. EMMANUEL'S THEORY OF UNEQUAL EXCHANGE: A SUMMARY

Having examined the context of Emmanuel's theory of unequal exchange, both in the theory of trade, and in the theory of imperialism, and before going on to critically analyse his theory, I think it helpful to provide a brief summary of the main elements of his thesis.

Emmanuel starts his analysis by examining the operation of the labour theory of value within a national context, or "internal exchanges", in order to see on this basis how "equilibrium prices" are arrived at. He divides his analysis into two parts. Firstly, he looks at the operation of the "simple labour theory of value" in a "simple commodity economy" in which labour is the only factor of production. Then he looks at the ways in which this theory has to be modified to take account of the "complexities" of a more developed "capitalist economy" in which there are more than one factor of production, (the most important factors which Emmanuel concentrates on being labour and capital). This division is for Emmanuel both of historical and theoretical importance. Historically the simple labour theory of value corresponds, says Emmanuel, to the "conditions of pre-capitalist commodity production, and its developed form, corresponding to capitalist conditions of production" [U.E., p.xxxii]. Theoretically the division is important because Emmanuel modifies the simple labour theory of value to take account of the complexities of capitalist production by using Marx's tables of the prices of production, and it is on the basis of these tables, and not the "simple labour theory of value" that Emmanuel <u>actually</u> explains unequal exchange.

First, to examine the situation in a simple commodity economy in which production involves only labour. Here, says Emmanuel, there is no problem in directly applying the labour theory of value.

> "If there were no other claimants in society apart from a certain number of independent workers, owning their tools as their inalienable property and freely exchanging their products among themselves, it would be hard to conceive of

> any theory of value other than the classical labour theory. To ask in these circumstances at what rate a commodity should be exchanged for another would quite simply mean asking the rate at which the labour of one producer should be rewarded, as compared with another." [U.E., p.3]

In other words, under conditions in which labour is the only factor of production, and no capital is employed, the total "reward" goes to the labourer, the cost (and consequently exchange value or price) is determined by labour alone, and total cost is equal to the quantity of labour.

In a complex commodity economy, however, things according to Emmanuel are not so simple. Once capital is also introduced into the production of commodities, their exchange values are no longer determined by the quantity of labour alone. But, argues Emmanuel, it is not possible to determine exchange value on the basis of the quantity of labour plus capital as they are two very different entities, and not commensurable with each other. If the ratio of labour to capital was always the same in every commodity, then possibly the proportions in which they exchange could still be determined solely by the quantity of labour they contained. But the ratio of labour to capital varies in every commodity. As a result, says Emmanuel, the labour theory of value in its simple form is no longer applicable, and important modifications have to be made to bring it into line with capitalist reality.

> "With the coming of capitalist relations the labour theory of value in its primitive form found itself at a dead end, and a change in the original form of value became necessary. At this point calculation of exchange value on the basis of the respective amounts of the factors and calculation on the basis of the respective rewards of the factors, that is, the costs of production, diverge and separate from each other. In fact the first type of calculation becomes impossible, and no exchange value can be found apart from the rewarding of the factors, <u>since the only common denominator between two factors that makes the sum of their amounts commensurable is the rate at which they are rewarded</u>." [emphasis in the original] [U.E., p.15]

In a complex commodity economy, therefore, the exchange of commodities is no longer determined by the quantity of labour contained in the commodity, but by the rewards to the factors. In other words, given the assumption that labour and capital are the only two factors of production, exchange value is determined by the sum of wages and profits.

Emmanuel says that "the idea of a modification of exchange value through the intervention of a second factor was frankly tackled by the classical economists and fully integrated into their theory" [U.E., p.16]. Emmanuel includes among the classical economists Smith, Ricardo and James Mill. But Emmanuel himself is specifically concerned with the work of Karl Marx on this matter. He argues that Marx makes the transition from the simple to the developed theory of value when he moves from Volume I to Volume III of Capital. In Volume I, says Emmanuel, Marx examines the primitive labour theory of value, excluding capital as a factor of production. Hence Volume I is only applicable in three special cases: (i) a simple, non-capitalist economy; (ii) a capitalist economy at a low level of development in which capital is either non-existent or negligible; or (iii) the special case of a branch of production within the developed capitalist system in which the organic composition of capital is exactly equal to the social average. It is only in Volume III, continues Emmanuel, that Marx specifically brings the existence of capital into the reckoning when he "introduces for the first time the difference between organic compositions as a real fact of the capitalist system" [U.E., p.21].

Emmanuel believes that the importance of Marx's work is that he recognises the different organic compositions of capital in different spheres of production, and that he takes account of this when developing his theory of the prices of production. Given different commodities necessarily require different amounts of capital to produce, says Emmanuel, if the size of profit was determined by the quantity of labour employed the more capital and less labour employed, the less profitable the enterprise would be. But this would mean that the capitalist economy would be unable to function properly, as it would not be in the interest of any capitalist to mechanise and employ more capital. And so, says Emmanuel:

> "In order that capitalist production may develop, profits must be proportional not to the number of workers employed but to the total capital invested by each capitalist. And Marx puts the finishing touch to this theory of value by giving his famous formula of 'prices of production'."
> [U.E., p.21]

Therefore, for Emmanuel, the 'prices of production' take the existence of capital, in different quantities in different spheres of production, into account. Here profits (the reward to capital) are not determined by labour, as in the primitive labour theory of value, but they are determined by the quantity of capital employed. Emmanuel goes on to elaborate the theory of the prices of production in more detail. He uses tables similar to those employed by Marx in Chapter 9 of Capital Volume III to draw up a table of the prices of production (see Figure 1).

Before examining Emmanuel's treatment of the prices of production, we must look at how Marx arrived at them. For Marx, the formula of the prices of production represented the transformation of values into prices. The value of the commodity comprises constant capital (c) represents the machinery and raw materials needed to produce a commodity, the value of which is determined by previously expended or 'dead' labour. Variable capital (v) or necessary labour represents the value of the labour power determined by the value of the socially necessary means of subsistence required by the worker to live and replenish himself. Surplus value (s) or surplus labour (represented by Emmanuel as m) represents that value produced by the worker over and above the value of his own labour power. This surplus is appropriated by the capitalist. The rate of surplus value, therefore, is the ratio of surplus value to variable capital or surplus labour to necessary labour. Although profit is derived from surplus value, the capitalist does not measure his surplus against the variable capital alone. He measures it against both the variable capital and constant capital. Hence, whilst the formula

FIGURE 1

BRANCHES	1 c Constant Capital	2 v Variable Capital	3 m Surplus Value	4 V Value $c + v + m$	5 T Rate of Profit $\frac{\Sigma m}{\Sigma c + \Sigma v}$	6 P Profit $T(c + v)$	7 L Price of Production $c + v + p$
I	80	20	20	120		20	120
II	90	10	10	110	20%	20	120
III	70	30	30	130		20	120
	240	60	60	360		60	360

[U.E., p.21]

for the rate of surplus value is s/v, the formula for the rate of profit is s/c + v. Progressing further, Marx argues that because of the different organic compositions of capital in different spheres of production, as explained by Emmanuel, the individual capitalist does not in fact keep his own individual profit. Rather profit is averaged out for production as a whole, and the proportion of profit received by the individual capitalist depends on the quantity of capital, constant and variable, which he has invested. Hence the capitalist who invests more in machinery etc is not discriminated against in relation to other capitalists. It is on this basis, therefore, that the price of production varies from value. Whereas value is the sum of constant capital and variable capital plus surplus value, the price of production is the sum of constant capital and variable capital plus profit which is a proportion of the average rate of profit for society as a whole.

We will be examining the way in which Marx arrives at his formula for the prices of production in more detail in the next chapter. It can already be seen at this stage, however, how this represents the transformation of value into price for Marx. In his work, Emmanuel's explanation of Marx's theory of the prices of production is only very brief. Emmanuel uses Marx's basic calculation to elaborate the above table, and into the table Emmanuel inserts his own algebraic terms. He then explains the table as follows:

> "In this group of three branches the value added is 120 ($\Sigma v + \Sigma m$), of which wages absorb one half and profits the other. Thus, the rate of surplus value is 100 per cent, and it is, as it should be, the same in all the branches. But the total capital invested ($\Sigma c + \Sigma v$) being 300, and the total amount of surplus value being 60, the general rate of profit can only be 20 per cent. This profit, added to the cost of production (c + v) of each branch, gives us the prices of production, which differ from the value of each article, if this value is the sum of labour, living and past, expended in producing the article." [U.E., pp.21-22]

Having made this very cursory explanation of Marx's theory of the prices of production, Emmanuel returns to the formulation of his own theory. However, in this statement there is an apparent contradiction in Emmanuel's own argument. We have already seen that for Emmanuel, once there are more factors of production than just labour (i.e. there is labour and capital) value can no longer be determined by labour alone. He argues that labour and capital are not commensurable, and therefore exchange value cannot be determined by the quantity of the factors employed, but only by the rate at which the factors are rewarded. As a result of this, he argues, the "primitive labour theory of value" is redundant in a complex capitalist society. Once he adopts the formula of the prices of production, though, Emmanuel seems to contradict this and return to the very "primitive labour theory of value" he had rejected. He now talks of value being the "sum of labour, living and past, expended in producing the article". "Living labour" being variable capital, and "past labour" (presumably) being constant capital (machinery and raw materials) - this would appear to make labour and capital commensurable on the basis of labour (living and past), which Emmanuel had previously denied was possible. At this stage in his work, Emmanuel does not offer any explanation of this apparent contradiction. We will not be examining its possible significance until later. However, it is important it is pointed out because it is through the operation of the mechanism determining prices of production that Emmanual argues unequal exchange takes place. Having given us the table of the prices of production, though, Emmanuel's explanation of it remains very scant. Rather he concentrates on testing and modifying it, and it is to this that we will now turn. Not until we have summarised Emmanuel's own argument will we return to an examination of the underlying theoretical assumptions.

On a technical level the table in Figure 1 speaks for itself. Assuming a society in which there are three branches of production, in the first three columns Emmanuel gives us the assumed quantities of constant capital (c), variable capital (v) and surplus value (m) for each branch of production. In column 4 he aggregates the three to give the total value (c + v + m) for each branch of production. As I have argued, whether he derives this value from the quantity of labour embodied or rewards to the factors is not clear. In columns 5, 6 and 7, on the basis of Marx's argument that the capitalist does not receive his <u>own</u> profit, but an aliquot share in the average profit of society as a whole, column 5 gives us that average <u>rate</u> of profit $\frac{\Sigma m}{(\Sigma c + \Sigma v)}$ for this society as 20%, column 6 gives us the actual <u>quantity</u> of profit received by each branch on the basis of the quantity of capital employed [T(c + v)] and column 7 then gives us the prices of production based on the sum of the total capital outlay both constant and variable plus the quantity of profit calculated in column 6 (c + v + p). If we now look in more detail at the figures for the three branches of production, we see that their organic compositions are different, with branch III being below average, and branch II being above average. However, given the mobility of labour, their rates of surplus value (m/v) are each the same at 100%. If the individual branch kept its own surplus, the rate of profit (m/c + v) in branch III would be 30/70 + 30 x 100 = 30% and the rate of profit for branch II would be 10/90 + 10 x 100 = 10%. However, each actually receives a portion of the average rate of profit (T) for all three branches, which is 20%. As a result, their prices of production (L) deviate from their real value (V), and there is effectively a transfer of surplus value from branch II to branch III. Emmanuel argues that this is how prices of production are determined within a national economy in which there is a complete freedom of movement of both labour and capital, so that both wages and profits are constantly equalised, and there is no counteracting tendency within the mechanism. Emmanuel then calls Marx's prices of production "equilibrium prices", because "it is only at these prices that the two factors are rewarded at an equal rate in all the branches, and that transfers cease ... Prices of production are equilibrium prices because they are the only mechanism capable of ensuring the equalisation of profits" [U.E., p.22]. From now on, therefore, when we use the term "equilibrium prices", we are talking about prices of production as derived above.

Having looked at the formation of equilibrium prices in exchange within a national economy (internal exchanges), Emmanuel then goes on to examine how this takes place in exchange between countries (external exchanges). Whereas an important assumption underlying price formation within a country is the complete free movement of labour and capital so that wages and profits are equalised, this assumption does not necessarily apply in external exchanges. As we saw earlier, from the time of Ricardo on, it was widely believed by trade theorists that neither capital nor labour were mobile between countries. If this was true, then Emmanuel's theory of equilibrium prices would not be applicable internationally, because it would not be possible for the equalisation of profits to take place, and therefore for each country to receive an aliquot share in an average international rate of profit. However, Emmanuel rejects the assumption of the immobility of capital. It is empirically incorrect and, he argues, not only does capital move from rich to poor countries in search of higher profit, but, if circumstances dictate, migration will take place in the opposite direction, from poor to rich countries[15].

On the question of labour, however, Emmanuel takes a different position, and says that workers do not migrate in any significant numbers between countries. He argues that up until the second half of the nineteenth century wages were literally at subsitence level everywhere, and directly linked to the price of bread, wheat and corn. Therefore, whether or not workers were mobile between countries was largely irrelevant, because wages were essentially equal in each country anyway.

Since then, he says, wages have increased phenomenally in the industrialised countries, whilst they have remained at subsistence level in the underdeveloped countries. As a result, he says

> "... we should not be far from the truth if we estimated the average wage in the most highly developed capitalist countries at a figure about twenty times the average wage in the developing countries taken as a whole." [U.E., p.47]

Therefore, although he recognises that there is a certain degree of migration of labour from one country to another, given this large differential in wages, it is obviously not enough to lead to the equalisation of wages. "This shows that, in contrast to what happens with capital, more than merely marginal mobility of workers is needed if there is to be equalisation of wages" [U.E., p.52]. Hence, from the standpoint of his argument, the migration of labour is insignificant, and he can say that whilst capital is mobile, labour is immobile[16].

He now goes on to examine the effect of these two assumptions on international value, and the formation of equilibrium prices in trade between nations. Obviously, if the assumptions had been that labour <u>and</u> capital were both completely mobile between countries, then there would be no difference in the formation of equilibrium prices nationally and internationally, and Emmanuel's argument for internal exchanges would equally apply to external exchanges. Conversely, if Ricardo's assumption that neither capital nor labour were mobile was correct, then there would be no correlation between value nationally and internationally, and a different theory would be required (e.g. the theory of comparative costs) to explain international exchange. But Emmanuel has adopted assumptions half way between these two positions. The question is, therefore, can the formula of the prices of production elaborated by Emmanuel with regards to internal exchanges still be used to explain external exchanges once the assumption of the mobility of labour has been dropped? Emmanuel argues that with certain modifications it can.

Returning to Figure 1, an important aspect of the prices of production is that they recognise that, given different organic compositions of capital, capitalists do not receive their own profit, but an aliquot share in the average profit of society as a whole depending on the quantity of capital they employed. But if profit is to be averaged out socially in this way, there has to be a complete mobility of capital and equalisation of profit so that they all form a part of the same total social capital of which there is an average rate of profit, and there are not extraneous circumstances hindering this. Given Emmanuel has retained the assumption of the mobility of capital in external exchange, so that national boundaries do not provide any barrier to the equalisation and averaging of profit, then this crucial aspect of the prices of production still holds. Consequently, Emmanuel argues, it is still possible to retain the theory of the prices of production to explain equilibrium prices in external exchanges.

Emmanuel next goes on to examine in more detail what happens when two countries trade with each other. He takes the assumed society with three branches of production already considered in Figure 1, and calls this system or Country A. He then draws up the figures for a table of the prices of production of another assumed society, also with three branches of production, which he calls System or Country B. In Figure 2, A and B stand for the two countries. The only difference between Countries A and B at this stage are that they have different organic compositions of capital, or in other words, possess different quantities of constant capital, Country B having half the amount of constant capital (120) to Country A (240). Otherwise, they employ the same quantities of variable capital in each of their three branches of production, and they have the same rates of surplus value. But because of the different quantities of constant capital, Country A has a rate of

FIGURE 2

Branch/ Country	c Constant Capital	v Variable Capital	m Surplus Value	V Value c+v+m	T Rate of Profit $\frac{\Sigma m}{\Sigma c + \Sigma v}$	p Profit T(c+v)	L Price of Production c+v+p
COUNTRY A							
I	80	20	20	120	20%	20	120
II	90	10	10	110		20	120
III	70	30	30	130		20	120
	240	60	60	360		60	360
COUNTRY B							
I	40	20	20	80	$33\frac{1}{3}$%	20	80
II	50	10	10	70		20	80
III	30	30	30	90		20	80
	120	60	60	240		60	240
COUNTRIES A and B							
A	240	60	60	360	25%	75	375
B	120	60	60	240		45	225
	360	120	120	600		120	600

[U.E., pp.53-55]

profit of only 20%, whereas Country B has a rate of profit of $33\frac{1}{3}$%. Emmanuel now considers what would happen given the assumption that trade or exchange did take place between the two countries <u>without</u> the free movement of capital between them, so that they each retained their own surplus value, and there was no equalisation or averaging out of their profits. In this case, the total goods produced by B would exchange at the rate of 360 to 240 against those produced by A. The difference in equilibrium prices between the two is accounted for by the fact that they possess different quantities of constant capital. The amount of living labour contained in the articles of each country is exactly the same, both their variable capitals and surplus value equals 120. Therefore, although their equilibrium prices in exchange are different because of the different quantities of past labour contained in them, their quantities of living labour are the same, and an hour of A's labour is exchanged for one hour of B's labour.

Emmanuel next considers what will happen once the assumption of the free movement of capital, and consequently equalising of profit, is introduced between the two countries. In the third table of Figure 2, the aggregate figures of Countries A and B are considered together. On the basis of the prices of production there is now an average rate of profit for the two countries of 25%. On this basis, their prices of production (c+v+p), or equilibrium prices, are no longer 360 and 240, but 375 and 225; and through the equalisation of their rates of profit, a portion of B's surplus has been transferred to A in the calculation of their respective equilibrium prices. From this, Emmanuel concludes that: "Whereas before equalisation one hour of B's living labour was exchanged on the average for 1 hour of A's living labour it is now exchanged on the average for $\frac{21}{27}$ hours of this labour" [U.E., pp.54-55]. Emmanuel arrives at this figure because if we exclude the past labour or constant capital (c) from the calculation of the price of production we only have new or living labour (v + p) left. Consequently from Figure 2:

Country A: $v + p = 60 + 75 = 135$

Country B: $v + p = 60 + 45 = 105$

$$\frac{105}{135} = \frac{21}{27}$$

Therefore, already, keeping wages and the rates of surplus value the same between the two countries, but allowing the equalisation of their rates

FIGURE 3

COUNTRY	K Total Capital Invested	c Constant Capital Consumed	v Variable Capital	m Surplus Value	V Value c + v + m	R Cost or Production c + v	T Rate of Profit $\frac{\Sigma m}{\Sigma K}$	p Profit T.K	L Price of Production c + v + m
COUNTRIES A AND B WITH WAGES UNEQUAL									
A	240	50	100	20	170	150	$33\frac{1}{3}\%$	80	230
B	120	50	20	100	170	70		40	110
	360	100	120	120	340	220		120	340
COUNTRIES A AND B WITH WAGES EQUAL									
A	240	50	60	60	170	150	$33\frac{1}{3}\%$	80	190
B	120	50	60	60	170	70		40	150
	360	100	120	120	340	220		120	340

$$\frac{1}{T} > \frac{150}{190} > \frac{110}{230}$$

[U.E., pp.59-62]

of profit, a transfer of surplus has taken place from one country to another in exchange through the calculation of their equilibrium prices. Emmanuel says that some Marxists consider this to be "a primary type, or the true type, of non-equivalent exchange". However, Emmanuel continues: "... I do not regard this type of exchange as unequal. It is true, nevertheless, that already in this type of exchange a transfer of surplus value takes place from Country B to Country A" [U.E., p.60]. We will discuss the reasons why Emmanuel does not consider this transfer to be unequal in more detail soon but first we must examine the factors which Emmanuel does believe constitute unequal exchange, or what he calls "non-equivalence in the strict sense".

Emmanuel finally completes his analysis of the formation of equilibrium prices in external exchange by introducing the other assumption he started with, and integrating it into the tables of the prices of production. This assumption was the immobility of labour, with wages being significantly higher in some countries than others. Both his assumptions of the mobility of capital and immobility of labour are represented by the figures of the first table in Figure 3. Emmanuel has extended this table to differentiate between total capital invested, e.g. machinery and buildings, and constant capital actually used in one turnover of production e.g. raw materials and a portion of the machinery, to show that the simplifying assumption that all capital is used in the production of one batch of goods does not alter the overall analysis. Otherwise the table is essentially the same as before except that now it is assumed that the wages in Country A are significantly higher than in Country B. On this basis, given wages are only a portion of the value produced, and assuming that the total value $(c + v + m)$ of the goods of the two countries are the same, the wage differential does not alter the value of the commodities, but the respective quantities of surplus value left after wages have been paid. Consequently, Country A is the high wage country with variable capital of 100, leaving a surplus of only 20; whereas Country B is the low wage country, with variable capital of only 20, leaving a surplus of 100. This means that the total new or living labour ($v + m$) of each country is the same as $v + m = 120$, it is just the distribution of this value between variable capital (wages) and surplus which differs.

On the basis of the formation of the prices of production, when this surplus is averaged out to get the rate of profit for both countries, it can be seen that Country B has contributed a larger amount of surplus to the 'pool' than Country A, the rate of profit being the sum of their surpluses measured against their total capitals invested ($\Sigma m/\Sigma K$). Once they receive their aliquot shares in the profit through the calculation of the price of production, however, Country B receives far less surplus than it contributed, not because it has less capital, but because it has lower wages; and as a result, a transfer of surplus has taken place from Country B (the low wage country) to Country A (the high wage country). In other words, the inequality in their respective rates of surplus value resulting from the differential in wages between them is averaged out through the process of the formation of the prices of production resulting in a transfer of surplus from B to A. This transfer is expressed in their final equilibrium prices, and can also be demonstrated by comparing them with the equilibrium prices which would appertain were wages and the rates of surplus value equal in each country as is the case in the second table of Figure 3. We can see that with wages equal, the respective prices are 190 and 150 (the difference being due to the different quantities of total capital invested in each country), but with wages unequal (and the same quantity of total capital employed) the respective prices are 230 and 110. It is this difference in prices which expresses the inequality of exchange. For Country B to exchange its goods at the rate of 150/190 is of greater value than at the rate of 110/230. And as

Emmanuel says, it is this formula:

$$\frac{150}{190} > \frac{110}{230}$$

that corresponds to his definition of unequal exchange.

> "Regardless of any alteration in prices resulting from imperfect competition on the commodity market, unequal exchange is the proportion between equilibrium prices that is established through the equalisation of profits between regions in which the rate of surplus value is 'institutionally' different - the term 'institutionally' meaning that these rates are, for whatever reason, safeguarded from competitive equalisation on the factors market and are independent of relative prices." [U.E., p.64]

This, then, is the essence of Emmanuel's theory of unequal exchange. Different wage levels lead to different rates of surplus value, which are then averaged out through the formation of equilibrium prices, so that when the goods produced are exchanged or traded at those prices, there is a transfer of the extra surplus from the low wage country to the high wage country.

It is also the transfer of surplus associated with different wage levels which Emmanuel believes to be the primary source of unequal exchange between countries, and not the transfer of surplus due to different organic compositions of capital, or constant capital employed. There are two reasons why Emmanuel does not believe that the latter is the source of unequal exchange. Firstly, non-equivalence arising from different compositions of capital arises in every exchange which takes place under capitalism, both between different branches of production within countries and between countries, and it is not a feature peculiar to international trade. Whereas non-equivalence due to wage differences can only take place between countries where there is immobility of labour, it cannot take place within a country where labour is mobile. Secondly, there would be different organic compositions of capital, even in a model of 'perfect competition', because for technical reasons different branches of production necessarily have to employ different quantities of capital.

Wage differences, on the other hand, only arise in circumstances where there is "imperfect competition of the labour factor" i.e. where wages are not equalised through the free mobility and competition of labour. Therefore, different organic compositions of capital are a structural feature of capitalism, whereas wage differences are accidental or institutional. For these two reasons, argues Emmanuel, it is only wage differences which are the source of the difference between developed and underdeveloped countries, and not the quantity of capital they possess.

There is one other aspect of Emmanuel's theory which we will be going into in more detail at a later stage, but which we should briefly touch upon here. Central to Emmanuel's theory of unequal exchange is the view that it is differences in wages which lead to differences in prices, and not the other way round. In other words, Emmanuel is arguing that wages determine prices, and prices do not determine wages. However, as Emmanuel says, there is nothing in the table of the prices of production which necessarily verifies this assumption.

> "While it is easy to show that at the moment of equilibrium the prices of commodities and the respective rates of reward of the two factors correspond, we must admit that there does not, at first glance, seem to be any purely rational proof as to which of the two is the determinant and which the determined." [U.E., p.23]

Emmanuel says that proof for his assumption has to be sought outside the formula of the prices of production itself. For the pre-Marxist classical assumption this proof was no problem. They held that the value of "labour" was always determined by a biologically minimum necessary level of subsistence.

> "There was then, it was supposed, a real basic wage, predetermined and unchangeable. It was a certain basket of goods that corresponded to the physiological subsistence minimum of the worker and his family. No market movement could have any long term effect on what this basket held." [U.E., p.23]

In other words, wages were determined by what the worker needed to subsist, irrelevant of equilibrium prices. Consequently, it was wages which determined prices and not the other way round.

However, Emmanuel believes that wages are not determined by a biologically necessary minimum level of subsistence, but rather by "sociological and historical factors". Once the biological minimum is abandoned as the determination of wages, it is more difficult to prove that wages are not dependent on prices. But Emmanuel believes empirical observation verifies his thesis. The historical and sociological influences on the level of wages can vary to a large degree from one country to another, hence the enormous differential in wages found between countries. But these historical and sociological factors will only change very gradually <u>within</u> any country. "For a change to take place, the man himself has to change. His standard of living has to change. And this is a very slow process, as slow as the evolution of the social and cultural milieu that conditions man's needs" [U.E., p.109]. Hence wage levels do not fluctuate according to market movements, they will only change over a long period of time. Equilibrium prices, therefore, do not determine wages, but wages at any given time determine equilibrium prices. Wages are the independent variable in Emmanuel's system.

The reasons why wages are higher in some countries rather than others Emmanuel attributes largely to historical accident. But once wages have been increased inside any country, it will necessarily develop faster than a country where wages have still lagged behind. Initially any wage increase spurns development because the capitalist is forced to increase productivity through the introduction of new machinery and techniques in order to offset the wage increase and remain profitable. Hence technical progress is greater in those countries with higher wages, and they are economically more advanced than low wage countries. But as soon as trade takes place between high wage and low wage countries, the advantage of the former is compounded. The mechanism of unequal exchange is triggered off, and through trade a portion of the surplus of the low wage country is transferred to the high wage country. As a result, the rich country gets richer and the poor country gets poorer. As Emmanuel says, "poverty begets poverty", and the rich countries grow rich at the expense of the poor. Unequal exchange constitutes the imperialism of trade[17].

In summary, therefore, Emmanuel has sought to explain the perpetuation of poverty in some countries in the world against others by the economic mechanism of international trade. In order to do this he has had to provide a complete reappraisal of the theory of trade itself, and it is this which constitutes the essence of his theoretical contribution. International trade, he believed, had been dogged for too long by Ricardo's theory of comparative costs. This had hampered both Marxist and non-Marxist economists alike, leaving them unable to explain why trade had not proved to be mutually advantageous to all those participating, but had led to the long-term deterioration in the terms of trade for the poor countries against the rich.

To overthrow the theory of comparative costs, Emmanuel returned to the work of David Ricardo himself. The importance of Ricardo's work was that he had developed the labour theory of value to explain the exchange of commodities within a country. But Ricardo did not believe this operated in exchange between countries because of the assumption that labour and capital were not mobile internationally. Consequently he had developed the theory of comparative costs to explain trade internationally. Post-Ricardian economics had completely rejected the labour theory of value, but had retained Ricardo's theory of comparative advantage (a) because it did not necessarily contradict their own theories of price, and (b) because it expressed the view that trade was mutually beneficial to all the trading parties. However, Bertil Ohlin rejected

Ricardo's theory of comparative costs. He developed a theory of international trade based on the relative factor endowments of each country. His theory still retained the view that trade was mutually beneficial to all the trading parties. But following the publication of research under the auspicies of the United Nations indicating that the commodity terms of trade had in the long run deteriorated for the primary producing countries, the view that trade was mutually beneficial to all the trading parties also began to be challenged. It was in order to explain this circumstance that Emmanuel set out to elaborate his theory of unequal exchange.

When he first rejected Ricardo's theory of comparative costs one of the criticisms Bertil Ohlin had made of the adherents to Ricardo's theory of value was that they had failed to integrate the labour theory of value into their theory of international value. Emmanuel took up this gauntlet thrown down by Ohlin. As against Ohlin, he supported the labour theory of value, and tried to resolve the dichotomy in Ricardo's work between the formation of value on the basis of the labour theory of value nationally and the comparative cost theory internationally. By rejecting Ricardo's original assumption of the immobility of capital, Emmanuel was able to develop a theory of value which was applicable both nationally and internationally, thus disposing of the theory of comparative costs altogether. Consequently, Emmanuel hoped to have answered the original criticism made by Ohlin against the supporters of the labour theory of value, and also to have filled a gap left by Marxist economists who had failed to extend Marx's theory of value to an international setting.

Emmanuel further elaborated his theory of value using Marx's formula for the prices of production, testing the operation of this formula both nationally and internationally. It was on this basis that Emmanuel attempted to develop a theory of trade, consistent with the labour theory of value which would explain why the terms of trade had deteriorated over a period of time for the poorer countries against the richer countries. Emmanuel argued that because of the mechanism by which equilibrium prices were formed internationally, the prices received for their goods by low wage countries are lower than the prices received for their goods by high wage countries, and when the goods of these respective countries are exchanged, there is a transfer of surplus from the low wage to the high wage countries. It is this which Emmanuel says constitutes unequal exchange and which explains the perpetuation of the division of the world between rich and poor. In other words imperialism, the exploitation by rich countries of poor, is for Emmanuel essentially located in international trade.

Theoretically, therefore, Emmanuel's main aim was to provide a complete reassessment of the theory of international trade, and by returning to the work of David Ricardo, develop a theory of international exchange which is not in contradiction to the labour theory of value, but a consequence of it.

> "If I have succeeded, I shall have shown that not only is international trade not, as is thought, the Achilles heel of the labour theory of value but that it is, on the contrary, on the basis of this theory's premises that we understand certain features of international trade that have hitherto remained unexplained, despite the plentiful body of writing that has accumulated about them." [U.E., p.xlii]

Imperialism is a consequence of the mechanism of unequal exchange in international trade, and international trade can only be explained by reference to the labour theory of value. That essentially is Emmanuel's thesis.

CHAPTER III

MARX AND EMMANUEL

CHAPTER III

MARX AND EMMANUEL

Given the main aim of Emmanuel's work an unequal exchange is to integrate the labour theory of value into the theory of international trade, we must start by analysing the labour theory of value, and Emmanuel's interpretation of it, in some depth, if we are to fully understand his application of that theory to international exchange. However, in doing this, we are immediately presented with a problem. Emmanuel views the labour theory of value as being elaborated within classical political economy by a number of writers, primarily Smith, Ricardo, James Mill, John Stuart Mill and Marx. As a result, he tends to conflate the various theories of classical political economy (especially Smith and Ricardo) and Marx together.

Although Emmanuel recognises certain specific differences between the works of Marx, Smith and Ricardo, he tends towards the view that all three adhered to one commonly held labour theory of value, failing to make any qualitative distinction between them. This approach, I believe, is wrong. Whilst the labour theory of value played an important role in the works of all three writers, in the work of Marx it took on a fundamentally different meaning from that of the work of his predecessors. For Smith and Ricardo labour played a key role in the quantitative function of a measure of exchange value. They envisaged production essentially in its technical form, as the application of labour to nature which produced goods whose relative exchangeable values were determined by the relative labour times required in their production. For Marx, though, labour played a qualitatively different role in the theory of value. Marx was not a classical political economist. He elaborated his theory in part through his critique of that school[1]. For Marx, neither capitalist production nor exchange were defined by their physical properties. The capitalist mode of production was a historically specific mode of production which had to be distinguished from other historically specific modes of production. For Marx, the physical properties of production were common to all modes of production, slavery, feudalism, capitalism. To distinguish them as modes of production, what had to be analysed was their distinctive features, and the essential difference between each mode of production was its social relations of production. Value, therefore, the kernel of Marx's analysis of capitalist production, exchange and distribution, could only be understood as a social relation: value was not a technical or physical phenomenon, it only existed as a social phenomenon specific to the capitalist social relations of production. Although Emmanuel fails to make this distinction between Marx and classical political economy, I think it is important that the distinction is made from the beginning if we are to have a clear analysis of the political economy of unequal exchange, and the logic of Emmanuel's theory.

This then raises a further problem. Emmanuel's interpretation of Marx's theory had proved, as we will see, to be very controversial, and to contain important flaws. The extent of this problem is partially limited by the fact that, although Emmanuel's aim is to integrate the labour theory of value into the theory of international trade, he at no stage labels his an orthodox Marxist theory[2]. But the important use of Marx's tables of the prices of production made by Emmanuel in his work means that Marx's theory does play a key role, and therefore Emmanuel's interpretation of Marx is of significance. Since the publication of Emmanuel's book Unequal Exchange, many Marxist writers have undertaken detailed critiques from differing angles of Emmanuel's work[3]. It is partly in response to these criticisms that Emmanuel has also developed his alternative 'Sraffian model' of unequal exchange. But the original development of the theory of unequal exchange by Emmanuel using

Marx's prices of production still stands as an attempt to integrate the labour theory of value into the theory of international trade, and as such his interpretation of Marx's theory remains important. This chapter, therefore, aims to set out Marx's theory (as closely to the original text as possible) and then to contrast it with Emmanuel's own interpretation. The aim is not simply to argue (as many writers have already done) that Emmanuel mis-interprets Marx, but to lay the basis for later chapters, where we will examine in depth the use Emmanuel makes of classical political economy in the formation of his theory of unequal exchange in trade.

1. MARX'S LABOUR THEORY OF VALUE

Marx opens Capital by discussing the commodity, the most simple and concrete social form in which the product of labour presents itself. "The wealth of those societies in which the capitalist mode of production prevails, presents itself as 'an immense' accumulation of commodities', its unit being a single commodity. Our investigation must therefore begin with the analysis of a commodity." [C.I., p.43] However, Marx immediately goes on to both abstract from this most concrete form of the capitalist mode of production, and in that abstraction to analyse the inner contradictions which underlie the form of appearance.

The commodity contains two simultaneous but contradictory properties. It is at once both a use value and an exchange value. Its use value is historically given by its physical properties. But neither the use-value nor the physical properties of commodities provide a common substance through which commodities can be commensurable. To exchange, to stand in relation to each other as equivalents, commodities must have a common substance. The commodity, (and hence commodity exchange) is historically specific to the capitalist mode of production, and acquires this common substance not from physical properties - which are common to goods under all modes of production - but from social properties, from the social relations of production, which are specific to capitalism alone. Exchange value is both the quantitative and qualitative expression of this social relation. "Therefore" wrote Marx, "first: the valid exchange values of a given commodity express something equal; secondly, exchange value, generally, is only the mode of expression, the phenomenal form of something contained in it, yet distinguishable from it." [C.I., p.45] And he continues the analysis: "Therefore, the common substance that manifests itself in the exchange-value of commodities, whenever they are exchanged, is their value. The progress of our investigation will show that exchange value is the only form in which the value of commodities can manifest itself or be expressed." Marx, [C.I., p.46] Value - the expenditure of abstract human labour - is the social substance which provides commodities with commensurability, which is expressed in the form of exchange value.

In his analysis of value (as distinguishable from, but expressed by, exchange value) Marx is now abstracting from the simplest concrete form - the commodity. Value, as determined by abstract human labour, is social, not because of the technical (or material) application of labour to nature or the products of nature. Such a technical application of labour to nature is common to all modes of production. Value, as historically specific to commodity capitalism, expresses a "dual essence": it expreses both the application of labour to nature, and - more importantly from the standpoint of an analysis of capitalism - the specific social organisation, or social relations of production, of human labour in its productive activity, which provides the central dynamic of capitalist production and exchange. Because it is those social relations of production which give commodity capitalism its specific features as a mode of production as distinct from all other modes of production. And specific to capitalism is the existence of commodities, and their ability to stand in relation to each other as exchange values.

Marx then goes further into his analysis of labour, the embodiment of which gives commodities their social substance of value. Just as commodities themselves contain a contradiction: that between use-value and exchange value; so too does labour, of which commodities are the product, contain a two-fold and contradictory character. The two-fold character of labour is reflected in the ability of labour power to both produce use-values and exchange value, or value. It is the ability of labour power to simultaneously perform specific concrete activity, and also to reflect the expenditure of human labour in general, of human labour in the abstract which provides the common social substance of value, and therefore allows the production of not only use-values, but exchange values, i.e. commodities[4]. Having established the substance of value as being abstract human labour, Marx then explores further the use of labour in determining the magnitude of value. Commodities can only stand in social relation to each other, can only be socially commensurable, because they have abstract labour as a common social substance. But labour also counts quantitatively in giving commodities their magnitude of value. It is the socially necessary labour time combined in commodities which allows them to stand in relation to each other as specific magnitudes, and have a specific value in exchange with other commodities.

When examining the exchange value of commodities, however, Marx does not approach the magnitude of value from a technical standpoint. Marx is not searching for some definitive, absolute value, technically determined by the quantity of labour taken on average to produce a given good. Commodity values are not given by the relation between labour and nature in physical production. Such technical relations exist in all modes of production, not just capitalism. Whilst such technical relations provide a material basis for commodities what marks commodities out as a 'different species', specific to capitalism, is that they are the product of, not concrete, but abstract human labour. They are the product of labour, which, having been separated from the means of production, can be sustained by capital under the capitalist relations of production, and which is then discernible, not by its concrete activity (although this aspect of labour always remains important), but by its abstract ability to expand human labour power, to produce commodities which are not just use-values, but most importantly under capitalism, are values. It is because all commodities contain this common social substance that they can stand in relation to each other as exchange values. Therefore exchange value, or the magnitude of value, is the relative expression of this common social substance. Socially necessary labour time, which in common with labour in all modes of production must have a material base, is essentially a social determination of the magnitude of value under capitalism[5].

Having established the substance and magnitude of value, Marx goes on to examine further the form of value or exchange value. As has previously been emphasised, commodities can only stand in relation to each other as exchange values because they have a common social substance, abstract human labour. But the expenditure of labour power in its abstract form allows not just individual commodities, but all commodities to stand in social relation to each other as equivalents. Capitalism, unlike all previous modes of production, allows the economy to be established as a total social organism. No longer is commodity production or exchange partial. The expenditure of abstract human labour power (the precondition for which is the separation of labour from the means of production and the subsuming of labour power to capital) allows commodities to take on a universality whereby they can all stand in relation to each other as equivalents. This is a direct result of the social relations of production under capitalism. This universality of commodities also allows one commodity to express the relative value of all other commodities, to act as a universal equivalent. This is the general form of value, which allows the development of the money form of value. Money therefore, is the most universal expression of the relative value of commodities. But money can only play this role, can only maintain its important social validity, because it is an expression of value - the substance of which is posited by the social relations of production themselves[6].

We have emphasised in our summary of Marx's theory of value that value, for him, is only posited by the social relations of production under capitalism, and that the commodity is specific solely to the capitalist relations of production. This is important for a number of reasons. Firstly, Marx argued, without grasping the inner nature of the commodity as a social entity, it is easy to be blinded by the movement of commodities as a relation between things, without seeing that behind them lies a relation between people; this results in what Marx called "the fetishism of commodities". Because, argues Marx, this is the form of appearance commodities take.

> "A commodity is therefore a mysterious thing, simply because in it the social character of men's labour appears to them as an objective character stamped upon the product of that labour: because the relation of the producers to the sum total of their own labour is presented to them as a social relation, existing not between themselves, but between the products of their labour ... The existence of things quâ commodities, and the value-relation between the products of labour which stamps them as commodities, have absolutely no connection with their physical properties and with the material relations arising therefrom. There it is a definite social relation between men, that assumes, in their eyes, the fantastic form of a relation between things."
> [C.I., p.77]

Marx, therefore, sees social analysis as being essential to a real understanding of commodity production and capitalism. Secondly, it is this aspect of his theory (which results from his historical and dialectical method) which separates Marx so conclusively from classical political economy, which emphasises the technical (not social) relations of production underlying the value and exchange value of commodities. Thirdly, it is as a result of the social nature of his analysis that Marx understands the capitalist mode of production as historically limited, which helps him to unravel the inner contradictions within that mode of production which promote both its dynamic and its retrogressive features.

Having established, through his method of abstraction, the essence of the law of value, Marx then goes on to examine the working through of that law. Once he has examined the money form of value, he then explores its development into the capital form of value, both of which are implicit in the commodity itself as a product of the social relations of production, and became more explicit with the development of capitalism. Marx begins his analysis with the role of money in the simple circulation of commodities, C-M-C. Here commodities attain their complete independence from use values, and value takes on the form of money. But the same movement (or circuit) of value can also be expressed in the formula M-C-M. But this formula also represents the circulation of capital. And as capital, it is not only value, but self-expanding value.

> "Value therefore now becomes value in process, money in process, and as such, capital. It comes out of circulation, enters into it again, preserves and multiplies itself within its circuit, comes back out of it with expanded bulk, and begins the same round ever afresh. M-M', money which begets money, such is the description of capital from the mouth of its first interpreters, the mercantilists." [C.I., p.153]

Marx has now traced through, from the simplest most concrete form of capitalism, the commodity, via a process of abstraction, to the higher more complex form of capitalism, capital in general, represented in the formula M-C-M'. His analysis is that, at the heart of both the commodity and capital, features specific to the capitalist mode of production, is value, not as a technically, but socially posited substance. Capital is just as much (though in a more complex form) a representation of the social relations of production as the commodity. However, Marx still had a long way to go in his abstract analysis of the essence of capital as a social relation before he could trace through the links between this essence and the form of appearance of capital in its concrete complexity.

Having established capital as a value form, Marx then explored one of the most important aspects of the social relation of value, which allows value to be posited not only as value, but as self-expanding value, which thus allows the expansion of capital, M-C-M', and explains the creation of surplus. Abstract human labour as the substance of value, which results from the transformation of the private labour of individual producers into social labour, and this social labour can only exist with the separation of labour from the means of production. This separation having been completed, and the social relations of production of capitalism established, this labour now confronts capital not as labour per se. Labour, like all other elements of the capitalist mode of production, is socially converted into its commodity-form, labour-power. The labourer does not sell his 'labour', he sells his 'labour power' at its exchange value, which is determined by the value of the socially necessary means of subsistence. Having confronted capital on the market as an exchange-value, labour power is now converted, as a result of its purchase, by the capitalist into a use-value for capital. As such, labour-power becomes subsumed by capital, and is converted into the variable part of capital. But the specific features of the commodity labour power, when put to use in the productive process, is its ability to create value over and above its own; is its ability to create surplus value. Surplus value then becomes the source of the valorisation process as a process of the self-expansion of value; for the process of reproduction, of the expansion and accumulation of capital; and of the profit of the capitalist. In other words, Marx's analysis takes him to the kernel of capitalism, the dynamic of the accumulation process.

Surplus value, however, can only be created under capitalism. Marx argues that surplus value can only arise in a valorisation process where labour has been separated from the means of production; where the social relations of production have converted the labour of private individuals into social labour; where concrete labour is transformed into abstract human labour, the expenditure of human labour power in the abstract; where the aim of production is no longer the creation of use values, but exchange values, whose social substance (value) is given by abstract human labour; but where the key feature of the expenditure of labour power is that it is able to create a (social) value greater than its own. Surplus value, therefore, can only arise out of the existence of (social) value, which is posited solely as a result of the social production relations under capitalism, and is hence specific to those relations. Whilst surplus product provides the material substratum for surplus value, surplus product does not necessarily take the form of surplus value.

Surplus product exists in all societies bar the most primitive, so long as man is able to produce a greater produce than necessitated by his own basic needs. Surplus value exists only in a society where production is primarily the production of values and exchange values, and the prerequisite for that is the social relations of production of capitalism.

The same is also true of capital accumulation. Just as capital is but a form of value, whose substance is social, abstract labour, posited by the social relations of production, so capital accumulation is not the technical accumulation of surplus labour. Capital accumulation involves the self-expansion of value through the creation of surplus value, which cannot exist outside of a valorisation process specific to and posited by the social relations of production of capitalism.

> "When it is said that capital 'is accumulated (realised) labour (property, objectified [vergegenständlichte] labour, which serves as the means for new labour (production)', then this refers to the simple material of capital, without regard to the formal character without which it is not capital. This means nothing more than that capital is - an instrument of production, for, in the broadest sense, every object, including those furnished purely by nature, e.g. a stone, must first be appropriated by some sort of activity before it can function as an instrument, as means of production. According to this, capital would have existed in all forms of society, and is something altogether unhistorical." (my emphasis, SB) [Marx, Grundrisse, 1973, p.257]

Our survey of Marx's theory of value has emphasised his analysis of value and the forms of value (money-form and capital-form) as a social relation posited solely by and therefore specific to the capitalist relations of production. This does not mean Marx neglected to analyse the material substratum of the commodity, labour or capital. On the contrary, these form an important part of his analysis, and he emphasises especially the inherent contradictions which exist between the material substratum and its social form (e.g. the contradiction between use-value and exchange value). These contradictions for Marx reach their highest or most general form in the conflict between the forces of production, and the social relations of production. However, from our standpoint, what I have tried to emphasise is that value, for Marx, is not a technical relation, it is a social relation. The technical relations of production divorced from the social relations of production were for Marx common to all modes of production, but Marx was interested in analysing the capitalist mode of production, the laws specific to that mode of production, and the contradictions within that mode of production. It was this which marked him out so clearly from classical political economy.

Finally, a few remarks on Marx's method. The theory of value as summarised so far was covered by Marx in the first half of Volume I of Capital. In other words, it is only the beginning of the analysis he elaborated in the three volumes of Capital. But it provides, I would argue, the essential foundation for the whole of the rest of Capital. Marx started from the concrete in its simplest form - from the commodity. He then abstracted from the concrete form to reveal the inner essence - value as a social substance. He then traced through the law of value to arrive at the developed forms of value - money and capital, whereby he arrived at a more complex level of abstraction - the analysis of capital in general. But as we have seen, capital in general is but the positing of (social) value which is given by the social relations of production. Here we have finished our summary so far of Marx's theory of value. But Capital continues on the basis of the same method. He further developed the analysis of capital in general, tracing through by his method of abstraction the dialectical inner-connections which constitute the essence of capital as a total social organism. This he did in Volume I, where he analysed the immediate process of production as such. In Volume II he went on to analyse the process of circulation, and then the synthesis of the process of production and circulation. It is not until Volume III that Marx began to move back from the abstract to the concrete, tracing through the (contradictory) links between the inner essence and the concrete form of appearance of capital as a whole. As Marx says of Volume III:

> "The various forms of capital, as evolved in this book, thus approach step by step the form which they assume on the surface of society, in the action of different capitals upon one another, in competition, and in the ordinary consciousness of the agents of production themselves." [C. III, p.25]

Therefore, it is not until Volume III that Marx analyses capital as it is perceived by the capitalist, the relation between individual capitals, competition, price of production, the falling rate of profit etc. However, for Marx, there is no doubt that the three volumes of Capital constituted an organic whole. He introduced his analysis of capital in general, as we have seen, in the first half of Volume I of Capital, having started his analysis with the concrete in its simplest form - the commodity and the (social) value relation underlying this. Having analysed Capital in Vols.I and II in the immediate process of production and circulation, and having established through the abstraction of his analysis the dialectical inner-connection governing the laws of motion of capital - then, and not until then, did he move back from the abstract to the concrete, and analyse capital in Volume III in all its complexity, as it appears on the surface of society.

2. EMMANUEL'S THEORY OF VALUE

Having studied, in some detail, the theory of value elaborated by Marx, we are now in a position to return to Emmanuel's theory of value, and make a comparison of the two. A rather lengthy detour into Marx's theory has been necessary: (i) because Emmanuel does not give much coverage to Marx's theory, yet he implicitly and explicitly assumes a theory of value in Marx which I would like to question in many respects; and (ii) given the importance of the role of Marx's tables of the transformation of value into price in Emmanuel's work, it is vital we have a clear understanding of what it is we are transforming (i.e. a clear definition of value) before we can go on to examine those tables in more depth. We will start by examining Emmanuel's account of Marx's theory of value, and then we will go on to critically assess the theory of value developed by Emmanuel, which was outlined in some detail in the last chapter.

We will have to pick our way through Emmanuel's account of Marx's theory of value quite carefully, mainly because despite his use of Marx's transformation tables, Emmanuel's explicit account of Marx's theory of value is very sparse. The method adopted in Emmanuel's book (we are dealing here primarily with Chapter 1, Equilibrium Prices in Internal Exchange) is: firstly to outline at length his own (Emmanuel's) theory of value, and especially his view of the transformation from a simple to a complex capitalist economy; secondly, to seek support for his own theory by referring briefly, (and rather partially - but we will go into that in the next chapter) to the works of classical political economy, specifically the work of Adam Smith, David Ricardo and James Mill; and thirdly by saying that the steps taken by Ricardo were also taken by Marx, and then quoting a list of Chapter numbers from Capital, followed by just one short paragraph of Emmanuel's own summary of Capital, to prove it! Given the importance Marx's theory of the transformation of value into price plays in Emmanuel's attempt to construct the theory of unequal exchange, I think we could expect a little more discussion of Marx's theory.

As we have seen, Emmanuel theoretically and historically divides capitalism into two stages: (i) the simple commodity economy, and (ii) the complex commodity economy. In the simple commodity economy, he argues, the labour theory of value operates because labour is the only factor of production and hence the only claimant on society. In the complex commodity economy the labour theory of value breaks down with the introduction of more than one factor of production. Labour and capital, according to him, are incommensurable, and given they cannot always be employed in the same proportions, labour can no longer be the determinant of exchange value.

> "At this point calculation of exchange value on the basis of the respective amounts of the factors and calculation on the basis of the respective rewards of the factors, that is, the costs of production, diverge ... and no exchange value can be found apart from the rewarding of the factors, since the only common denominator between two factors that makes the sum of their amounts commensurable is the rate at which they are rewarded." [U.E., p.15]

Therefore under developed or complex commodity production, exchange value, according to Emmanuel is determined by cost of production (viz. the sum of the rewards to the factors).

Emmanuel then goes on to state that his transition from a simple to a complex economy was "frankly tackled" by the classical economists and "fully integrated into their theory". Emmanuel then gives an account of Smith and Ricardo to support this, arguing Smith makes the transition in a "somewhat confused way" in Chapter 6 of Book I of the Wealth of Nations, and Ricardo, with his greater coherence made the transition between Section 3 and Sections 4 and 5 of the first chapter of The Principles. (We will be examining this part of Emmanuel's argument in more detail in the next chapter). Emmanuel then quotes from James Mill, and on this basis argues a significant point. James Mill, puts forward the argument that averages in wages and profit will affect the value of commodities differently according to the proportions of labour and capital employed in their production, such that with a rise in wages, commodities made with a lower proportion of labour will fall in value. But, argues James Mill, this is compensated by a rise in value by those commodities employing a greater proportion of labour. This argument is singled out and given eminence by Emmanuel.

> "Ultimately, James Mill goes further than Ricardo. He introduces in the passage just quoted the idea that the rises and falls compensate each other which implies that the total of all equilibrium prices, as determined by the addition of the second factor, is strictly equal to the total of all values, as they would be reduced in quantitites of labour if this second factor were not present ... Here James Mill links up, over the heads of Ricardo and J.S. Mill, with Marx's formula of prices of production. This equivalence of the sum of values and the sum of equilibrium prices constitutes, indeed, the strongest argument against those who see the classical economists' theory of equilibrium prices, or Marx's theory of prices of production, as repudiating the original labour theory of value." [U.E., p.20]

According to Emmanuel, therefore, the labour theory of value breaks down under a complex capitalist economy because the rewards to the factors diverge from the quantities of the factors employed, and calculation cannot be made solely based on labour as if the second factor did not exist; <u>but</u> because the different changes in value resulting from changes in wages compensate each other, the sum of equilibrium prices (determined presumably by the sum of the rewards to the factors, given we now have the second factor) equals the sum of values, (calculated presumably by quantity of labour employed, as if the second factor didn't exist). In other words, having repudiated the labour theory of value under complex capitalism because of the incommensurability of the factors of production - Emmanuel is now telling us the labour theory of value does still hold in aggregate, and that on this James Mill's theory is in common with Marx.

Emmanuel continues by examining "The Transformation of Value According to Marx". Here, Emmanuel argues:

> "The step that Ricardo took between the third and fourth sections of the first chapter of the <u>Principles</u> <u>was taken by Marx between the first and third volumes of Capital</u>. In Volume <u>I, especially in the first three chapters and part</u> of Chapter 6,

> so far as value is concerned, and in Chapters 7 to 12 and 16 to 18 so far as surplus value is concerned, Marx leaves out of account the difference between the organic compositions of capitals in different branches." [U.E., p.20]

Consequently, argues Emmanuel, Volume I of Capital can only cover three cases: (i) non-capitalist commodity production, where every producer owns his own means of production; (ii) capitalist production at a low level of development, where the existence of 'capital goods' is negligible; or (iii) within developed capitalist production, the special case of a branch of production where the organic composition of capital is equal to the social average.

> "In these three cases, not only is the total of market prices equal at any moment to the total of values, but the price of the article varies around its value, so that in the long run its average price tends to coincide with its value. Here it is clear that the rate of wages has no influence on prices, since it has none on values. Value being the sum of two variables inversely related to each other, paid labour and unpaid labour, it naturally remains constant whatever the ratio of these two magnitudes." [U.E., pp.20-21]

In Volume I, therefore, individual value coincides with individual price only because differences in the organic composition of capitals in the different branches are left out. In Volume III, says Emmanuel, "Marx introduces for the first time the difference between organic compositions as a real fact of the capitalist system" [U.E., p.21], and now the transformation from simple labour value into equilibrium price (price of production) becomes necessary.

Before going on to consider this transformation, let us examine more critically exactly what Emmanuel is putting forward as Marx's theory of value in this very compacted section. What Emmanuel has not done is given an account of Marx's theory of value. What Emmanuel has done is to give an extensive account of his own (Emmanuel's) theory of value, and then through an exceedingly brief and partial account of Capital, attempted to make Marx's theory synonymous with his own. Now, there is no need to follow Marx's theory of value. But to put forward his own theory, and then to dress it up as if it were Marx's, lacks, I believe, a degree of theoretical rigour.

To argue, as Emmanuel directly implies, that Marx did not believe that the labour theory of value applied to developed capitalism because of the incommensurability of labour and capital is simply not true. Let us concentrate, for the moment, on Volume I of Capital. The sections of Volume I Emmanuel considers to be important to his argument are "The first three chapters and part of Chapter 6, so far as value is concerned, and in Chapters 7 to 12 and 16 to 18, so far as surplus value is concerned". No wonder Emmanuel considers these chapters as being important, let us consider what they cover: Chapter 1 commodities (the theory of value); Chapter 2 exchange; Chapter 3 money; Chapter 6 the buying and selling of labour power; Chapters 7 to 12 and 16 to 18 the production of absolute and relative surplus value. In other words, those chapters in Volume I deal with the theory of value solely from the standpoint of an analysis of 'labour'. The chapters which Emmanuel does not consider important are: Chapters 4 and 5, dealing with The General Formula of capital and contradictions in the General Form of capital; Chapter 13 Cooperation: Chapter 14 Division of labour and manufacture; Chapter 15 machinery and modern industry; Part VI (Chapters 19 to 22) on Wages; Part VII, Chapters 23 to 25 on the Accumulation of Capital, including simple reproduction, conversion of surplus value into capital and the General Law of Capitalist Accumulation; and Part VIII the so-called Primitive Accumulation. In other words, the majority of the chapters of Volume I, which are concerned specifically with analysing capital, Emmanuel does not consider to be important. But then, he would have to be extra selective in his use of Capital (note Marx even gives the entire Volume the title "Capital"!) if he is to try and make Marx's theory concur with the argument he (Emmanuel) has already articulated. Emmanuel has said that the labour theory of value as such only applies to a simple-commodity economy where labour is the only factor, and that in a complex economy with the introduction of a second, incommensurable factor, exchange value, which now has to be modified, is no longer determined by the quantities of the factors but by their rewards. Emmanuel then says that the classical economists made the transition from a simple to a developed form of exchange value, necessitated by the introduction of a second factor, in their work. He then says Marx, like Ricardo, made this transition between Volumes I and III of Capital. But if Marx had made such a 'forced' transition, he would not have spent the majority of Volume I discussing capital - he would have been concerned solely with 'labour' and he would not have introduced this "second factor" until Volume III.

However, Marx did not neglect the analysis of capital in Volume I, in fact he spent the majority of that volume analysing it. And as we have seen from our detailed examination of Marx's theory of value, Marx did not believe 'labour' and 'capital' to be incommensurable. Quite the contrary. From the very beginning of Volume I, it was the very secret of their social commensurability as commodities under capitalism which Marx set out to analyse. For Marx, all commodities are commensurable under capitalism not because of any physical or technical properties (common to all modes of production); but because under the capitalist mode of production commodities possess one common element: (social) abstract human labour, which forms their social substance as value. Commodities only exchange as values because they are the product of human labour power in the abstract resulting from the social relations of production specific to capitalism. Having established socially abstract labour as the essence of the value-form under capitalism, Marx then immediately went on to examine the development of that form, the money form and (despite the fact that this is where Emmanuel would like him to stop!) the capital form. As we saw for Marx, capital is a form of value, not characterised by its physical or technical properties, not even classified by the fact that its material substance is posited by past or 'hoarded' labour, but characterised as a developed form of value, also expressing in a more complex way the positing of (social) abstract human labour - the social substance of all value given by the social relations of production of capitalism.

Emmanuel's problem, in his misrepresentation of Capital, is I believe, his failure to comprehend this crucial aspect of Marx's analysis. For Marx, capital is not only NOT incommensurable with labour. Capital, as posited by the social relations of production of capitalism, is a form of value, whose substance is social abstract labour. Therefore, not only is capital commensurable with labour, it is the expression, in its more complex form of social labour. However, capital is more than this for Marx. Capital can only exist as "self-expanding value" in the process of production. And the secret of the self-expansion (or accumulation) of capital is not the positing of social labour 'per se' but the creation of value and surplus value, posited by the specific commodity labour power, which itself cannot exist outside the capitalist relations of production. Therefore, an understanding of abstract human labour as the social substance of value, is not only essential for an understanding (and this includes the commensurability) of capital, but also the whole capital accumulation process.

There is another aspect of Emmanuel's misunderstanding, which is also important to his misrepresentation of Marx, I believe. Marx was only able to arrive at his analysis of the social substance of value through a process of abstraction from the concrete (in its simplest form - the commodity) in order to return to, and understand the complex reality or form of appearance of capitalism. This process of abstraction forms the essential framework for Volume I of Capital, where Marx is concerned with analysing capital in the immediate process of production. Having carried out this abstract analysis, Marx then relates it back to the concrete form of appearance of capital. This he does finally in Volume

III, having considered also the process of circulation and relation of production to circulation in Volume II. Hence the famous quote from the opening of Volume III of Capital, already cited, where Marx says that the third volume of Capital

> "must locate and describe the concrete forms which grow out of the movements of capital as a whole ... The various forms of capital, as evolved in this book, thus approach step by step the form which they assume on the surface of society, in the action of different capitals upon one another, in competition, and in the ordinary consciousness of the agents of production themselves." [C.III, p.26]

Nowhere does Marx say that Volume I is dealing with a simple and Volume III a complex commodity economy. All three volumes are dealing with capitalist production and circulation in its complexity - but at different levels of abstraction. It is Marx's method which differentiates the three volumes. But this, Emmanuel, who rejects any 'Hegelian' understanding of Marx[7] fails completely to grasp, as he views the distinction between the two volumes from a primarily historical not theoretical standpoint.

There is, however, more to Emmanuel's argument than a simple historical approach. The historical distinction between Volumes I and III is made implicitly by Emmanuel asserting that Marx's theory concurs with his own (Emmanuel's) previous analysis and selectively extracting certain of Marx's chapters. Emmanuel explicitly states with regard to Marx's Capital that the key feature of Volume I is that here "Marx leaves out of account the differences between the organic compositions of capital in different branches" [U.E., p.20]. In other words, here Emmanuel acknowledges that Marx deals with capital in Volume I, but because Marx leaves out differences in the organic composition between branches, Volume I, says Emmanuel (in his 'three cases') covers only simple commodity production or the special case "of a branch whose organic composition is equal to the social average" [U.E., p.70]. Emmanuel then continues:

> "In these three cases, not only is the total of market prices equal at any moment to the total of values, but the price of

> the article varies around its value, so that in the long run its average price tends to coincide with its value."
> [U.E., p.20]

It is quite correct that in Volume I, Marx makes price = value and differences in the organic composition of capital are ignored. But as we have seen, these assumptions, though important, are not the distinguishing feature of Volume I[8]. In Volume I Marx is establishing, through abstraction in his analysis, value as the social embodiment of abstract human labour under the capitalist social relations of production and capital as a more complex form of value, self-expanding value in the process of production. The fact that Emmanuel has failed to grasp this is made quite clear in the next sentence to the one just quoted.

> "Here it is clear" says Emmanuel regarding Volume I "that the rate of wages has no influence on prices, since it has none on values. Value being the sum of two variables inversely related to each other, paid and unpaid labour, it naturally remains constant whatever the ratio of these two magnitudes."
> [U.E., p.21]

Marx never saw value as the "sum of two variables ... paid and unpaid labour". To reduce Marx's theory of value to this level is to ignore most of the analysis of Capital. Marx, as we have seen, developed a detailed analysis of value, in which he distinguished between his substance, form and magnitude of value. His emphasis was not on the material content of commodities, which is common to products under all modes of production, and which is given by the concrete application of labour; his emphasis was on establishing the commensurability of commodities though his analysis of value as a social relation under capitalism - and this, the substance of value, was social abstract human labour as opposed to concrete labour. Emmanuel's reduction of value to "the sum of two variables ... paid and unpaid labour" loses sight of value as a social relation under capitalism. Firstly Emmanuel is approaching value solely in terms of the magnitude of the reward (paid or unpaid). Secondly, he is positing "labour" as an undefined mass as the basis of value; consequently Emmanuel fails to distinguish between concrete and social labour, thus effectively reducing labour to its concrete form - which for Marx was the basis of use value <u>not</u> exchange value. Marx criticised classical political economy for a similar approach to value:

> "It is one of the chief failings of classical economy that it has never succeeded, by means of the analysis of commodities, and, in particular, of their value, in discovering that form under which value becomes exchange value. Even Adam Smith and Ricardo, the best representatives of the school, treat the form of value as a thing of no importance, as having no connection with the inherent nature of commodities. The reason for this is not solely because their attention is entirely absorbed in the analysis of the magnitude of value. It lies deeper. The value-form of the product of labour is not only the most abstract, but is also the most universal form, taken by the product in bourgeois production, and stamps that production as a particular species of social production, and therefore gives it its special historical character. If then we treat this mode of production as one eternally fixed by Nature for every side of society, we necessarily overlook that which is the differentia specifica of the value form, and consequently of the commodity form, and of its further developments, money form, capital-form etc." [C.I, p.85]

Emmanuel's failure, therefore to grasp Marx's method of abstraction, leads, I would argue, to an inability to understand Marx's argument that value is a social relation specific to capitalism. In that sense, Emmanuel lapses back into classical political economy, and views value as a primarily technical or physical relation, which Marx argues, is a-historical, and common to products under all modes of production.

This is a paradoxical point, given Emmanuel places so much emphasis on the <u>historical</u> element of his analysis. Emmanuel's <u>historical</u> distinction between a simple commodity, and a complex commodity economy is made quite clear in the main text of Chapter 1 of <u>Unequal Exchange</u>. However, it is brought out more clearly in Appendix V to the work, when Emmanuel is discussing Engels' Preface to the third volume of <u>Capital</u> on the historical significance of value. Here Emmanuel states with regard to the distinction between value and price of production that

> "... if there are two distinct and even contradictory concepts, this is because there are two phenomena to be known, namely, market price in conditions of underdeveloped capitalism, which does indeed gravitate around value, and market price in conditions of developed capitalism which gravitates around price or production." [U.E., p.290]

Here we have the clearest articulation that value (viz Volume I of Capital) applies only historically to underdeveloped capitalism and conversely that price of production applies only to developed capitalism. But this is to conflate theory into history. Having rejected the method of theoretical abstraction, and by reducing theory to concrete form, then that concrete form can only be traced through the empirical reality of history. Theoretical analysis must have an organic link with history otherwise any analysis would be forced and meaningless. But we must also abstract theoretically to establish what is specific to the different historical epochs. Without such abstraction, theory becomes reduced to the 'common denominators' of history, and in this sense 'historical' analysis becomes its very antithesis - 'a-historical'. And this, I would argue, is the paradox afflicting Emmanuel's method of approach.

Let us continue with an examination of the problems associated with Emmanuel's treatment of value. I have attempted to show that having reduced value simply to magnitudes of concrete labour, and the rewards to labour, Emmanuel loses sight of social labour as the basis of the commensurability of commodities under capitalism, and as the basis of value and the different forms of value, the money form and the capital form. Hence the essence which ties the different parts of the bodily form of capitalism (production, distribution and circulation) is lost sight of. Production has now been reduced to an incommensurable quantity of concrete physical labour. This works for Emmanuel in a simple commodity economy where labour is the only factor of production and labour can act as the sole and common unit. But once other factors of production are introduced, their concrete physical incommensurability leads to a breakdown of the theory. It is not possible to equate two completely different concrete physical masses, labour and capital. Emmanuel has in fact already laid the basis for the alternative within his theory of value. It is not just quantities of labour which determine value for Emmanuel, it is the sum of "paid and unpaid labour". In other words, he is already treating labour, not in terms of its expenditure, but in terms of its reward.

> "Up to now we have assumed the existence of one factor only, competitive and homogeneous. Under such conditions it is a matter of complete indifference whether exchange value is measured by the amount of the factor or its reward." [U.E., p.13]

He then goes on to say that "the labour theory of value and the cost of production theory amount to the same thing". Having made the labour theory of value and cost of production synonymous, such that the former can be supplanted by the latter, under a simple commodity economy; once the labour theory, as propounded by Emmanuel breaks down, it is quite logical to shift to a theory of value based on the rewards to the factors, i.e. a cost of production theory, as the basis of commensurability under complex commodity production.

When Emmanuel moves on to the transformation of value into price of production, the value (or exchange value, he doesn't differentiate between the two), Emmanuel is transforming is no longer labour values, but the rewards to the factors. In other words it is the distribution relations, not the social relations of production which determine value. In answer to his critics, Emmanuel calls the distribution relations the production relations[9]. But the problem for him is that, in line with classical political economy, he has reduced the production relations to their a-historical, material base. Therefore the distinguishing feature of capitalism for him is not the social relations of production, but the social relations of distribution (of the material product) which he sees as being synonymous with the social relations of production.

I have argued this far that Emmanuel's analysis completely negates value as a social relation, and instead approaches value simply in terms of its quantitative (magnitude of value) and material properties. This approach, as we have seen, has much more in common with the work of classical political economy than Marx, and it was an approach vigorously criticised by Marx. However, when Emmanuel carries his analysis through, and abandons any semblance of a 'labour determined' value under complex capitalism, he resorts instead to a cost of production theory (exchange value = wages + profit + rent). As such he is even moving beyond many of the theories of Classical Political Economy and is broaching what Marx called "Vulgar economy". The concept that value or exchange value is determined by the sum of the rewards to the factors was not new, even in Marx's day. Marx summed this concept up in what he called the "Trinity Formula". "Capital - profit (profit of enterprise plus interest), land - ground-rent, labour - wages, this is the trinity formula which comprises all the secrets of the social production process." [C. III, p.814] However, for Marx this formula gave no insight into the social relations of production under capitalism at all. It merely <u>described</u> how capital <u>appears</u> on the surface to the "agents of production who are entrapped in bourgeois production relations". The whole point of scientific analysis, for Marx, was precisely, through abstraction form the concrete form of appearance, to comprehend the dialectical inner essence, inner social relations of which the form of appearance is the expression. But then Emmanuel is opposed to such "neo-Hegelian" analysis. He likes to remain in the realm of the "concept" as the "concrete", and as such he completely misses the inner social relations underlying Marx's analysis of capitalist production and distribution. But Marx was quite clear in his rejection of this approach, and the consequent analysis it produced, the trinity formula.

> "Vulgar economy actually does no more than interpret, systematise and defend in doctrinaire fashion the conceptions of the agents of bourgeois production who are entrapped in bourgeois production relations. But all science would be superfluous if the outward appearance and the essence of things directly coincided. Thus, vulgar economy has not the slightest suspicion that the trinity which it takes as its point of departure, namely, land-rent, capital-interest, labour-wages or the price of labour, are <u>prima facie</u> three impossible combinations." [C.III, p.817]

Therefore Marx, whose theory Emmanuel is attempting to use, quite explicitly attacks the concepts Emmanuel is advocating. If Emmanuel simply differed from Marx, this would be one thing; but what Emmanuel in fact does is to imply the categories elaborated by him also belong to Marx - and this, in my view, involves a lack of theoretical rigour.

3. THE THEORY OF THE PRICES OF PRODUCTION

Having examined, at some length, Emmanuel's theory of value, and having compared it with Marx's, we are now in a position to consider with greater understanding the transformation of values in to price which Emmanuel carries out using Marx's tables. We have seen that the 'exchange values' Emmanuel is transforming under complex capitalism are the rewards to the factors, therefore v = variable capital = wages, m = surplus value = profit, and c = constant capital, the 'cost' of machinery and raw materials. For the vulgar economists whom Marx so strongly criticised, this was enough to establish both the exchange value and price of commodities. Emmanuel, however, develops a more sophisticated analysis of the cost of production, and this is where he uses Marx and Capital extensively.

I have argued that Emmanuel incorrectly views Volume I of Capital as applying (historically) to a simple commodity economy and Volume III to a complex commodity economy. However, Emmanuel has to recognise (given the weight of chapters on the subject) that Volume I also analyses capital, therefore a simplistic historical division between the two volumes is not sufficient. Emmanuel therefore brings in his argument that the labour theory of value could also apply in a complex commodity economy if the proportions of labour and capital (or organic composition of capital) used in the different branches of production were always equal - such that the second factor, capital, could be ignored, and exchange ratios determined solely by the labour factor, an assumption which Emmanuel argues is unrealistic in complex capitalist production. Emmanuel says, therefore, that the distinguishing feature between Volumes I and III is not just their historical application, but also that in Volume I "Marx leaves out of account the difference between the organic composition of capital" [U.E., p.20] and "in Volume 3 of Capital Marx introduces for the first time the difference between organic compositions as a real fact of the capitalist system." [U.E., p.21]

It is true that in Volume I, Marx does assume that all individual commodities exchange at their individual values, and that each capitalist retains his own surplus value. But to make these assumptions the primary difference between Volumes I and III is to miss the whole point of Marx's writing Volume I. Of course, this Emmanuel does because he rejects the need in Volume I to abstract from the complex form of appearance of the writing of the capitalist system, in order to grasp the inner essence of the social relations of production which posit that form of appearance. If Marx had written the majority of Volume I simply to prove that the labour theory of value might also apply under the exceptional but unrealistic circumstances of the proportions of 'labour' and 'capital' being equal in all branches of production, then most of his work would have been redundant. He could have said that in one paragraph, just as Emmanuel does. But as we have seen, this was not the point of Volume I. Marx makes this point quite succinctly in Volume I when discussing his assumptions:

> "On the one hand, then, we assume that the capitalist sells at the value the commodities he has produced, without concerning ourselves about the new forms that capital assumes in the sphere of circulation, or about the concrete conditions of reproduction hidden under these forms. On the other hand, we treat the capitalist producer as owner of the entire surplus value, or, better perhaps, as the representative of all sharers with him in the booty. We therefore, first of all consider accumulation from an abstract point of view - i.e. as a mere phase in the actual process of production." [C.I., pp.529-30] (my emphasis - SB)

However this last point, and the need to establish, in detail, the social relations of production underlying the capital form, to analyse value, the substance of value, the magnitude of value, the form of value (money form and capital form) surplus value and the secret of the accumulation of capital, and therefore the whole dynamic process of the capitalist mode of production is lost on Emmanuel. His empirical analysis leads him to analyse labour and capital not in their social, but in their material form. They are therefore reduced to nature given quantities, whose social dimension is given not in the production process itself, but in the distribution of the material product produced between the factors of production.

The distinction, therefore, for Emmanuel between Volumes I and III of Capital becomes a purely technical one. In Volume I, each individual retains his own share of the product in the form of surplus value or profit. However, given in reality, for the technical reasons of production, each individual branch of production has to use different proportions of capital to labour to produce their commodities, then the different branches of production would have different rates of profit (surplus measured against both variable and constant capital or $^{m}/c+v$) because of their different 'organic compositions of capital'.

> "Marx's thinking proceeds like this:" says Emmanuel "if market prices coincided with values, viz. with the amount of living labour [Note!! - Emmanuel told us before that this is inapplicable to complex capitalism!! But we will proceed. SB], the rates of profit in the different branches would be unequal, given the inequality of the capitals invested per unit of living labour and their turnover rate. This inequality would prevent capitalism from functioning, since the capitalist who increased the organic composition of his enterprise so as to economise on living labour would obtain less profit than before and would thus be penalised to the advantage of those who had not mechanised their enterprises. In order that capitalist production may develop, profits must be proportional not to the number of workers employed but to the total capital invested by each capitalist. And Marx puts the finishing touch to his theory of value by giving in Chapter 9, his famous formula of 'prices of production'." [U.E., p.21]

Emmanuel then sets out his first table of the price of production. Although he has modified the table very slightly, the data is taken directly from one of Marx's examples in Volume III of Capital (p.164).

Branches	c constant capital	v variable capital	m surplus value	v Value c+v+m	T Rate of Profit $\frac{\Sigma m}{\Sigma c+\Sigma v}$	P Profit T(c+v)	L Price of Prodn. c+v+p
I	80	20	20	120		20	120
II	90	10	10	110	20%	20	120
III	70	30	30	130		20	120
	240	60	60	360		60	360

Unequal Exchange, p.21

The whole point of Marx's transformation of value into price is therefore, according to Emmanuel, twofold: (i) to take account of the reality of capitalism, i.e. difficult organic compositions of capital; and (ii) so that the individual capitalist who increased his organic composition through mechanisation would not be "penalised to the advantage of those who had not mechanised their enterprises". However this was not the main reason for the transformation of value into price for Marx. The main reason resulted directly from his method of analysis, completely missed by Emmanuel. Having analysed the immediate process of production in Volume I, and having established value as a social relation posited by abstract labour under the capitalist relations of production, and the capital accumulation process as a result of this, Marx now had to move back towards an analysis of "the concrete forms which grow out of the movement of capital as a whole". And as Marx goes on to say: "The various forms of capital, as evolved in his book [C. III, SB], thus approach step by step the form which they assume on the surface of society, in the action of different capitals upon one another, in competition, and in the ordinary consciousness of the agents of production themselves". [C.III, p.25] The analysis of the transformation of value into price of production is an important step in that process[10].

Marx, therefore, is not transforming the rewards to the factors, nor the sum of any other "independent variables", he is transforming values, as elaborated in Volume I of Capital, into prices of production. And this he makes explicitly clear time and time again:

> "In Books I and II we dealt only with the value of commodities. On the one hand, the cost-price has now been singled out as a part of this value, and, on the other, the price of production of commodities has been developed as its converted form."
> [C. III, p.163]

The main reason Marx transforms value into price is not simply because in reality there exist different organic compositions of capital, but because value, as an abstract social relation, is not posited in concrete capitalist reality in that form.

For Emmanuel, though, there is no need to establish the mediating links between the essence (value as a social relation) and form of appearance (price of production). For him, labour value and price of production are two "qualitatively distinct cases" which apply under completely distinct historical conditions. And Emmanuel argues that this applies also to the work of Marx and Engels. For Marx and Engels he says:

> "... if there are two distinct cases and even contradictory concepts, this is because there are two phenomena to be known, namely, market price in conditions of underdeveloped capitalism, which does indeed gravitate around value, and market price in conditions of developed-capitalism, which gravitates around price of production." [U.E., p.390]

Therefore Emmanuel adheres, quite consistently, to his position that labour values do not hold under developed capitalism. Rather it is the rewards to the factors which makes up cost of production, and it is these rewards which are then being transformed. The point of the transformation process, therefore, is merely to ensure the technical distribution of profit so that those capitalists with high organic compositions of capital do not lose out.

However, Emmanuel is wrong to say that this is also the position of Marx. There is nothing to say he should not differ from Marx, but then to attribute that differing position to Marx is not rigorous. Let us see directly what Marx argues is the relation between value and price of production:

> "The prices which obtain as the average of the various rates of profit in the different spheres of production added to the cost-prices of the different spheres of production, constitute the <u>prices of production</u>. They have as their pre-requisite the existence of a general rate of profit, and this, again, presupposes that the rates of profit in every individual sphere of production taken by itself have previously been reduced to just as many average rates. <u>These particular rates of profit $= \frac{s}{c}$ in every sphere of production, and must, as occurs in Part I of his book, be deduced out of the values of the commodities. Without such deduction the general rate of profit (and consequently the price of production of commodities) remains a vague and senseless conception.</u> [My emphasis, SB] Hence, the price of production of a commodity is equal to its cost price plus the profit, allotted to it in per cent, in accordance with the general rate of profit, or, in other words, to its cost price plus the average profit." [C. III, p.157]

Therefore, for Marx, the prices of production are directly deduced from values as elaborated in Volume I of Capital. Values and prices of production are not "two qualitatively distinct cases" applying to different historical epochs. Price of production, rather, is a modified form of value. It is therefore directly from the values of commodities, as embodiments of abstract human labour, that total social value equals total price of production. Emmanuel is right to say that for Marx price of production does not equal market price; because for Marx, there are still many more intermediary links to be made, specifically the interception of merchant capital and financial capital in the process has not been considered. But the important point, completely missed by Emmanuel, is that for Marx price of production is not qualitatively distinguishable from value, it is a modified form of value, a form where competition between capitals has entered the analysis, and where he is moving gradually nearer the actual form of appearance of value under capitalism.

In the transformation table, therefore, Marx is transforming values whose magnitudes are determined by abstract socially necessary labour time. All the components of these values (c + v + s, or in Emmanuel's notation, c + v + m) are parts of these socially posited values. They are not, as Emmanuel would have it, independently determined rewards to the factors[11]. However, Marx argues that: "The transformation of values into prices of production serves to obscure the basis for determining value itself". [C. III, p.168] And it is for this reason, he argues, that it is so important to understand the real relation between value and price of production.

> "Since the mere transformation of surplus-value into profit distinguishes the portion of the value of a commodity forming the profit from the portions forming its cost price, it is natural that the conception of value should elude the capitalist at this juncture, for he does not see the total labour put into the commodity, but only that portion of the total labour for which he has paid in the shape of means of production, be they living or not, so that his profit appears to him as something outside the imminent value of the commodity. Now this idea is fully confirmed, fortified, and ossified in that, from the

> standpoint of his particular sphere of productivity, the profit added to the cost-price is not actually determined by the limits of the formation of value within his own sphere, but through completely outside influences." [C. III, p.168]

Although Emmanuel has technically grasped the transformation formula as a method of reallocating profit on the basis of the general rate of profit, he has completely missed its substantive importance in Marx. By differentiating capital and labour, and differentiating the reward to capital from the reward to labour, such that exchange value now becomes the sum of the independent rewards, profit now becomes separated from, or outside, social values as posited by social abstract human labour. The variable capital and surplus value Emmanuel is talking about, therefore, have nothing to do with the value process Marx has established. Emmanuel's transformation process has nothing to do with Marx's transformation of value into price of production. What Emmanuel's is transforming is one set of rewards and the factors into another set of rewards to the factors, where one of the rewards has been redistributed, but the sum of the rewards in both cases are equal.

4. THE THEORY OF WAGES AND PROFITS

Having examined Emmanuel's theoretical approach to Marx's transformation formulas, we must now go on to examine his theory of wages and profits in more detail. We do this, not only because of their importance for his theory of unequal exchange in trade but also because, although Emmanuel has asserted that exchange values are determined by the rewards to the factors (v + m), we still have no idea of what determines those rewards, and therefore, when we are dealing with his (Emmanuel's) transformation formulas, exactly what it is we are transforming. Having done this we will then be in a position to examine Emmanuel's use of the transformation formulas, and the problems associated with the transformation process, in more detail.

An examination of Emmanuel's work shows, from the very beginning, the primary importance he attaches to the distribution of the social product, i.e. the factor rewards. Emmanuel opens his first chapter by saying:

> "Apart from any normative dispute there may be regarding the category called 'factors of production', we recognise as such, under the conditions of the production relations of commodity economy ... every established claim to a primary share in society's economic product." [U.E., p.1]

Therefore, he is starting with the primacy of distribution as a categorisation of 'factors of production', and that distribution involves a sharing out of "society's economic product". This intertwining of distribution or 'factor reward' and 'factor of production' is continued when he examines a simple commodity economy. One of the main reasons the labour theory of value is applicable under such an economy is because the factor of production and factor rewards are equivalent, i.e. the ratios of labour expended in production equal the ratios of the labour rewards (given labour keeps all the product).

> "This is why in such a case the labour theory of value and the cost of production theory amount to the same thing, and I have made no distinction between them in the preceding section."
> [U.E., p.13]

Emmanuel is therefore able to hold to the labour theory of value under a simple commodity economy because it is equated with the cost of production; but as we have seen, when the equality between the two theories appears to break down, Emmanuel abandons the former theory for the latter, and cost of production is now the sole determinant of exchange values.

The apparent conflicting of 'factors of production' and 'factor rewards', belies, I would argue, a more distinctive view of the relation between production and distribution, and this is more clearly drawn out in the Appendices to Emmanuel's work. Essentially, and this is an argument I have already advanced to a certain extent, Emmanuel sees production as a purely material and technical process, common to all modes of production. It is not therefore the production relations, but the distribution relations which characterise capitalism as a specific mode of production. In his dispute with Bettelheim, Emmanuel articulates this quite clearly:

> "... the social production relations are relations between <u>claims</u> on the social product and are non-existent both in primitive society and in any other non-class society. It is obvious that production relations, in the sense of the technical organisation of labour, exist in any society, with or without classes. But <u>social</u> production relations, <u>in the sense of relations of appropriation</u> [my emphasis, SB] exist only in class societies." [U.E., p.329]

As we have seen, this is very different from Marx, who was concerned with analysing the social relations of <u>production</u> not distribution, as the characteristic feature of capitalism. But having set up this dichotomy between production and distribution Emmanuel then conflates them, making factor reward categorise factor of production. We must now examine further Emmanuel's analysis of factor rewards and their relation to production.

(i) The Theory of Wages

Let us start with Emmanuel's theory of wages, as it is to this 'factor reward' that he gives such prominence. Given he views production as a material, technical relation, 'labour' must also be defined by man's material, technical relation to nature, the outcome of which is the production of material goods (or in Marx's terminology, use values). It is because this is as far as Emmanuel's analysis of labour goes that he then, quite understandably, finds concrete labour, as the producer of material goods, incommensurable with capital and he has to switch to factor rewards to find such commensurability. Marx's analysis of labour is different. For Marx, it is the two-fold character of labour which allows commodities to be not only use-values, but also exchange values. In its dual function, labour is not only concrete labour (the depository of use values) but also abstract human labour (the depository of values and exchange values) that commodities are able to stand in social relation to each other, and as such are commensurable. But Emmanuel rejects this second aspect of Marx's analysis (presumably because it is too 'Hegelian' or abstract). For him concrete labour is concerned with the production of goods, is common to all societies, and has nothing to do with social distribution. Abstract labour is not the production of social values by social abstract human labour, it is defined solely by the distribution of part of the product to labour - "labour can be abstract and universal only as a generator of a claim to a share in society's economic product. Only in this capacity is it a 'factor'."[12] Therefore, Emmanuel jumps from concrete labour to the reward to labour, missing out any analysis of 'labour' as social abstract human labour[13]. Because he has missed this step, he now redefines labour socially in terms of its reward, in other words, he conflates the two[14].

Having reduced 'labour' to its purely concrete form, as a repository of use-values, what is it that determines wages? Abstract labour, for him, only exists "as a generator of a claim to a share in society's economic product". Therefore wages must equal a part of this material product, it must be equal, says Emmanuel, "to a basket of goods", i.e. wages equal a quantity of use values. Emmanuel then goes into a long discussion of the differences between classical political economy, which he argues believed this basket of goods was determined by the physiological minimum necessary for subsistence, and Marx, who he says, believed this basket of goods was determined also by social and historical factors, such that wages would be greater than the minimum necessary to survive. [U.E., pp.23-24] Hence Emmanuel arrives at what he believes is a triumph over classical political economy - wages are determined by both biological, historical and social factors. This argument is then continued in the chapter on wages. When distinguishing between labour and labour power, Emmanuel argues:

> "Labour, the common denominator and measure of the value of all commodities [a complete contradiction of what he has argued to date!! SB] is itself not a commodity and therefore has no value. What under capitalist production relations becomes commodity, what is bought and sold, is, in a sense the accumulated energy that enables him to work for a certain number of hours, his labour power." [U.E., p.106]

But before we think Emmanuel has moved closer to Marx's position, he quickly brings us back, when defining labur power in more detail:

> "Labour power is only indirectly equivalent to a certain quantity of labour. It is directly an a priori equivalent to <u>a certain quantity of goods</u> [i.e. use values, my emphasis, SB]. This equivalence is unchangeable, insofar as it is independent of the differential development of technique and of value or price of production of these goods themselves. For a change to take place, the man himself has to change. His standard of living has to change." [U.E., p.107]

And a little further on Emmanuel states "The value of labour power is not determined in the first place by a certain number of hours, but by a certain basket of goods". [U.E., p.110] The importance of this argument, from Emmanuel's reasoning, is two-fold. Firstly, he is defining what constitutes v in the tables of the prices of production; v, or variable capital, is determined by wages, which are determined by labour power, which is determined biologically, socially and historically by a given, unchanging (except very slowly over time) quantity of physical goods (use-values). Secondly, because of the socially fixed nature of this basket of goods which is exogenously determined, independent of any price increments, it must be wages, or v in the table of the price of production, which is the independent variable and determines the equilibrium price, or price of production, and not the other way around.

But now, I believe Emmanuel has embroiled us in an important contradiction. Labour, he is arguing, which produces goods or use values, because of its physical incommensurability with capital, has to be abandoned as a measure of value under capitalism. And what is it under capitalism which determines value? The reward to labour, wages. And what is it that determines wages or the value of labour power? A basket of goods or user values. And what is it that produces the basket of goods or use values? Labour. But this is incommensurable under capitalism. (Obviously his theory also includes profit, but we will come to this later.) This is a tautology, or line of circular reasoning, which is not helped by Emmanuel's use of 'money' or 'units of account' to elaborate his tables. For Emmanuel never defines money, or explains where his unit of account comes from, when he comes to elaborating his tables. And I believe he cannot. If v, in the table, is determined by a basket of use values, then those use-values as physical goods, as Emmanuel's own analysis would appear to confirm, are incommensurable. And as physical phenomena, they can have no common (or universal) equivalent, they have no monetary expression. The units of account Emmanuel is using are purely arbitrary. They are meaningless in terms of the theory he is trying to elaborate. Therefore, the use values underlying v in the table, bear no logical relation to the units of account Emmanuel has inserted into the column v. Emmanuel's argument remains tautological, money or no money.

Let us now try to unravel this contradiction. At bottom, the problem is that Emmanuel is trying to use Marx's tables of transformation of social values into price of production; but instead of social values, Emmanuel is trying to transform factor rewards determined by use values. When Marx, in his detailed analysis of value in Volume I of Capital, made his very clear distinctions between the two-fold character of labour (concrete labour and abstract human labour), he laid the basis for his analysis of value and the self expansion of value as a social phenomena within the production process. Therefore labour-power for Marx was never defined by a "basket of goods", historically given or otherwise. Whilst use-value provided the material substance of all social value (as it did for all goods, in all modes of production), use values for Marx never constituted value. The value of labour power is determined, argued Marx, not by a physical quantity, but the social value of the necessary means of subsistence of the labourer, determined by the socially necessary labour time expended in its production. But this only determined the value of labour power as a commodity. Having been purchased by money capital, labour-power becomes part of total capital, it becomes variable capital. The magnitude of its value as capital is a constant, given by the value of labour power, but it is variable capital because, in the process of production, it has the potential as labour power of producing a value greater than its own value, of acting as productive capital. It has the potential of producing value and surplus value. And that argued Marx, is the secret of the whole capital accumulation process. But that potential is only realised in the process of production as a direct result of the social relations of production under capitalism. It has nothing to do in Marx, as it does in Emmanuel, with exchange. At the point of exchange, as a commodity with a social value like all other commodites, labour power is a constant magnitude of value which exchanges with an equivalent money value. At the point of exchange, labour power is nothing but a revenue to the worker (wages), and an expenditure by the capitalist.

At the point of exchange labour power creates neither values nor surplus values. This potential can only be realised after its conversion into variable capital and its consumption in the production process. However, Emmanuel not only misses all this part of Marx's analysis out, he negates it, because he reduces all of it, 'labour', labour power, variable capital and wage to the use values which constitute the basket of goods consumed by the worker. For Marx, this basket of goods has nothing to do with production as a valorisation process specific to capitalism; use values themselves do not create values or surplus value, and have nothing to do with the transformation of social value into price.

However, Emmanuel, I believe, further compounds the contradictions in his argument regarding wages. Wages, as a basket of use values, are in no way affected by the values or prices of those use-values. 'Voilà' he argues, that wages must determine prices, but prices cannot affect wages. (Although Emmanuel completely fails to see that if as use values they can't be affected by prices, equally prices cannot be affected by them as use values!.) Consequently, argues Emmanuel, wages cannot be affected by the productivity of labour in the production of those use values, because productivity only affects the time it takes to produce those use values, the quantity of use values is given by biological and historical factors alone. [U.E., p.110] Therefore, argues Emmanuel, if workers in the advanced countries have a larger <u>mass</u> of commodities in their wage basket than workers in the poor countries, they must be better off than workers in the poor countries. From a purely material standpoint, this is true. But what Emmanuel is dealing with is solely the <u>real wage</u>, i.e. the mass of commodities (or 'basket of goods', as he calls them) consumed by the worker. Emmanuel's theory has <u>no</u> concern for the value of those 'goods', or the <u>value</u> of labour power. Therefore Emmanuel doesn't have to concern himself with anything that might affect that value.

Marx, on the contrary, was concerned with analysing the (social) value of the commodity labour power, and this he did in Volume I (again mainly in the chapters considered to be unimportant by Emmanuel). The value of the commodities making up the socially necessary means of subsistence can change like the value of all commodities. For Marx, the contradiction between use-value and exchange value under capitalism is expressed in the fact that, with the development of capitalism and increases in the productivity of labour, an increasingly larger mass of commodities (use values) can be produced containing a smaller portion of living abstract human labour, and hence smaller social value. Marx argued quite clearly that this apparent contradiction results from the two-fold character of labour under capitalism:

> "An increase in the quantity of use-values is an increase of material wealth. With two coats two men can be clothed, with one coat only one man. <u>Nevertheless, an increased quantity of material wealth may correspond to a simultaneous fall in the magnitude of its value.</u> This antagonistic movement has its origin in the two-fold character of labour."
> [C.I., p.53] (my emphasis)

Emmanuel's rejection of this contradiction, and his assumption that any increase in the mass of commodities must be accompanied by an <u>equivalent</u> increase in that value, and hence the value of labour power, plus his inability to differentiate between the <u>value</u> of labour power and its <u>price</u> (wages), leads to the following conclusion:

> "The level of wages determines profit, but the latter, by accumulating, causes technique to progress and productivity to increase, which gradually creates the historical and social conditions for a transformation of man, a heightening of his needs, which results in an increase in the value of his labour power, and so his wages." [U.E., pp.109-110]

Therefore, any increase in productivity which leads to an increase in the mass of commodities, which over time leads to an increase the mass of the means of subsistence of labour must simultaneously equal an increase in both the value and price of labour power, and conversely, a fall in surplus value or profit. But this is contrary to Marx's position, who argues:

> "The value of labour-power is determined by the value of a certain quantity of the means of subsistence. It is the value and not the mass of these means of subsistence that varies with the productivity of labour. It is however possible that owing to an increase in productivity of labour both the worker and the capitalist may simultaneously be able to appropriate a greater quantity of these necessaries, without any change in price of labour-power or, in surplus value." [C.I., p.489]

For Marx, therefore, as values the commodities making up the necessary means of subsistence are affected by changes in productivity, and it is these values not their mass which determine the magnitudes Marx enters into the tables of the prices of production. Emmanuel is only able to make wages (or the value of labour power) immune to changes in productivity because he views them solely in terms of their mass (bundle of use values) and not in terms of their values. And it is only on the basis of this mass that Emmanuel enters magnitudes into the transformation tables. Hence it is possible in Marx's theory, for the mass of commodities consumed by labour to increase whilst the value of labour power (variable capital) falls; but in Emmanuel's theory, any increase in the mass of commodities consumed must be associated with an equivalent increase in the 'value' of labour power, and fall in surplus value[15]. We will return to the problems of this approach later.

(ii) The Theory of Profit

Despite the importance wages are given, they are only one element entering the cost of production formula which Emmanuel is submitting to transformation. The other is profit, or in its initial insertion into the formula, surplus value. Emmanuel's theory of surplus value or profit is actually more difficult to piece together than his theory of wages and in his theory of exchange value, prior to transformation, he makes no clear distinction between surplus value or profit[16]. They are only briefly referred to in a number of different places, and the statements he makes regarding them often either contradict each other, and/or contradict the main thrust of his argument. Apart from his general categorisation of factor of production by factor reward, we are first introduced to profit properly when Emmanuel starts his analysis of a complex commodity economy, where the second factor, capital, enters production. As we know, Emmanuel then argues that because of the incommensurability of the two factors of production, labour and capital, then "the only common denominator between the two factors that makes the sum of their amounts commensurable is the rate at which they are rewarded". [U.E., p.15, emphasis in the original]. Exchange value, therefore, is now determined by the sum of the two factor rewards, wages plus profits. However, Emmanuel goes on to say:

> "As, on the other hand, we have assumed the existence of two factors only, or only two established claims to the social product, it is clear that, the social product being given, the rate at which one of these claims is rewarded must vary inversely with the rate at which the other is rewarded"
> [U.E., p.15]

This implies, therefore, that profit is the portion of the "social product" left after wages have been paid, i.e. it is the surplus product. (Emmanuel is here definitely discussing complex capitalism, because this refers to the situation after capital has entered production.) However, a little further on, when discussing the coming of the capitalist production relations, Emmanuel warns that we must not confuse profit with replacement for the wear and tear of capital. He says:

> "We must be on the alert straightaway against a positive confusion. The rewarding of the second factor, that is, profit, is not concerned with the wear and tear of capital but with the use of capital." [U.E., p.16]

So now, profit is no longer simply the surplus product left over, it is a reward for the use of capital. So far, no transformation has taken place, we are discussing "profit" as a basic element in the cost of production. However, before getting on to the transformation formulas, we are given one other definition (as if two weren't enough!) of profit, or is it surplus value (this is not made clear) when Emmanuel is discussing his interpretation of Marx's theory of value in Volume I.

> "Value [is the] sum of two variables inversely related to each other, paid and unpaid labour, it naturally remains constant whatever the ratio of these two magnitudes." [U.E., p.21]

Therefore, profit, or surplus value, prior to transformation would appear to be neither surplus product, nor a reward for the use of capital, but "unpaid labour".

Now let us try and sort these apparently contradictory statements out. What we have tried to show is that Emmanuel's analysis effectively divides production into its material, a-historical, natural form of relation between man and nature, distribution of the natural product between the factors of production (i.e. factor rewards) providing the social context. On this basis, Emmanuel is able to perceive the economic product, i.e. the mass of use values produced, as a product of labour, but this is the product of concrete labour, and as such they are only use values, with no socially posited value or commensurability[17]. Therefore, Emmanuel is able to speak, at a very general level, of profit being equal to the portion of economic product left after wages (which as we have seen equals a basket of goods or use values) are paid. But this can only be a very general statement, because it would be difficult under capitalism, for Emmanuel to refer to profit itself as the reciprocal "basket of goods" or use values. In the same framework, Emmanuel is also able to talk at a very general level of profit, or surplus value, equalling "unpaid labour". But this, in Emmanuel's analysis, is unpaid concrete labour (the depository of use values), and as such is incommensurable with capital; and, as Emmanuel argues, so long as labour and capital are incommensurable, then labour no longer determines values. Hence he resorts to the rewards to the factors as the determinants of exchange value, and as such, it is logical that the reward to the factor, capital, should be derived from the use of that factor, i.e. that profit is derived from the use of capital.

Of course, all of this is the antithesis of Marx's argument. For Marx, as we have seen, the analysis of capital, surplus value and profit flows out of his theory of value as a social relation of production, whose substance is posited socially by the expenditure of abstract human labour. Capital, for Marx, was but a form of value, it was abstract human labour expressed in the capital form, and as such was a more complex expression of the capitalist social relations of production. But the essence of the capital form was that it was not only social value 'per se' but self-expanding value. And the secret of the self expansion of capital was the conversion of the commodity labour power into a (variable) part of capital, so that when it is consumed by capital in the production process, it produces not only value but surplus value. It was this surplus value which then provided the basis for profit and the capital accumulation process. Therefore, to argue, as Emmanuel does, that 'capital' and 'labour' are incommensurable has nothing to do with Marx's theory of social values. Whilst labour and capital are incommensurable in their concrete and material forms, Marx only saw concrete labour as providing the material substance of value, just as it did in all historical epochs. What distinguished commodities as specific to capitalism was their social value, posited socially by the expenditure of abstract human labour, and for Marx capital (and the self-expansion of capital) is but another (and therefore completely "commensurable") form of this social value.

Emmanuel, however, rejects this, the most crucial aspect of Marx's analysis. The problem for him as a result, though, is that when he uses Marx's transformation tables, he becomes unable to give any clear definition of surplus value or profit. By reducing labour and capital simply to their concrete and material forms, the inner secret of surplus value remains hidden. Surplus value, or profit, became the surplus material product, or at best, surplus (concrete) labour. But as Emmanuel himself recognises in Appendix I of Unequal Exchange:

> "Surplus product is common to all social formations that have reached a certain level of development, whether or not they are societies in which classes and exploitation are present. The surplus product, though the condition and presupposition for exploitation, does not in itself constitute exploitation. The latter begins not with the creation of surplus product but with its appropriation." [U.E., p.328]

Therefore, again we see Emmanuel's divorce of material production and social distribution. But having made the separation, he is unable to explain the latter by the former, and surplus value then becomes arbitrarily determined by the struggle between labour and capital over some vaguely defined social product[18].

But the problem goes further than this. Having defined surplus value (or profit) as the residue of the (material) social product, left after the socially determined wages are paid, then the 'profit' must be the residual bundle of goods i.e. use values. In other words, Emmanuel through his forced separation of production and distribution, winds up where he started, profit equals surplus product, but surplus product is common to all social formation, an a-historical concept. But because he is now dealing with complex capitalist production, where both labour and capital are employed, and because he denies any commensurability between the two, Emmanuel is even forced to deny (in a contradictory way) that the origin of surplus value or profit might lie in labour. Surplus value or profit now became the reward to capital or the reward for the use of capital, it is an "independent variable".

Having denied any notion of surplus value as a social relation of production, Emmanuel has instead given us the notion of surplus value as a bundle of use values originating from the employment of capital (in its material form). But if this is so, just as with wages, this means that when integrating 'surplus value' into his transformation tables, Emmanuel is actually integrating a bundle of (incommensurable) use values. And just as with wages arbitrarily attributing to them some numerical or unitary value does not get around the problem. Use values, as concrete material goods, are incommensurable. They therefore have no common basis for exchanges, nor any universal equivalent. The 'numbers' therefore that Emmanuel integrates into his tables of the price of production under the column m (surplus value) are completely arbitrary. They have simply been taken from Volume III of Capital. They bear no value realtion and represent incommensurable bundles of use values.

Further, just as with his analysis of wages, as a result of his concrete method, Emmanuel rejects Marx's distinction between the "mass" of surplus product in its material form, and its value form i.e. surplus value as a social relation of capitalist production. Emmanuel therefore assumes that any increase in the mass of surplus product is accompanied by an equivalent increase in its value, and vice versa, any fall in the mass of surplus product must be accompanied by a fall in its magnitude of value. He is completely unable to grasp that in Marx's analysis, it is possible for the mass of wealth (use values) to increase whilst their social values fall. Therefore, not only is Emmanuel trying to determine the magnitude of surplus value (or profit) by an incommensurable quality (the mass of physical surplus product), he is also trying to make the increment of surplus value (or profit) a direct result of the movement of this incommensurable quality. As a result of the incommensurability of the two though, not only is the magnitude called surplus value (or profit) inserted into Emmanuel's tables of the prices of production arbitrary, but its movement is also arbitrary. When Emmanuel argues, therefore, that an increase in wages is always accompanied by a fall in surplus value (i.e. that surplus value is always in inverse proportion to wages) he is only ever referring to these as defined by their material mass (the sum of which equals the social product). But because the corresponding magnitudes are completely arbitrary, it is simply an assertion by Emmanuel to say that an increase in the mass of wages leads to a fall in surplus value, and it is an assertion, which, as we have seen, contradicts Marx.

Following on from this is the question of capitalist production as a process of expansion through capital accumulation. Again, for Marx, this most crucial aspect of the dynamic of the capitalist production process was explained directly through his analysis of capital as a value-form, where value is self-expanding value as a result of the creation of value and surplus-value, which is posited by (social) abstract human labour. But Emmanuel rejects (abstract human) 'labour' as the basis of value under complex capitalism. His rejection of capital as a social relation leads him to regard capital in its material and incommensurable form. But in its material form capital ceases to be self expanding value, and the accumulation process ceases to be essential. The social product then becomes something which is "given", and as a given magnitude it is static, and simply becomes a fixed quantity which needs to be distributed. The whole analysis then becomes a static equilibrium analysis, in which all the contradictions and dynamics essential to Marx's analysis of the capitalist relation of production are lost sight of. But again, having defined wages and profits as the sharing out of the (material) social product, which is a fixed given quantity, i.e. having produced a static equilibrium analysis, any increase in one of the factor rewards must logically lead to a fall in the other. The possibility of them simultaneously increasing (or decreasing) in their social value terms is denied. Emmanuel does attempt to salvage something from this logical conclusion by accepting that over time, it is possible through <u>material</u> increases in the productivity of labour (man's exploitation of nature) for the (material) social product to increase. But this only leads to a form of <u>comparative statics</u> where a new set of tables are produced.

In his tables of transformation, therefore, Emmanuel is not transforming the social values of Marx into prices of production; what he is transforming are bundles of use values, called capital and the rewards to the factors, but given some arbitrary, but undefined unit values. The fact that this is the consequence of Emmanuel's attempt to define exchange value by the rewards to the factors is not necessarily surprising. In his rejection of this approach, in the trinity formula, Marx argues vulgar economists unknowingly make the same mistake - and it is a mistake which results directly from the attempt to consider capitalist relations simply from the standpoint of their concrete form of appearance. We will quote Marx at length:

> "Thus vulgar economy has not the slightest suspicion that the trinity which it takes as its point of departure, namely, land-rent, capital-interest, labour-wage or the price of labour, are prima faciae three impossible combinations. First we have the use-value ... Then capital-interest. If capital is conceived as a certain sum of values represented independently by money, then it is prima faciae nonsense to say that a certain value should be worth more than it is worth. It is precisely in the form: capital-interest that all intermediate links are eliminated, and capital is reduced to its most general formula, which therefore in itself is also inexplicable and absurd. The vulgar economist prefers the formula capitalist-interest with its occult quality of making a value unequal to itself, to the formula capital profit, precisely for the reason that this already approaches actual capitalist relations. Then again, driven by the disturbing thought that 4 is not 5 and that 100 taler cannot possibly be 110 taler, he flees from capital as value to the material substance of capital; to its use-value as a condition of production of labour, to machinery, raw materials, etc. [my emphasis, SB] Thus, he is able once more to substitute in place of the first incomprehensible relation, whereby 4 = 5, a wholly incommensurable one between a use-value, a thing on one side, and a definite social production relation, surplus value, on the other as in the case of landed property. As soon as the vulgar economist arrives at this incommensurable relation, everything becomes clear to him, and he no longer feels the need for further thought. For he has arrived precisely at the "rational" in bourgeois conception. Finally, labour-wages, or price of labour, is an expression, as shown in Book I, which prima faciae contradicts the conception of value as well as price - the latter generally being but a definite expression of value. And the "price of labour" is just as irrational as a yellow logarithm. But here the vulgar economist is all the more satisfied, because he has gained the profound insight of the bourgeois, namely that he pays money for labour, and since precisely the contradiction between the formula and the conception of value relieves him from all obligation to understand the latter."
>
> [C.III, pp.817-8]

Marx, therefore, in rejecting the trinity formula, i.e. a theory of exchange value or price based on the summation of the rewards to the factors, believed that the attempt at such a theory was based on a superficial analysis of the capitalist relations of production (the concrete concept); and that at bottom, it was deriving these rewards, not from labour and capital as social phenomena, but from labour and capital as use values, in their material form, which are quite incommensurable with each other. Although he occasionally appears to contradict himself, because of his use of Marx, and despite his greater sophistication, it is quite clear that Emmanuel is making the same mistake as the vulgar economists. His rejection of the inner essence of value as a social relation of production leads him to remain trapped in the form of appearance of the capitalist relation of production, and the actual explanation he implicitly (and often explicitly) provides of the determination of the rewards to the factors, the sum of which equals exchange value, leads to a theory which is logically contradictory. By rejecting the commensurability of labour and capital, (because of their material differences), Emmanuel actually winds up with a theory of exchange value based on the same incommensurability - the determination of social exchange values via their material substance or use. It is ironic, though, that Emmanuel should have attempted to develop a theory so closely allied to the work of Marx, and yet should have integrated into its heart a theory so explicitly rejected by Marx. It is not surprising, therefore, that in doing this, Emmanuel should have laid himself open to such criticism.

I have shown so far that there are quite major differences, both methodologically and theoretically, between the work of Emmanuel and Marx, and that these differences make Emmanuel's theoretical foundations quite incompatible with Marx. The question which now remains, though, is the relevance of these theoretical foundations to the main point of Emmanuel's work, a theory of unequal exchange in trade. Marx never wrote a work on foreign trade (although he talked, at one time, of writing three more books, following Capital, on the state, foreign trade, and the world market - no such work was ever commenced in more than broad outline - see Rosdolsky, p. 11). Marx's work on colonialism was confined primarily to pamphlets and newspaper articles - and he died before imperialism or the capitalisation of underdeveloped countries, had moved into its post-colonial era, when that explanation was of formally 'independent' countries. Therefore, any theory of foreign trade or imperialism which Marx left has to be derived from his theory, as little was explicitly stated. This project has been undertaken by a number of important Marxist theorists since Marx's death, and this has led to a large volume of Marxist work on imperialism. We will examine the relation between this work and Emmanuel's theory in some depth in Chapter VI.

The most important point which I have attempted to establish so far is that although he uses Marx's transformation tables extensively, the theoretical basis on which Emmanuel attempts to construct his theory of unequal exchange in trade is not Marx's. Whilst Emmanuel 'lifts' the tables of prices of production from Marx, the 'variables' which Emmanuel then integrates into these tables have nothing to do with Marx. On the contrary, the cost of production formula (i.e. sum of rewards to the factors) which Emmanuel employs in his tables were explicitly rejected by Marx in the form of the Trinity Formula. Whilst Emmanuel is more sophisticated than the 'vulgar' economists, and uses (along with the tables) much of the terminology of Marx, at bottom he makes the same mistakes as 'vulgar' economy, reducing the rewards to the factors to the material substance or use values (an incommensurability if ever there was one) and from that tries to deduce prices of production. As a result of this incommensurability, the 'magnitudes' Emmanuel inserts into the tables are arbitrary and theoretically unsubstantiated. The result of this process is to produce a theory which is both self contradictory and untenable, given he attempts to retain the Marxist base. As a result, I would argue, despite his extensive formal use of Marx, Emmanuel is not producing a 'Marxist theory', i.e. it is not a theory which seriously attempts to develop and apply the categories elaborated by Marx himself.

This is shown most clearly in the significance attached by Emmanuel to his theory of wages as providing the key to unequal exchange. We know from the last chapter that for Emmanuel, it is wage differences which are the primary cause of the price differentials at the root of unequal exchange. Yet we have seen from this chapter: (i) that in the tables Emmanuel is starting not with social values or even 'labour time' but with independently determined rewards to two factors; (ii) that v (variable capital) in the tables for Emmanuel equals wages, which are composed of a bundle of use-values such that v becomes a bundle of use values given an arbitrary nominal value; (iii) Emmanuel consequently assumes any increase in that bundle of use-values corresponds with a proportional increase in 'v' in the tables; and (iv) any increase to the bundle of use values leading to an increase in v automatically leads to a corresponding fall in profit, or m.

Despite Emmanuel's extensive use of Marx's transformation tables in his theory of unequal exchange, I have argued the theory he integrates into those tables is not Marx's. Of course, Emmanuel never states that he is aiming to produce a perfected Marxist theory, and says rather that he is aiming to address himself "to economists of all tendencies in a common language" [U.E., p.323]; but the problem with Emmanuel's original work on unequal exchange was that he <u>implied</u> the theory <u>he</u> (Emmanuel) was elaborating was also Marx's - and thus opened his theory up to a wealth of criticism. It must be noted that the mass of contradictions in the 'Marxian' version of unequal exchange, as first elaborated by him, did force Emmanuel, under the pressure of criticism, to seek a less contradictory (and possibly less controversial) method of elaborating the same theory. In Appendix V, to his work, after discussing, in some detail, the debate over the "transformation problem" in Marx, Emmanuel attempts an alternative, which we will call the "Sraffian" model of his theory, which attempts to avoid many of the problems encountered in his "Marxian" treatment. Therefore, in a sense, Emmanuel was forced to concede the incompatibility of his theory with Marx, and the large volume of work he had done along this line was side tracked. In Chapter V we will consider the "Sraffian" version of Emmanuel's theory in detail, and in Chapter VI we will return to an examination of the significance of Emmanuel's work for a theory of imperialism. First, however, we must consider the other theoretical influences underlying Emmanuel's thesis, particularly with regard to classical political economy.

CHAPTER IV

CLASSICAL POLITICAL ECONOMY AND UNEQUAL EXCHANGE

CHAPTER IV

CLASSICAL POLITICAL ECONOMY AND UNEQUAL EXCHANGE

We have established, thus far, that whilst Emmanuel uses the framework of Marx's analysis to develop his theory (especially the modification of the tables of the prices of production), his theory is fundamentally distinct from Marx, and in many of its aspects directly in opposition to the theoretical work of Marx, not least on the central question of the role of the labour theory of value under capitalism. It was partly Emmanuel's treatment of Marx which led to the considerable controversy and debate which followed the publication of his work on Unequal Exchange, and an important element of this controversy was the exchange between Bettelheim and Emmanuel. However, Emmanuel makes it absolutely clear in this exchange that he did not set out to develop his theory within an orthodox Marxist tradition. "I am one of those" he writes, "who do not consider that the law of value as bequeathed to us, partly in the first volume of Capital, which Marx himself published, partly in rough drafts and notes ... constitutes a finished theory." [U.E. p.313] Therefore, although he uses Marx's tables of the prices of production extensively, he does not aim to produce a specifically Marxist theory.

In Unequal Exchange, Emmanuel provides himself with a broader framework than Marx's theory within which to develop his theory. In the introduction, Emmanuel states that "In short, I have undertaken to attempt the task that Ohlin reproached the supporters of the labour theory of value for neglecting: the task of integrating international value in the general theory of value." [U.E., p.xxxiv] By "supporters of the labour theory of value", Emmanuel not only includes Marx, but also Smith and Ricardo. Therefore essentially Emmanuel is developing his theory of unequal exchange in trade within the broader tradition of what might be termed "political economy". He develops his theory within this framework in opposition to the "neo-classical" tradition of economics; and it is this tradition which underlies the Heckscher-Ohlin-Samuelson theory of trade, which is the main target of Emmanuel's line of attack. Therefore, to criticise Emmanuel solely on the basis of his deviation from Marx is to criticise him for something which he never intended to do. When Emmanuel sets himself "the task of integrating international value into the general theory of value" he is referring to the general theory of value of Smith, Ricardo and Marx, or what he calls classical political economy. As we have seen Marx was not a classical political economist and his work was developed as a critique of this school, but this distinction is not made by Emmanuel. However, having shown that Emmanuel's theory is qualitatively distinct from Marx, we must now go on to examine his theory with reference to the other main theorists Emmanuel cites, particularly Smith and Ricardo; and therefore place Emmanuel's work within the broader context of "political economy".

1. EQUILIBRIUM PRICES IN INTERNAL EXCHANGE

In order to provide the theoretical foundation for his theory of inequality in external exchange, Emmanuel starts by examining the nature of value and equilibrium price in internal exchange. As we saw in Chapter II, Emmanuel begins by examining the labour theory of value of Smith, Ricardo and Marx. He argues that the "simple labour theory of value" only applies in a "simple commodity economy" where labour is the only factor of production, because it is only in this situation that the total reward to the factor (labour) equals the cost of production (labour). However, in a more complex economy, where both labour and capital enter production (for simplicity Emmanuel leaves out land and rent - but this would not change the essence of his argument), and therefore where rewards are paid not only to labour (wages), but also to capital (profit) then, according to Emmanuel "the labour theory of value in its primitive form found itself at a dead end". He argues that, because labour and capital are not commensurable, the quantity of the factors employed can no longer determine values. "Since the only common denominator between two factors that makes the sum of their amounts commensurable is the rate at which they are rewarded" [U.E., p.15], it is the sum of the rewards to the factors, or wages plus profits, which under a complex capitalist economy determine exchange values. The only exception to this is when labour and capital are always employed in equal proportions throughout the economy, but given this is an unrealistic exception, it can be excluded from the analysis.

Emmanuel then goes on to argue that this transition from a simple to a complex economy, from a 'simple labour theory of value' to a theory of value based on the rewards to the factors was made by Smith (in a confused way) in Chapter 6, Book I of the Wealth of Nations, by Ricardo in Sections 4 and 5 of Chapter 1 of the Principles of Political Economy and by Marx between Volumes I and III of Capital. "The idea of a modification of exchange value through the intervention of a second factor was frankly tackled by the classical economists and fully integrated into their theory". [U.E., p.16] Emmanuel then goes on to concentrate on Marx's "modification of exchange value" in Volume III of Capital, and particularly Marx's tables of prices of production, which Emmanuel uses to elaborate his own theory. I argued in the last chapter, however, that Emmanuel was mis-interpreting Marx. That Marx never abandoned the labour theory of value under a complex capitalist economy. On the contrary, for Marx the 'law' of the labour theory of value was the main law which explained the complex workings of the capitalist economy. Price of production was how the phenomenon of value appeared to the capitalist in the transformation of labour values into price. Therefore, Emmanuel was not using

Marx's theory, but a major distortion of his labour theory of value; and in employing Marx's tables of the prices of production, Emmanuel is effectively using a hollow framework with no real basis in Marx.

However, the problem Emmanuel has in moving from a labour theory of value in a simple labour economy to prices (of production) in a complex capitalist economy was a very important problem in classical political economy. It was a problem which (in a sense correctly pointed out by Emmanuel) plagued Adam Smith, David Ricardo, and other political economists for a hundred years prior to Marx. It was a problem dealt with at length by Marx, but which, as we will see, has still been the subject of much controversy amongst Marxists since the publication of Capital, and has been the basis for some of the most sophisticated critiques of Marx's work. But having established it is not Marx's theory Emmanuel is elaborating, let us now go back and trace this problem through classical political economy in order to understand better both the origin of Emmanuel's interpretation of the labour theory of value, and the influence of classical political economy on his work.

(a) Adam Smith

Adam Smith was the first to develop the labour theory of value in an articulate form. One of the major advances made by the Wealth of Nations over previous political economy was the notion of 'labour in general' being the source of all value, and therefore the wealth of a nation. However, although Smith's work marked a major advance in political economy, it still contained many inconsistencies and difficulties[1]. Smith consistently makes labour the 'real measure of value' throughout his work. But for him, although labour is the source of all value, it is 'labour commanded' which he views as providing the real measure of value, and thus the value of wealth.

> "It was not by gold or silver, but by labour, that all the wealth of the world was originally purchased; and its value

> to those who possess it, and who want to exchange it for some new production, is precisely equal to the quantity of labour which it can enable them to purchase or command."
> [Smith, 1905, pp.30-31]

In other words, the value of a good is determined by the amount of labour it can command, either directly in the form of employing or buying new labour, or indirectly in the form of buying the product of labour. Smith adheres fairly consistently (although not without contradiction) throughout the Wealth of Nations to this approach to the real measure of value, and he argues that labour alone can provide such an invariable standard for measuring value. However, the problem then posed by this approach was that it did not explain why a good should exchange for or command a given quantity of labour (i.e. why some goods should command more labour and some command less). In order to explain this, Smith then turns to an examination of the "component parts of the price of commodities"; and it was here that the problem of a transition from a simple labour to a complex capitalist economy arose in Smith's theory of value. According to Smith:

> "In that early and rude state of society which precedes both the accumulation of stock and the appropriation of land, the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another."
> [Smith, 1905, pp.47-48]

In other words, in this rude state of society, where only labour exists, the quantity of labour embodied in a good, acting as the component of the real measure of value, determines the quantity of labour a good can command. And in this state, labour commanded equals labour embodied, and there are apparently no problems with Smith's labour theory of value.

However, problems begin to arise when Smith moves on to examine a more complex economy where "stock has accumulated in the hands of particular persons". These problems exist in Smith at two interconnected levels: (i) the exact origin and nature, (under an economy employing both labour and capital) of the "components" of value; and (ii) the components of value have to be consistent with his real measure of value, i.e. labour commanded.

Taking the first level, Smith informs us that in a capitalist society, the "value workmen add to the materials" resolves itself into two parts: (a) to pay wages; and (b) to pay profits to the employer, without which the employer would not engage in production. But having implied that profits are derived from value added by the workmen, Smith then goes on to give quite a different interpretation of profit. Profits, although equivalent to wages of superintendence are altogether regulated by the value of capital employed and should bear a regular proportion to this capital. "In the price of commodities, therefore, the profits of stock constitute a component part altogether different from the wages of labour, and regulated by quite different principles." [Smith, 1905, p.50] Therefore, at one point profits are derived from labour, at another they are derived from capital, quite independently of labour. This contradiction (and confusion) is taken up at length by Marx in the <u>Theories of Surplus Value</u>, who documents Smith's switching and re-switching from a position where profits are derived from the value added by labour, to a position where profits are something 'added on' at the point of sale as a reward to capital [Marx, TSV, I, pp.78-79].

This confusion is also related to the second level of Smith's problem; that the "components" of value or price have to be consistent with the "real measure of value", i.e. labour commanded. The interconnection of the two aspects of the problem, and the confusion in Smith over what constitutes the components of value are summed up in the following quote:

> "In this state of things [a more complex economy, SB], the whole produce of labour does not always belong to the labourer. He must in most cases share it with the owner of the stock which employs him. [Here the labour theory of value would appear to apply, SB] Neither is the quantity of labour commonly employed in acquiring, or producing any commodity, the only circumstance which can regulate the quantity which it ought commonly to purchase, command, or exchange for. [So now labour is <u>not</u> the only component of value, SB] An

additional quantity, it is evident, must be due for the profits of stock which advanced the wages and furnished the materials of that labour." [Smith, 1905, p.50]

So, under capitalist society, labour embodied does not equal, but is less than labour commanded, and some additional quantity has to be added to account for profit. The components of value or price are no longer labour embodied, but are the rewards to the factors, wages plus profit plus rent. This approach is clearly stated by Smith when he says further on:

> "Wages, profit and rent, are the three original sources of all revenue as well as of all exchangeable value. All other revenue is ultimately derived from some one or other of these."
> [Smith, 1905, p.53]

It is this approach which is termed Smith's 'adding up' theory. Under capitalism the component of the real measure of value, labour commanded, is no longer labour embodied, but the sum of the rewards to the factors. However, despite a clear statement of this, Smith never lets go of the view that profits are derived from labour, and this is the source of much confusion and contradiction in his work. However, at the end of the day, a hard interpretation of Smith must be that he abandons the labour theory of value under a capitalist economy. Emmanuel, in his brief summary of Smith's Wealth of Nations does not make quite such a 'hard' interpretation.

> "He [Smith] fails to explain, however, the nature and significance of the divergence between exchange value according to quantity of labour, in the case where there is only one factor, and exchange value according to the rewards of the factors, in the case where there is more than one of these. This deficiency was inevitable with a writer who, even in the case of the simple form of labour value, continually confuses the quantity of labour necessary to produce a commodity with the quantity of labour against which this commodity can be exchanged." [U.E., p.17, my emphasis, SB]

In other words, Emmanuel chides Smith for not making the transition to an 'adding up' or cost of production theory under capitalism clear enough because of the imposition of the 'labour commanded' theory. Emmanuel seems to forget however that it was the primacy given by Smith to the labour commanded theory that forced Smith towards a cost of production theory in the first place. In other words 'labour commanded' did not impede, but promoted Smith's 'adding up' theory because labour commanded no longer equalled labour embodied under capitalism, Smith dropped labour embodied and sought another explanation for the components of price - the sum of the rewards to the factors - thus maintaining the primacy of the labour commanded theory. More on Emmanuel's interpretation of Smith later.

(b) David Ricardo

There were two important sources for the contradictions contained in Adam Smith's work. Firstly, his adoption of 'labour commanded' as the real and invariable measure of value of commodities; and secondly, his assumption that 'labour commanded' (in the form of the reward to labour or wages) was equivalent to the labour embodied in a good. When David Ricardo came to write his Principles of Political Economy it was developing and working through the problems in Smith's theory of value which proved to be one of his main tasks. Ricardo agreed completely with Smith that it is labour (not utility) which is the source of all exchange value. "If the quantity of labour realised in commodities regulate their exchangeable value, every increase of the quantity of labour must augment the value of that commodity on which it is exercised, as every diminution must lower it." [Ricardo, 1973, p.7] But by "quantity of labour realised" Ricardo essentially meant it was "labour embodied" alone which regulated exchange value, and Ricardo rejected completely Smith's 'labour commanded' approach as a real measure of value.

> "Adam Smith, who so accurately defined the original source of exchangeable value ... has himself erected another standard measure of value ... sometimes he speaks of corn, at other times of labour as a standard measure; not the quantity of labour bestowed on the production of any object, but the quantity which it can command in the market: as if these were two equivalent expressions ... If this indeed were true, if the reward of the labourer were always in proportion to what he produced, the quantity of labour which that commodity would purchase, would be equal, and either might

> accurately measure the variations of other things; but they are not equal; the first is under many circumstances an invariable standard, indicating correctly the variations of other things; the latter is subject to as many fluctuations as the commodities compared with it." [Ricardo, 1973, Ch.1, Sec.1, p.7]

Ricardo, therefore, comes down unequivocably in favour of a labour embodied theory of value, and against Smith's labour commanded theory, and as a result removes the problem of having to maintain consistency between the two. The path is now clear for Ricardo to elaborate further the 'labour embodied' theory of value which Smith had been forced to abandon under capitalism.

Ricardo goes on in Section III of his chapter on Value to examine the problem of capital, as well as 'labour' entering production. But for Ricardo, the introduction of capital does not present a problem, because capital represents the 'past labour' employed in producing the implements of capital, which is employed in conjunction with the 'living labour' currently employed. Ricardo states:

> "Not only the labour applied immediately to commodities affect their value, but the labour also which is bestowed on the implements, tools, and buildings, with which such labour is assisted." [Ricardo, 1973, Ch.1, Sec.III, p.13]

Value, therefore, is determined by 'labour embodied', but this 'labour is composed of both past and present labour. Ricardo then takes Smith to task, arguing that even in Smith's 'early state' some capital existed. In Smith's famous beaver and deer example, the weapons used were capital, and the time taken to kill the animals included not only the time necessary to hunt, but also the time necessary to produce the weapons of destruction. Ricardo, therefore, quite categorically argued for a 'labour embodied' theory of value under developed capitalism.

Ricardo then took his examination of this question further in Section III of Chapter 1 of the Principles. Given it is labour embodied (past and present) alone which determines value, then the relative or exchange values of commodities can only be affected by a change in the time needed or quantity of labour bestowed, in their production. So long as the capital employed, argued Ricardo, is of equal value and equal durability in the different branches of production, then a change in wages can have no effect on the relative values of commodities, given wages are the same (or equalised) throughout the economy. Ricardo goes on to elaborate this point using his deer and salmon example. Given capital of equal durability and value in both, and given it takes a day's labour to catch one deer and a day's labour to catch two salmon, then:

> "The comparative value of the fish and the game would be entirely regulated by the quantity of labour realised in each, whatever might be the quantity of production or however high or low general wages or profits might be ... The proportion which might be paid for wages is of the utmost importance in the question of profits; for it must at once be seen that profits would be high or low exactly in proportion as wages were low or high; but it could not in the least affect the relative value of fish and game, as wages would be high or low at the same time in both occupations ... and therefore, under all variations of wages and profits, under all the affects of accumulation of capital, as long as they continued by a day's labour to obtain respectively the same quantity of fish and the same quantity of game, the natural rate of exchange would be one deer for two salmon." [Ricardo, 1973, Ch.1, Sec.3, pp.15-16]

Ricardo, therefore, quite explicitly adopted the 'labour embodied' theory of value under capitalism, and he also adopted the logical conclusion of that theory: given it is labour time, then it cannot be the rewards to the factors (i.e. wages plus profits) which determine relative values under capitalism. Ricardo therefore completely rejected Smith's 'adding up' theory under capitalism. For Ricardo, wages and profits are in inverse proportion. Any increase in wages will lead to a fall in profits, and vice versa, with no affect on relative values. However, Ricardo does then encounter a problem. All this is argued on the basis of one crucial assumption: that the capital employed in the different branches of production is of equal proportions and durability. In reality, though, as Ricardo himself recognised, this is not a realistic assumption. In Sections IV and V of Chapter 1 of the Principles, however, he goes on to consider the more realistic case of the employment of capital in different proportions and of different durability in different branches of production, and the effect of that on his labour embodied theory of value. It is with regards to these sections that Emmanuel argues Ricardo makes the transition from a primitive to an advanced capitalist economy, and so it is of some importance to us. Ricardo now finds that when capitals are employed in different proportions and durability: "A rise in the wages of labour cannot fail to affect unequally commodities produced under such different circumstances." [Ricardo, 1973, Ch.1, Sec.IV, p.19] In other words, when capital is employed in equal proportions, their relative values or prices are unaffected by a uniform change in wages, only their rate of profit (which given they employ the same proportion of capital, is equally affected). But, when capital of different proportions or durability is employed, a change in wages can affect the relative values or prices of different commodities differently.

The main reason for this change is that, not only in Ricardo's view is there an equalisation of wages (i.e. they will always remain uniform throughout the economy), but there is also an equalisation of profits. Therefore, any general rise in wages would also lead to a fall in the general rate of profit (note Ricardo still holds in the general case to wages and profit being in inverse relation). Ricardo then gives an example, using manufactured goods and corn, where the quantity of fixed capital is far higher in the production of manufactured goods than corn. If a general rise in wages were to lead to a fall in the general rate of profit from 10% to 9% this would affect the price of the manufactured goods containing a larger fixed capital far more than it would affect the corn containing no fixed capital. Given profit is now being calculated as a percentage of the fixed capital employed, the greater that fixed capital the greater the fall in relative price resulting from a fall in the general percentage rate of profit (and a corresponding rise in wages).

This argument can be seen using Ricardo's own example in Section IV of the Principles. Assume in Year I that the cloth manufacturer employs 100 men at £50 per annum each to make a cloth-making machine, and the farmer 100 men at £50 per annum to grow corn. At the end of the year the cloth machine and corn would have equal values. If in the second year the process were to be repeated, except that the cloth manufacturer were to use the 100 men to produce cloth using the machine built in the previous year (i.e. now employing a larger percentage of fixed capital than the farmer) then the relative prices would be affected by the fact that profit must also now be calculated on the machine (assuming that as fixed capital it is not - according to Ricardo's assumptions - used up wholly or partially in that production year).

TABLE OF RICARDO'S EXAMPLE (£)

	Labour	Capital	Rate of Profit	Relative Price = Labour + Profit
YEAR I			@ 10%	
Corn	5,000	0	500	5,500
Cloth Machine	5,000	0	500	5,500
YEAR II			@ 10%	
Corn	5,000	0	500	5,500
Cloth	5,000	[5,500]*	500(L)	
			+550(K)	6,050
YEAR III			@ 9%	
Corn	5,046	0	454	5,500
Cloth	5,046	[5,500]*	454(L)	
			+495(K)	5,995

* Employed from previous production year, but as fixed capital not used up in the current production year (Ricardo's assumptions).

Examining years I and II of the table, as a result of the employment of fixed capital, relative prices have been affected. But consider further, Ricardo argues, the effect of a general increase in wages and consequent reduction of profits so that profits fall from 10% to 9% in both branches of production. Ricardo does not give exact figures for this, but keeping as closely as possible to Ricardo's example let us assume that there is an increase in wages of labour to £5,046, this reduces profit to 9% or £454 on the labour employed, leaving the price of the produce of living labour unchanged at £5,500. (Notice here Ricardo is adhering strictly to his labour embodied theory of value - see Ricardo, 1973, p.22.) But this change in the rate of profit resulting from a change in wages will affect cloth employing a large proportion of fixed capital in addition to its living labour differently to the price of corn.

In year III, therefore, given Ricardo's assumptions underlying his model, an increase in wages (and consequent change in the rate of profit) will lead to a change in the relative prices of corn and cloth. The general conclusion he reaches from this is that:

> "The degree of alteration in the relative value of goods, on account of a rise or fall of labour, would depend on the proportion which the fixed capital bore to the whole capital employed." [Ricardo, 1973, p.22]

The larger the proportion of fixed capital employed, he argues, the greater the fall in its relative price, and the smaller the proportion of fixed capital employed, the greater the rise in its relative price (as in the Table). However, Ricardo then goes on to argue that it would be wrong to give too much importance to the "effect produced by a rise or fall of labour" and consequently he says:

> "though I shall occasionally refer to this cause of variation, I shall consider all the great variations which take place in the relative value of commodities to be produced by the greater or less quantity of labour which may be required from time to time to produce them." [Ricardo, 1973, p.23]

In other words, Ricardo does not allow this "modification" of his theory of value to stand in the way of the fact that under capitalism it is labour time taken to produce a commodity which is the essential determinant of its value.

In Section V of the Principles, Ricardo gives similar consideration to the effect of different durabilities of capital on the relative prices of commodities, and again he reaches a similar conclusion: that when capital employed has a particularly high durability, a rise in wages leads to a fall in the relative price of commodities, but when capital employed has low durability, a rise in wages leads to a rise in relative prices. And so, again, Ricardo seems to have found himself in an inescapable problem: that the employment of capital of different durability or proportions leads to a serious modification of his labour embodied theory of value under capitalism. But at worst this only leads Ricardo to modify his labour embodied theory, it does not lead him to abandon it. This is shown repeatedly by Ricardo. His initial response to the problem is to explore the possibility of an invariable measure of value which is not subject to fluctuations resulting from changes in wages because it is always produced using capital of average durability and proportions, and is always produced using the same quantity of labour. He admits that such a standard measure does not exist, but if we took gold as its nearest approximation, then we would have a standard for measuring the "most important" cause of variations in the relative values of commodities: "varying quantities of labour required for production"[2].

Ricardo goes on, finally, to argue his case against Adam Smith and in favour of a 'labour embodied' theory of value under capitalism:

> "Before I quit this subject, it may be proper to observe that Adam Smith, and all the writers who have followed him have, without one exception that I know of, maintained that a rise in the price of labour would be uniformly followed by a rise in the price of all commodities. I hope I have succeeded in showing that there are no grounds for such an opinion, and that only those commodities would rise which had less fixed capital employed on them than the medium in which price was estimated, and that all those which had more would positively fall in price when wages rose. On the contrary, if wages fell, those commodities only would fall which had a less proportion of fixed capital employed on them than the medium in which price was estimated; all those which had more would positively rise in price." [Ricardo, 1973, p.29]

In other words, it is only where the production of commodities fluctuates from the medium that for Ricardo a change in wages can affect a change in relative prices, and he categorically rejects the view that "a rise in the price of labour would be uniformly followed by a rise in the price of all commodities". So, for Ricardo, any changes in prices in an economy resulting from a change in wages will even themselves out, and in the end, even under capitalism, it is relative labour time expended in production which determines relative values of commodities[3]. This point is reinforced at the end of Section VI when Ricardo remarks:

> "It is necessary for one also to remark that I have not said, because one commodity has so much labour bestowed upon it as will cost £1,000, and another so much as will cost £2,000, that therefore one would be of the value of £1,000 and the other of the value of £2,000; but I have said that their value will be to each other as two to one, and that in those proportions they will be exchanged ... I affirm only that their relative values will be governed by the relative quantities of labour bestowed on their production."
>
> [Ricardo, 1973, pp.29-30, my emphasis]

We have examined Ricardo's treatment of the labour theory of value under capitalism in Chapter 1 of the *Principles* at some length, and I think we have established quite clearly, using extensive quotes from Ricardo himself, that: (i) under capitalism the labour theory of value was not invalidated by the introduction of capital, as capital was the equivalent of past labour, which is commensurable with living labour; (ii) when capital is employed in different proportions and/or durability this leads to important modifications of the labour theory of value, but that the fluctuations in relative prices caused by a change in wages even themselves out around the medium; and (iii) despite these problems, Ricardo *never abandoned* the labour theory of value under capitalism, at worst he saw it as being modified by the durability of capital, but still he affirmed that it was the relative quantities of labour bestowed in production which was the primary determinant of relative values.

The reason we have dwelt at such length with the theory of value elaborated by Ricardo is that it plays an important role in providing the foundation of Emmanuel's work, yet it can be argued Emmanuel gives a potentially serious misrepresentation of that theory. In his chapter on Equilibrium Prices in Internal Exchanges, Emmanuel spends nearly two pages summarising Ricardo's theory. His aim is to show, as he has done with Smith, that "the idea of a modification of exchange value through the intervention of a second factor was frankly tackled by the classical economists and fully integrated into their theory", and that this equally applied to the work of Ricardo. Emmanuel argues that "the transition from the simple to the developed form of exchange value takes place between Section 3 and Sections 4 and 5 of the first chapter of his Principles", [op. cit, p.17] but that any fluctuations depend as we have seen on the deviation of the capital ratio in that particular branch of production from the average. Having stated this, however, Emmanuel then fails to state the conclusion Ricardo actually draws. Instead Emmanuel diverts us into a side issue. Emmanuel's summary continues:

> "Intoxicated by this discovery, he [Ricardo] dwells especially on its most sensational aspect. He goes on at length, and with much detail, about what he himself calls the 'novelty' [i.e. the effect of a change in wages on prices - SB] and neglects the other aspects of the problem, particularly its link with the equalisation of profits." [U.E., p.17]

Emmanuel then summarises Section 3 where Ricardo holds to the labour theory of value so long as capitals are employed in equal proportions and durability; and Section 4, where the proportions of capital vary, and Section 5, from where I will quote Emmanuel at length:

> "And in Section 5 he [Ricardo] writes: 'Every rise of wages, therefore, or which is the same thing, every fall of profits, would lower the relative value of those commodities which were produced with a capital of a durable nature, and would proportionally elevate those which were produced with capital more perishable. A fall of wages would have precisely the contrary effect.' The last quoted passage explains why Ricardo speaks, throughout all these parts of his work only about wages, saying nothing about profits. As soon as the equalisation of profits is assumed, variations in the general rate of profit can only follow (taking the opposite direction) those of wages, since profit is, from the classical standpoint, only a residue or what remains of production after the physiological subsistance minimum has been ensured to the workers." [U.E., pp.18-19]

There Emmanuel's summary of Ricardo ends. In other words, he starts by trying to show us how Ricardo had made the theoretical transition from a simple to a developed form of exchange economy in order to support Emmanuel's own thesis that the labour theory of value no longer holds under capitalism. But given Ricardo's 'modification' of the labour theory of value under capitalism does not, as we have seen, actually amount to a repudiation of the labour theory of value itself, Emmanuel then side steps this issue, and concentrates instead on the (not necessarily unimportant) issue of the relation between wages and profit in classical political economy. And Emmanuel does not directly state, in his summary: (i) that capital for Ricardo is equivalent to past labour; and consequently (ii) that Ricardo never repudiates the labour theory of value as such under capitalism. However, Emmanuel's approach, I would argue, is not fraught with deception, rather it is fraught with contradiction. In the next section, after summarising Ricardo, Emmanuel goes on to examine James Mill's <u>Elements of Political Economy</u>. Again Emmanuel returns to the question of rises and falls in prices compensating each other "which implies that the total of all equilibrium prices, as determined by the addition of a second factor, is strictly equal to the total of all value, as they would be reckoned in quantities of labour if this second factor were not present" [U.E., p.20]. So now Emmanuel is returning to the possibility of the labour theory of value operating under capitalism, but only as "if this second factor were not present". Emmanuel goes on:

> "This idea is not to be found - not at any rate so directly and clearly formulated - in any of the other classical writers. Here James Mill links up, over the heads of Ricardo and John Stuart Mill, with Marx's formula of prices of production. <u>This equivalence between the sum of values and the sum of equilibrium prices constitutes, indeed, the strongest argument against those who see the classical economists' theory of equilibrium prices, or Marx's theory of prices of production, as repudiating the original labour theory of value."</u>
>
> [U.E., p.20, my emphasis]

So Emmanuel is now coming down, inadvertently, on the side of the labour theory of value operating (as "if the second factor were not present") under capitalism. Yet central to his own argument has been the fact that the labour theory of value does not operate under capitalism, and therefore he is now arguing against himself, as one who repudiates "the original labour theory of value".

(c) Emmanuel's Treatment of the Problem: A Critical Assessment

What we see, therefore, from Emmanuel's own summary of classical political economy is that his account amounts in many respects to a misrepresentation, but that this misrepresentation results not from deception, but from contradiction; and this contradiction is the result, I would argue, from a failure to fully clarify or comprehend the issue at hand.

The issue of a transition from a simple to a complex capitalist economy is not an easy one; it is one which perplexed classical political economy from Smith right through to Ricardo, and was only finally overcome by Marx through his distinction between, and transformation of, value and prices of production. There were two essential problems confronting the development of the labour theory of value under classical political economy: (i) whether or not the labour theory of value could be applied to a complex capitalist economy, once capital enters into production (this was Smith's problem, resolved by Ricardo who made capital commensurate with past labour); and (ii) given the labour theory can be applied, the problem that given different ratios and durability of capital, changes in wages were able to effect changes in relative prices apparently in contradiction with the labour theory of value (this was Ricardo's problem, only later resolved by Marx by making the distinction between values and prices of production).

Emmanuel, however, does not make the distinction between these two problems. Well before examining the treatment of the problem by classical political economy, he has already quite categorically established the central premises of his own position. Despite repetition, let us again recall the starting point of Emmanuel's argument:

> "With the coming of capitalist relations the labour theory of value in its primitive form found itself at a dead end, and a change in the original form of value became necessary. At this point calculation of exchange value on the basis of the respective amounts of the factors and calculation on the basis of the respective rewards of the factors, that is, costs of production, diverge and separate from each other. In fact the first type of calculation becomes impossible, and no exchange value can be found apart from the rewarding of the factors, <u>since the only common denominator between the two factors that makes the sum of the amounts commensurable is the rate at which they are rewarded</u>." [U.E., p.15, emphasis in the original]

From this quote, which Emmanuel often repeats in different words (but also, as we have seen, sometimes, as is his wont, contradicts), and given our detailed examination of the work of Smith and Ricardo, I think it is fair to argue that Emmanuel never makes the transition, made by Ricardo but not by Smith, from a labour embodied theory of value in a simple economy to a complex economy. Therefore, the theory which forms the foundation of Emmanuel's argument for unequal exchange is not 'Marxian' (as we have already seen), it is not 'Ricardian', but it is 'Smithian' - in other words it identifies primarily with the work of Smith within the body of theory which comprises the school of classical political economy. We must examine this thesis in more detail.

The central reason, Emmanuel argues, why the labour theory of value is not applicable under complex capitalism is that once capital enters production capital and labour are not commensurable. But this is similar to Smith's argument as to why the labour embodied theory should be abandoned under capitalism. When Emmanuel discusses Smith's work, he concentrates on the confusion created by Smith's 'labour commanded' theory of value. Quite correctly Emmanuel refutes this theory. But having done so, he retains what we have argued earlier was the consequence of this theory. Smith did not directly make the commensurability of capital the central problem (in his time capital was not employed in large quantities anyway).

For Smith, the central problem was the fact that once capital entered production, labour embodied no longer equalled, but was less than, labour commanded because of the inclusion of profit and rent. Therefore, he argued, once the profit of stock had to be paid, it is no longer labour, but the rewards to the factors (wages, profits and rents) which form the components of labour commanded. In other words, for Smith it was the lack of commensurability of the profits of stock that was the problem, not the lack of commensurability of the stock itself (which he did not directly consider) - and this problem is reflected in Smith's switching between profit being derived from labour to being derived from the use of capital (although obviously the logical implication of disassociating profit from labour is to dissassociate capital from labour). Emmanuel, having rejected the labour commanded theory, is still left with the problem of commensurability. For him, he is quite clear that the rewarding of the second factor, capital, is connected, like Smith "with the use of capital" [op. cit., p.16]. Therefore, Emmanuel, like Smith, associates profits with capital and wages with labour (failing again to distinguish between 'labour' and 'labour power', cf Marx). He fails, even more than Smith, to make any abstract theoretical connection between the two on the basis of abstract labour. Given there is no physical commensurability between the two, he then resorts to the most extreme of Smith's positions: that exchange value under capitalism is determined by the only "common denominator" the rate at which the factors are rewarded, i.e. Smith's adding up theory.

That this is not Ricardo's position can be quite clearly shown. In his summary of Ricardo, Emmanuel completely failed to detail the fact that for Ricardo the existence of capital per se poses no problem. In Section 3 of the Principles, Ricardo clearly states that the value of the elements of production is determined by the quantity of labour bestowed on their production, and therefore labour (living labour) and capital (past labour) are perfectly commensurable. What Emmanuel does detail, though, is that so long as that capital is employed in equal durability and proportions, no modification of the labour theory of value is necessary. But the reason Emmanuel is able to consistently incorporate this is because then we can operate "as if the second factor were not present", because labour alone could give us a clear view of the ratios of labour values. However, this is not Ricardo's view. Ricardo never operated as if the second factor were not present, the only thing Ricardo did do, in order to try and get around the problem of wages affecting relative prices when capital was employed in different proportions, was to search for some invariable standard (the nearest approximation being gold) which represented the medium of labour and capital, because at the medium wages had no effect on relative prices, only the different quantities of labour being bestowed in production. But as a result of overcoming this problem of commensurability of labour and capital, Ricardo quite categorically rejected Smith's adding up theory, and this has been documented at length by Piero Sraffa in his introduction to Ricardo's Works:

> "The importance which Ricardo came to attach to the principle that the value of a thing was regulated by the quantity of labour required for its production, and not by the remuneration of that labour, reflected his recognition that what his new theory was opposed to was not merely the popular view of the effect of wages on prices but another and more general theory of Adam Smith ... what Ricardo referred to in writing to Mill as Adam Smith's 'original error reprecting value'. This latter theory, in brief, was that 'as soon as stock has accumulated in the hands of particular persons' ... the price of commodities is arrived at by a process of adding up wages, profit and rent."
> [Sraffa Ed., Ricardo, 1951, p.xxxv]

Ricardo, therefore, quite categorically rejected Smith's (and therefore Emmanuel's) view that under capitalism it is the rewards to the factors which determine relative exchange values. To pursue Ricardo's position on this a little further, it is true that because of the problems Ricardo encountered in developing the labour theory of value under capitalism, he was led, in his famous letter to McCulloch, to question the primacy of that theory:

"I somethimes think that if I were to write the chapter on value again which is in my book, I should acknowledge that the relative value of commodities was regulated by two causes instead of one, namely, by the relative quantity of labour necessary to produce the commodities in question, and by the rate of profit for the time that the capital remained dormant, and until the commodities were bought to market. Perhaps I should find the difficulties nearly as great in this view of the subject as in that which I have adopted." [Ricardo to McCulloch, 13 June 1820, Ricardo, Sraffa Ed., 1951, p.xxxix]

This questioning of the labour theory of value by Ricardo has led some, such as Professor Hollander, to argue that Ricardo effectively renounced the theory towards the end of his life. However, Piero Sraffa in his introduction to Ricardo's Works produces comprehensive evidence that this was not the case [Sraffa Ed., 1951]. However to return to our central point of the dissimilarity between Ricardo and Emmanuel's theoretical foundation, this quote from Ricardo's letter to McCulloch shows that, at the very worst, Ricardo sought to supplement the labour theory of value under capitalism (i.e. that there were now "two courses" regulating the value of commodities) - but that he never, as Emmmanuel does, abandoned it altogether.

There is also one other aspect of the relation between Emmanuel's theoretical foundation and the work of Smith and Ricardo which it is important to discuss: this is the relation between wages and profits. We saw in the last chapter when discussing Marx that this relation plays a contradictory role in Emmanuel's work. At one time (and by any interpretation this is his main argument) Emmanuel argues that under capitalism "no exchange value can be found apart from the rewarding of the factors" [UE, p.15) (note he refers to "exchange value" not price or price of production). Now the logic of this position is a logic which, as we have seen, Smith drew: an increase in the reward to one of the factors (e.g. wages) will uniformly increase exchange value and therefore price. However, Emmanuel's position is not as simple as this. Having established that it is the rewards to the factors which determine exchange value because of the lack of commensurability of capital, Emmanuel a few pages later, goes on to discuss the situation where capital is employed, but always in equal proportions or in proportions equal to the social average. "Here", says Emmanuel, "it is clear that the rate of wages has no influence on prices, since it has none on values. Value being the sum of the two variables inversely related to each other, paid labour and unpaid labour, it naturally remains constant whatever the ratio of these two magnitudes" [U.E., p.21, my emphasis]. So now he introduces the idea of profits being "unpaid labour" and of wages and profits being in inverse relation to each other. This idea is then maintained to a certain degree, as we have seen, when he employs a framework similar to Marx's table of the prices of production. Again he talks of "value added is 120 (v + m) of which wages absorb one half and profits the other" [op. cit]. And throughout his use of the tables of the prices of production Emmanuel maintains the idea that if wages are high, profits are low and vice versa, i.e. that there is some inverse relation (prior to equalisation of profits) between wages and profit. This position would imply that Emmanuel is possibly closer to Ricardo on this issue than Smith. For Ricardo always held that profits were in inverse relation to wages so long as the labour theory of value held, and capital was employed in the same proportions and durability; whereas for Smith an increase in wages leads to an increase in prices, i.e. wages affect prices not profits.

However, Emmanuel then goes on to quite clearly contradict his own position. In Section 6 of the chapter on Equilibrium Prices in Internal Exchanges he examines "Causes and Effects". He argues that at first glance there does not seem to be any rational proof as to whether equilibrium prices determine the rewards to the factors, or the other way round. Under 'primitive society', where only one factor of production existed there was no problem: "To show that equalisation of the rewards of the single factor was necessary in order to achieve equilibrium was enough to show, by the same reasoning, that it is the conditions of production and not the market that determine equilibrium prices, since equalisation being given, only one point of equilibrium was possible" [U.E., p.22]. This, to me, is now very reminiscent of Smith's position, that under a primitive one factor economy the conditions of the market (cf Smith's labour commanded = wages) are equivalent to the conditions of production (cf Smith's labour embodied = wages), and that therefore there is no problem for exchange values and equilibrium prices. Emmanuel continues:

> "Immediately after a second factor comes into play, however, the direction in which determination takes place is no longer clear. For prices of production or equilibrium prices no longer depend exclusively on the mere fact of the equalisation of wages and profits. They depend to an equal degree on the level of both ... To each increase or decrease in the general rate of wages, and so to each increase or decrease in the general rate of profit, there will correspond a different group of equilibrium prices (prices of production)" [U.E., p.23].

He then goes on, using the tables of the prices of production, to give an example of the effect of a 50% increase in wages. This example is set out below, the old figures in brackets being the figures prior to the rise.

Branches	c	v	m	V c+v+m	T *	p T(c+v)	L c+v+p
I	80	30(20)	10(20)	120		10(20)	120(120)
II	90	15(10)	5(10)	110	$9\frac{1}{11}$%	$9\frac{6}{11}$(20)	$114\frac{6}{11}$(120)
III	70	45(30)	15(30)	130	(20%)	$10\frac{5}{11}$(20)	$125\frac{5}{11}$(120)
Total	240	90	30	360		30	360

c = constant capital
v = variable capital
m = surplus value
v = value
T = rate of profit
p = profit
L = price of production

$$* \quad \frac{\Sigma m}{\Sigma c + \Sigma v}$$

Source: U.E., pp.21-23

Emmanuel then slips back to his old position of an inverse between wages and "surplus", arguing the values have not changed (because, as can be seen, an increase in wages has led to a corresponding fall in "surplus value" or m); but prices of production have changed except in branch I where there is the average composition of capital. Emmanuel then goes on to pose the question: "How then can we say whether it is the alteration in wages that has determined the alteration in equilibrium prices or whether it is the latter, due to supply and demand, that has determined the alteration in wages" [op. cit., p.23]. Simply the posing of this question involves exactly the same reasoning as Smith. Once the formal equivalence of production and exchange conditions breaks down under capitalism, Emmanuel like Smith, seeks the solution to equilibrium price solely in the sphere of exchange.

Emmanuel then goes on to argue that under "classical pre-Marxian assumptions" it was always wages that determined prices because wages were always given by the biological minimum needed for subsistence, and it was not until Marx that an additional element was allowed attributable to "sociological and historical" conditions. However, it is wrong to say that no one prior to Marx allowed for a social and historical element in wages. Smith (unlike Ricardo) did allow for such an element. Emmanuel continues "with this expansion of the limits of wages we open up the theoretical possibility that wages, and thereby profits, may be determined by market forces. From that point onward it seems that we cannot make that choice of direction of determination which we need to make if we are to go forward in this analysis, otherwise than on the basis of empirical considerations" [U.E., p.24]. This conclusion, in line with Emmanuel's whole approach, has (as we have seen in the last chapter) nothing to do with Marx, it is akin to Smith's conclusion regarding wages and profits. For once Smith had abandoned his labour embodied theory under capitalism, and resorted to his adding up theory, then the three components of price were no longer determined by production conditions, but were determined in exchange, or by "market forces", and by "empirical considerations". However, it could be argued that, despite the similarities between Emmanuel and Smith, Emmanuel does in his tables of production formally hold to the level of "value" being unaltered by a change in wages (only surplus value being affected), and that unlike Smith he is only refining the prices of production. This is certainly a contradiction in Emmanuel's work. At one time he categorically states that under capitalism it is only the rewards to the factors which determine exchange value, at another he implies that value is composed of "surplus value" which is in inverse relation to "variable capital" i.e. wages, in which case it could be a residue of the product of labour once wages are paid (a possibility, of course, previously denied by Emmanuel). But exactly the same contradiction, as we have seen, exists in Smith. At one point, under capitalism, Smith talks of the "value workmen add to materials" resolving itself into two parts, wages and profit, at another he talks of "natural price" being determined by wages, profits and rent. The only difference between Smith and Emmanuel is that in Smith this contradiction is elaborated in rather a crude fashion, whereas in Emmanuel it is elaborated through the much more sophisticated mechanism of the tables of the prices of production, and hence the contradiction is perpetuated in a slightly more subtle way.

Emmanuel then goes on to give further "empirical consideration" to "causation and effect" regarding relative prices and the rewards to the factors, and he comes to this conclusion:

> "We can thus conclude that, despite the reservation laid down at the start of this discussion, even in a model of perfect competition, it is not relative prices that determine the rewards of the factors, but the relative rewards of the factors that determine prices, if we assume that the two factors present are homogeneous and competitive. The correspondence shown in Marx's diagram of prices of production are not reversible. Wages and profits are indeed the independent variables in the system, and prices the dependent variables." [U.E., p.28]

In other words, as we have seen, with the rewards to the factors being made the independent variable, Emmanuel is able to go on to set up the central kernel of his whole theory of unequal exchange; that it is an increase in wages which leads to an increase in equilibrium relative to prices of goods. But this argument is based on a theoretical foundation which, in my view, is a complete reaffirmation of Smith. To quote one more time from Smith:

> "Wages, profit and rent are the three original sources of all revenues as well as of all exchangeable values." [Smith, 1905, p.53]

And later:

> "The natural price itself varies with the natural rate of each of its component parts, of wages, profit and rent: and in every society this rate varies according to their circumstances, according to their riches or poverty, their advancing, stationary, or declining condition." [Smith, 1905, p.64]

In his chapter on Equilibrium Prices in Internal Exchange, Emmanuel elaborates the theoretical foundation on which he goes on to build his theory of unequal exchange. Emmanuel builds his theory of equilibrium price in exchange within the general framework of the "political economy" of Smith, Ricardo and Marx, in contradistinction to the theoretical framework of neo-classical theory. But there are quite broad areas of divergence within 'political economy' between these three theoreticians. We have seen that Emmanuel's theory has also been described as 'Ricardian', a description perpetuated, as we will see in a later chapter, by the treatment of Emmanuel's theory using Sraffian price equations. However, what I argue is that Emmanuel's theory is <u>not</u> Ricardian; that in its essential elements Emmanuel's theory is a re-affirmation, using a more sophisticated apparatus, of Smith's 'adding up' theory; and that it is Smith's 'revenues to the factors' which Emmanuel integrates into Marx's framework for the transformation of value into prices of production. Whilst there are many superficial similarities between Ricardo's and Emmanuel's work, these similarities reflect the fact that Ricardo himself built his theory of Value from the foundations laid by Smith, and also found himself unable to resolve some of the problems initially encountered by Smith. But there are three key features which distinguish Ricardo from the work of both Smith and Emmanuel: (i) the view that the labour theory of value only holds under a primitive, one (labour) factor economy; (ii) that 'capital' and 'labour', are not commensurable; (iii) that under a capitalist economy it is the rewards to the factors (wages, profit and rent), and not labour embodied, which determines relative exchangeable values. These are all Smithian postulates, rejected by Ricardo, but held to by Emmanuel, who makes them central to the theoretical basis of his work. Having argued that it is a 'Smithian' theory of value which Emmanuel is using to build his theory of Equilibrium Prices in Internal Exchange, we must now go on and examine the implications of this for external exchange, and hence his theory of unequal exchange in trade.

2. EQUILIBRIUM PRICES IN EXTERNAL EXCHANGE

In the next chapter, on Equilibrium Prices in External Exchange, Emmanuel goes on to apply the theory he developed in internal exchange to external exchange or trade between countries. When examining external exchange, as we have seen, he makes an important modification to the assumption made in internal exchange that labour and capital are mobile (i.e. can move freely from one industry to another) and that therefore the rewards to the factors, wages and profits, are always equalised. Under external exchange Emmanuel assumes that whilst capital moves from country to country enough to equalise profits, the movement of labour is not sufficient to equalise wages. Hence, his theory of unequal exchange is pinned to the argument that given 'rich' countries have high wages and 'poor' countries have low wages, and with the equalisation of profits, the resulting prices of production are low for poor countries and high for rich countries, so that when trade takes place between them there is a transfer of surplus from poor to rich - which, according to Emmanuel, constitutes unequal exchange. Key to this theory is the argument which we examined in depth in the previous section, that wages (and profits) are the <u>independent</u> variables determining prices. Given profits, according to Emmanuel, are equalised internationally, this then leaves wages as the key independent variable determining the difference in equilibrium prices in external exchange and thus unequal exchange between nations. A logical consequence of this argument is that if somehow wages could also be equalised, then external equilibrium prices would be equalised (except allowing for different organic compositions of capital) and unequal exchange as such would cease.

There is, however, a problem (or contradiction) in Emmanuel's theory, which we identified when examining equilibrium prices in internal exchange - and this concerns the relation between wages and profits. On the one hand Emmanuel argues that under capitalism the labour theory of value ceases to apply and all exchangeable values are determined by the sum of the (independently determined) rewards to the factors; whilst on the other hand, when employing the tables of the prices of production, Emmanuel makes "surplus value" in inverse relation to "variable capital" (wages), implying that surplus value is a residue from the product of labour after wages are paid. Like Smith, Emmanuel leaves this contradiction unresolved in his book; but like Smith, if pushed, Emmanuel comes down on the side of the view that it is the sum of the rewards to the factors which is paramount in determining equilibrium price; and like Smith, Emmanuel also fails to give us a clear or consistent explanation of the source of profits - at one time they appear to be derived from the product of labour, at another time, and this he emphasises, from the <u>use</u> of capital. For Emmanuel himself, however, the question of profits is not at issue - it is wages, and especially the wage differentials between countries, which he makes central to his thesis, and consequently he details his theory of wages at length, leaving the question of profits to one side. But I believe, in examining his theory, the question of profits <u>is</u> important, because the interpretation of his theory of profits has quite important implications for his theory of unequal exchange in trade. If the "surplus value" used by Emmanuel in the tables (which then becomes equalised out to form the general rate of profit) <u>is</u> the product of labour, then it should be argued that the labour theory of value <u>does</u> hold under capitalism, and most of Emmanuel's thesis would have to be re-worked in that light. If, however, as Emmanuel categorically states, the labour theory of value does not hold under capitalism, then what is the origin of this "surplus value" which becomes equalised out into profit? The nearest we get to an explanation is that profit is for the "use" of capital. But like Smith, once Emmanuel employs an 'adding up' theory of value, he fails to give us any clear or consistent explanation of the source of profits, one of the two key components in exchange value. And this is a major weakness, because the transfer of profits is also central to unequal exchange. Let us pursue this question of profit further in the works of Classical political economy, and then return to the issue in Emmanuel's work.

(a) Smith Versus Neo-Mercantilism

The idea that countries grow rich as a result of a transfer of 'surplus' or profit is not a new one, and it has not escaped some critics that Emmanuel's theory bears an important resemblance to Mercantilism[4]. But classical political economy and especially Smith developed in opposition to the ideas of the Mercantilists. Mercantilism was the body of doctrine propounded by the merchants of the fifteenth to seventeenth centuries. These merchants were involved during the later part of the feudal era primarily in international trade. The merchants produced quite a large body of writing on international trade, but their main aim was not a theoretical or intellectual one. Given trade (not production) was their sole activity, their positions of control over the most important trading routes could only be maintained with the help of the state. Hence their writings were aimed at influencing the policies of the state in order to protect and maintain their privileged and monopoly positions over the main trade routes. Hence each merchant who wrote was interested in defending his own or his company's interests. As a result there was no single theory which could be called Mercantilist, but a collection of writings, often concentrating on different themes, and stimulated by the different issues and concerns of the moment. Despite a certain lack of theoretical articulation or cohesion in their writings, certain important theoretical threads run through their work, and it is these which provide the framework for the otherwise disparate body of thought called Mercantilism. We can sum up the most important ideas that are relevant to our discussion as follows: (1) Wealth is viewed as equivalent to bullion (gold and silver) the greater the stock of bullion a country possesses, the greater its wealth. (2) Wealth can only be acquired via international trade, i.e. wealth cannot be produced through internal production; and internal exchange only leads to a 'vibration' of the existing stock of wealth. (3) The aim of merchants, via trade, is to maximise their profits. Profit is "profit upon alienation", i.e. to make a profit, a merchant must buy low and sell high, the 'mark up' added being profit upon alienation. (4) That one country can only acquire wealth at the expense of another. In other words a country gets rich by selling goods above their value (equivalent to profit upon alienation) to other countries in return for bullion which forms the basis of a new stock of wealth. And in order to maintain this stock of wealth, there must always be an excess of exports over imports.

We can also distinguish two important schools within English Mercantilism on the basis of their attitude towards the balance of trade and bullion. There were those merchants, particularly during the early years of English Mercantilism, when the English merchants were on the defensive against the more powerful European merchants, who were involved solely in the carrying trade. They would simply export goods (e.g. wool) from England to the European ports and return with the bullion they had received in return, or they at most would carry goods from foreign lands to the European ports, and again would return with bullion. In defence of their activity, they argued the state would restrict the export of bullion, and only allow its import, in order to maximise the stock of bullion (and therefore wealth) held by the country. However, as the power of the English merchants grew against their European rivals, and particularly via the East India Company's control of the Indian trading routes, merchants needed to export bullion to finance their operations; they particularly became more involved in processing the goods in which they traded. As a result, some merchants argued against the restrictions on the export of bullion. They argued that the export of bullion was necessary in order to acquire through trade (and especially the processing of traded goods which took place around the English ports) a far larger quantity of bullion and hence, wealth. Therefore, although their ends were the same, the English Mercantilists differed over the means to those ends. In the end, as a result of arguments from companies such as the East India Company, restrictions on the export of bullion were lifted.

This dispute, and the views of what some have called the "later mercantilists"[5] were expressed by one of the most articulate of the seventeenth-century merchants, a director of the East India Company, Sir Thomas Mun:

> "Although a Kingdom may be enriched by gifts received, or by purchase taken from some other Nations, yet these are things uncertain and of small consideration when they happen. The ordinary means therefore to increase our wealth and treasure is by Forraign Trade, wherein wee must ever observe this rule: to sell more to strangers yearly than wee consume of theirs in value." [Sir Thomas Mun, extract from A.E. Munroe Ed., p.171 - original spelling]

This is in essence, therefore, a theory of unequal exchange in trade. Rich countries grow wealthy at the expense of poor countries by selling or exporting goods of a higher value than the goods they buy or import. However, as we have inferred before, this is essentially a theory based on pillage. Profit is solely profit upon alienation. No wealth can be produced internally. If a mark up is added to the cost of producing a good and that good is sold to a fellow citizen, then there is a vibration of wealth from the buyer to the seller, but there is no net addition to the country's wealth in the form of an addition to the stock of bullion or wealth. This can only be acquired by selling to a foreign buyer. And the more that can be sold and the higher the alienated profit, the more wealth a country can acquire. The limitations and one-sidedness of such a theory are obvious, and need not detain us. But they are not surprising given the time they were developed. Under feudalism, the internal mode of production was primarily based on subsistence, and what production for exchange and trade there was was tightly restricted by the guilds. The merchants (even when they became involved in processing around the ports) only, with some exceptions, operated around the perimeters of that society, mainly servicing themselves, the aristocracy and the Church. It was not until feudalism itself began to break down that the merchants became involved in internal production and commerce[6]. And it was not until this advance that the need for a more developed theory, making the more detailed and abstract connections between production, distribution and exchange became necessary.

With the development of a manufacturing and exchange economy, therefore, came the development of classical political economy. The leading and most famous early theoretician of this school being Adam Smith, a major opponent of Mercantilism. But Smith did not develop his theory in a vacuum. He was influenced not only by the French Physiocrats, whose macro-economic system was based solely on the productivity of agriculture; but also by the English and Scottish philosophers, concerned also with issues of political economy, such as Hume and Hutcheson. There was also no sudden, cataclysmic break in the transition from mercantile thought to the liberal theories of the eighteenth century. Although this is not the impression created by reading Smith, the decline of Mercantilism was gradual, and towards the end, some mercantile thinkers became directly concerned with explaining and understanding the emerging manufacturing economy of Britain. One of these later, or 'neo' Mercantilists was Sir James Steuart.

Steuart, like Smith, was Scottish, but came under very different influences to Smith. As a result of his support for the Young Pretender, he was exiled from Britain in 1746, and spent twenty years living in France and then Germany, where he worked on and wrote much of his

Principles of Political Economy, which was finally published in Britain nine years before the Wealth of Nations. Steuart was therefore influenced by the intellectual atmosphere predominant in France and Germany. Unlike earlier Mercantilists, but similar to the Physiocrats, Steuart elaborated the theory of a comprehensive economic system. To this extent he predated Smith. But unlike Smith, at the heart of his system lay the necessity for authoritative state control, and he shunned the individualism and economic liberalism that was to become the hallmark of Smith's system.

In his Principles of Political Economy, the influence of Physiocracy can be seen through his notion of agricultural surplus. But, unlike the Physiocrats, Steuart did not underestimate the importance of manufacturing in the economic system. However, because of his notion of profits, which was still heavily influenced by the Mercantilists, he did not believe that manufacturing, of itself, could add to the net wealth of a nation. Yet his theory was certainly an advance on earlier Mercantilism. Steuart distinguished between two types of profit, 'positive profit' and 'relative profit':

> "Positive profit, implies no loss to anybody; it results from an augmentation of labour, industry, or ingenuity, and has the effect of swelling or augmenting the public good ... Relative profit, is what implies a loss to somebody; it makes a vibration of the balance of wealth between parties, but implies no addition to the general stock ... the compound is easily understood; it is that species of profit ... which is partly relative and partly positive ... both kinds may subsist inseparably in the same transaction." [Sir James Steuart, 1805, p.220]

In a sense, therefore, Steuart straddled Mercantilism and Classical Political Economy. He has a notion of profit resulting on the one hand from "an augmentation of labour", although he does not articulate this view in any greater depth; and on the other hand, profit is also profit upon alienation. His theory of price then reflects this dual notion. Price is determined by two factors: (i) cost of production or "the real value of the commodity" and (ii) "the profit upon alienation". The cost of production is the lower limit, below which price cannot fall. It is determined by (a) the number of units produced in a given period of time; (b) the value of the workman's subsistence; and (c) the value of the raw materials. It is here, argues Sen, that the "dual source of value" enters Steuart's theory, as he takes a "labour-plus-a-little-land" concept of real value reminiscent of Petty, Locke and Cantillon [Sen, 1957, p.69]. But although Steuart does not articulate it any further, implicit is certainly the notion that labour contributes to "real value". But cost of production, or "real value" provided only the lower limit of price. The upper limit is determined by supply and demand, but in Steuart's work the emphasis is especially on demand. The higher the demand, the higher the price, and therefore the higher the "profit upon alienation". It was here that the neo-Mercantilist element played an important role in Steuart's work. Exchange internally within a nation, whilst beneficial in the sense that it involved an exchange of use values, only constituted a vibration of wealth between the exchanging parties. But an exchange externally between nations, which constituted a vibration of wealth between nations, meant that one nation's gain was another nation's loss. And a nation must always export more than it imports to maintain a favourable balance of trade, and hence stock of wealth.

An essential theme running through Mercantilism until the very end, therefore, is that profit is "profit upon alienation" and the wealth of a nation is acquired through foreign trade. It is certainly true to say that there are certain similarities between Mercantile doctrine and Emmanuel's theory of unequal exchange, particularly the notion that some countries grow rich at the expense of others through trade. However, theoretically there would appear to be major differences between them; and especially, if, as we have argued, the theoretical foundation of Emmanuel's theory is provided by 'Smithian' political economy. Because Adam Smith was one of the foremost opponents of Mercantilism. Smith opposed the Mercantilists on every count. He argued against the state interventionist policies of Mercantilism in favour of economic liberalism and the equilibrating tendencies of a free market economy; and most importantly, he argued that the wealth of a nation was not acquired through trade, but was acquired through production of goods by labour within a nation. It was the demonstration of this point which formed the whole basis of Smith's Wealth of Nations. The key to Smith's argument was that labour is the source of all wealth. Hence the emphasis from the beginning Smith places on labour: it is the division of labour which increases the productivity of labour and hence the wealth (or goods) produced by labour; all wealth is measured by labour, hence labour commanded is the real measure of value; the components of that measure are also determined (in a primitive economy at least) by labour embodied in the production of goods. It was on the basis of these arguments that Smith was able to mount his major assault on Mercantilism. However, although Smith's work amounted to an essential qualitative advance over the previous theory in terms of providing a systematic theoretical analysis of the emerging capitalist system in all its complexities, his 'revolution' was not necessarily as decisive as he would have hoped.

As we have seen in our examination of the work of Sir James Steuart, the last of the Mercantilists themselves were making important advances in their understanding of the emerging capitalist economies. And I would argue that despite the qualitative leap taken by Smith, he was not able completely to throw off the cloak of his predecessors. The problem Smith encountered, as we saw earlier, was in applying his theory that labour was the source of all wealth and value to a more advanced capitalist economy. Once labour embodied (equivalent to wages) ceased to equal labour commanded because of the inclusion of profit and rent, Smith ceased to make labour alone the component of value, but turned instead to the sum of the rewards to the factors, as an explanation of exchangeable value. But then Smith has the problem of finding the independent determinants of these three "original sources" of exchangeable value. Wages he attributes to the subsistence of labour plus some historical and moral element. Rent he attributes to the natural productivity of the land (the influence of Physiocracy entering Smith's work here). Profits is more confused. At one time Smith attributes profit to the risk taken by the entrepreneur in using or investing in capital and the wages of superintendence of that capital, although he never identifies to what extent these determine profit; at another he attributes profit to the unpaid labour of the labourer. This confusion arises, I believe, because he can never completely abandon labour as the source of profit, because of the importance of his argument that labour (not trade or exchange) is the source of all the wealth of a nation yet he also never reverses his view of the real measure of value being 'labour commanded' which contradicts his 'labour embodied' theory under advanced capitalism. Hence this contradiction as to the real determinant of profit remains throughout his book. However, as we have seen, a similar contradiction, though for very different reasons, also exists in the work of Sir James Steuart. Steuart also recognises that labour plays an important role in determining what he calls "real value" or cost of production, and this includes not only the value of the raw materials, the subsistence of the worker, but also an element called "positive profit" (resulting from an augmentation of labour). But unlike Smith, Steaurt is a neo-Mercantilist, and anything over and above 'cost' must for him be "profit-upon-alienation" leading to the Mercantilist argument that it is only through trade that exchange can lead to anything more than a vibration of wealth. Smith, as a free trader and economic liberal, recoils from any such conclusion regarding the source of profit and therefore wealth. Hence, whenever his argument might lead to the conclusion that profit is a 'mark up' derived independently of labour, Smith reverts back to the view that profit is derived from labour, but the contradiction still persists in his work. Despite his important crusade against the Mercantilists, though, I think it is fair to argue that when Smith encountered problems, he reverted back to a certain extent to the views of his neo-Mercantile predecessors, and particularly the most advanced of their number, Sir James Steuart[7].

(b) Emmanuel and Neo-Mercantilism

Let us now consider the implications of this argument for Emmanuel's theory of unequal exchange. I have developed the thesis that Emmanuel's theory of equilibrium price in internal exchange is built on 'Smithian' political economy. Emmanuel maintains many of the contradictions of Smith, and although Emmanuel's model is far more sophisticated than Smith's, it is essentially Smith's 'adding up' theory which Emmanuel integrates into his tables of the prices of production. Having done this, Emmanuel, like Smith, then gives us a clear indication of the determinant of wages, they are determined by necessary subsistence of the workers plus a historical and moral element; but, like Smith, Emmanuel fails to give us a clear indication of the determinant of 'surplus value' or profit - under the 'adding up' theory, profit effectively becomes something 'added on' or 'marked up' for the use of capital. However, like Smith, Emmanuel also contradicts himself regarding profit, and in Emmanuel's theory this contradiction takes the form of profit (or 'surplus value' prior to the transformation of 'values' into prices of production) being made in inverse relation to wages (variable capital) - implying that possibly profit is a product of labour, although this has previously been explicitly rejected by Emmanuel. Emmanuel then goes on to modify his theory to deal with equilibrium price in external exchange. He now brings in the assumption that wages are not equalised, but profits are equalised between nations. He argues that it is the difference in wages which is the key to unequal exchange between nations. But I would argue that that is only half the story. The most important assumption in Emmanuel's theory is that profit or 'surplus value' is in inverse proportion to wages or 'variable capital' prior to the transformation of 'values' into 'prices of production'. It is not the wages alone which lead in his model to prices deviating from value, but the fact that low wages imply high 'surplus value' and high wages imply low 'surplus value' so that values are always 'equal' between nations. It is the averaging out of this surplus value through the equalisation of profits in the transformation process which in his model leads to prices deviating from values. If profits are not in inverse relation to wages according to his model, then low wage countries would have low values and comparatively low prices, and high wage countries high values and correspondingly high prices (only the organic composition of capital would lead to a deviation of price from value, and only unequal exchange in the "broad sense" would exist - which Emmanuel discounts as being unimportant to his theory).

So, if it is not simply the difference in wages themselves, but the consequential difference in 'surplus value' or profit which is the key to Emmanuel's theory of unequal exchange - this leads us on to the question: what determines his 'surplus value' or profit? But as we have seen, unlike wages, Emmanuel fails to give us any clear definition of the determinant of profit. Following Smith's 'adding up' theory of value, at best Emmanuel's treatment of 'surplus value' is contradictory and confused, at worst, profit is an increment which is 'added on' for the use of capital. But when this is applied to Emmanuel's theory of equilibrium prices in external exchange, what we find is that a far larger increment is being 'added on' for the poor low wage countries than the increment being 'added on' for the rich high wage countries - and when these unequal 'surplus values', according to the model are equalised, then the prices of the goods from the poor countries are below their 'values' and the prices of the goods from the rich countries are above their 'values'. Unequal exchange then takes place, and there is a transfer of 'surplus value' from the poor to the rich countries.

In light of our examination of the work of Adam Smith, and of the use Emmanuel makes of Smith's 'adding up' theory in elaborating his model, I would argue that not only is Emmanuel's work 'Neo-Smithian', but also that it is 'Neo-Mercantilist'. Not only does Emmanuel's work superficially resemble the conclusions of the mercantile writers, but he elaborates a neo-Mercantilist theory of trade in its most elaborate and sophisticated form. By his use of Smith's theory in the table of the prices of production, and by his failure to iron out the contradictions encountered by Smith (contradictions which only a cursory examination of Ricardo removes), Emmanuel actually reinforces those contradictions at a higher level. Price for Emmanuel effectively becomes through his sophisticated mechanism, cost of production (raw materials and wages) plus an increment for profit. It was this conclusion that took Smith so close to the work of the neo-Mercantilist Sir James Steuart. But when Emmanuel then applies his theory in its more sophisticated form to international trade, he goes way beyond Smith. No longer is profit simply a source of confusion in the theory, it now plays a central role. Surplus is now 'added on' in unequal proportions in different countries according to the differences in their wages - but then these unequal Surpluses are equalised out in Emmanuel's model so the richer high wage countries receive an increment over their share. Rich countries sell at prices above their values, poor countries sell at prices below their values, the rich countries grow richer at the expense of the poorer countries. This is not only similar to the views of the last of the

Mercantilists, Sir James Steuart, this is also a reaffirmation of the whole doctrine of Mercantilism from its very beginnings[8]. Countries develop as a result of unequal exchange in trade, i.e. selling goods above their value and buying below their value.

Finally, before we leave our examination of the relation between Emmanuel's theory and classical political economy, there is one other strand in the analysis which we must examine. In the last chapter I argued that one of the main problems Emmanuel has in understanding or applying Marx's theory of value is his inability to comprehend value in an abstract, social context, which for Marx embodied social, abstract human labour. Emmanuel can only comprehend value in its concrete form within the sphere of production as the depository of concrete use values or physical commodities. This approach then has two consequences. Firstly he is unable to grasp the commensurability of labour and capital, because in their concrete, physical, form they are obviously quite incommensurable. As we have seen, even Ricardo was able to deal with labour at a higher level of abstraction than Emmanuel, and thus define capital as past labour. Secondly, the value of commodities is given a unit or monetary expression in the sphere of exchange based on the rewards to the factors involved in their production. But Emmanuel's inability to comprehend abstract labour, means that when defining the rewards to the factors, especially wages, Emmanuel is only able to provide the concrete measurement of a "basket of goods" or use values. Therefore, we are brought back to the contradictory idea that use values (physical goods), which are completely incommensurable, determine values, with no explanation of the connection between the two. The unit amounts which Emmanuel then enters into the tables of the prices of production became purely arbitrary, and we are provided with no logical connection between them and the underlying theory.

The ability to grasp labour as an abstract phenomena is something

Smith, in a confused way, and Ricardo much more explicitly, were able to do, and the level of abstraction reached its highest in Marx. On this score, Emmanuel's theory is closer to another of Smith's predecessors, the Physiocrats. The Physiocrats also defined the social product in essence as a physical product, and the distribution of the social product as the distinction of physical goods. But they concentrated their analysis solely on agriculture, and although their analysis was limited, it was not necessarily surprising in the conditions of eighteenth-century France. The physiocratic explanation of surplus or profit, therefore, was quite consistent with their theory - surplus product arose as a result of the natural fertility of the soil. Smith, although influenced by the Physiocrats, had to move beyond their theory, because his analysis was applied (in England) to both agriculture <u>and</u> industry. Unlike agriculture, it was impossible to attribute manufacturing production, and the growth of manufactured wealth to the prowess of nature. Therefore Smith introduced the more abstract notion of labour as the source of all wealth, all be it in the confused form of labour commanded, and contradictory form of labour embodied. Emmanuel, however, lapses back to the Physiocratic notion of wealth, primarily as a physical product, with no social or abstract theoretical explanation of its source under capitalism. Hence Emmanuel's theory can be reduced to the tautology that a physical "bundle of goods" determines the rewards to the factors (especially labour), which determines the value of commodities, which are themselves physical bundles of goods.

But unlike the Physiocrats, Emmanuel is attempting to apply this physical analysis to industrial capitalism. He therefore cannot use a physical common denominator (such as wheat or corn), without the problem of explaining capital, and he cannot attribute the surplus, or profit, to the natural fertility of the soil. Emmanuel himself averts this problem, as we have seen, by integrating into Marx's tables of the prices of production arbitrary unit values, which have no theoretical connection with the underlying analysis. As we shall see in the next chapter, this physiological approach leads Emmanuel into a number of problems. What we have seen so far, though, is that having set out within a Smithian framework, Emmanuel is forced through its many contradictions, not forward to Ricardo, but back to the main influences on Smith - both the Physiocrats and Mercantilists.

CHAPTER V

EMMANUEL'S 'SRAFFIAN' MODEL OF UNEQUAL EXCHANGE

CHAPTER V

EMMANUEL'S SRAFFIAN MODEL OF UNEQUAL EXCHANGE

So far, we have concentrated solely on an examination of Emmanuel's Marxian model of unequal exchange. We have done so for two reasons. Firstly, it is the basis on which Emmanuel first elaborated his theory, and is the model developed extensively in his book. Secondly, the main thrust of this thesis is an examination of the underlying political economy of Emmanuel's theory of unequal exchange, and the Marxian model does, I believe, give us the basis for a clear insight into Emmanuel's interpretation and application of both Marx and classical political economy in the development of his theory of unequal exchange. However, following the publication of his book in French in 1969, Emmanuel's Marxian model was subjected to much criticism, particularly from Marxists such as Charles Bettelheim (1972) and Christian Palloix[1]. One of the most important elements of this criticism was with reference to Emmanuel's interpretation of Marx's theory of value and his application of it to the formation of the prices of production. I have already discussed this topic at some length in Chapter III, and have shown the irreconcilability of Emmanuel's position with that of Marx. However, as a result of the force of criticism lodged against him, Emmanuel was led, prior to the publication of the English edition of Unequal Exchange in 1972, to elaborate his theory on the basis of an alternative model, using Piero Sraffa's price equations, in order to circumvent some of the logical inconsistencies within his Marxian model. This alternative Sraffian model of unequal exchange was first published in English in Appendix V of Unequal Exchange (1972). However, despite the publication of the Sraffian model, Emmanuel never (to the best of my knowledge) formally abandoned the Marxian model, and the two tended to co-exist as alternative treatments of the theory of unequal exchange (see for example Emmanuel, IDS, 1975). In this chapter I will concentrate on the main problems which led to the need for an alternative model of unequal exchange, and some of the implications of the Sraffian model, particularly with reference to the main concern of this thesis - the arguments I have developed so far regarding the political economy of Emmanuel's theory of unequal exchange.

1. THE TRANSFORMATION PROBLEM

One of the main problems concerning Emmanuel's Marxian model of unequal exchange was the issue of the transformation of value into price of production (or equilibrium price). However the problem of the transformation of value into price is not new. It was a problem which plagued classical political economy; a problem which Marx attempted to solve through his use of the tables of the prices of production, but which has been hotly disputed by Marxists since. Therefore, in attempting to elaborate his model of unequal exchange using Marx's tables of the prices of production, Emmanuel was from the outset employing a problematic and contentious method. In his book Unequal Exchange, the problems and disputes underlying Marx's transformation tables are not discussed by Emmanuel, despite his extensive use of them; and it is not until Appendix V of Unequal Exchange (as a result of the criticisms of his work) that Emmanuel finally examines the issues involved.

Within the school of classical political economy the existence of a problem concerning the transformation of value into price was not clearly articulated, primarily because exchange value was taken to be synonymous with natural price. Nevertheless, the problem existed, particularly regarding the reconciliation of the labour theory of value as a theory of natural price, given the existence of capital and the formation of a general rate of profit. In the work of Adam Smith, the problem took a convoluted form because of his insistence upon labour commanded as the true measure of value. As a supplement to this theory, Smith only consistently held to a labour embodied theory of value under a simple commodity economy, where labour commanded equalled the reward to labour. As soon as Smith analysed complex capitalism, where profit and rent entered the picture, the labour embodied theory of value broke down and Smith resorted to his adding up theory of exchange value. Therefore Smith never did reconcile the labour embodied theory of value with the theory of natural price under complex capitalism. Ricardo attempted to overcome the problem by abandoning the labour commanded theory of value, adopting solely the labour embodied theory, and treating capital as past labour, such that exchange value and natural price could only be determined by the sum of present and past labour expended in production. But again, as we saw in the last chapter, Ricardo found that when capitals of different proportions or durability were brought into the picture, natural price could be affected by fluctuations in the wage rate - implying labour embodied might not be the sole determination of exchange value. Therefore, in neither the work of Smith nor Ricardo was the calculation of natural price solely on the basis of labour values satisfactorily achieved.

Marx confronted this problem by making a clear distinction between labour values and price of production - in other words it had been a mistake of classical political economy to conflate the two. Marx's treatment of value and price of production, and the relation between them was examined at length in Chapter III. There, I showed that Marx's analysis of value as the social embodiment of abstract human labour in Volume I of Capital was based on a methodological abstraction from the complexities of capitalist competition. Here, Marx assumed that each commodity was sold at its individual value. It was not until Volume III that Marx brought into the account competition between capitals and the formation of a general rate of profit. On this basis Marx's transformation procedure was an attempt to elaborate the transformation of abstract social values into prices of production, where price, although derived from social labour values, was formally calculated in the competitive process as cost of production plus general rate of profit. Therefore, the transformation procedure involved the mediation between the abstract (value) and concrete (price of production) in Marx's analysis. However, this approach to the transformation procedure involves, it must be noted, a fairly contentious interpretation of Marx's original work; and it is an approach which has been the subject of much criticism since the publication of Marx's work. Not least, it is an approach which, as we have seen, is overtly rejected by Emmanuel:

> "Some ... critics argue as if price of production were a phenomenon of which 'value' is the essence (or noumenon). They thus conceive the transition as a transition from the abstract to the concrete. Others accept that price of production is an abstract magnitude that regulates concrete price, but they argue as though, behind the phenomenon, there were several levels of essences, arranged hierarchically - price of production being more abstract than price, but less so than value, which then appears as a sort of essence of the essence, a second-degree essence ... Consciously or unconsciously, both of these tendencies are inspired - to differing degrees, greater in the second case, less in the first - by the wave of neo-Hegelianism, or, rather, neo-Kantianism, which is sweeping over France at the present time, and which takes the form of constructing systems of concepts that are autonomous and, in a sense, autarchic, and the validity of which consists in their internal coherence and their distinctive structure." [U.E., p.387]

However, Emmanuel's rejection of this approach is nothing new. Criticisms of Marx's transformation of value into price of production date back to the end of the nineteenth century, when Bohm-Bawerk first published his critique of Marx (Bohm-Bawerk, 1975). Since then, there has been a massive amount of literature published on Marx's transformation problem - with many different interpretations and resolutions of the problem being presented. It is not within the scope of this thesis to undertake a survey or discussion of this complex debate[2]. However, I will briefly examine one of the most important contributions within the debate, the Bortkiewicz-Sweezy solution to the transformation problem (Von Bortkiewicz, L. 1952 and 1975; Sweezy, P. 1942), and Emmanuel's relation to the debate.

The Bortkiewicz-Sweezy criticism of Marx concentrated simultaneously on two issues. Firstly, it is argued that in Marx's transformation tables, the 'values' which Marx is transforming into prices are already expressed in price terms; but as prices, it is argued, they must already themselves have been transformed. Secondly, Bortkiewicz and Sweezy extend this critique of Marx to an examination of Marx's Reproduction Schema in Volume II of Capital. By 'transforming' Marx's Reproduction Schema, they attempt to expose what they believe are the internal inconsistencies in Marx's theory. In the Reproduction Schema, Marx separates capitalist production into three departments: Department I producing capital goods (means of production); Department II producing wage goods; Department III producing luxury goods. On the basis of his abstract value analysis Marx shows that it is possible for reproduction to take place, such that the output of each department was sufficient to replace the inputs of each department, so that capitalist reproduction could continue on a simple and extended scale. This was an abstract analysis, carried out in the absence of competition, to show that there were internal equilibriating tendencies within capitalist production. Bortkiewicz and Sweezy take Marx's three departments of Volume II, and with no further modification to the analysis, subject the three departments to the transformation procedure of Volume III. On the basis of the results, they argue that the prices of production of the outputs of the three departments are not equal to the prices of production of the inputs, and that therefore the equilibrium of the reproduction schema breaks down. As a result, they argue, it is necessary to find a new method of calculating prices of production such that the prices of the outputs and inputs can be simultaneously calculated, and equilibrium in the system be maintained.

This attempt to subject the Reproduction Schema of Volume II directly to the transformation procedure of Volume III, and on that basis criticise the latter is, I believe, setting up a straw man in order to knock it down. But let us not be detained by this second aspect of their argument. Bortkiewicz and Sweezy have still raised the important point - in the transformation tables, are not the values entered into the tables being represented by prices which must themselves already have been transformed? Bortkiewicz and Sweezy believe they should have been, but that in his analysis, Marx failed to carry the transformation procedure through adequately. They therefore reject the interpretation that in the tables Marx is analysing the mediation between abstract social value as modified by competition in the formation of concrete price of production. In other words they reject any methodological understanding of Marx's procedure, and search instead for a concrete solution to capitalist equilibrium[3]. In order to do this, Bortkiewicz and Sweezy set up a system of equations in which the relative prices of the inputs are simultaneously determined with the relative prices of the output and rate of profit, and a purely mathematical solution to the transformation procedure is found. (For the mathematical solutions provided by Bortkiewicz and Sweezy see either Sweezy, 1942, pp.112-123 or Bortkiewicz, 1975, pp.199-223.)

Without entering into a detailed analysis of the Bortkiewicz-Sweezy solution to Marx's transformation procedure, I would like to raise three general problems which are of relevance here. Firstly, in setting up a system of equations in which the relative prices of the inputs are simultaneously calculated with the relative prices of the outputs and the rate of profit, whilst we have a mathematically consistent model, we have no indication within the model of the origin of profit - the rate of profit simply becomes a variable calculated in the process of price formation. This point is recognised by Sweezy, and relates to the next point. Secondly, in simultaneously calculating the relative prices of the inputs with the relative prices of the outputs, the potential arises that we no longer need a theory of value at all in order to calculate price - a complete negation of Marx's argument that price of production is a modified form of value. This point is recognised by Sweezy:

> "It may be urged that the whole set of problems concerned with value calculation and the transformation of values into prices is excess baggage. The real world is one of price calculation; why not deal in price terms from the outset?" [Sweezy, 1942, p.128]

But Sweezy goes on a few paragraphs later:

> "As long as we retain value calculation, there can be no obscuring of the origin and nature of profits as a deduction from the product of social labour ... . Price calculation, on the other hand, mystifies the underlying social relations of capitalist production. Since profit is calculated as a return on total capital, the idea inevitably arises that capital as such is in some way 'productive'. Things appear to be endowed with an independent power of their own." [Sweezy, 1942, pp.128-129.]

The problem with the Bortkiewicz-Sweezy solution though, is that the retention of the value analysis is purely formalistic, as price of production can now be calculated with no reference to labour values at all. Thirdly, and finally, in the Bortkiewicz-Sweezy solution (without the unrealistic assumption that the money-commodity is always produced using an organic composition of capital equal to the social average), it is not possible mathematically for both total surplus value to equal total profit and simultaneously total value to equal total price [Sweezy, 1942, p.121]. Therefore Marx's argument that prices of production are a modified form of value, so that the two equalities must simultaneously hold, is negated.

The influence of Bortkiewicz-Sweezy on Emmanuel's work is acknowledged by Emmanuel in Appendix V of Unequal Exchange. Emmanuel discusses Bortkiewicz's argument that transformation must take place either altogether or not at all, and that it is not possible to effect this transformation in the output without simultaneously effecting transformation in the inputs. Emmanuel continues:

> "Bortkiewicz has never been refuted on this point, and I chose in Chapters 1 and 2 of my book to avoid dealing with this question, in order not to overload my text and also in order to keep to the structure of Marx's formulas, by treating the values of the inputs as having been previously 'transformed' [supra, pp.99 and 194]. I thought it best to do this so as not to call in question the sanctified concept of 'transformation', and because the practical conclusion of any demonstration, in regard to unequal exchange, was in any case not affected. In view of the reactions provoked by my presentation of the matter, and the theoretical misunderstanding to which it has given rise, I am now convinced that I made a mistake." [U.E., p.392.]

It is not until Emmanuel wrote Appendix V, therefore, that he finally confronted the theoretical issues surrounding Marx's transformation tables -

despite the extensive use he had made of them in the elaboration of his Marxian model of unequal exchange. However, despite this recognition of the influence of Bortkiewicz on his work, there is in fact an important divide between them. Bortkiewicz and Sweezy's aim had been to attempt to "correct" Marx's transformation procedure to iron out what they perceived to be inconsistencies in Marx's analysis. Although this raised the possibility of calculating prices without reference to value, they did not formally reject the relevance of the labour theory of value under capitalism altogether. Emmanuel, though, from the beginning, completely rejected the use of the labour theory of value under capitalism on the grounds of the incommensurability of labour and capital. He therefore adopts Smith's historical view, that the labour theory of value is only relevant under a pre-capitalist simple commodity economy where labour is the only factor of production (except under the unrealistic assumption that labour and capital are always employed in equal proportions). Therefore, for Emmanuel, there should really be no "problem" of the transformation from value to price. For him they are two qualitatively and historically distinct phenomena. [U.E., p.388.] Value is calculated on the basis of labour time under pre-capitalist society. Price is calculated on the basis of the rewards to the factors under capitalism. There is no connection between them.

As a result, Emmanuel is not being completely frank about the nature of his theory when he says that within his Marxian model he had been treating "the values of the inputs as having been previously 'transformed'". If this were the case, then at no time have we been given any explanation of the method by which this transformation had been conducted. But further than this, given the labour theory of value is not applicable under capitalism, then such a transformation should not logically be possible or necessary. What I have argued is that, consistent with his Smithian approach, it is Smith's adding up theory which Emmanuel is using as the basis for his theory of 'value'. In other words, the factor rewards which Emmanuel is entering into his tables have never been transformed. They are the exogenously determined rewards to the factors, the sum of which constitute 'value'. However, in further discussing the Bortkiewicz 'solution' to the transformation problem (and the many other 'solutions' which have followed it) Emmanuel recognises that there are a number of problems involved in trying to reconcile Marx's labour theory of value with a theory of price where the relative prices of the inputs and outputs are simultaneously transformed. The first problem Emmanuel raises (a problem which, as we have seen, was recognised by Sweezy), is the fact that such a transformation procedure simply negates the need for a labour theory of value.

> "Bortkiewicz does indeed effect simultaneous transformation of inputs and outputs, and his final formulation is indeed an equilibrium formula that respects the constraints and coherences that are appropriate, <u>but the determination by quantities of labour have vanished</u>." [U.E., p.393]

The problem for Emmanuel, therefore, is that Bortkiewicz, whilst changing the content, has attempted to simultaneously retain the constraints imposed by Marx's theory of value. This leads to the second problem raised by Emmanuel, that all the solutions from Bortkiewicz on, to remain true to Marx, had attempted to simultaneously hold the equalities of both total profit with total surplus value and total value with total price. But all the solutions had failed to simultaneously hold these two equalities.

> "Eventually, Natalie Moszkowska proved mathematically that these two equivalences are irreconcilable, and the discussion, which had gone on for two decades stopped there. She had shown that the equivalences were irreconcilable not through mathematical inadequacy but through logical contradiction, a contradiction that mathematics, being the shorthand of logic, is naturally unable to overcome." [U.E., p.392]

2. EMMANUEL'S 'SRAFFIAN' FORMULATION OF UNEQUAL EXCHANGE

Having at last confronted the theoretical debates surrounding Marx's transformation formulas, of which he has made so much use, Emmanuel has been forced to bring out into the open some of the contradictions underlying his own theory. But the process of trying to draw out these contradictions does not stop there. One consequence of the Bortkiewicz/Sweezy type of solution to the transformation "problem" is that it then becomes possible mathematically to arrive at a theory of relative prices without reference to values or labour time. Sweezy, as we have seen, rejects this course, because it incurs the danger of concealing the fact that profit is a deduction from the product of total social labour, a fact which the calculation of price on its own obscures. Nevertheless, the potential of excluding Marx's value theory altogether now potentially exists in the Sweezy/Bortkiewicz approach. Emmanuel, unlike Sweezy, is not detained by any such worries. For him, profit is not a deduction from "human labour" anyway. True to his neo-Smithian approach, under capitalism, both labour <u>and</u> capital are employed in producing the total social product, and as these are incommensurable, it is the claims to the total social product, i.e. the sum of the factor rewards, which provide the common basis for the formation of prices of production. Having rejected "labour" as the common substance underlying total social product, Emmanuel then has no need to retain a labour embodied value theory in order to expose labour as the source of profit. Having reduced value to the distribution of the physical product, having encountered much criticism and contradiction in doing so, and given the potential exists, he finds it easier to circumvent the issue of value altogether. Against the "ethical" element in Sweezy's argument, Emmanuel writes:

> "The reality is that neither profit nor wages are engendered by the process of circulation, but by that of production, and that, on the other hand, these two magnitudes are inversely proportional to each other, which fact gives rise to an inevitable antagonism between classes, since the share taken by one can increase only at the expense of the share taken by

> the other. It is this and this alone that enables us to go from economic laws and categories to historical ones. <u>This can be shown and illustrated, however, without resorting to the "transformation quibble</u>." [U.E. p.401]

So at last, and under pressure, Emmanuel has been forced to recognise that a theory based on the adding up of the rewards to the factors does not need to go via a complex detour labelled "value" in order to arrive at a theory of price. At last, therefore, Emmanuel has abandoned his contradictory attempt to construct a 'Marxian' theory of unequal exchange.

The model which Emmanuel goes on to elaborate is essentially based on Sraffa's price equations, and attempts to devise prices of production <u>directly</u> from the <u>physical</u> inputs comprising the production process. Of course this is quite consistent with the approach we have argued Emmanuel has taken all the way along, but by making such a price deduction directly, he avoids much of the 'panoply' and contradiction of his 'Marxian' model, and as such I would argue lays bare explicitly the nature of his reasoning. The model Emmanuel uses, as we will see, is very similar to Sraffa's; but we will work through Emmanuel's model step by step before making the comparison with Sraffa, in order to understand exactly the logic of Emmanuel's argument.

Emmanuel starts by developing a model based purely on physical production data, specifying the assumed physical inputs and outputs. The assumptions are that this is a capitalist system, with two commodities, A and B, which form the social (or material) product. A and B are both consumer goods and means of production, they are both inputs and outputs and not all capital is used up in one production period. He then gives us the following physical data with regard to capital, labour, output and real wage:

SPECIFICATION OF THE MODEL:

(i) CAPITAL or "constant capital"

Branch A: employs 70A + 35B total capital

60A + 1B used up in 1 production period.

Branch B employs $20A + 45B$ total capital

$16A$ used up in 1 production period;

(ii) LABOUR or "variable capital"

Branch A has 200 hours of labour

Branch B has 300 hours of labour

Total of 500 hours of simple, homogeneous labour;

(iii) Output: Branch A produces $32A$,

Branch B produces $21B$;

(iv) the real wage equals the basket of goods corresponding to each hour of labour which equals $\frac{(A + 2B)}{100}$;

(v) the rate of profit is the ratio of total net profit in one production period (total product minus constant and variable capital used up in one production period) to total capital invested. Therefore, given the specifications of this model, the rate of profit, r, is calculated as:

$$r = \frac{(32A + 21B) - [(22A + 1B) + (5A + 10B)]}{90A + 80B}$$

$$= \frac{5A + 10B}{90A + 80B}$$

With this physical data (note that even labour time has been converted into physical inputs per hour, therefore converted into physical data). Emmanuel constructs the following table:

CAPITAL INVESTED	CONSTANT CAPITAL CONSUMED		VARIABLE CAPITAL		PROFIT		PRODUCTION
$70A + 35B$	$(6A + 1B)$	+	$(2A + 4B)$	+	$(70A + 35B)r$	=	$32A$
$20A + 45B$	$(16A)$	+	$(3A + 6B)$	+	$(20A + 45B)r$	=	$21B$
$90A + 80B$	$(22A + 1B)$	+	$(5A + 10B)$	+	$(5A + 10B)$	=	$32A + 21B$

Let us first consider the mathematical problem in providing a solution to this model, then consider the logic of the model, and finally the interplay of the logic and mathematics. Mathematically Emmanuel has constructed a model consisting of two independent equations in three unknowns (A, B and r). As such, it is not possible to find absolute values for A and B; but it is possible to calculate <u>relative</u> values (or prices). By treating one of the goods (B) as the money commodity and setting its value equal to unity (B = 1) we can then express the price of A relative to B, and having reduced the number of unknowns to 2, we now have two independent equations in two unknowns, and hence a unique solution may be found. On this basis Emmanuel gives the solution:

$$r = \frac{1}{10} = 10\%$$

$$\frac{A}{B} = \frac{1}{2} \text{ or } A = \frac{B}{2}$$

He then goes on to give an algebraic generalisation of the model where:

$A, B, \ldots K$ are number of commodities in society

$A_a, A_b \ldots A_k$ are quantities of A which enter into Capital

$B_a, B_b \ldots B_k$ are quantities of B which enter into capital (etc)

$A_a \geqslant 0 \; A_b \geqslant 0 \ldots A_k \geqslant 0$

$B_a \geqslant 0 \; B_b \geqslant 0 \ldots B_k \geqslant 0$

$A'_a, A'_b \ldots A'_k$ are parts of $A_a, A_b \ldots A_k$

$B'_a, B'_b \ldots B'_k$ are parts of $B_a, B_b \ldots B_k$ (etc)

$p_a, p_b, \ldots p_k$ are prices of A, B ... K

r is the rate of profit

Setting one of the commodities as the money commodity equal to the unit of value (so that we are concerned only with relative prices) gives k - 1 price ratios plus the rate of profit and therefore k unknowns for k independent equations:

Capital invested	(c + v)		Profit		Price of production
$A_a p_a + B_a p_b + \dots + K_a p_k$	$(A'_a p_a + B'_a p_b + \dots + K'_a p_k)$	+	$(A_a p_a + B_a p_b + \dots + K_a p_k)r$	=	Ap_a
$A_b p_a + B_b p_b + \dots + K_b p_k$	$(A'_b p_a + B'_b p_b + \dots + K'_b p_k)$	+	$(A_b p_a + B_b p_b + \dots + K_b p_k)r$	=	Bp_b
$\vdots$	$\vdots$		$\vdots$		$\vdots$
$A_k p_a + B_k p_b + \dots K_k p_k$	$(A'_k p_a + B'_k p_b + \dots + K'_k p_k)$	+	$(A_k p_a + B_k p_b + \dots + K_k p_k)r$	=	Kp_k
Σ_1	Σ_2	+	$\Sigma_3 - \Sigma_2$	=	Σ_3

$$r = \frac{\Sigma_3 - \Sigma_2}{\Sigma_1}$$

[U.E., p.406]

Emmanuel has now found a mathematically consistent solution to his model. He has derived a set of relative prices directly from physical data, and goes on to say:

> "These ratios are the only ones possible, and we have been able to fix them on the basis of the physical data of production, without reference to circulation. Actually, these equations constitute a price-of-production formula unencumbered by the ambiguity of 'transformation'." [U.E. p.404]

Therefore, Emmanuel has now apparently, got away from all the complexity and contradiction of having to go via a theory of value in order to calculate prices of production; mathematically the prices can be calculated directly from physical data, and all manner of problem is solved. Or is it? Let us now examine the underlying logic of what Emmanuel is doing.

The most fundamental point regarding the model Emmanuel is now using is that he is attempting to calculate relative prices, under capitalism, from physical quantities. But this use of physical quantities as a basis leaves a number of questions unanswered. The most essential point I would argue, is: what is the source, or origin of profit? Total profit, we are told, can be deduced by subtracting constant plus variable capital from total output such that:

$$(32A + 21B) - [(22A + 1B) + (5A + 10B)] = (5A + 10B)$$

$$\therefore \text{ TOTAL PROFIT} = (5A + 10B)$$

$$\text{and the Rate of Profit } r = \frac{5A + 10B}{90A + 80B}$$

But how does this profit arise? From what does it originate? To these questions we are given no answer. Yet this is a major question, which has preoccupied most schools of economic thought. But Emmanuel gives us no explicit answers to the question. However, given the model he is using, which is based solely on physical quantities, where both constant and variable capital are reduced to two bundles of physical goods, and where physical output exceeds the sum of the two physical bundles comprising the inputs; here it would appear that physical goods are the source of profit. Put a certain quantity of physical goods together in the correct combinations, and by some magical source they will reproduce themselves in a larger quantity, they will multiply and produce a profit. Put this way, the argument seems slightly absurd. But in fact this argument does have an important place in the history of political economy. For the physiocrats the idea that physical goods could multiply themselves on an extended basis was far from absurd, it was an essential part of their theory. But the physiocrats confined their analysis to the view that it was only in agricultural production that such a surplus could be made, and this resulted from the natural fertility of nature. Industry, it was assumed, was sterile. But Emmanuel is not making any such restricting assumption. In his model A and B are both consumer goods and means of production, and they could just as easily be manufactured goods as agricultural goods. But if they are manufactured goods, is Emmanuel seriously informing us that they are endowed with the same natural fertility as a corn seed has in agriculture? Given his silence on the subject, it would appear he could be[4].

However, the problem is more complex than this. In introducing the rate of profit into the model, Emmanuel then informs us:

> "The foregoing illustrates the point that if we want to solve the problem of quantifying commodities while basing ourselves exclusively on the conditions of production, <u>the only magnitude we are obliged to rely upon is wages, as the first deduction that is made from the social product profit being merely a residue.</u> [My emphasis] If we lack this magnitude, if wages are not 'given', if they do not constitute an independent variable, then the problem of defining value on an objectionist basis is insoluble, and no abstract equilibrium price (of production) can be found. In this case all that is left to us is the marginalist solution, which gives us the momentary concrete equilibrium price on the market." [U.E. p.403].

Now, what Emmanuel appears, in a convoluted way, to be saying here is that he is not treating variable capital (≡ wages) as a physical input, but as a "magnitude we are obliged to rely upon" if "we want to solve the problem of quantifying commodities"; and that wages are "the first deduction" from the "social product, profit being merely a residue". In other words, constant capital consumed is the only data which is physically fixed by the technical data of production. Wages are an exogenously determined, variable, whose magnitude has to be given from outside in order to find a solution to the model, but whose magnitude could vary. This fits in with Emmanuel's previously stated theory of wages as a socially and historically determined magnitude in excess of physical subsistence, which as such cannot be technically or physically determined. But in treating wages in this way, Emmanuel is essentially treating wages as a magnitude which is "<u>added on</u>" to the technically determined production data. But further than this, wages are added on "as the first deduction that is made from the social product, profit being merely a residue". This, again, is consistent with Emmanuel's previous argument that profits and wages are in inverse proportion. But if wages are a magnitude which is being "added on" to the technical production data (constant capital) and profit is its residue, then the sum of wages plus profit must be a sum which are being "added on" to the technical production data. Emmanuel says that both are deductions from the "social product", a term he never clearly defines. But by social product does he mean the <u>surplus</u> product of society, i.e. the total product minus the constant capital consumed? Because, if he does mean the surplus product of society, of which both wages and profit form a part, then we are now left not only with the question of what determines profit, but with the question of what determines the sum of wages and profit, i.e. the total "social" or surplus product? To tell us, as Emmanuel has done previously that wages are historically and socially determined tells us nothing except the level of deduction from the social product which is made. It does not answer the fundamental question <u>from where does the social product or surplus originate in this model of physical magnitudes</u>? In Emmanuel the question is unanswered, and further than this, if both wages and profit equal the surplus, we are left with the even more bizarre theory that if we invest a certain quantity of physical constant capital in production, it will be able, to reproduce and multiply itself, such that a social product is left which can then be divided (in inverse proportions) between wages and profit. This is physiocracy in the extreme. Perhaps this is an extreme interpretation of Emmanuel's argument, but it is certainly an interpretation which can potentially be drawn out, and which we will return to after further examination of the theory.

The last point regarding Emmanuel's model as we have examined it so far results from the logic underlying the provision of a mathematical solution to the model. A point which I have consistently made with reference to Emmanuel's approach is that the problem of attempting to use physical use-values as the basis for explaining exchange values is that physical use values, as use values endowed solely with physical properties, are incommensurable. As a result, I argued, when Emmanuel was attempting to use Marx's transformation tables, he was actually assigning completely <u>arbitrary magnitudes</u> to those tables, unrelated to the physical bundles of goods he was using as his base. One possible way out of this problem is the marginalist solution, but it is a course rejected by Emmanuel. Instead, using his 'Sraffian' model based on physical quantities he is attempting to provide a solution by first exogenously determining the real wage, and then setting one of the prices equal to unity (i.e. by making one of the commodities the money commodity) so that all other prices are expressed in terms of this money commodity. Although he has formally provided a mathematical solution to the model, what do his final results actually mean? The prices themselves in such a model, can only ever be relative prices calculated from an arbitrarily chosen numeraire. It is not possible mathematically with such a model to attribute absolute magnitudes to the unknown independent variables. This does not worry Emmanuel, who says that, unlike his critics, he does not believe in the existence of any absolute value or price[5].

Having arbitrarily chosen his numeraire, Emmanuel has now attained a mathematical consistency to his model which didn't exist when he was attempting to use Marx's transformation tables. But this mathematical consistency, I would argue, does not solve the logical or theoretical problem of how to provide incommensurable physical use values with the commensurability they require if they are to become exchange values. All the mathematical solution does tell us is that, given an exogenously determined wage and arbitrarily chosen numeraire, a unique set of relative prices and r can be found at which equilibrjum will pertain such that all the outputs can, via exchange, become inputs, and the system is in a physically self-replacing state. In other words, it is a static equilibrium market clearing model. But finally, and most importantly, the simultaneous determination of r along with relative prices resulting from this arbitrarily chosen numeraire means that the magnitude of the residue of the social product is also a result of this arbitrary procedure. Therefore what we have logically is a set of technically determined physical magnitudes (constant capital) plus an exogenously determined physical wage, plus an unknown rate of profit (again expressing the relation of certain physical magnitude) being given certain relative magnitudes so that they may be given an air of commensurability in exchange. The system may be mathematically self-equilibrating, <u>but nothing has been explained</u>. Just as with Emmanuel's use of Marx's transformation table, he is again attributing values proportionate to physical bundles of goods; and the price of production is the summation, or adding up, of certain arbitrarily determined factor rewards. We are back where we started from: a neo-Smithian adding up theory derived (now in a mathematically consistent and more complex way) from a physiocratic base.

3. EMMANUEL AND SRAFFA

So far, we have examined the initial model developed by Emmanuel in Appendix V of Unequal Exchange; but this can be extended quite easily so that it takes the form of a system of equations similar to that of Piero Sraffa's. So far Emmanuel has treated the wage as an "ultra-real wage", i.e. a wage determined directly by a certain set of goods, which is consistent with the approach he has taken throughout the main body of his work. However, he goes on to argue the wage could equally be treated in a different manner.

> "There is no reason why I should not abandon this assumption in favour of another, more realistic one, namely, that the labour contract can lay down in advance only a semi-real wage, so to speak, expressed in a certain number of units of a particular commodity that fulfils the function of general equivalent (the money commodity). In this case, if K is the money commodity and W_a, W_b ... W_k are the quantities of K distributed to the workers of A, B, ... K (quantities known before the determining of relative prices)." [U.E., p.407]

We then have the result shown in Table 1.

Total capital	c		v		Profit		Price
$A_a p_a + B_a p_b + \ldots + K_a$	$(A'_a p_a + B'_a p_b + \ldots + K'_a)$	+	w_a	+	$(A_a p_a + B_a p_b + \ldots + K_a)r$	=	Ap_a
$A_b p_a + B_b p_b + \ldots + K_b$	$(A'_b p_a + B'_b p_b + \ldots + K'_b)$	+	w_b	+	$(A_b p_a + B_b p_b + \ldots + K_b)r$	=	Bp_b
.	.	+	.		.		.
.	.	+	.		.		.
$A_k p_a + B_k p_b + \ldots + K_k$	$(A'_k p_a + B'_k p_b + \ldots + K'_k)$	+	w_k	+	$(A_k p_a + B_k p_b + \ldots + K_k)r$	=	K

[U.E., p.408]

Here variable capital, or the wage, is being distinguished quite clearly from constant capital. It is being expressed as a certain number of units of the (arbitrarily chosen) money commodity and is being "added on" to constant capital along with profit. This, therefore, is an even more explicit formulation of an adding up theory similar to Smith's. Price equals the sum of the price of constant capital, plus the price of labour (the wage) plus profit (a portion of the price of total capital). We also have a much more explicit treatment here of the wage as a part of the 'surplus product', which is 'added on' to the technically determined cost of production. But this cost of production, or trinity formula, like all cost of production formulas, expresses a tautology. Price determines price determines price. However, this tautology, now so explicitly stated, leads to an essential contradition in Emmanuel's own argument; comparing his system of equations to Sraffa's, Emmanuel goes on to say:

> "In my model wages is the independent variable. It is expressed in terms of a single commodity, the money commodity. I have called it a semi-real wage because its real counterpart, the definite assortment of goods consumed by the worker, is not and cannot be given ex ante but is ultimately dependent on prices, which are in their turn dependent on the organic composition of the industries producing the workers' consumer goods as compared with that of the other industries." [my emphasis] [U.E. p.407]

In other words, having taken the cost of production theory to its logical, or tautological, conclusion, that price determines price determines price, such that no one price can be ultimately dependent on any other, Emmanuel is forced to contradict his whole original premise. From the beginning Emmanuel has tried to show that wages, as an historically and socially determined basket of goods, determines prices, and not vice versa, and this he always asserted in his use of Marx's transformation tables. However, having employed a much more sophisticated cost of production model (Sraffa's) he is forced into the recognition that, in order that equilibrium exchange can take place, the wage has to be expressed in terms of a price, and as such must "ultimately" be dependent on prices of the goods (or good) making up the wage basket, and which must in turn also be affected by the organic composition of capital in the wage good industry. This is an important contradiction in his argument, quickly passed over by Emmanuel, but is only one of many contradictions to emerge from the alternative use of the Sraffian model.

Despite this, Emmanuel sticks to the view, as expressed in the quote above, that: "in my model wages is the independent variable". But by "independent variable" Emmanuel now means something slightly different to his earlier sociological theory of determination. The debate now is not in terms of the Marxian model, but in terms of the Sraffian model.

Sraffa, in his system, as Emmanuel points out, starts off by treating the wage as the independent variable. However, Sraffa then argues that the wage cannot be given from outside the system , and then switches to profit as the independent variable. [See Sraffa, 1960, p.33.] It is in this context that Emmanuel differs from Sraffa, preferring to treat the wage as the independent variable. But the debate now has only loose sociological connections. It is primarily a mathematical debate over how to close the Sraffian system of price equations. The only other obvious difference between the above system of equations and Sraffa's is that here Emmanuel is assuming only a portion of capital is used up in any one production period whereas Sraffa makes the simplifying assumption that all capital is used up in one production period (only later complicated in his model by an analysis of joint production). As Emmanuel also later moves to the simpler assumption that all capital is used up in one production period, we will not let this difference detain us here. Apart from these two differences then (the wage and capital employed) Emmanuel's system is essentially the same as Sraffa's. Let us examine Sraffa's model in a little more detail before returning to Emmanuel's use of the model, as many aspects of the model are more explicit in Sraffa than they are in Emmanuel.

Sraffa's aim, also, is to derive prices directly from the physical inputs of production by setting up a system of price equations based on the technical coefficients of production. One of the main aims of Sraffa's work was to develop a critique of neo-classical economic theory, and particularly to provide an alternative to marginal analysis. He did not envisage his theory specifically as a critique of Marx although it has later been used as such. Sraffa's main inspiration in devising his system came from classical political economy, the work of the Physiocrats, Adam Smith and David Ricardo. But, as he acknowledges, it was specifically Ricardo's corn model which provided the stimulus for

Sraffa's work, a model on which Sraffa did a lot of work when editing Ricardo's work.

> "A method devised by Ricardo (if the interpretation given in our Introduction to his Principles is accepted) is that of singling out corn as the one product which is required both for its own production and for the production of every other commodity. As a result, the rate of profits of the grower of corn is determined independently of value, merely by comparing the physical quantity on the side of the means of production to that on the side of the product, both of which consist of the same commodity; and on this rests Ricardo's conclusion that 'it is the profits of the former that regulate the profits of all other trades' ... Ricardo's view of the dominant role of the farmer's profits thus appears to have a point of contact with the Physiocratic doctrine of the 'produit net' in so far as the latter is based as Marx has pointed out, on the 'physical nature of the surplus in agriculture which takes the form of an excess of food produced over food advanced for production; whereas in manufacturing, where food and raw materials must be bought from agriculture, a surplus can only appear as a result of the sale of the product." [Sraffa, 1960, p.93]

Sraffa, therefore, quite openly acknowledges his debt to Ricardo's corn model and the Physiocrats; he then attempts to develop a system, based on physical inputs and outputs similar to Ricardo's, but now extending the model to include both agricultural and manufactured goods. He starts with a simple system of inputs and outputs containing two commodities, wheat and iron, where both are inputs in the production of both goods in given technically determined proportions. He argues that there is a unique set of exchange values, which if adopted, would restore the original distribution after production such that the production process can be repeated. From this simple system, he then generalises to set up a system of equations for k-commodities. He then extends his model to include the production of a surplus in the system, and having done this, he finally considers the role of wages 'n the system. With regards to wages, Sraffa considers three possible alternative treatments. Either they could be treated as the physical subsistence of the worker, and enter the system of equations as part of the means of production; or wages could be divided between the element constituting the subsistence of the worker (which could be treated as before) plus the element which forms the part of the workers' share in the surplus product; or the whole of the wage could be treated as a share in the surplus product, and therefore as a variable. It is this latter cause which Sraffa chooses, despite certain complications this introduces, and he finally decides to treat the wage as being paid at the end of production. He sums up this treatment of the wage as follows: "We shall hereafter assume that the wage is paid <u>post factum</u> as a share of the annual product, thus abandoning the classical economist's idea of a wage 'advanced' from capital". [Sraffa, 1960, p.10] Having done this, he is in a position to set up his full system of price equations in a generalised form for k commodities:

$$
\begin{aligned}
(A_a p_a + B_a p_b + \ldots + K_a p_k)\ (1 + r) + L_a w &= A p_a \\
(A_b p_a + B_b p_b + \ldots + K_b p_k)\ (1 + r) + L_b w &= B p_b \\
&\vdots \\
(A_k p_a + B_k p_b + \ldots + K_k p_k)\ (1 + r) + L_k w &= K p_k
\end{aligned}
$$

where:

A_a, B_a, K_a are the physical, quantities of A, B and K entering the production of A (these quantities being technically given)

p_a, p_b, p_k are the respective prices of A, B and K (to be determined)

$(1 + r)$ is the rate of profit, assumed to be equalised throughout the system

w is the wage rate

L_a, L_b, L_k are the quantities of labour employed in the production of A, B and K, technically determined.

The similarity between this and Emmanuel's system can be seen. Mathematically, we now have a system if k equations in k + 2 unknowns (k prices, r and w), and the other quantities in the system being physically or technically determined by the production prices. The aim, still, is to find a unique set of prices at which equilibrium will be attained such that the outputs will be exchanged in the right proportions and they will replace the inputs so that production can recommence over again. The problem mathematically is that we now have two more unknowns than equations, and the system is underdetermined. We therefore have either to introduce another equation, or fix two of the unknowns exogenously. If we set one of the prices equal to unity, so that we have k - 1 prices, and all the other prices are expressed relatively, we have one more unknown than equations. We now have the choice of fixing <u>either</u> w or r exogenously, i.e. of determining it from outside the system. If either of these is fixed exogenously, we have then reduced the number of unknowns to equal the number of equations, and the system becomes determinant in that it is possible for a unique set of relative prices to exist at which equilibrium in the system of physical inputs and outputs will be maintained. But this choice, of exogenously fixing either w or r, <u>is a purely arbitrary choice</u>, dictated by mathematical necessity. As Pasinetti says:

> "It must not, of course, be inferred from this conclusion that in a real economic system the wage rate or the rate of profit can be fixed at will. Our conclusion simply means that the system of equations is not sufficient to determine all the unknowns. The determinants of one of these unknowns will have to be sought outside the equations." [Pasinetti, 1977, p.73]

It was the search for a relation that enabled this price system to be determined that then preoccupied Sraffa, and it was with his ultimate choice of profit as the exogenously determined variable that Emmanuel disagreed. But whether profits or wages are chosen, once the choice has been made, it is possible that the system of equations can be closed mathematically. The choice itself, therefore, is totally arbitrary, and has nothing to do with the internal dynamic of the economic model.

However, there are a number of other points which should be made about Sraffa's system of price equations, before discussing further Emmanuel's application of it. The first, and most important, problem is, I believe, the complete failure of Sraffa to explain the <u>source</u> of surplus. He starts with a certain combination of physical inputs, and then at the end of the production process asserts that there is a surplus of physical outputs, which is then divided between wages and profits. But how this physical surplus appears is simply not discussed nor explained. This point is made at a general level by Joan Robinson, who argues:

> "But all this is purely formalistic. It tells us nothing about what determines the rate of exploitation or the rate of profit. On this Sraffa offers no observations except the rather mysterious remark that the rate of profit is 'susceptible of being determined from outside the system of production, in particular by the level of the money rates of interest' [p.53]. He is content to lay the foundation for his critique and then to leave us to our own devices." [J. Robinson, 1965, p.31]

But the problem arises, I would argue, because of the physiological approach underlying the model. The physiocrats to whom Sraffa acknowledges his debt, and who first pioneered this approach, believed the natural fertility of the land was the source of the physical surplus; and similarly in the corn model, where corn is the sole input and output, corn is the basis for the physical surplus, and allows the direct comparison of inputs and outputs. In his generalised, multi-commodity system, Sraffa constructs his "standard" or basic composite commodity to perform the same function as corn, i.e. to act as the basis of comparison between inputs and outputs, but nowhere does he explain the source of the surplus. Unlike the earlier physiocratic and corn models, in Sraffa's generalised system it is simply not possible to attribute the physical surplus to nature, an alternative or additional source has to be found. This point is made very clearly by Lebowitz:

> "Throughout, there is no explanation of how it is possible that a surplus can emerge. How can there be a commodity (or set of commodities) which reproduces more than is required for its own replacement? This question, for which Marx proposed an answer, is not posed by Sraffa (who excludes labour power as such a commodity). What the approach all boils down to is the assumption of a technical process by which some use values are transferred into more use values. (That the latter set may not involve a higher value than the former set is not considered; to do so would require investigation of the source of exchange value and surplus value.) It is reminiscent of Marx's comments about McCulloch (a follower of Ricardo), who turned use-values into exchange values and 'transferred commodities into workers'." [Lebowitz, 1974, pp.391-2]

Following, although inspired by Physiocrats, Adam Smith made the important contribution to political economy of abstracting from the purely concrete, physical, form of production, and attributing 'value' not to physical properties, but to labour which has the potential of then explaining surplus. Sraffa does not do this, and within the confines of the model he has constructed, he actually excludes 'labour' as an input into the technical production process. Now, obviously this is a simplifying assumption, and he agrees that the subsistence element of the wage could be treated as a direct input, however, the 'variable', or 'surplus' element of the wage will always form part of the surplus, therefore he sees no problem in treating the whole wage as variable and therefore part of the surplus. This approach exposes quite clearly that he simply has no concept of labour (or the wage) constituting an essential basis of reproduction with a surplus. But further than this, because he is always dealing with a model whose basis is combinations of physical goods (wheat, iron etc), to maintain consistency in the model, he is never able to treat 'labour' as anything other than bundles of equivalent goods, and hence always has to reduce 'labour' to the reward to labour or the wage, which can be treated in terms of the bundle of physical goods received by the worker. Therefore labour never exists as anything other than a physical bundle of goods, or a 'reward to labour'. Even when he is discussing the reduction to "dated quantities of labour", he is always dealing with the wage as expressed in terms of the standard commodity, i.e. a specified bundle of goods. Thus labour, per se, could never play any role in the Sraffian system as a determinant of value or surplus. It has been excluded from the outset. Sraffa does not even take the elementary step that Smith took over the physiocrats.

Following on from his chosen treatment of the wage, and his inability to explain the source of the surplus we are therefore left, not only with the problem of what is the source of profit, but what is the source of the wage? In other words, his failure to explain the surplus means that neither of the components of the surplus are explained. (Even had he used the alternative treatment of including the subsistence element of the wage as a physical input, we would still have the problem regarding the surplus element of the wage.) The fact that he then goes on to show mathematically that the wage and profit are in inverse relation to each other, such that if one increases the other decreases, and that if one (w or r) is set equal to zero, the entire surplus will go to the other, is of no help to us here. It simply establishes the limits of the surplus, but we are still no nearer knowing its origin.

The effect of this is that Sraffa's model becomes essentially a cost of production or adding up theory, where wages and profits are simply added on to the costs of the physical inputs of production. The term 'cost of production' is one which Sraffa himself acknowledges, but wishes to avoid. The reason is that such terms "have come to be inseparably linked with the supposition that they stand for quantities that can be measured independently of, and prior to, the determination of the prices of the products". [Sraffa, 1960, p.9] Of course, what Sraffa goes on to show is that prices and profit (or the wage, depending on which variable is exogenously given), are simultaneously determined with the solution to the system of equations. But what we have seen is that, whilst this is true mathematically having set the model up, such a solution exists as a result of having arbitrarily made one of the variables exogenously determined, and having chosen a numeraire in which to express relative prices and the other variable (profits or the wage). Therefore, the determination of prices in Sraffa's system is the result of a arbitrary mathematical procedure, having set up a physical model in which there is a given quantity of technically determined, physical inputs, plus an additional (unexplained) physical surplus, divided into wages and profits, the total sum of which is equal to physical output. Whilst the formal 'prices' of these physical quantities might not be known in advance, their physical base certainly is. As a result, I would argue, Sraffa is simply dealing in semantics, when he tries to avoid a 'cost of production' label for his system.

Let us now consider the implications of this with regards to classical political economy. As we have seen, Sraffa acknowledges his debt to Ricardo's corn model and through that to the Physiocrats as providing an important stimulus to his theoretical analysis. This, and the technical nature of his analysis, has led many to call Sraffa's approach Ricardian or Neo-Ricardian. I would argue, however, that Sraffa's approach has little or nothing to do with the Ricardo of the Principles, and as it was only in the Principles that Ricardo set out to develop his theory of value, Sraffa's analysis has little or nothing to do with Ricardo's theory of value. Ricardo's 'corn model', as it has become known since the publication of Sraffa's introduction to Ricardo's Principles was elaborated in Ricardo's Essay on the Influence of a Low Price of Corn on the Profits of Stock. Here Ricardo, as Sraffa argues in his Introduction, effectively treats corn as both input (capital) and output "so that the determination of profit by the difference between the product and capital advanced, and also the determination of the ratio of this profit to the capital, is done directly between quantities of corn without any question of valuation (my emphasis)" [Sraffa, 1951, Introduction, p.xxxi]. Therefore in the Essay, as Sraffa argues, Ricardo's use of the 'corn model' means he avoids the need to develop a theory of value. Of course, the idea that one commodity, corn, could be both input and output, as Malthus objected, was unrealistic applied to capitalism. However, it was not until the Principles, where Ricardo dealt with generalised commodity production and exchange, that the need for a theory of value was posed, and as Sraffa documents, it was the search for such a theory that held the writing of the Principles up. As Ricardo wrote to James Mill on 30 December 1815

> "I know I shall be soon stopped by the word price, and then I must apply to you for advice and assistance. Before my readers can understand the proof I mean to offer, they must understand the theory of currency and price." [quoted in Sraffa, 1951, Introduction, p.xiv.]

The theory of value Ricardo finally elaborates in the Principles, as we saw in the last chapter, was a theory based on labour embodied or labour time. As we also saw, Ricardo's theory contained many contradictions and problems, as recognised not least by Ricardo himself, but despite the problems, one thing which Ricardo overtly rejected, again as is documented in Sraffa's Introduction, was Smith's adding up theory. He refused to accept that price was determined by the sum of the rewards to the factors, preferring, despite contradictions, to hold to the view that price or exchange value was determined by labour embodied or labour time. Of course Sraffa, in his Production of Commodities by Means of Commodities never says he is influenced by Ricardo's Principles. However, in the development of his theory using Ricardo's earlier corn model, Sraffa does come out, via the system of equations based on physiological quantities, with a theory of 'price' or 'value'. But what is this theory of price or value? What I have argued is that it is essentially an adding up or cost of production theory. As such, it closely resembles (though in a far more sophisticated form) Smith's adding up theory, so specifically rejected by Ricardo, where price is equal to the cost of production plus wages and profit. As we have seen, at no time does Sraffa develop a theory based on 'labour' per se. The nearest he gets to labour is the reward to labour, the wage multiplied by a coefficient representing a certain number of technically determined units, but where the wage is expressed in terms of a bundle of goods or the standard commodity. In other words 'labour' in Sraffa's physiological model is always reduced to a bundle of physical goods, and output is the sum of physical inputs plus surplus (wage and profit). But as we have seen, the source of the surplus is unexplained, it is simply 'added on' to the technical inputs. And, having set up a system of equations, the 'values' which are attributed to the physical data are the result of an arbitrarily chosen numeraire and exogenous variable. Such mathematical sophistication cannot avoid the conclusion, though, that this model is essentially very similar to Smith's adding up theory.

That Sraffa should arrive at an adding up theory of price so close to Smith, having started from Ricardo's physiocratically dominated corn model is not, I believe, necessarily surprising. As we saw in the last chapter, Smith himself was heavily influenced and stimulated by the Physiocrats, but the big advance he made over the Physiocrats was his use of labour as the basis of a theory of value. But, because he insisted on adhering to 'labour commanded' rather than labour embodied as the means of wealth, and because of his problem in dealing with capital, he was forced under developed capitalism to drop his labour embodied theory for an adding up theory of value. The problem with this adding up theory was that the source of wages, and particularly profits, is not explained. Therefore Smith's advance beyond the Physiocrats was always limited. In the Essay Ricardo had not yet developed a theory of value independently of Smith, and although he did not articulate any theory of value at this stage, we know he was generally heavily inspired by Smith from the beginning. And, given the Physiocratic influence on Ricardo's corn model, it is not surprising that it should have remained within the same confined problematic as Smith and the Physiocrats, so that when Sraffa then seeks to extend the corn model, he should also find himself within the same logical boundaries, arriving at a theory of price or value which has much more in common with Smith than Ricardo. As Marx has pointed out, Ricardo's great break from Smith was the elaboration of his labour embodied theory of value in the Principles, and despite the problems

Ricardo was to encounter with it, it put him on quite a different theoretical plane to Smith or the Physiocrats. Sraffa's model has nothing to do with the labour embodied theory of value of Ricardo's Principles, and as such Sraffa never manages to attain that theoretical plane of the Principles.

Returning now to the relation between Sraffa and Emmanuel, I think we can see why Emmanuel's theory was so easily adapted to the Sraffian model; and having analysed in more detail the underlying Sraffian model, I think we can see more clearly many of the theoretical assumptions which only implicitly underlie his alternative treatment of unequal exchange. An essential argument, which I have attempted to elaborate throughout this thesis, is that Emmanuel is using a neo-Smithian adding up theory of value based on a physiocratic notion of rewards to the factors being bundles of physical goods. When he attempted to integrate this theoretical approach into Marx's tables of the transformation of value into price, which was developed by Marx on the basis of a qualitatively different methodological approach to value, Emanuel's theory encounters many contradictions, and is opened to a wealth of criticisms from all sides. Sraffa, as we have seen, also takes a neo-Smithian approach to price, also based on a physiocratic model. Therefore, from the outset, although he attempted to use a Marxian framework, Emmanuel's approach is methodologically far closer to that of Sraffa's. The advantage of using a Sraffian model is therefore twofold: (i) it is methodologically compatible with Emmanuel's theory, and therefore avoids many of the problems of elaboration encountered in the Marxian formulation; and (ii) having set the Sraffian model up on the basis of its limited physiocratic and neo-Smithian assumptions, the model is mathematically consistent. However, the problem remains that, given this is a physiocratic model (being applied outside agriculture) the origin of the physical surplus is unexplained, and we are left with the inadequate impression that given physical bundles of goods, left to themselves, can somehow multiply to produce a surplus. Applied to the Sraffian system of price equations, therefore, the origin of both profit and wage (given both are being treated as part of this surplus) remain unexplained, and are being 'added on' to the technical cost of production in a method similar to (but mathematically more sophisticated than) Smith's adding up theory. However, despite the fact that the Sraffian model does have an advantage over the Marxian model in that it is more consistent, the use by Emmanuel of the Sraffian model does, I believe, raise a new set of logical problems for Emmanuel's theory of unequal exchange in trade, which we will now explore.

4. THE SRAFFIAN MODEL AND UNEQUAL EXCHANGE IN TRADE

Having examined the underlying Physiocratic and neo-Smithian basis of the Sraffian model, let us now look at its application to unequal exchange in trade. The most lucid application of the Sraffian model to unequal trade by Emmanuel is set out in 'Unequal Exchange Revisited' [Emmanuel, 1975, p.40]. Here, in his 2 x 2 model he employs much the same physical data as in Appendix V of Unequal Exchange, using B as the numeraire commodity, and setting the wage rate equal to 1/40B per hour where p_a equals price of A and r is the rate of profit. On the basis of this data, he arrives at the following simultaneous equations:

$$(6p_a + 1) + 5 + (70p_a + 35)r = 32p_a$$
$$16p_a + 7.5 + (20p_a + 45)r = 21$$

Solution: $p_a = 0.5$

$r = 0.1 \quad (10\%)$

He then examines the situation if the wages in A are doubled from $\frac{1}{40B}$ to $\frac{1}{20B}$, the wages in B remaining the same

$$(6p_a + 1) + 10 + (70p_a + 35)r = 32p_a$$
$$16p_a + 7.5 + (20p_a + 45)r = 21$$

Solution: $p_a = 0.614$

$r = 0.0641 \quad (6\%)$

As a result of the wage increase in A, the relative price of A has increased from 0.5 to 0.614, and the rate of profit has decreased from 10% to 6%. And assuming good A is only produced in Country A, as a result of the consequent movements in the terms of trade, A will benefit at the expense of B. He then goes on to generalise the two equation system in the more specific Sraffian form, where he assumes that all capital is used up in a single production period so that we have:

$$(A_a p_a + B_a)(1 + r) + W_a = Ap_a$$
$$(A_b p_a + B_b)(1 + r) + W_b = B$$

where A_a, B_a are the quantity of A and B used in the Production of A

A_b, B_b " " " " " " " " " " " " B

r is the rate of profit (assumed to be equalised)

w_a, w_b are the wages of A and B

p_a is the price of A

B is assumed to be the numeraire-commodity

Emmanuel then goes on to demonstrate that in the general case if W_a increases, r will decrease (equally for both countries because it is assumed that r is equalised) and the price of A (p_a) increases. This, mathematically, is the only possible outcome consistent with both equations. [See Emmanuel, IDS, 1975, p.41.] The case is then extended to an n-equation system.

Staying with the 2 x 2 model, in which the logic of the model is most explicit, and in light of our previous analysis of the Sraffian model, let us examine exactly what is going on. We are again starting with technically given bundles of A and B, plus a 'surplus' which is divided between wages and profit, the sum of which equals total physical output of A and B. We then want to calculate the prices of A and B, the wage and profit. To do this, we have to make one of the commodities the numeraire commodity (B in this case), and we exogenously determine the wage, i.e. we assert, completely independently of the model, that the wage is equal to a certain quantity, again expressed in terms of our numeraire commodity, which is itself a physical good. We then have a determinate set of simultaneous equations, which we solve to find p_a and r. The consequence of making the wage the exogenously determined variable is that we can then arbitrarily change the wage, or in the case of unequal exchange theory, we can arbitrarily change <u>one</u> of the wages (the wage in country A) and examine the mathematical effect of this within the set of simultaneous equations. The consequence, as we have seen, of increasing W_a is that we have a fall in the equalised rate of profit, r, and an increase in the price of A relative to the numeraire commodity, B. As a result, country

A's terms of trade have improved relative to B's, and through exchange at the new price levels, A benefits and B loses relatively.

Superficially, and again similarly to the Marxian model, this is a neo-Mercantilist argument, now expressed more simply in terms of the relative price movements: A sells high, and B sells low, therefore A grows rich at the expense of B. However, even in the Sraffian model, I would argue, there is more than a simple superficial similarity to Mercantilism. Both also have an underlying theoretical affinity which goes much deeper. The essence of the Mercantilist position, as we have seen, in its most sophisticated form in the work of Sir James Steuart, is that price equals cost of production plus profit upon alienation. It is only via this profit upon alienation that one country will grow rich at the expense of another, and the higher this profit, the richer this country will become. In the Sraffian model of unequal exchange, the emphasis is no longer on 'profit' per se. 'Profit', it is assumed, is equalised between nations. The argument is slightly more complex than this. The Sraffian model, as we have seen, is essentially a cost of production theory where price equals cost of technically determined inputs plus a surplus, which is then divided between profits and wages. In other words, unlike the Mercantilist theory the Sraffians include the wages as part of the surplus. But the problem with the Sraffian theory, I have argued, is that nowhere is the origin of this surplus explained. It is simply asserted, or added on to the technical cost of production. In other words given its complete lack of theoretical justification it could equally be called "surplus-upon-alienation". Having added this surplus on, and having decided to treat the wage as the exogenously determined variable within this surplus, it then becomes quite possible to arbitrarily increase this surplus by assuming an increase in the wage, or more specifically with regards to unequal exchange theory to arbitrarily increase the surplus of one country, by assuming an increase in the wage of that country alone. We can then show mathematically that the equalised rate of profit for both countries will fall, but the price of the good from the country with the higher wage will increase relative to the price of the good from the country with the lower wage. The country with the higher wage therefore attains a larger surplus, not through profit, but through the wage which is now being treated as part of the surplus. This is no longer 'profit upon alienation' in the narrow Mercantilist sense, this is 'surplus upon alienation' in a broader sense via the wage. But despite the twist in the argument, the essence still remains the same. One country grows rich at the expense of another by adding on a larger, unexplained, surplus from the other, and by then selling high and buying low[6]. It is a Mercantilist argument through and through.

What we see, therefore, is that Emmanuel's unequal exchange theory is mercantilist, not only superficially, but also theoretically, in both its Marxian and its Sraffian treatment. What I have done to establish this is to trace through the theoretical roots of both methods of treating unequal exchange, and what we find is that both treatments have very similar theoretical roots, even though their formal mechanisms might be different. Whilst one method might be called 'Marxian' and the other might be called 'Ricardian', what they both actually have in common is Adam Smith's adding up theory. Neither use at any point under capitalism 'labour embodied' or 'abstract socially necessary labour time' as a basis for developing a theory of international value, therefore neither have anything to do with the Ricardo of the Principles or Marx. What both approaches start from, and on this Emmanuel is consistent throughout, is physical bundles of goods, where the common denominator of capital, wages, profit and output is that they all constitute such physical goods. This in essence, therefore, is a physiocratic model, but unlike the physiocrats, who relied on nature to explain the surplus, applied to a manufacturing system the source of the physical surplus is unexplained. The problem with such a physiocratic model, though, is that we still need to explain exchange value or price. This Smith attempted to do in contradistinction to the physiocrats (and as an important advance on them) through labour. But by concentrating on labour commanded, i.e. labour in exchange, Smith was held back by the contradiction that he could not explain surplus. He then, in a confused way, reverted to the adding up theory where price is the sum of wages and profit, and where the source of profit especially is never fully explained. It is simply an arbitrary magnitude 'added on' as a reward to capital. As such Smith stays within the Physiocratic framework. A very similar problem meets Emmanuel in both his 'Marxian' and 'Sraffian' models. Having started with physical quantities, and unable to explain surplus, price then becomes the sum of magnitudes attached to the physical bundles going to the factors of production. In the 'Marxian' model these magnitudes are purely arbitrary, in fact they are taken with no theoretical underpinning, from Marx himself. In the Sraffian model, there is far greater mathematical consistency in the calculation of these magnitudes, but they are nonetheless also arbitrary - they are relative magnitudes expressed in terms of an arbitrarily chosen numeraire which itself is a physical good. Therefore, in both models, the surplus is an arbitrary magnitude, whose origin is unexplained which is 'added on' to the technical costs of production. When this theory is then applied to trade, the surpluses are then 'added on' in unequal magnitudes, and as such we revert back to Mercantilism, one country grows rich at the expense of another, with no real understanding of <u>how</u>.

Although the Sraffian model is mathematically and logically more consistent than the Marxian model, Emmanuel himself is never completely happy about abandoning the latter. He tends, rather, to employ both models as alternative approaches. There is one crucial problem, I believe, with the Sraffian model regarding Emmanuel's original thesis. As

Emmanuel states in the Introduction to Unequal Exchange, his aim is to undertake the task that "Ohlin reproached the supporters of the labour theory of value for neglecting: the task of integrating international value in the general theory of value". [UE p.xxxiv] And he goes on to say in a footnote:

> "If I succeed, I shall have shown that not only is international trade not, as is thought, the Achilles heel of the labour theory of value but that it is, on the contrary, on the basis of this theory's premises that we can understand certain features of international trade that have hitherto remained unexplained, despite the plentiful body of writing that has accumulated about them." [UE p.xlii]

What I have shown, through an examination of the theoretical origins of Emmanuel's theory, is that effectively he has not achieved this aim. What I have argued is that, not only is Emmanuel not using Marx's labour theory of value, he is not using Ricardo's labour embodied theory of value either. His use of a Smithian adding up theory (where even Smith's labour commanded is dropped) means that labour is completely abandoned as a source of value or surplus value under capitalism. In fact, Emmanuel states that this is so very early on in the argument of Unequal Exchange when he says that under capitalism, when the second factor enters production, exchange value can no longer be determined by labour, but must be determined by the rewards of the factors "since the only common denominator between the two factors that makes the sum of their amounts commensurable is the rate at which they are rewarded". [UE p.15] He then goes on, as we have seen, to apply this adding up theory to Marx's transformation tables. But in the Marxian model, his abandonment of the labour theory of value is confused, (a confusion also found in Smith), and his use of Marx's terminology means the term 'labour' is still sometimes retained in the discussion of value. This leads to both confusion and contradiction in the Marxian model, and the greater consistency of the Sraffian model certainly provides a way out. But the Sraffian model quite explicitly determines exchange values or price with no reference to labour values whatsoever. This has led to Ian Steadman, when examing the relation of Marx to Sraffa, to argue that Marx's labour theory of value is rendered redundant[7] - an argument which would be quite true had Marx started from a Physiocratic basis which he does not. However, given Emmanuel does start from a Physiocratic basis, the argument does apply quite distinctly to him. In Emmanuel's Sraffian model of unequal exchange, the labour theory of value is quite explicitly made redundant, and Emmanuel's whole aim of reintegrating the labour theory of value into international trade in order to explain unequal exchange fails. In this context, it is not surprising that Emmanuel should try to hold on to the 'Marxian' model, in which he has invested so much. But I would argue, given his treatment of labour in the 'Marxian' model, that he has completely failed from the beginning to achieve his aim: the integration of the labour theory of value into the theory of international trade, the Sraffian model is simply a confirmation of this failure.

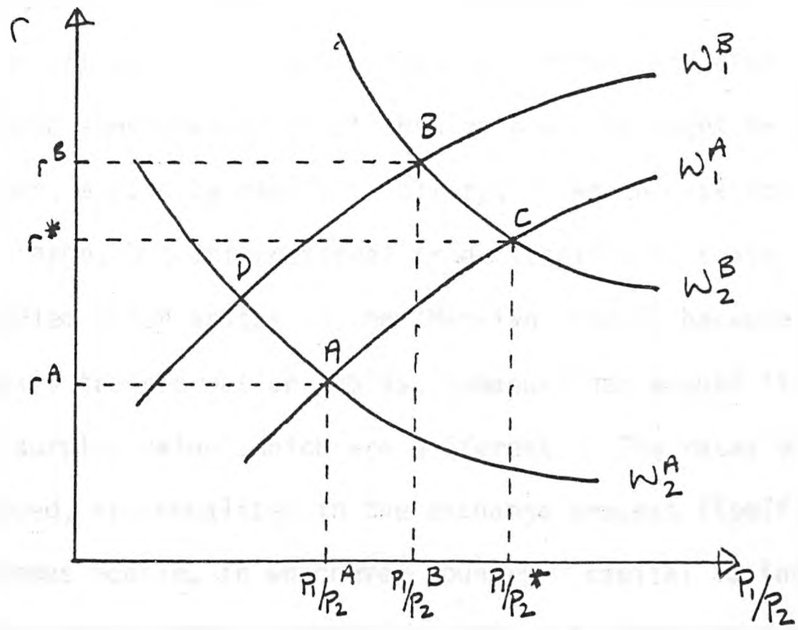
5. EXTENSION OF THE SRAFFIAN MODEL OF UNEQUAL EXCHANGE

Emmanuel himself has not made any further elaboration of his Sraffian model of unequal exchange (in English at least), and whilst we are able to draw out many of the theoretical origins of the model by looking at Sraffa himself, the implications of its application to unequal exchange in trade are less obviously stated by Emmanuel. However, a lot of work has been done on extending the Sraffian model of unequal exchange, particularly by David Evans, at the Institute of Development Studies in Sussex. By examining Evans' extension of the model, I think we can see more clearly some of the problems with Emmanuel's Sraffian model of unequal exchange.

Evans' extension of Emmanuel's 'Sraffian' unequal exchange model is articulated most clearly in its simple 2 x 2 form. [See D. Evans, 1981.] Evans starts where Emmanuel leaves off with the generalised Sraffian price equations for two goods and two countries. Evans then makes a number of assumptions: identical production techniques under constant returns to scale in each country; the organic compositions of capital differ in each sector; there are no joint products or externalities; the balance of trade is zero. He also assumes the wage is higher in country A than country B so that $W^A > W^B$. With the physical input requirements and real wages being given by assumption, it is then possible to plot the relation between the relative prices (p_1/p_2) and rate of profit (r) for both countries. Starting with a situation of autarchy, Evans arrives at the following diagrammatical representation of the model. (See Diagram 1)

What this diagrammatic model shows are two things. Firstly, that as the price of good 1 rises relative to good 2, the rate of profit rises for good 1 and falls for good 2. Under autarchy, where there is no specialisation in production or trade, each country will have a unique equilibrium set of relative prices where the rate of profit is equal for both goods, on Diagram 1 point B for country B and A for country A. Secondly, though, it can already be seen that, even under autarchy,

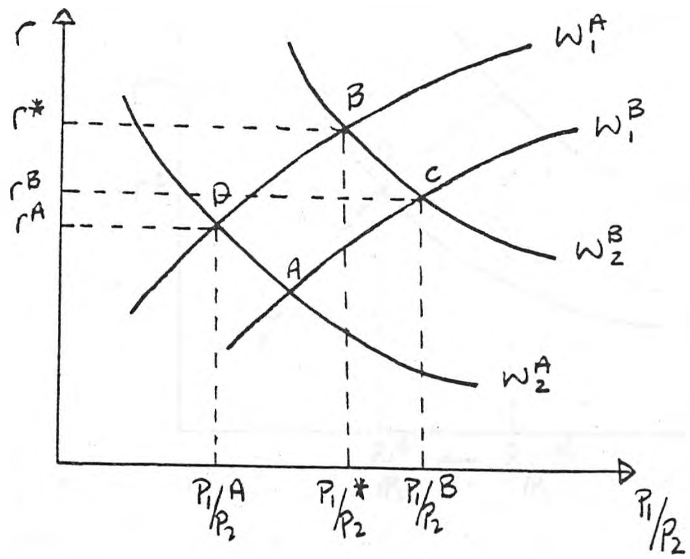
Diagram 1



country B has a higher equilibrium rate of profit than A, because country B has lower wages than A. If trade were to be opened up between the two countries, and country A specialised in the production of good 1 and country B specialised in the production of good 2, then there should exist a new equilibrium set of relative prices $\left(P_1/P_2\right)^*$ with an equalised rate of profit r*. The problem with the model is though, as David Evans points out, that with trade and specialisation the new equilibrium rate of profit (r*) is <u>less than</u> the autarchical rate of profit for country B (r^B), and is less than it would be if all production was now concentrated in the low wage country B. Given Emmanuel's assumption of different wage rates, the same techniques of production in both countries and the international mobility of capital, there is nothing in the model to stop all capital flowing to country B, with the lower wage and higher rate of profit, so that production would cease in country A until unemployment (and the laws of Supply and Demand) forced the wage down and profit up in country A. This, of course, is a complete negation of Emmanuel's whole theory of unequal exchange in trade. It shows that, whilst the Sraffian model might be mathematically more consistent, it exposes essential contradictions in the logic of Emmanuel's argument. It results also from the assertion in the Sraffian model that rates of profit are always equalised, without showing how this might be so, given unequal wages, except by capital mobility, in which case not only unequal exchange, but international trade itself will cease. This is not a problem which arises in the 'Marxian' model, because there, using Marx's transformation tables, Emmanuel has argued it is only the 'rates of surplus value' which are different. The rates of profit he has argued, are equalised in the exchange process itself as soon as capital becomes mobile, in whichever country capital is invested[8]. But in the Marxian model, as we have seen, the different rates of surplus value are simply asserted. They have no theoretical basis. In the Marxian model, I have argued, if we equalised the magnitudes of surplus value ($m_A = m_B$) then again unequal exchange (though not necessarily trade) would cease. The fundamental problem, I would argue, arises from using a cost of production theory where surplus or profit is simply 'added on'. The theory is then based on a set of assertions which can be easily negated.

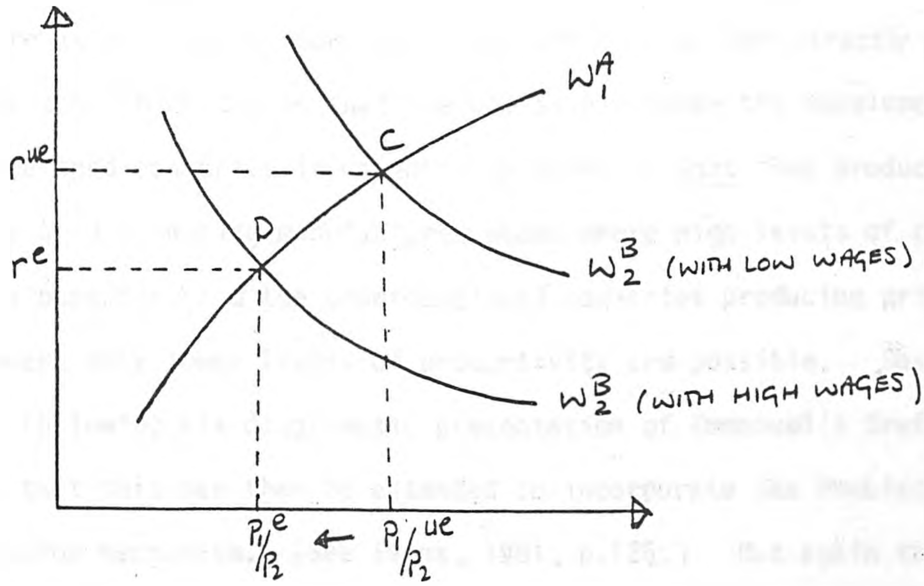
David Evans himself deals with the problem, in order to further pursue the unequal exchange model, by changing one of Emmanuel's original assumptions. If we drop the assumption of identical techniques of production, and instead build a model based on different production techniques in the two countries as well as unequal wages, then we can salvage the unequal exchange theory, as shown in Diagram 2.

DIAGRAM 2



Here it is assumed that the techniques of production are different in the two countries. If the productivity of labour is higher in country A than B, in the production of good 1, then country A can produce good 1 at any given relative prices with a higher rate of profit than country B, despite country A's higher wages. This is shown by the change in country A and country B's curves for good 1. With specialisation and trade, the equilibrium relative prices, at point B, now yields a higher equalised rate of profit for both countries than a no trade position (points D and C). David Evans then rounds off the model by showing how unequal exchange persists for country B, given its low wage, compared with the position it would be in if it had higher wages. This can be seen from Diagram 3.

DIAGRAM 3



Here a comparison is made between country B's schedules for good 2 with low and higher wages. If an increase took place in country B's wage, there would be a fall in the equalised equilibrium rate of profit for both countries and a fall in the equilibrium price ratio from p_1/p_2^{ue} to p_1/p_2^{e}. But this movement would mean an increase in the price of good 2 relative to good 1, so that country B's terms of trade would have improved relative to country A. Equal exchange would now exist.

This extension of the Sraffian model brings out a number of problems, (many of which are recognised by David Evans) specifically with regards to the original Emmanuel thesis. The most important problem is that the assumption of different techniques of production is a major contradiction of Emmanuel's central argument. If different countries employ different techniques of production, and one country (the rich country) has higher levels of productivity than the other country, then two points can be made. Firstly, with higher levels of productivity, the workers in country A are not necessarily less exploited, despite their higher wage, than workers in country B, or at least certainly with regards to the production of good 1. Therefore, Charles Bettelheim's argument against Emmanuel, which Emmanuel so vehemently rejected, is given credence[9].

Secondly, if different levels of productivity between two countries is a central element, productivity is always higher in the rich country, and there is no trade in non-specific goods. This then directly implies the Prebisch-Singer thesis that the division between the developed and underdeveloped countries is essentially based on what they produce, with the developed producing manufactured goods where high levels of productivity are possible, and the underdeveloped countries producing primary goods where only lower levels of productivity are possible. David Evans, shows, following his diagramatic presentation of Emmanuel's Sraffian thesis, that this can then be extended to incorporate the Prebisch-Singer transmission mechanism. [See Evans, 1981, p.126.] But again this is a complete contradiction of Emmanuel's original thesis, and a negation of his aims. Emmanuel was trying to prove that poor countries were poor, no matter what they produced[10]. He was trying to distinguish himself quite clearly from the Prebisch-Singer thesis. For him it was the wage, and the wage alone which determined unequal exchange. That the Sraffian model of his theory, if it is to succeed, should place him within the Prebisch-Singer framework is a major setback.

But there are even more problems. If we examine the Sraffian model carefully in the context of Emmanuel's original arguments, then, according to the logic of the model, there is no way unequal exchange should ever have come about. Emmanuel's argument is that, if there is a higher level of productivity in the rich countries (and he never really accepts that this might be enough to offset the higher wage levels), such an increase in productivity has come about as a result of the higher wage, and not vice versa. This is essential to Emmanuel's argument if the wage is to remain the exogenously determined variable. But if this is true, then there must be a lag (historically as well as theoretically) between increasing the wage and the consequent increase in productivity. Returning to the situation in Diagram 1, therefore, let us assume that country A is in the inter-mediate period where it has increased its wages (for social and historical reasons), but the subsequent rise in productivity has not yet taken place. According to the logic of the argument, in a situation of free capital mobility, all capital would flow to country B, where a higher rate of profit can be made, and production would cease in country A until it lowered its wage again. Therefore, in a free trade situation, there is no way logically of moving from Diagram 1 to Diagram 2. The increase in productivity cannot take place in country A following the wage rise, because production has declined there. The only way out of this contradiction is to argue that Diagram 1 represents an autarchical situation, so that the rise in the real wage <u>and</u> subsequent rise in productivity both take place prior to the opening of trade, so that trade does not open up until after the situation of Diagram 2 has already been established. The problem with this argument (and this refers back to the points made in the previous paragraph) is that this implies a country can grow rich <u>without</u> trade, despite increasing its real wage, because the subsequent increases in productivity would raise the profit and therefore rate of exploitation. Therefore, it is not unequal exchange in trade per se which is the key to making a country rich, but raising its level of productivity. Again, a repeat of the Prebisch-Singer thesis, and a collapse of Emmanuel's theory of unequal exchange in trade.

The consequences, therefore, of extending the Sraffian model of unequal exchange are pretty dire for Emmanuel's original thesis, and the argument is forced to revert back to Prebisch-Singer lines. It is possibly not surprising, therefore, that Emmanuel himself did not further pursue the Sraffian model. The essential problem with the Sraffian approach, I have argued though, is that it is a Smithian adding up theory built on a Physiocratic base, where the surplus is simply 'added on' with no explanation as to its source, and when applied to trade it is given a neo-Mercantilist slant, with a larger surplus (via the wage) being added on by some countries than others. This model, having been set up, is then 'solved' mathematically, but only through a number of arbitrary assumptions, the most important of which being that wage levels can exogenously vary between countries; that wages are the independent and determining variable; and that profits are always equalised internationally. The problem with such a model is that one could quite easily make a different set of arbitrary assumptions, and then come up with different results. The most obvious assumption which is open to questioning is the assumption that wages are the key exogenous variable. Mathematically, and this was Sraffa's approach, we could just as easily choose profit as the exogenous variable in order to close the system. As David Frans points out, Emmanuel has not really proved that there is "a causal connection between worker bargains for money/real wages and the terms of trade" [Evans, Livingstone Ed, 1981, p.123.] And as we have seen, if different levels of productivity are taken into account, which they have to be if the model is to work, then the argument that wages alone are the cause of adverse terms of trade collapses. But the problem, as I see it, is more fundamental than simply choosing the right variable to be exogenously determined, or making the right assumptions for the model to work. The whole problem with the Sraffian framework is that it is working in terms of surplus (however that surplus might be divided between wages and profits) the source of which is unexplained. If the basic problem of underdevelopment is that the developed countries extract a surplus from the underdeveloped, then we have to understand where that surplus is derived from, the origin of that surplus, if we are to begin to understand the nature of that exploitative relation. The Sraffian framework gives us <u>no</u> help in understanding the origin of that surplus. Its existence is simply asserted. Therefore, in whatever proportions, or by whatever means we add this surplus on to the basic cost of production, it takes us no further in understanding how and why underdevelopment arises. We are simply given a neo-Mercantilist <u>description</u> of underdevelopment, but no insight into its cause. Emmanuel's noble aim, despite his mass of theoretical analysis, of moving beyond the descriptive premises of Baran and Sweezy or Prebisch and Singer fails. It is not surprising therefore that his model should wind up back where it started, within the limited framework of the Dependency Theorists.

CHAPTER VI

MERCANTILE VERSUS FINANCIAL IMPERIALISM

CHAPTER VI

MERCANTILE VERSUS FINANCIAL IMPERIALISM

In this thesis, my main concern has been to examine the theoretical foundations underlying Emmanuel's theory of international value, or equilibrium prices in international exchange. In this context, my main argument has been that, because of his Smithian, neo-Mercantilist approach, Emmanuel has failed in his objective of integrating the labour theory of value into the theory of international trade. However, Emmanuel's aim in developing his theory was not only to challenge the orthodox theory of international trade, dominated by the Heckscher-Ohlin model, and therefore to develop an alternative theory of trade per se; but also to develop a theory of trade which simultaneously explained unequal exchange, and why one country could grow rich at the expense of another. His aim was also, therefore, to develop a theory of imperialism, or more specifically, a theory of the imperialism of trade. In this chapter, we will now examine the application of Emmanuel's theory of trade to a theory of imperialism. We will divide the chapter into two parts. Firstly I will critically examine Emmanuel's theory of mercantile imperialism, and secondly, I will examine the theory of financial imperialism, which Emmanuel himself so strongly rejects.

1. MERCANTILE IMPERIALISM

(a) Trade and Imperialism

The entire thrust of Emmanuel's work is that imperialism is a direct result of the inequalities in international trade. Emmanuel holds, therefore, solely to a theory of 'Mercantile imperialism', and rejects any other explanation of the source of imperialism, be it the role of multinationals or capital and financial investments in underdeveloped countries. As he says "All imperialisms are, in the last analysis, Mercantile in character" [U.E., p.187]. It is a position Emmanuel sticks to quite consistently throughout his work. It is only through international trade in goods that wealth can be transferred from one country to another, and it is only through unequal exchange in trade resulting from the wage differentials between countries, that one country can grow rich at the expense of another, and imperialism persist. As a result, Emmanuel argues that imperialist exploitation ceases to be defined in terms of class exploitation, but is defined in terms of the exploitation of one nation by another. Hence within the rich nation, both the better paid workers as well as the capitalists are responsible for the exploitation of the poor nation [U.E., pp.180-192][1].

In my view, this theory of imperialism is entirely consistent with the theoretical premises of Emmanuel's work. Firstly, Emmanuel starts from a physiological or physiocratic base, where all values are derived solely from physical quantities of use values or "bundles of goods", and not from social or homogeneous labour. Therefore, in the last analysis, the transfer of value can only be understood in terms of the transfer of physical goods, and not also in terms of the transfer of abstract or social values via financial mechanisms. Secondly, Mercantilism is in essence, a theory of exploitation solely of nation by nation, where one nation is able to 'add on' a surplus or profit upon alienation, by whatever means, and another is not. Emmanuel's application of Smith's adding up theory to international trade, I have argued, simply provides a more sophisticated mechanism by which such a "surplus" can be added on.

Thirdly, whilst Emmanuel recognises the existence of social classes, because of his use of a Smithian adding up theory, he does not view the production relations as the basis of conflict between social classes. Rather, he takes a cost of production theory, where the rewards to the factors (or the rewards to the different 'classes') are 'added on' to capital costs. Any 'conflict' between classes is therefore solely within the sphere of the distribution of the 'social product', and not inherent within the production relations themselves. It is quite possible, therefore, for an 'alliance' to be formed between classes within a nation, for the national product to be increased through Mercantilist imperialism in trade, and for both classes, labour and capitalist, to benefit from the distribution of the surplus product. Therefore, both classes of the imperialist nation, are jointly 'exploiting' the 'poor' nation within this distributional framework. However, the problem with this approach, I have argued, is that, in the Marxian model the origin of surplus value is never explained, therefore the existence of a differential surplus value resulting from differential wages between nations results from a purely arbitrary assertion, so that the ultimate transfer of surplus from one nation to another remains unexplained, it results from the existence of a surplus which has been arbitrarily added on in inverse proportion to wages. In the Sraffian model, wages themselves are treated as part of the surplus, therefore when wages are increased in one nation, the total surplus (wages plus profit) increases, but again, the origin of this surplus is unexplained and it is arbitrarily added on by different countries in different quantities. In both models, therefore, what is essential to the theory of imperialism is not the existence of classes per se, but the addition of an unexplained surplus by one country and not another in trade. And so long as this surplus remains unexplained, I believe, the argument that it is either or both classes (labour or capital) of one nation which is responsible for the additional surplus has still to be substantiated. The theory, as well as the conclusion, remains Mercantilist.

The anomaly, though, is that in developing the theoretical foundation for the theory of unequal exchange in trade, Emmanuel did not set out to develop a neo-Mercantilist theory. On the contrary, his aim was to integrate the labour theory of value of Ricardo and Marx into the theory of trade. Yet the theory of value of Ricardo and Marx is the complete antithesis of a neo-Mercantilist theory. Both Ricardo and Marx concentrated (in different ways) on production relations as the basis of their theories of value, surplus value, profit and price. Neo-Mercantilism at best works on the basis of a cost of production theory (determined by the technical inputs into production), but surplus or profit is always unexplained, and added on in exchange. Therefore, a neo-Mercantilist theory of imperialism will necessarily always concentrate solely on the trading (or exchange) relations between nations for an explanation of international exploitation. But a theory of imperialism based on the labour theory of value of Ricardo or Marx should at least also include an analysis of the role of international production relations. Emmanuel fails in his aim of integrating the labour theory of value into the theory of international trade, and through his use of Smith's adding up theory, on the contrary develops a neo-Mercantilist theory of international value and exchange. Consistent with this failure, I believe, is his singular adherence to a Mercantile theory of imperialism. But this raises the question, if he believed so strongly in a purely mercantile theory of imperialism in the first place, why attempt to develop that theory on the basis of the completely incompatible labour theory of value of Ricardo and Marx?

An explanation can partly be found, I believe, in the fact that Emmanuel was both trying to develop a pure theory of trade in opposition to the dominant orthodox theory of Heckscher-Ohlin-Samuelson and simultaneously using that theory to explain unequal exchange, i.e. imperialism.

Emmanuel, following on from Prebisch and Singer, rejected the Neo-classical theory of trade. He sought to develop a theory which explained the reality of the international economy, the relative deterioration of the terms of trade for the underdeveloped nations. But to do this, he had to provide a serious theoretical alternative to Neo-classical trade theory. Within economic thought there have been two main opposing economic schools: Neo-classical economic theory based on marginal analysis, and Classical Political Economy. Given his rejection of Neo-classical economics, it is not surprising that Emmanuel should turn to the latter for the basis of his opposition to the former. But further than this, in the history of trade theory itself, a strong link had been maintained between the two schools through Ricardo's theory of comparative advantage; a link which was only possible because Ricardo had abandoned his labour theory of value in his trade theory[2]. Therefore in his challenge to Neo-classical trade theory, Emmanuel returned to the father of that theory, Ricardo, and in doing so, chose to take up the gauntlet thrown down by Bertil Ohlin, by attempting to show theoretically that the labour theory of value could be integrated into international value and trade theory; and in doing so, he sought to show that contrary to the Neo-classical arguments, free trade did not promote the equal and harmonious development of all nations, but that some nations benefited through trade at the expense of others and inequality persisted.

It is for this reason that Emmanuel spent so much time concentrating on Classical Political Economy in the elaboration of the theoretical foundations of his analysis; and as a result of this, I believe, Emmanuel's work provides one of the most serious theoretical considerations of the problems of underdevelopment put forward within the post-war tradition of radical development and dependency theory. As a result of his work, Emmanuel touches upon some of the essential theoretical questions which have to be addressed if modern imperialism is to be understood, not least the need to integrate the labour theory into the theory of international value. The problem with Emmanuel's work though, is that despite his very serious attempt, he fails I believe in his objective of either building an international theory of value based on the labour theory of value, or consequently, integrating the labour theory of value into a theory of international trade. Because he starts from a Smithian adding up theory of value, his analysis negates the labour theory of value, and his theory of unequal exchange in trade never moves beyond a more sophisticated form of neo-Mercantilism.

(b) The Theory of Underdevelopment

The other aspect of Emmanuel's work, though, is that it is not only a theory of trade, but also a theory of underdevelopment, and it also, therefore, plays a part in the post-war tradition of Marxist theories of imperialism. We saw in Chapter 2 of this thesis that, despite the novelty of Emmanuel's contribution, he still retained close ties with the broad paradigm of the works of Baran and Sweezy, Prebisch and Singer and Gunder Frank. What I argued was that essential to the work of all these writers was a view of imperialism based on the maldistribution of the fruits of production or economic surplus taking place within the exchange relations of the international economy. This was done either through the monopolistic transfer of economic surplus (Baran, Sweezy and Frank) or via the deteriorating terms of trade of primary goods in a world structurally divided between underdeveloped primary producing and developed manufacturing nations (Prebisch/Singer). Although Emmanuel differs from these writers in that his theory is developed within a free-trade framework, where monopoly plays no role, and there is no specified division between primary and manufactured production, he still retains the essential paradigm that it is the maldistribution of economic surplus within international exchange relations which is the basis of imperialism. The advance of Emmanuel, especially over Baran, Sweezy and Frank, is that rather than reduce this maldistribution to the crude pillage of the underdeveloped world by monopoly capitalism, he attempts to explain in a far more sophisticated fashion the economic mechanisms via which this transfer takes place. Further, rather than operate on the (I believe superficially based) premise of Baran and Sweezy that "conditions have changed" under post-war monopoly capitalism, Emmanuel attempted to elaborate his theory on the far more sophisticated theoretical principles of classical political economy and Marx.

But despite his attempt to elaborate a more sophisticated economic mechanism, he always remained within the same paradigm of imperialism resulting from the maldistribution of economic surplus within international exchange relations. A direct consequence of the retention of this paradigm, I would argue, was that Emmanuel was never able to make the fundamental transition within Classical Political Economy from Smith to Ricardo, let alone the further transition to Marx. Smith, writing prior to the industrial revolution, always made the key to economic development, the increase of trade (exchange) and the division of labour. But Smith's concentration on the exchange relations meant he emphasised labour <u>in exchange</u> (labour commanded) as the basis of value, and this emphasis, I have argued, led to many of the contradictions in his theory, particularly when considering labour embodied and the role of capital and profit. Emmanuel does not repeat Smith's mistake of holding to labour commanded, but in line with his Smithian approach, he does retain many of Smith's contradictions, which he extends in a more sophisticated form, particularly in his neo-Mercantilist adding up theory of international value. This argument which I have developed regarding Emmanuel's theory has been developed by Robert Brenner within a different framework viz a viz the work of Sweezy, Frank and Wallerstein[3]. Brenner argues that, like Smith, these writers all equate capitalism, implicitly or explicitly, with a trade based division of labour. Hence they see the use of capitalism being synonymous with the rise of mercantile trade in the sixteenth century[4]. Although they differ in their application of this approach to the question of the underdeveloped countries, it is Frank who takes this approach to its logical conclusion when arguing that capitalism first developed in Latin America in the sixteenth century with the arrival of the merchant adventurers. In other words, Mercantilism was responsible for the development of capitalism, and the Smithian approach gives way to strong Mercantilist leanings.

There are many obvious similarities between Brenner's thesis on Sweezy, Frank and Wallerstein, and the thesis I have developed regarding Emmanuel. This is not necessarily surprising, I believe, given Emmanuel is operating within the same post-war development tradition. The main difference with Emmanuel, and where my research therefore differs from Brenner's, is that unlike Frank particularly, Emmanuel does not take a historical approach to the analysis of underdevelopment. Whilst he locates his work within a broad historical framework, he concentrates primarily on analysing the economics of underdevelopment. Unlike Frank, he does not simply assert that there is a transfer of surplus from underdeveloped to developed nations, rather he attempts to uncover the economic mechanisms by which this transfer takes place - unequal exchange in trade. What I have shown through a detailed analysis of the theoretical foundations of Emmanuel's work, is that although he has transcended the general historical framework of a Smithian, trade based approach to development, he has still perpetuated and reinforced that approach, albeit in a more sophisticated manner by employing Smith's adding up theory of value, and then extending that theory to form a neo-Mercantilist theory of international trade. Therefore, despite attempting to move beyond the rudimentary theories of exploitation put forward by some post-war theorists of imperialism, such as Sweezy and Frank, by attempting to develop a more sophisticated analysis of unequal exchange using Classical Political Economy and Marx, because of his retention of the Smithian paradigm, Emmanuel is never able to surpass Smith's economic theory and a neo-Mercantilist theory of trade and imperialism.

(c) A Critique of Mercantile Imperialism

But what are the problems with a Smithian neo-Mercantilist theory of imperialism? Why should it be problematic that Emmanuel remains within this paradigm? We will concentrate primarily on the work of Emmanuel in examining these questions. The first, and foremost problem with Mercantilism as a theoretical explanation of imperialism is that it does not actually _explain_ anything. A Mercantilist theory of imperialism is purely empirical and descriptive. It _asserts_ that there is a transfer of economic surplus from one nation to another, without giving any adequate explanations of the _origin_ of that surplus, and therefore how and why a surplus becomes available for one nation to appropriate at the expense of another. In Emmanuel's work, as we have seen, he simply asserts a differential surplus in inverse proportion to differential wages between countries, without explaining how this surplus arises, it is simply 'added on' at the beginning of his tables of the prices of production. Having done this, he then goes into a very elaborate mechanism for the transfer of this surplus via the equalisation of the profit rate between nations. But such a sophisticated mechanism remains meaningless if the object of the transfer, the differential surplus, remains unexplained. Therefore we are given no insight into the underlying causes of imperialism (we have argued that Emmanuel's theory of wages is inadequate, because it still leaves unexplained the origin of the surplus), and we are reduced to the same conclusions as the original Mercantilists, that some countries simply "rip off" other countries to become rich.

The problem with this conclusion is that, not only has the surplus been left unexplained, but it also fails to give any underlying explanation for economic development itself, as an internal process within developed or underdeveloped economies. The problem can be examined from both economic and historical standpoints. At the time that the Mercantilists themselves developed their theories, economic science as such had not yet been born. The pre-dominant internal mode of production in the west was still feudalism, and merchant trade, although expanding, was only peripheral to that system. Therefore, it was not surprising that the Mercantilists had no understanding of internal economic development, and accounted for the accumulation of all wealth by external trade. Their accounts were less theories than empirical descriptions, which had a primary function of lending support to their policy objectives. Sir James Steuart's economic theory was far more sophisticated, but still saw external trade as the primary source of wealth. The development of the capitalist mode of production heralded the onset of rapid economic development, and in this context Adam Smith sought to explain the dynamic of that development as a process <u>internal</u> to the emerging economies of laissez-faire capitalism, and Smith completely opposed both the theories and policies of Mercantilism. At the time, Smith's work was path-breaking, and heralded massive progress in economic science. However, as we have seen, Smith's theories were not immune to the influences of his predecessors, and contained many contradictions later to be confronted by Ricardo (and then Marx). Following Smith, much progress was still to be made within the school of Classical Political Economy (especially following the onset of the industrial revolution). At the time, the works of Adam Smith, and even the later Mercantilists, were in many respects very progressive, and still retain, I believe, an important value. But their historical and theoretical limitations must be clearly understood. To put forward a crude Smithian adding up theory of value is to negate completely the important advances in Classical Political Economy made by Ricardo and later by Marx. To reduce Smith's adding up theory of value, as Emmanuel does, to a neo-Mercantilist theory of trade, is to strip Smith of much of the (albeit contradictory) richness of his work. To put forward a theory of imperialism based on a neo-Mercantilist theory of trade is to use a theory which, whilst it might once have been progressive, rapidly became retrogressive, and has been clearly recognised as such, even by Adam Smith himself. The reason, I believe, why Emmanuel had to attempt to elaborate his theory of Mercantile imperialism using Classical Political Economy was that to use a Mercantilist basis, his theory would have had no validity within the field of economic theory. That validity, in opposition to Neo-Classical theory, could only be sought within Classical Political Economy. But Classical Political Economy is the antithesis of Mercantilism, and despite his attempt, Emmanuel failed in his objective of trying to make the labour theory of value support a theory of Mercantile imperialism. By failing to transcend Mercantilism theoretically, Emmanuel's work effectively retains the central hallmarks of Mercantilism; it is empirically descriptive, and fails to explain the dynamic of economic development as an internal process.

We have concentrated, following Emmanuel's own emphasis, on the economic aspects of the theory of Mercantile imperialism, but the subject can also be considered historically. For most writers within the post-war tradition of Marxist development theory have taken a far more historical perspective on the development of Mercantile imperialism than

Emmanuel. This perspective centres around the debate over the transition from feudalism to capitalism, which took place, among others, primarily between Paul Sweezy and Maurice Dobb in the 1950s (see footnote 4), and which we have touched upon already. Briefly summing up the arguments, Paul Sweezy and his followers argued that the motor force in the transition from feudalism to capitalism was the development of Mercantilism and merchant trade. In other words capitalism is primarily characterised and instituted through the development of the exchange relations and the transition from feudalism to capitalism was brought about by exogenous forces. It was within this context that Frank argued capitalism started in Latin America in the sixteenth century. Against this, Maurice Dobb (who actually initiated the debate) held that merchant trade was able to co-exist for a long time with feudalism, and that merchant trade and the rise of exchange did not themselves per se instigate the transition to capitalism. The decline of feudalism was brought about on the contrary by internal contradictions within the feudal mode of production which stimulated the rise of capitalist relations of production. In other words the transition from feudalism to capitalism was brought about by endogenous forces. Without entering into the details of this debate, there is little doubt that of the two positions, Dobb's is the closer to Marx[5]. But the relevance of the debate is fairly clear in terms of its application to the theory of economic development and imperialism. Both Sweezy and Frank have been subjected to strong criticism regarding their positions on the latter[6]; and although Emmanuel does not enter into the thick of the debate, I have argued he operates within the same paradigm as Sweezy and Frank. Once Mercantilism has been held responsible for the transition to capitalism then obviously external trade becomes responsible for its further development or lack of development. To hold to a theory of capitalist economic development based on the <u>external</u> advance of exchange relations is to deny or relegate the essential internal forces of capitalist dynamics. It is to deny the importance of the social class relations of production, of the accumulation process, and of the contradictions within capitalism. Imperialism is then reduced to a theory of external pillage, through which some countries became rich and others poor. As such, the theory of imperialism becomes empirically descriptive, with no real underlying analysis of how the surface exchange relations came about. Again, the internal process of economic development is ignored. Although it could be argued that Emmanuel attempted to correct this weakness in the post-war Mercantile theory of imperialism through his work on unequal exchange, as we have seen, because he failed to transcend the underlying theoretical tenets of Mercantilism, he was unable to do so. The theory of imperialism remains in his hands, just as it did with the original Mercantilists, empirical and partial. Little advance has been made in furthering our understanding of the underlying international economic relations.

(d) Underconsumptionism and Development

Insofar as Emmanuel does take up the question of internal development he does so solely within the context of the exchange relations. In line with his Smithian stance, he sees expansion of the market as the key to internal development, but the only way such an expansion can take place in his view is via an increase in consumption, and such an increase in consumption is only possible via an increase in wages. Raising wages therefore becomes the key to economic development - and the original advance of the rich countries over the poor is explained solely by the formers' relatively higher wages. This is a traditional underconsumptionist position. As Emmanuel says:

> "What has especially shocked people in my thesis is this idea that excessive unproductive consumption may not only not impoverish but even enrich a capitalist country." [U.E., p.378]

I do not believe, however, that we should be "shocked" by such a position in Emmanuel's work. To be "shocked" implies it is a position we were not expecting. I would argue, on the contrary, that Emmanuel's underconsumptionism is logically consistent with his Smithian neo-Mercantilist approach. Were Emmanuel's theory Ricardian or Marxian, then there might be a surprising contradiction, but it is not, and as such a contradiction does not exist[7].

Underconsumptionist theory has a long tradition in the history of economic theory, and this tradition has been well documented by Michael Bleaney in his book Underconsumption Theories (1976). Bleaney argues that, whilst the Physiocrats and Smith were not themselves underconsumptionist, the potential for such a theory exists in their work, and many of the origins of underconsumptionist theory can be found there. From the standpoint of our examination of Emmanuel's thesis, there are three elements in the Physiocratic/Smith approach which allow a theory of underconsumptionism to flourish. Firstly, and this is attributable more to the Physiocrats, but as we have seen, Emmanuel's work is similarly influenced, they don't differentiate between the value of the product and physical output. Therefore, it is assumed that any increase in physical output leads to a corresponding or proportionate increase in values, ignoring the fact that a rise in productivity could have led to a fall in the value of the goods. It is in this context that Emmanuel calculates variable capital, surplus and total output in terms of "physical bundles of goods" and attributes (arbitrarily) corresponding proportionate values making no distinction between quantity of physical output and value of output.

Secondly, both Smith and the Physiocrats only made the distinction between two sectors in the economy: agriculture and manufacture of consumer goods. Both ignored the possibility of an investment goods sector. Smith made a very clear distinction between productive and unproductive consumption, but he made this distinction solely on the basis of individual consumption. The consumption of an operative being productive, of an opera singer unproductive. Again he did not make the distinction between the consumption of consumer goods and investment goods. As a result, all consumption was individual consumption, not surprising possibly given this was prior to the industrial revolution. Emmanuel, following Marx, does make a formal recognition of the existence of capital goods, and includes them in his cost of production theory. But this is purely formal. Emmanuel attributes no primary or independent role to the capital accumulation process as an element of productive consumption in his theory of economic development. All capital investment is predicated, he argues, upon an increase in individual consumption, and in particular on consumption of the workers. Therefore, unless a sufficient proportion of income is distributed to wages, there will be insufficient consumption to maintain production. This argument is very similar to that of Sismondi, who unlike Malthus, did not favour the maintenance of an unproductive aristocratic class, but a more equitable distribution of income so that with the increased use of machinery, the workers would be able to buy the increased output and maintain consumption thus avoiding a crisis of over production. Returning to the first point, what this position ignores are: (i) that investment in capital goods themselves is a form of consumption, and (ii) that through investment and increasing productivity, the physical output might increase, but the value of each good fall, so that workers and capitalists can buy more for equivalent values.

Thirdly, but most importantly, underconsumptionism finds its theoretical haven in the adding up theory of value of Adam Smith. This was particularly so of Malthus, but applies equally to Emmanuel. Malthus, like Emmanuel, denied the labour theory of value, and produced a Smithian cost of production theory where the origin of profit remained unexplained.

Profit was simply an increment added on by the capitalists. But the problem for Malthus was that given workers could only consume a value equal to their wages, a large proportion of profit would remain unrealisable unless capitalists could sell their goods to a group of unproductive consumers outside the production process - hence the need to maintain the aristocracy according to Malthus. In a sense, Malthus' theory was not only derived from Smith, but compounded the cost of production theory of Sir James Steuart. Steuart applied the cost of production theory to international trade, arguing that relative profit, an increment added on to the cost of production, implies a loss or transfer of wealth, and can only be sustained through external trade. Malthus is not a Mercantilist, and is applying his theory internally to the nation, but is still arguing that the maintenance of profit requires the existence of a purchasing group outside of those involved in production. Emmanuel, like Malthus, adheres closely to Smith's adding up theory of value, but his conclusions are closer to Sismondi and Steuart than Malthus. The internal maintenance of production and development is determined by the internal distribution of income maintaining high wages which implies lower profits. But an additional profit can be made (from which workers also benefit) through unequal exchange in trade buying low and selling high. This additional wealth, so long as it is properly maintained, can also be used to maintain a higher level of consumption and development. From Smith's adding up theory we move directly to a combination of underconsumptionism and neo-Mercantilism to explain economic development.

Had Emmanuel's theory been Ricardian the logic of this position would have been very difficult to sustain. Ricardo argued vehemently against Malthus over the question of underconsumptionism. To begin with, Ricardo rejected completely Smith's adding up theory of value. Following from his labour embodied theory of value, profit was derived from labour, would be expended by capitalists on both consumption goods for themselves and capital goods for further investment. Accumulation and expansion of production would lead to increased output of goods, but it would also lead to greater expenditure on wages (expanded labour force) and increased profits, therefore greater demands by workers and capitalists for consumer goods and producer goods. If there was an oversupply in one sector, price would fall relative to other sectors, and capital investment would move between sectors until equilibrium was attained. In the long run, therefore, supply would create its own demand, and there was no problem of underconsumptionism. Economic development was maintained by the productive consumption of both labour and capital. Therefore it was not necessary to raise wages, nor seek external sources of consumption to maintain production or realise profits. On the contrary, any rise in wages would lead to a fall in profits, or fall in investment, and a decline in economic development. Ricardo's position on consumption and economic development is the opposite of Emmanuel's position. But Ricardo's position, I would argue, flows logically from his adherence to a labour embodied theory of value. Emmanuel, as we have seen, completely rejects such a theory, and on the contrary, his position is logically quite consistent with his adherence to a Smithian adding up theory of value.

The problem, I believe, with an underconsumptionist theory of economic development is that it ignores the underlying productive relations, and the internal and contradictory dynamics of capitalist development. It is a partial, empirical theory which asserts that production is dependent on the level of <u>individual</u> consumption, ignoring the capitalist accumulation process, without which capitalism could not have advanced at a much more rapid rate than any previous economic system. Individual consumption exists in all economic systems. Only under capitalism is it supplemented by productive consumption of <u>capital</u>.

Therefore an underconsumptionist theory of economic development is a-historical. It fails to analyse in any depth the underlying specifics of capitalist economic development.

To understand modern imperialism today, we need a real understanding of capitalist economic development. The combination of underconsumptionism and neo-Mercantilism advocated by Emmanuel to explain economic development and imperialism are inadequate. Just like the Mercantile theories of earlier centuries, the Mercantile theory of imperialism is partial, empirical and descriptive. Just as the Mercantilist theories were surpassed by Classical Political Economy, so the current theory of Mercantile imperialism should be surpassed today. Emmanuel actually set out to do this, trying to integrate the labour theory of value into the theory of international trade. But I have argued he failed. Because he never moved out of the Smithian paradigm of exchange relations which dominates most post-war theories of imperialism. His use of Ricardo and Marx represent a purely hollow framework, which contradicts the central tenets of his theoretical arguments. Mercantilism was and remains, a very partial, descriptive and empirical theory which also gives only the most superficial understanding, with no real or fundamental insight into the underlying international economic relations, through which any transfer of 'surplus' is able to take place.

2. FINANCIAL IMPERIALISM AND THE INTERNATIONALISATION OF CAPITAL

(a) The Importance of Capital

Although we have argued that Emmanuel fails in his attempt to re-integrate the labour theory of value into the theory of international trade and as such provide the theoretical foundations for a theory of imperialism, the fact that he makes this attempt sets him apart from his co-thinkers in the post-war Marxist traditions of imperialism. Emmanuel's failure to integrate the labour theory of value and his retention of Smithian neo-Mercantilist theoretical foundations lead to, and are compatible with, his theory of Mercantile imperialism and rejection of financial imperialism. But what if the story had been different, if he had succeeded in building a theory based on the labour theory of value? Then, not only would his theoretical analysis have been qualitatively different, but also his conclusions regarding the theory of imperialism, I believe. What I want to do now, if only briefly, is to: (i) examine Emmanuel's interpretation and rejection of financial imperialism; (ii) examine the contradictions in Emmanuel's theory of Mercantile imperialism raised by his attempt to use the labour theory of value; and (iii) examine what implications the labour theory of value might have for a theory of imperialism. There are, I believe, a number of important questions raised by Emmanuel's attempt to apply the labour theory of value to international trade and imperialism, which Emmanuel, because of his rigid adherence to neo-Mercantilism, is unable to explore.

Let us first examine Emmanuel's rejection of financial imperialism:

> "According to fashionable theory, imperialism's essential feature is the investments of multi-national corporations ... But I do not believe that direct or portfolio investments and capital movements in general constitute the essence of imperialism, and this is what I shall try to demonstrate further on. <u>The essential element is trade.</u>" [Emmanuel, 1972 (b), pp.47-48. My emphasis, SB]

This essentially involves a rejection of Lenin's theory of imperialism, the core of which was based, according to Emmanuel, on J.A. Hobson, and which was "remodelled later by Strachey and a number of other economists" [ibid, p.48]. According to Emmanuel, this thesis argues that at a certain stage in the development of cartels, capitalists are faced with increased profits due to the reduction of competition; and simultaneously, given poor income distribution, stagnation in the consumption of the masses, which limits the expansion capacity of the concentrated industries. Emmanuel continues:

> "Capitalists can no longer find opportunities for investing their spare profits in their own cartelized industries. So they are faced with a dilemma. They must either redistribute the national income through increased salaries ... or else maintain the low rate of salaries and high rate of profits but find some other use for their spare capital. So the only way of avoiding a 'blockage' of the system is through external investment. And this entails imperialist protection, which leads to the partition of the world."
> [Emmanuel, 1972(b), p.49]

Whilst this might be Emmanuel's interpretation of financial imperialism, it certainly was not Lenin's. Lenin never saw the export of capital coming about as a result of the underconsumption of workers in the imperialist nations. Unlike Emmanuel, Lenin was not an underconsumptionist. Therefore Lenin never saw imperialism as a way of avoiding a "blockage" of the system resulting from underconsumption[8]. Contrary to what Emmanuel says it was not the "increased profits" resulting from cartelisation per se which lead to the export of capital in Lenin's view, but the relatively higher profits which could be attained abroad. This analysis was based on Marx's analysis of the falling rate of profit resulting from the rising organic composition of capital. Concentration and centralisation of capital, combined with crises of profitability, led argued Lenin to the formation of monopoly capital. With the large accumulations of monopoly capital, absolute profits might well rise, but the same profits measured relative to the total capital value would fall. At the same time, profits abroad in more backward countries with lower organic compositions of capital are relatively higher, and as these countries by the turn of the century had been drawn into capitalist relations, the search for higher profits led to the export of capital. Therefore, it was not lack of consumption which led to the export of capital, but the search for higher profits. If consumption was the problem, then why export capital to countries where wages and therefore consumption was lower? The export of capital, therefore, in Lenin's view was motivated by the search for relatively higher profit rates.

Emmanuel's underconsumptionist interpretation leads to a very one-sided view of what he calls 'financial imperialism'. Because he attributes the export of capital to a "blockage" of consumption at home given there is no relief to that blockage, he then believes that there can only ever be a one-way flow of excess, or net capital away from the imperialist country. What Emmanuel cannot understand is that there might then be a repatriation of profits and dividends in excess of the original capital export. His problem arises, I believe, because he views the export of capital solely from the standpoint of consumptionism, not the search to maximise profits. His confusion is shown up in the following statement:

> "But when it is a question of verifying a theory of imperialism based on the internal accumulation of capital, as in the present case, things change radically. Because, between a situation where capital formed internally is invested abroad and one where on the contrary part of the profits made abroad are reimported and consumed internally. The remainder being reinvested on the spot, there is all the difference between producing more than one can consume and consuming more than one actually produces [emphasis in original]. And it then becomes quite inadmissible to explain imperialist expansion by the first situation when the figures one quotes show that the true situation is on the contrary exactly the opposite." [Emmanuel, ibid, p.49]

What Emmanuel believes, therefore, is that the Leninist theory of 'financial imperialism' is disproved by its own figures showing the large scale repatriations of profits so that there is not a single one-way flow of capital. Now if the export of capital was reducible simply to "the difference between producing more than one can consume and consuming more than one can produce" then the large scale, or net repatriation of profits might seem an illogical proposition. Why export because not enough is consumed at home only to re-import and consume even more at home? But if it is not underconsumption which is the prime mover in the export of capital, but the search for higher profits, then capital will constantly be flowing from developed to underdeveloped, from underdeveloped to developed, and from developed to developed countries and profits made will be repatriated to the country of origin. Capital export is therefore an essential feature of international capitalism and the mechanism by which profit rates are equalised internationally. But a theory of financial imperialism must involve more if it is to explain the unevenness of international development. However Emmanuel only concentrates on his very one-sided underconsumptionist interpretation. Before we look further at financial imperialism, though, let us look further at the implications of Emmanuel's interpretation.

Emmanuel again considers the issue of financial and mercantile imperialism in his IDS article 1975, and here he makes some interesting statements. He starts by saying, in true Smithian style, that all economic relations between men and between groups come down in the end to the division of labour and to a certain distribution of the product of this labour [Emmanuel, 1975, p.55]. This statement is obviously true, but ahistorical, and tells us nothing about the specifics of the capitalist mode of production as opposed to other modes. He then goes on to say that exploitation involves the appropriation by one of part of the product of another, and that as work only produces goods and services, this appropriation-exploitation must necessarily appear in the circulation of goods and services [ibid]. So now we have shifted from an ahistorical view of production relations to an ahistorical view of exchange and circulation. And this ahistorical approach is confirmed throughout his work when considering Mercantile trade and imperialism

The essence of his argument throughout his work on unequal exchange is that the only way imperialism can persist, and one country exploit another, is through the trade of goods. But he can only hold to this position, denying financial movements or capital any role, because he also reduces them to "goods". As he argues:

> "the export of capital is nothing but the export of unpaid goods. No other material means for transferring capital between countries exists." [Emmanuel, 1972(b), p.56]

Starting then, from an ahistorical analysis, which fails completely to distinguish any of the essential features specific to capitalism, Emmanuel effectively denies the existence of capital per se altogether, at least on an international level. Capital is denied any independence as a form of value, and is simply reduced to "goods and services", the product of labour and the net transfer of capital is reduced to a non-equivalent exchange of goods and services. This, then, is a purely Physiocratic approach. It ignores the role of capitalist accumulation or the valorisation process, and concentrates solely on the movement of physical goods. No wonder Emmanuel is only able to take an under-consumptionist position in relation to capital export. Capital equals physical goods. If physical goods are exported as a result of their inadequate consumption at home, then it seems illogical in the extreme to reimport a 'net surplus' of physical goods from abroad. But whilst all this physiocratic approach might help explain Emmanuel's under consumptionism, it gets us nowhere in trying to understand the international economic relations under the capitalist mode of production.

Before proceeding, let us be clear, that in criticising Emmanuel's theory of Mercantile imperialism, I am not arguing that trade, and the non-equivalent transfer of commodities is irrelevant to a theory of imperialism. What I want to go on to show is that international exchange and circulation is important, but it is only part of the analysis of imperialism. But primarily, what I want to show is that international exchange is integrally linked to the underlying social relations of production under advanced capitalism. That the two cannot be forcibly separated in the analysis, and that we will never understand the one without understanding the other. To try and develop, as Emmanuel does, a theory of imperialism based solely on merchant trade is not only partial and superficial, it is simply inadequate as a theory of imperialism. A comprehensive theory of imperialism must not only be able to incorporate an analysis of trade, it must also be able to incorporate an analysis of capital and financial flows, to be able to explain the role of foreign investment, multinationals and international debt, within a context of uneven development and social and economic backwardness. This Emmanuel is unable to do because the limitations of his physiocratic-Smithian paradigm make him reduce the underlying production relation to banal statements of generality concerning physical "bundles of goods".

Despite these major shortcomings in Emmanuel's work, though, the fact that he formally attempts to integrate the labour theory of value does lead him to touch upon some important issues, and also leads to essential contradictions arising within his work. It is these which I want to explore now. The first and foremost problem reverts back to the theme with which we have just been dealing - capital flows. Something which I find very ironical in Emmanuel's statements rejecting the importance of capital exports and imperialism is that if we examine his theory of unequal exchange, capital exports actually play a central role there. Key to his whole argument is that the transfer of surplus from one country to another leads in the international exchange mechanism to the equalisation of the rate of profit. Yet the only way the rate of profit can be equalised internationally is through the international movement of capital from areas of low to high profit rates. Therefore capital exports are essential to the whole operation of Emmanuel's theory and capital export is linked directly to his theory of international profit. Proof, perhaps, that exchange relations cannot be separated from the underlying production relations. Yet Emmanuel not only tells us capital exports are unimportant to the theory of imperialism, but that the net transfer of capital from one country to another cannot materially be anything but an export of goods unpaid for by an equivalent input. But this reduces the whole argument to a complete tautology. The non-equivalent movement of goods equalises the rate of profits thus causing unequal price movements and the non-equivalent movement of goods. We are caught in a trap of circular reasoning, exchange explains exchange explains exchange.

Forgetting for the moment Emmanuel's own arguments, let us pursue further the logic of having international capital flows at the centre of a theory of international exchange and imperialism. If capital flows are to equalise profit rates, capital will tend to flow from areas of low to high profit rates, and it is in areas of high capital accumulation that rates of profit (surplus relative to total capital employed) will be lower, and in areas of lower capital accumulation rates of profit will tend to be higher. Therefore there will be a tendency for capital to flow from the capital developed to less developed countries, especially when profit rates in the former are being squeezed. But this will only be a tendency, there will be counteracting forces, there will also be capital flows between developed countries, and from underdeveloped to developed, especially when there are new openings for capital investment and profits. Therefore, although Emmanuel might attempt to avoid it, central to his argument is a theory of capital exports. This results I believe from his attempt to employ the labour theory of value (equalisation of the rate of profit is central to Marx's calculation of the prices of production) and is consistent with the arguments of Marx and Lenin. But this does not necessarily undermine the importance of the export of commodities. When Lenin says that under modern imperialism "the export of capital as distinguished from the export of commodities acquires exceptional importance", he does not mean the export of commodities ceases. He says, the export of capital actually becomes a means of encouraging the further export of commodities (Lenin, 1964, CW22, p.244). The difference is that commodity export is now integral to the internationalised capitalist relations of production (characterised by capital exports) rather than peripheral. Therefore any inequality in that commodity trade has to be examined as part of those capitalist relations of production.

What we have now established is that if equalisations of the rate of profit is key, then the capital accumulation process, and also unevenness in that accumulation process (accounting for differences in the rates of profit) must also be key. This then leads to another aspect of Emmanuel's work, which he discounts as being of major importance, differences in the organic compositions of capital between nations. Emmanuel recognises that poorer, less developed countries will tend to have lower organic compositions of capital on the whole than the more capitalistically developed nations. He also recognises that those differences in the organic compositions will lead to a transfer of surplus (via the international equalisation of the rate of profit) from the less developed to developed countries, which he calls unequal exchange in the "broad sense". But then, consistent with his refusal to acknowledge the role of capital export, he denies that this is essential to modern imperialism, adhering only to his thesis of unequal exchange "in the strict sense" brought about by wage differences. His reasons for denying the importance of differences in the organic compositions of capital are: (i) that such differences appear <u>within</u> countries between branches of production as well as between countries; and (ii) such differences are purely "technical" as opposed to wage differences which are "institutional" [U.E., pp.160-164]. But I would disagree that differences in the organic composition of capital are purely "technical". If they are purely technical, then this would imply LDCs concentrate solely on branches of production with low organic compositions, and DCs in branches with high organic compositions. In other words, the distinction between developed and underdeveloped is characterised by <u>what</u> they produce (traditionally seen as the distinction between primary production with low capital investment and manufacturing with high capital investment). But from the beginning Emmanuel has rejected that this technical specialisation in production is the cause of imperialism. But if it is not <u>what</u> they produce, i.e. their <u>technical</u> specialisation, which accounts for the differences in the organic compositions between DCs and LDCs, then it must be <u>how</u> they produce. In other words, <u>whatever</u> they produce, less developed countries are likely to have lower organic compositions of capital than more developed countries across the board and in equivalent branches of production (for example, American grain production is far more capital intensive than African grain production). Therefore, unlike differences in the organic composition of capital within a country, differences between the developed and underdeveloped world cannot simply be accounted for by "technical" reasons (if this were the case, all they would need do is change the nature of their specialisation); rather, the differences in organic compositions of capital must also be accounted for by historical, social and institutional factors. And given this difference in organic compositions does account for a transfer of surplus value from less to more developed countries, it should play an important part in any theory of imperialism. Had Emmanuel taken capital accumulation, and unevenness in the process of accumulation, more seriously, perhaps he would not have rejected unequal exchange "in the broad sense" so easily.

Finally, let us consider the relevance of Emmanuel's refusal to acknowledge the implicitly essential role of capital accumulation and capital export to another part of his thesis - that of differences in the productivity of labour between countries. Emmanuel does recognise that higher levels of economic development are marked by increasing productivity of labour (although chronologically he believes it is wage increases which promote increases in productivity and economic development, and not the other way round). Obviously, central to raising the productivity of labour is increasing capital investment through which output per worker can be increased, and this itself will involve an increase in the organic composition of capital. Therefore, capital accumulation is essential to raising productivity of labour and is a marked feature of the developed against the less developed countries, and this again relates back to the question of social differences in the organic compositions of capital between rich and poor countries and unequal exchange in the "strict sense". I argued in Chapter III that if more commodities can be produced in a given time as a result of rising productivity, the individual value of those commodities will fall. Insofar as they are necessities, and make up the socially necessary means of subsistence of the worker which determines the value of labour power, so a fall in their value will lead to a fall in the value of labour power (ceteris paribus), and a rise in the rate of surplus value. In other words, there is a direct connection between a rising organic composition of capital (unequal exchange in the "broad sense"), rising labour productivity, and wage levels (which are responsible for unequal exchange in the "narrow sense").

But Emmanuel refuses to recognise this connection. True to his physiocratic approach, he is unable to differentiate between physical output and the value of commodities except in the most formal sense. As we have seen, for him the wage is equal to a physical basket of goods, and any changes in the nominal "values" he attributes to those goods in his Smithian adding up schema are always proportionate to changes in their physical quantity. Just as he is unable to differentiate between wages and the value of labour power, he is unable to differentiate between physical quantity and the magnitude of value in all but the most formalistic sense. His stubbornness on this issue is not necessarily surprising given the conclusion which can be drawn is that it is possible in the developed countries, where labour productivity is higher, to simultaneously have a high standard of living for labour (a larger physical bundle of goods in the wage basket) and a high rate of surplus value. Obviously, if the rate of surplus value in the developed country, despite its higher real wage, is the same as in the underdeveloped countries, then Emmanuel's whole thesis of unequal exchange based on a transfer of surplus resulting from wage differentials would collapse. But this is only assuming the difference in the levels of productivity between countries is great enough to offset the differences in the real wages - and this would be difficult to prove either way empirically. Thus, whilst differences in productivity must have an effect on the value of labour power between countries, it does not <u>necessarily</u> disprove Emmanuel's argument that the rate of exploitation is higher in less developed than developed countries. But Emmanuel's rigidness on this question results, I believe, from his attempt to build a comprehensive theory of imperialism based on one single factor - the wage differentials in international exchange. His inability to locate his theory of exchange within the international capitalist relations of production means he ignores many other aspects of imperialism, which inadvertently he touches upon. I have tried to show that his assumption of profit equalisation means that implicitly he does have a theory of capital exports and of capital accumulation, which are simultaneously interconnected with differences in the organic compositions of capital, differences in labour productivity and differences in wages. Emmanuel's one-sidedness, and refusal to recognise these broad interconnections, which I believe are consistent with Marx's labour theory of value, leave Emmanuel's work on imperialism at best contradictory. But then contradiction is very reminiscent of Adam Smith, whose method Emmanuel so closely emulates.

(b) The Labour Theory of Value

So far we have examined the contradictions in Emmanuel's own theory of imperialism arising out of his attempt, but failure, to integrate the labour theory of value. Finally, if only briefly, I want to consider what role the labour theory of value might have for a theory of imperialism if applied outside the constraints of Smithian exchange relations, and the implications this might have for Emmanuel's thesis.

First and foremost, in discussing the application of the labour theory of value, we must be clear what labour theory of value we are employing. In this context we have a choice between a Ricardian labour embodied theory of value, where value is technically determined by the quantity of labour time needed to produce a commodity, and where we progress directly from value to an analysis of the distribution of the product of labour between wages and profit. Or we use Marx's labour theory of value, where value is treated as a <u>social</u> substance posited through the application of <u>socially</u> necessary labour time under the specific social relations of production under capitalism: where labour is divorced from the means of production, and sold as the commodity labour power; and where production is of exchange values containing value and surplus value, the analysis of which requires detailed mediation. Although there are similarities between the two approaches, they are not I believe, the same. The first approach is technical, the second approach is social. Imperialism is not simply a technical feature of production under advanced capitalism, it encompasses social, economic and political features. Therefore we need to be able to analyse the underlying social relations of production in order to have a comprehensive understanding of imperialism. As a result, I would argue, Marx's labour theory of value is of greater use, Ricardo's theory, whilst it contains merits, is inadequate for the task.

The problem with using Marx's theory is that he did not develop a theory of international trade or imperialism, and he was writing at quite an early stage in the development of capitalism. But there are certain elements of his analysis which not only remain relevant today, but have become more pronounced with time, which are connected to his application of the labour theory of value, and which are applicable to the development of a theory of imperialism. These elements can be briefly stated. The first is that, as just stated, all value is posited by abstract social labour under the social relations of production of capitalism. Only living labour can create new social value, and all capital is past abstract labour whose social value was previously posited in the production process. Capitalist production involves the production for exchange of commodities containing value and surplus value, which is the secret of profit, and which is the primary motivation for capitalist production. The creation of surplus value is also the basis for the expansion and accumulation of capital on a rapid scale. It is the capital accumulation process which allows capitalism to develop at a rate unprecedented in economic history. However, out of capital accumulation also arise one of the essential contradictions of the capitalist mode of production - with the rising organic composition of capital there is a tendency for the rate of profit to fall (a tendency offset, among other things, by foreign trade) and capitalism to enter into periodic crises. The resolution of these contradictions, combined with the competitive process, means that weaker capitals go to the wall, and are sucked in by stronger capitals, leading to the centralisation of capital in fewer and fewer hands. This, combined with the concentration of capital through the accumulation process means there is a tendency towards the growth of oligopoly and monopoly. This process is further aided by the function of Joint Stock companies and the extension of the banking and financial system. The result is the constant development of capitalism to higher and higher levels, but always within the contradictory confines of the capitalist mode of production, the potential for crisis is never far away.

Whilst Marx analysed the development of capitalism within a national economy, Britain was his example, and saw that as a blueprint for other countries, capitalism in the middle of the nineteenth century had not yet developed sufficiently on an international scale. By the turn of the century this situation had changed, and the changes were analysed amongst others by Bukharin (1972), Lenin (1964) and Hilferding (1981). From our standpoint, one of the most important pieces of analysis was Hilferding's theory of "finance capital". This theory became an important tenet in Marxist theory of imperialism in the early twentieth century. It is essential that we have a clear understanding of this theory, as Emmanuel (amongst others) I believe clearly misunderstood the term, particularly as developed by Hilferding. Hilferding effectively extends Marx's analysis by analysing further the concentration and centralisation of capital and the tendency towards monopoly. Hilferding argues that it is the banking and credit system which allows the expansion of capitalist production beyond the limited possibilities provided by the individual entrepreneur. This happens in a number of ways. In its developed form, the Banking system centralises all the money capital within the economy, and places it at the disposal of industrial capital, where it is able to accrue a rate of interest, which is a portion of the industrial profit. In this way industrial capital has at its disposal a far greater amount of money capital from that simply possessed by the industrial capitalist class, for the money capital of all other classes (e.g. landowners etc.) is also accessible to individual capital. Through the extension of credit from the banks the individual industrial capital is able to accumulate much faster than its own industrial profit would have allowed. The extension of the credit system means that money (gold) is now only necessary to balance the accounts, and consequently the expansion of production is in no way limited by the production of gold. And with the dominance of the banks, paper money is substituted for gold. The formation of joint stock companies, whereby 'shares' in a company are bought, for the payment of a dividend (or a permanent 'share' in the profit of the company similar to interest) is facilitated by the development of the credit system. Again, this allows the expansion of individual enterprises far beyond the initial scope of their own industrial profit. This allows for the even greater development of monopolies, and the further concentration and centralisation of capital on a horizontal and vertical scale (i.e. both within industries, and between industries).

Hilferding shows concretely that, because many individuals participate in ownership through share holding, one individual only needs own a majority (or rather the larger minority) of shares to control the company. Consequently he says the real control over production capital falls into the hands of people who have only contributed a portion of it. The owners of the means of production no longer exist as individuals, but form a society, from which the individual only has title to an aliquot part of the yield. Consequently, says Hilferding, the circle of overlords of production grows constantly narrower, "the capitalists build a society in whose administration most of them have no say". Through his analysis of the increasing role of the banks in this process, and because through bank credit industry is able to accumulate far beyond the limits its own industrial profit would allow, the interrelation between industrial and banking capital becomes even closer. And this process leads, argues Hilferding, to the rise to dominance of 'Finance Capital' itself, being the merging of industrial and banking capital. Hilferding defines finance capital as follows:

> "The dependence of industry on the banks is therefore a consequence of property relationships. An ever-increasing part of the capital of industry does not belong to the industrialists who use it. They are able to dispose over capital only through the banks, which represent the owners. On the other side, the banks have to invest an ever-increasing part of their capital in industry, and in this way they become to a greater and greater extent industrial capitalists. I call bank capital, that is, capital in money form which is actually transformed in this way into industrial capital, finance capital. So far as its owners are concerned, it always retains the money form; it is invested by them in the form of money capital, interest bearing capital and can always be withdrawn by them as money capital. But in reality the greater part of the capital so invested with the banks is transformed into industrial, productive capital (means of production and labour power) and is invested in the productive process. An ever increasing proportion of the capital used in industry is finance capital, capital at the disposition of the banks which is used by the industrialists. Finance capital develops with the development of the joint stock company and reaches its peak with the monopolisation of industry."
>
> [Hilferding, 1981, p.225]

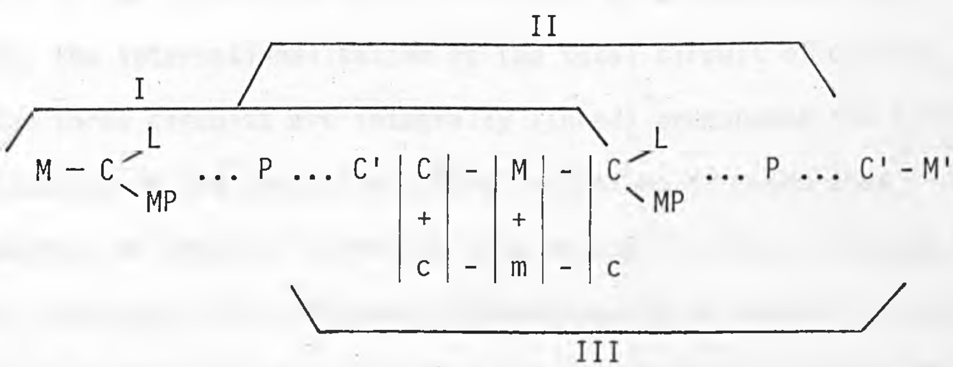
Let us now consider the importance of this argument for a theory of imperialism today. Hilferding developed his work primarily with reference to Germany, where the close inter-relation of banking and industrial capitalism was particularly pronounced. Also, there are certain weaknesses in Hilferding's work I believe, especially in relation to his theory of money and theory of crisis. However, I would argue the main advantages of Hilferding's analysis are twofold: firstly it builds on and extends Marx's theory of value, especially in helping us to understand the process by which capital has been able to expand and accumulate on such a high level; secondly, such an analysis is essential to understand the internationalisation of capital, especially in the post-colonial era. For a theory of imperialism to be comprehensive, it must not only be able to analyse the underlying social relations of production, it must also be able to analyse the totality of capitalist production relations. Banking capital, industrial capital and commercial capital are not three separate parts of capitalism. With the development of capitalism they have become integrally connected, and must be analysed as such. Hilferding's work, I believe, provides an essential contribution to such an analysis, and his theory of finance capital has shown particularly how, as a result, industrial capital has been able to expand far beyond its individual material base, by drawing in and putting at the disposal of productive capital, the motor force of capital expansion, all the economic resources of capitalist society. This is expressed especially, I would argue, in the internationalisation of capital, the highest level of development and expansion of capital possible.

Let us be clear that what we are trying to do here is gather together some of the main elements which might make up a theory of imperialism based on and extending Marx's labour theory of value, we are not providing the complete formulation of a theory as such. Having established the labour theory of value as the basis of the social relations of production under capitalism, the creation of surplus value by labour (power) as the essential basis for capital accumulation, and the formation and dominance of finance capital as the most developed form of capital expansion, we must now go on to analyse the interconnections of the different parts of capital within the circuits of capital in order to understand the production and reproduction process, and the integration of production and circulation as a whole. Some very interesting work has been done on this subject by the French economist Christian Palloix (although unfortunately only a small amount of Palloix's work has been translated into English). Palloix moves beyond the definition of the internationalisation of capital as constituting the overseas holding of direct investments and equity capital (this was the traditional definition, where the export of capital had supplanted the export of commodities in prominence). For

Palloix, the definitions of internationalisation of capital theory (in a period of the advanced internationalisation of capital) is more sophisticated:

> "The development of international investments and short and medium-term capital transfers, together with the appearance of the Euro-dollar market and the expansion of the international reserves of commercial and deposit banks, is evidence enough that the circuit of social capital operates increasingly at world level, in the case of money-capital, productive capital and commodity capital alike." [C. Palloix, 1975, p.65]

Palloix goes on to examine the internationalisation of the circuit of social capital, starting with the formula for the circuit of social capital derived from Part 1 of Volume II of Capital.



I is the circuit of money-capital (M ... M')

II is the circuit of productive capital (P ... P)

III is the circuit of commodity capital (C' ... C') while the total circulation process (T_C) is expressed by C'-M'-C' the starting point of the circuit of commodity capital.

(Source: Palloix, ibid, p.65)

Palloix goes on to argue that the internationalisation of the circuits of money capital and productive capital in particular is a relatively new phenomenon, whilst the international circuit of commodity capital has existed much longer. This is not necessarily surprising. As we have seen the existence of international trade dates back to the earliest development of the capitalist mode of production, and even after capitalism developed in the west, international trade continued between capitalist countries and countries where commodity production was still at a very simple level and pre-capitalist modes still dominated, and which has expanded further with the extension of capitalism internationally. As Palloix says:

> "The theory of foreign trade applies very strictly to this circuit, and especially to the act of circulation T_C. There has been an extraordinary expansion of world trade, and foreign trade plays a growing part in the formation of GNP, but here again the internationalisation of the area of circulation is not enough to define the internationalisation of commodity-capital." [Palloix, ibid., p.70]

However, as Palloix stresses, the internationalisation of the circuits of money capital and productive capital presuppose the existence internationally of the capitalist social relations of production; and similarly, the internationalisation of the total circuit of capital (where the three circuits are integrally linked) presuppose the existence internationally of the capitalist social relations of production. The major weakness of Emmanuel's work in this respect is that, although his work does presuppose the existence internationally of capitalist social relations of production as a result of his use of Marx's formula for the prices of production, he concentrates solely, as is his physiocratic wont, on the commodity circuit of capital internationally, i.e. foreign trade, ignoring completely the integrally linked money circuit and productive circuit internationally[9].

In the work just quoted from, Palloix concentrated primarily on the role of multinationals in the internationalisation of capital. Although we can only briefly discuss the issues here, there are a number of important points he makes. Firstly, regarding the significance of the necessity for the internationalisation of the capitalist social relations of production if the money and productive circuit of capital are to be internationalised. Essential to the productive employment of capital <u>anywhere</u> is the separation of labour from the means of production and the creation of the commodity labour-power. It is this which forms the essence of the class relations of production, and allows money capital to be converted to productive capital, i.e. used to buy labour power and the means of production $M - C \genfrac{}{}{0pt}{}{\nearrow L}{\searrow MP}$ ... It is only through this social relation of production that the commodity labour power can be productively consumed such that it creates not only value equal to its own value, but a value in excess, a surplus value - the secret of the self expansion of capital and profit. Palloix shows, that once the capitalist social relations of production have become international, so the circuit of total social capital is internationalised, and so this act of purchase of labour and means of production is also internationalised. For example, a French multinational employing 300,000 workers will only employ 180,000 of them in France. Also, through the international interconnections of the circuits of capital, the means of production also is internationalised.

Palloix stresses the role of multinationals in this process, quoting from a GATT study showing multinationals are responsible for approximately 30% of foreign trade. Multinationals are obviously an essential feature of this process, and express the height of internationalisation particularly of the circuit of productive capital. To try to hold to a theory of imperialism today, given the international importance of multinationals, and all their adverse activities with regards to less developed countries (e.g. transfer pricing etc.) as Emmanuel does is absurd. But the expansion of multinationals could not have taken place without international finance capital, and the internationalisation of capital is a more all-prevailing process, especially through the operations of finance capital, drawing in the most diverse elements from all parts of the capitalist world. This point is also made by Palloix in his discussion of imperialism as a whole:

> "Imperialism, with its specific features such as the export of capital and the partitioning of the world, involved the internationalisation of capital, in the particular role played by the circuit of money-capital. This is the reason for the

dominance of finance capital today and the importance of the banks and finance market. An investigation of the internationalisation of capital through the interplay of money capital, productive capital and commodity capital opens up new ways of approaching the discussion of imperialism, which has too generally been confined to Lenin's treaties and to the Lenin-Luxemburg debate. The most advanced stage of the capitalist mode of production is imperialism as in a sense the expression of the circuit of money capital in relation to the total production of social capital: [Palloix then quotes from Marx] '... as the scale of each individual process of production and within it the minimum size of capital to be advanced increases in the process of capitalist production, we have here another circumstance to be added to those others which transform the function of the industrial capitalists more and more into a monopoly of big money capitalists, who may operate singly or in association.' [Marx, C, II, Ch.4, p.107]" [Palloix, ibid, p.75]

The role of finance capital, as defined by Hilferding as embodying the merging of banking and industrial capital, and also possibly incorporating to an extent commercial capital (although this was not included by Hilferding) under the dominance of the financiers has not only proved essential to the extension of the activities of multinationals. With the independence of the colonial country in the post-war period, the growth and expansion of 'indigenous' capital has also been a marked feature of many or most less developed countries. But again, international finance capital has played a vital role in this process, not only through direct investments, the holding of equity, shares, etc, but also through the extension of loans (witness the current problem of third world debt) and the financing of development projects. This process has drawn indigenous capitalists in the most far flung parts into the webb of international finance capital, and has allowed the influence of international finance capital to become all pervasive.

This takes us on to the next element of a theory of imperialism: unequal exchange in trade. The implications of this form of approach for a theory of imperialism then has, I believe, direct consequences for a theory of unequal exchange, except that we have arrived at this point via a completely different process of analysis than Emmanuel: the labour theory of value, the capital accumulation process and the role of finance capital rather than a Smithian adding up theory. As a result, as we shall see, our conclusions will be quite different. The international division of labour is a result of and conversely reinforces the uneven nature of the accumulation process. It is both technical, in that some aspects of production are technically more labour intensive than others, and social in that the maximisation of profit rates by international finance enforces an international division of labour whereby less developed countries with lower wages and organic compositions of capital carry out the more labour intensive parts of production, thus reinforcing those countries' economic and social backwardness. Contrary to Emmanuel, I would argue that this international division of labour is not simply technical, it is also social and institutional, and it results and reinforces the uneven nature of the social process of capital accumulation. It does not result from independent factors. It is an integral part of the social production of value and self expanding value (capital) under international capitalism.

Once this international economic relation has been posited by the international social accumulation process, then through the process of international prices of production in exchange which is the basis of international trade, 'unequal exchange' can and does take place. But this unequal exchange, i.e. the transfer of surplus value from less developed to developed countries, takes place <u>both</u> because of the differences in organic composition of capital and differences in the value of labour-power between countries. It is an integral part of the uneven nature of the international accumulation process, <u>and it yet further reinforces the unevenness of that process</u>. Therefore, whilst many of Emmanuel's formal arguments regarding unequal exchange are relevant, they are partial and superficial. He arrives at them by jumping straight to the end of the analysis - price of production applied internationally - without carrying through an underlying analysis of <u>how</u>

those prices of production are posited. Smith's adding up theory is simply not adequate. Marx started by analysing value as a social embodiment of labour, went through his analysis of capital, capital accumulation, the circuits of capital and falling rate of profit before finally arriving at the prices of production. Emmanuel fails to do this. Therefore, whilst Emmanuel's thesis has a point, it can only ever be relevant as part of a broader theory of imperialism based on the labour theory of value and finance capital. On its own, Emmanuel's thesis loses any real meaning.

Finally, let us examine the implications a theory of imperialism based on international finance capital might have for international social and class relations. Here I will disagree totally with Emmanuel's conclusions. The essence of Marx's labour theory of value, as we saw earlier, was that for Marx value was the expression of a social relation specific to the capitalist mode of production, the positing of social abstract human labour. This was only possible under capitalism because of the separation of labour from the means of production. Labour was no longer simply concrete labour, it was abstract labour; it no longer simply produced use values, it produced exchange values. And commodities could only exchange, not because of their use or physical form, these were incommensurable, but because they all contained socially recognised abstract human labour. But further than this, the commodity labour power was not only able to create value, it was able to create value greater than its own value, surplus value, and this was the secret of profit, capital accumulation, value as self-expanding value, and the whole dynamic of the capitalist mode of production. Therefore for Marx, the class relations between labour and capital, are absolutely essential to the whole existence of the capitalist mode of production. The production of commodities, profit and capital accumulation would be impossible without these specific social relations of production; without them capitalism would cease to exist.

Given these class relations are the central pivot of the production of exchange values and capital accumulation, and given international finance capital is the highest expression of the capital accumulation process, then international finance capital must also be the international expression of those class relations. It is labour power alone which creates surplus value, therefore the production of surplus value, however that surplus value is later distributed between capitalists through the equalisation of the rate of profit, essentially involves the exploitation of labour by capital, or at the higher international level, the exploitation of labour by international finance capital. However, the class exploitation of labour by capital also means that the nation state is an essential feature of capitalism, firstly in order to enforce politically (and forcibly if necessary) the economic relation (characterised by the ownership of the means of production and the right to buy and own capital and labour power); and secondly to protect the gains of the national capital against any outside predators (characterised by national defence). The unevenness of the capital accumulation process, and the problems of maintaining and raising profit rates, in an era of finance capital when international competition is at its most intense, means there will always be national rivalry, and the most advanced nations will always be able to take advantage, through the international division of labour, international finance and unequal exchange, of weaker nations. But this is not the exploitation of one nation by another per se, as Emmanuel would have it. It is class exploitation at its highest. It is the capitalist class of one nation not only exploiting its own working class to extract surplus value and profit, but also, singly or jointly, exploiting the working class of another nation to extract an additional surplus value and profit. It is the motor of the capital accumulation process expressed at its highest level - internationally. Workers in some countries might be better paid than in others, although as we have seen, this does not necessarily mean they are any less exploited. International finance capital might be the highest expression of the socialisation of production under capitalism, but it can never do away with the class relations of production, nationally or internationally. Without those the entire edifice of capitalism would collapse.

For Emmanuel to conclude that imperialism involves the exploitation of one nation by another rather than one class by another, shows that for him, the distinction between classes is linked solely to distribution, and not to the production relations under capitalism and it reflects his Mercantilist theory[10]. For one set of workers to be able to exploit another means that they must have access to and own the means of production used to employ the other. But then they would cease to be workers, and would be capitalists. But if all the workers of a 'rich' nation become capitalist, then the capitalist mode of production would collapse within that nation, and with it the exploitation of one capitalist nation by another. If Emmanuel had used Marx's labour theory of value, Emmanuel's views on national exploitation would have been untenable. But by using Smith's adding up theory, neither surplus nor profit are derived from labour, therefore the class relations of production cease to be essential to capitalist exchange. Applied internationally, the sum of wages and surplus are 'added on' unequally between nations, so that workers and capitalists of the rich nations jointly exploit the workers of the poor. Of course, this is even more logical in the Sraffian model, where wages are treated as part of the surplus, so that the neo-Mercantilism of the argument becomes even more explicit. The logic of Emmanuel's position is that raising wages in the 'poor' countries would end imperialism. The logic of Marxist theory of imperialism based on finance capital is that such a rise in wages would have no such effect. But then Emmanuel, like Smith, is concerned solely with exchange and distribution relations, while Marx was concerned with analysing the social relations of production. The two approaches are not only incompatible, they are also irreconcilable, and it is not surprising that any conclusions drawn from the two approaches should be diametrically opposed.

In sum, therefore, I have argued that neither Emmanuel's theory of trade nor his theory of imperialism are built on the labour theory of value, but on a Smithian 'adding up' theory. As such Emmanuel fails in his original aim of integrating the labour theory of value into the theory of international trade, and in consequence what he develops is a sophisticated neo-Mercantilist trade theory. In advancing this theory simultaneously as a theory of imperialism, Emmanuel remains entrenched within the Smithian/Mercantile paradigm of Baran, Sweezy and Frank, despite the formal differences between their approaches. But as a theory of imperialism, Mercantilism, I have argued, is inadequate. It is purely descriptive, asserting that some countries grow rich at the expense of others through the transfer of a surplus, giving no explanation for the origin of this surplus, thus rendering the proposed mechanism for this transfer (Emmanuel's theory of unequal exchange) a purely formalistic assertion. As such it remains a static equilibrium model, which is unable to provide an explanation for the <u>internal dynamic</u> of economic development, except by recourse to the traditional arguments of underconsumptionism. But underconsumptionism still leaves us with the tautology that some countries grow rich by consuming more, and consume more by growing rich. We are still left with no analysis of the productive relations and capital accumulation process underlying capitalist economic development, and which might help us to understand the complex dynamics of modern day imperialism, and which the successful integration of the labour theory of value into the theory of international trade might help to illuminate.

I have argued, however, that the fact that Emmanuel set out with the original aim of integrating the labour theory of value into the theory of international trade, and used Marx's transformation tables to elaborate his theory, led him to touch upon many elements which might be important for a theory of imperialism based on the labour theory of value. Such a theory might best be summed up by a theory of financial imperialism, broadly based on Hilferding's definition of finance capital, integrating the productive, financial and commercial circuits of international capital. The main problem with Emmanuel's work is that it attempts to build a theory of imperialism on one single element, unequal exchange in the "strict sense", and it attempts to do so on a purely Mercantilist base. A theory of Financial imperialism, on the other hand, would be comprised of many elements, reflecting the process of the accumulation of capital on an international level. I have not in this chapter attempted to construct a comprehensive theory of Financial imperialism, rather touch on some of the main elements of which such a theory might be composed. The irony is that implicitly many of these elements also play a role in Emmanuel's work because of his original attempt to use Marx's theory - but they are explicitly rejected because of his retention of the Smithian paradigm and adherence to a theory of Mercantile imperialism.

CONCLUDING REMARKS

CONCLUDING REMARKS

In this thesis, I have examined at length the relationship between Emmanuel's theory of unequal exchange, and the main works of Classical Political Economy and Marx. I have argued that Emmanuel was unable to achieve his aim of integrating the labour theory of value into the theory of international exchange value and trade, because the theory of value Emmanuel adopted from within the school of Classical Political Economy was Smith's 'adding up' theory. This theory of value was originally developed by Smith as a result of the breakdown of his labour embodied theory of value under conditions of complex capitalism because of the problems Smith had in incorporating the additional factors of production (land and capital) into his labour embodied theory. Thus Smith's adding up theory was, from its inception, a negation of the labour theory of value. In the Principles, Ricardo was able to incorporate the factor capital into the analysis of labour values by treating capital as 'past labour', and thus totally rejected Smith's adding up theory of value. But Ricardo's treatment of capital was not unproblematic, as he found that when capital is employed in proportions above or below the average, wages can affect prices. This problem was never adequately resolved by Ricardo, but still he never reverted back to the adding up theory of Smith. Emmanuel, however, never makes the transition of Ricardo in the Principles. Emmanuel stays firmly within the Smithian framework; because of his physical approach he always believes that labour and capital are (physically) incommensurable, and therefore the labour theory of value only applies historically to a situation where labour was the sole factor of production (or at best a situation where capital is always employed in equal proportions, and can therefore be disregarded as a determinant of relative exchange values). Thus, in Emmanuel's Marxian model of unequal exchange, it is not labour values which are being transformed into equilibrium prices in the tables of the prices of production, but the rewards to the factors. Because of his adherence to a Smithian approach, at no point does the labour theory of value of either Ricardo or Marx play a serious role, under Emmanuel's analysis of complex capitalism, nor in his formation of international exchange value. Emmanuel thus fails from the outset to achieve his aim of integrating the labour theory of value into the theory of international trade as an explanation of unequal exchange.

The problem with Emmanuel's Smithian adding up theory of value is that, having negated labour as the basis of value, he now has to provide an explanation of the determination of the rewards to the factors in order to explain the determination of value. However, I believe he has not met his task adequately. He approaches the question of factor rewards from a physiocratic standpoint, treating the wage (the prime mover in his theory of price formation and unequal exchange) as a bundle of commodities of use values, and treating surplus, at best, as the net social (or physical) product after wages have been deducted. However, in my view this approach fails to explain value or surplus value for three reasons: (a) these bundles of use values are as equally incommensurable as the physical entities labour and capital, whereas to be adequate a theory of exchange value has to display homogeneity; (b) the unit quantities Emmanuel enters into the tables of the prices of production (in the Marxian model) are purely arbitrary because they reflect the sum of physical bundles of goods which are in themselves incommensurable; and (c) there is no explanation of the source of surplus value, or how it is possible for the sum of the physical outputs to be larger than the sum of the physical inputs, given Emmanuel has denied the applicability of the labour theory of value under capitalism, and unlike the Physiocrats, he cannot attribute the surplus to the natural fertility of the soil. As a result of these problems, in my view, in the Marxian model Emmanuel fails to explain equilibrium price or price of production. Thus, when he applies this theory to international exchange, despite his use of a fairly sophisticated mechanism, the origin of the 'profit' which he is adding on to the cost of production remains unexplained, and the amount of 'profit' being added on is purely arbitrary (because it is derived from the equalisation of arbitrary quantities of surplus value). As a result, his theory of international exchange is essentially neo-Mercantilist (similar to the theory of Sir James Steuart) because it involves a cost of production plus 'profit upon alienation' theory, where the rich countries are able to sell their commodities at equilibrium prices above value, and buy commodities at equilibrium prices below value, enriching themselves in the process.

Emmanuel's failure to integrate the labour theory of value into the theory of international trade, and the nature of his physiocratic/Smithian approach is confirmed, I have argued, in the later alternative elaboration of his theory of unequal exchange using a Sraffian model. Sraffa built his system of price equations on the basis of an extension of Ricardo's corn model - which itself predated Ricardo's development of the labour embodied theory of value. Sraffa essentially starts from the Physiocratic base (similar to Emmanuel) of a given quantity of technically determined combinations of physical inputs, and a total physical output. On the basis of setting one of the goods as the numeraire, Sraffa sets up a system of price equations, where the relative prices of all the other goods are expressed in terms of the numeraire. The use of the Sraffian method helps Emmanuel to solve the problem of the logical inconsistency of his Marxian model: the dislocation between the incommensurable physical bundles of commodities and the arbitrary unit quantities asserted to represent their 'values'. However, the Sraffian model only does this by avoiding the need for a theory of value altogether. It starts from a given set of physical inputs and outputs, and aims solely to determine a unique set of equilibrium relative prices at which markets will clear, such that the system will remain in a self-replacing state. It is a negation of the need for a theory of abstract homogeneous or social value underlying the theory of price, and as such is a confirmation of Emmanuel's original failure to integrate the labour theory of value into the theory of international exchange or trade. I have further argued that the Achilles heel of the Sraffian approach is its inability to explain the source or origin of surplus or profit. It is essentially a cost of production approach, with profit being 'added on' in the formation of equilibrium prices. However, on the basis of Emmanuel's Sraffian model of unequal exchange in international trade, the neo-Mercantilism of Emmanuel's theory becomes even more overt. In the Sraffian model, the wage is treated not as a physical input, but as part of the surplus (even if it were treated differently, argued Sraffa, only the 'subsistence' element of the wage could be treated as an input, the 'surplus' element would always have to be a deduction from total surplus). Therefore the surplus in the Sraffian model of unequal exchange is divided between wages and profit, with wages being exogenously determined, and the equalised profit rate being determined simultaneously with the equilibrium relative prices. When this model is applied to trade between rich and poor countries, the rich countries are deemed to be adding on a higher total surplus because of their higher wages than the poor. But again, we are back to the original problem - the origin of this surplus remains completely unexplained, and we are left with a neo-Mercantilist theory of a wage 'surplus upon alienation'. One country grows rich at the expense of another simply by adding on a higher wage surplus than the other.

In both models of unequal exchange, therefore, the theoretical foundations of Emmanuel's theory of international exchange and trade remain neo-Mercantilist as a result of their Physiocratic/Smithian adding up approach. Emmanuel fails completely in his aim of integrating the labour theory of value into his theory of international trade. However, despite attempting to integrate the labour theory of value, throughout his work, Emmanuel holds singularly to a Mercantile theory of imperialism, and I argue that his neo-Mercantilist theory of international exchange is logically quite consistent with such a Mercantile theory of imperialism. The anomaly, I believe, is that he should have tried in the first place to substantiate a Mercantile theory of imperialism on the basis of integrating the labour theory of value into a theory of international exchange. The two, I believe, are fundamentally contradictory. The problems with a neo-Mercantilist theory of trade and imperialism are two-fold: (a) it is purely descriptive; by failing to explain the origin of the surplus which is being transferred, it is simply asserting that one country grows rich at the expense of another, without being able to explain <u>how</u> that exploitive relation comes about; and (b) it is unable to explain the internal source of development, we are simply left with the superficial neo-Mercantilist argument that one country grows rich at the expense of another with no explanation of how. Finally, I have argued that, despite the shortcomings of Emmanuel's analysis, his original attempt to develop his theory on the basis of integrating the labour theory of value into the theory of international exchange value led him to touch upon a number of important features relevant, not to a theory of Mercantile imperialism, but a theory of financial imperialism. Within such a theory, I have argued, a theory of unequal exchange based on the labour theory of value could play a significant role; but unlike Emmanuel, I do not believe it would constitute the sole source of imperialism, rather it would have to be understood as only one element within the more complex set of international production and exchange relations which constitute modern imperialism.

In sum, I believe that whilst Emmanuel's attempt to develop a theory of trade and imperialism based on the integration of the labour theory of value into the theory of international exchange value an important advance over many of the contemporary theories of trade and imperialism; Emmanuel's retention of a Smithian paradigm leads his theory to fall far short of its original aim. Despite this, Emmanuel's theory of unequal exchange raises some significant issues, and as such constitutes an important contribution to the development of a modern theory of imperialism.

FOOTNOTES

FOOTNOTES TO CHAPTER I

1. I will define Emmanuel's use of the term 'prices' in more detail later; but by 'price' I mean 'equilibrium price', or 'price of production', not final market price as affected by fluctuations in supply and demand.

2. These have been concentrated primarily in France, especially from Charles Bettelheim and Christian Palloix. Palloix's main criticisms of Emmanuel's theory were contained in C. Palloix, 'La question de l'échange inégal', Table Ronde du C.E.R.M., May 30, 1970. Unfortunately this has not been translated into English, and I have been unable to obtain a copy of the French edition through the British Library. As a result I have had to rely on references to it in other works, including in U.E. (1972). For criticisms translated into or written in English see, for example, Bettelheim (1972), Palloix in Radice (Ed.) (1975), Pilling (1973), Kay (1975).

3. See, for example, Emmanuel 'Unequal Exchange Revisited', IDS, 1975, where both models are put forward as alternative treatments of the theory of unequal exchange.

4. See, for example, C. Edwards (1985) and A. Brewer (1980).

FOOTNOTES TO CHAPTER II

1. In this chapter I am concentrating on briefly summarising the different trade theories. In Chapter IV I will return to the theories of Mercantilism and Classical Political Economy, and examine their broader economic theories in much greater detail.

2. See David Ricardo, The Principles of Political Economy and Taxation, (1973) Ch.VII 'On Foreign Trade'.

3. Ricardo, op. cit., Chap I On Value. Ricardo's labour theory of value will be examined in more depth in Chapter IV.

4. See Ricardo, 'An Essay on the Influence of a Low Price of Corn on the Profit of Stock', in Ricardo, 1951, Vol.IV and Ricardo, 1973, Chapter VII.

5. Ricardo's theory of comparative cost is also conventionally expressed in terms of 'opportunity cost' (an approach not used by Ricardo himself). Ricardo's table of comparative costs can be re-written as a table of opportunity costs as follows:

	Wine	Cloth
Portugal	$^{80}/_{90} = 0.89$	$^{90}/_{80} = 1.125$
England	$^{120}/_{100} = 1.2$	$^{100}/_{120} = 0.83$

For Portugal the opportunity cost of producing wine (0.89) is less than producing cloth (1.125); and for England the opportunity cost of producing cloth (0.83) is less than producing wine (1.2). If both specialise in producing the good with the lowest opportunity cost, and they trade, both England and Portugal will benefit as a result.

6. For a discussion of Marshall's theory see for example, Eric Roll, A History of Economic Thought, Faber & Faber, 1978, pp.394-402.

7. E.F. Hecksher, 'The Effects of Foreign Trade on the Distribution of Income' reprinted in Readings in The Theory of International Trade (1949); B. Ohlin, Interregional and International Trade, Harvard University Press, 1933.

8. For a detailed technical discussion of the H-O-S theorem see, for example, B. Sodersten, International Economics, Macmillan, London, 1980.

9. For a brief summary of both the Leontieff paradox and neo-Ricardian trade theory, see C. Edwards (1985), Chapters 2 and 3 and for the Leontieff paradox and other alternative approaches see B. Sodersten, 1980. See also Steedman 1979a and 1979b.

10. United Nations, 'Post War Price Relations in Trade Between Underdeveloped and Industrialised Countries', cited in R. Prebisch, Economic Development in Latin America and Its Principal Problems, UN, 1950, p.9.

11. For a summary of these arguments, see for example, A.S. Friedberg, The UN Conference on Trade and Development of 1964, Rotterdam University Press, 1969. However, further statistical analysis

would tend to give general support to Prebisch and Singer's arguments. See M. Barratt-Brown (1974) and D. Evans (1979).

12. For a comprehensive survey of the different theories of imperialism see, for example, T. Kemp (1967), A. Brewer (1980).

13. For a discussion by Sweezy as to why Marx's theory of surplus value is not relevant, see Sweezy's Introduction to Paul A. Baran and Paul M. Sweezy, (1966), p.23, footnote 1.

14. Marx himself never fulfilled his aim of writing a book on Foreign Trade, although he had outlined his intention of doing so in, among other places, his letter to Joseph Weydemeyer, 1 February 1859, Marx and Engels Selected Correspondence, p.105.

15. Emmanuel also says that this empirically wrong assumption is dropped by all economists once they cease to analyse trade: "As soon as the matter under discussion ceases to be international value and international trade, economists see clearly and all empirical and quantitive analyses (without exception, so far as I am aware) agree in bringing out a tendency to international equalisation of profits, or at any rate to such slight differences that it is not possible to talk of non-competition of the capital factor." [U.E., p.43]

16. Because of his aim of integrating the labour theory of value into the theory of international trade, Emmanuel develops his argument specifically in relation to Ricardo's theory of trade, and the reasons why Ricardo rejected the applicability of the labour theory of value to trade. But Emmanuel's argument also de facto involves a rejection of the Factor Price Equalisation Theorem.

17. Emmanuel's essential aim is to put forward a theory which explains the deterioration in the commodity terms of trade for the 'poor' nations. Because of his use of a modified labour theory of value in this model as the basis for determining relative commodity prices internationally, his theory is also explaining the deterioration of the double factoral terms of trade. In his theory of unequal exchange in the "strict" sense, any decline in relative commodity prices internationally reflect a decline in the ratio of the quantities of 'labour' $(v+p)$ being exchanged from the standpoint of the poor nation. (This approach to the determination of international commodity prices is fundamentally different to the orthodox economic approach, where a clear distinction exists between the commodity terms of trade and the factoral terms of trade.) However, Emmanuel's primary interest is in examining changes in the commodity terms of trade (defined in terms of prices of production).

FOOTNOTES TO CHAPTER III

1. Smith and Ricardo's theories sought to uncover the laws of capitalist production in order to enhance their support for that system. Marx, on the other hand, saw capitalism as historically limited. He sought to uncover its laws in order to reveal the contradictions and limitations of that system. Hence he subtitled Capital Volume I "A Critical Analysis of Capitalist Production". In this chapter we are concentrating on Marx and Emmanuel. We will return to the works of Smith and Ricardo, and their relation to Emmanuel, in the next chapter.

2. Emmanuel says in his theoretical dispute with Bettelheim regarding different interpretations of Marx: "I was not particularly concerned about orthodoxy and aimed at addressing myself to economists of all tendencies in a common language ..." [U.E., p.323].

3. See Footnote 2 Chapter I.

4. "On the other hand all labour is, speaking physiologically, an expenditure of human labour power, and in its character of identical abstract human labour, it creates and forms the value of commodities. On the other hand, all labour is the expenditure of human labour power in a special form and with a definite aim, and in its character of concrete useful labour, it produces use-values" [Marx, C.I., p.53].

5. This approach differentiates Marx from Ricardo. Ricardo used labour to determine the magnitude of value in its technical sense, i.e. the quantity of labour time technically needed to produce a given unit of a good, such that the magnitude of value could be expressed in labour hours or units, without examining further the question of labour as the common social substance of value or exchange value.

6. Marx refutes the notion that the reverse is true - that it is the existence of money which converts commodities into relative values. "It is not money that renders commodities commensurable. Just the contrary. It is because all commodities, as values, are realised human labour, and therefore commensurable, that their values can be measured by one and the same special commodity, and the latter be converted into the common measure of their values, i.e. into money. Money as a measure of value, is the phenomenal form that must of necessity be assumed by that measure of value which is immanent in commodities, labour time." [Marx, C.I., p.97] Marx then goes on to say in a footnote to this: "The question - why does not money directly represent labour-time, so that a piece of paper may represent, for instance, x-hours' labour, is at bottom the same question why, given the production of commodities, must products take the form of commodities " [ibid, p.97]. In other words, money attains its social standing not as an expression of the technical relations of production - the application of labour in nature which through history has produced products - but as an expression of the social relations of production under capitalism which produce commodities whose value is posited by the social application of abstract human labour.

7. See Emmanuel's comments in Appendix V to U.E., where Emmanuel attacks French critics of his theory as being inspired by "the work

of Neo-Hegelianism, or rather, Neo-Kantianism, which is sweeping over France at the present time" [U.E., p.387]. But from the standpoint of Marx's theory and method, 'Neo-Hegelianism' is a closer approximation than the empiricist approach advocated by Emmanuel. However, Emmanuel goes on to admit his own lack of understanding of abstraction in method: "Personally, I think that a concept is nothing more than an instrument of cognition, a means of reproducing the concrete in thought [i.e. never moving away from empirical concrete reality itself, S.B.]; therefore, the measure of its validity is its power to grasp and apprehend reality, its effectiveness for cognition - in other words, its capacity to explain. As to what is 'greater' and what is 'less' in the realm of essences, I do not quite know what this means, and I am unable to join in this game [my emphasis, S.B.], which, proceeding from the prime essence to the secondary essence, will doubtless bring us eventually to the quintessence" [U.E., pp.387-8].

8. The fact that Marx made these assumptions as a necessary part of his method of abstraction is clearly stated in Volume I: "On the one hand, then, we assume that the capitalist sells at their value the commodities he has produced, without concerning ourselves either about the new forms that capital assumes while in the sphere of circulation, or about the concrete conditions of reproduction hidden under these forms. On the other hand, we treat the capitalist producer as owner of the entire surplus value, or, better perhaps, as the representative of all the sharers with him in the booty. We, therefore, first of all consider accumulation from an abstract point of view - i.e., as a mere phase in the actual process of production." [My emphasis, S.B.] [Marx, C.I., pp.529-30]

9. "The law of value is not a law of magnitudes but a law of relations and of the movement of these relations. It is ultimately nothing but the law of the distribution of the productive forces among different activities and of the distribution of the product in a society of independent owners (claimants)" [U.E., p.326] [emphasis in original].

10. I have taken a fairly 'orthodox' interpretation of Marx's theory of the transformation problem. There is much dispute concerning the transformation problem between Marxists, and we will be returning to this issue in more detail in Chapter V. At this stage I am only primarily concerned with Emmanuel's presentation of what Marx himself says, and am arguing there is a wide divergence between the two.

11. Ironically, when Emmanuel is discussing Marx's transformation tables in detail, he talks, in closer proximity to Marx, of value ($c + v + m$) as the "sum of labour, living and past, expended in producing the article". This appears to contradict his own argument so far - but we will explore this apparent contradiction in more detail in the next section.

12. Emmanuel's definition of concrete and abstract labour is in line with his definition of production and distribution, and in opposition to Marx's. The full quote from Emmanuel is: "Concrete labour corresponds to a society that does not in any way link up men's productive activity with the sharing of the product; the act of participation in social labour is independent of and without any reference to the act of participation in social consumption ... Abstract labour, on the contrary, corresponds to a society that

closely links men's productive activity with the sharing of the product, so that the one becomes the measure of the other. The problem may be turned this way and that; but labour can be abstract and universal only as a generator of a claim to a share in society's economic product. Only in this capacity is it a 'factor'" [U.E., p.330].

13. It is for this reason Emmanuel is forced to redefine Marx's theory of value from the embodiment of abstract social labour to value as the sum of two independent variables "paid and unpaid labour", so that it is their rewards which become their distinguishing feature.

14. As Geoffry Pilling has pointed out, Emmanuel's theory is not only in opposition to Marx, it is also in opposition to Ricardo. "For [Emmanuel] wages constitute an 'independent variable' in the functioning of the capitalist system; 'wages determine prices'. Here he would appear to be in conflict not only with Marx, but also with Ricardo" [Pilling, 1973, p.173]. We will be dealing with this point in more detail in the next chapter.

15. Emmanuel's complete confusion on this issue is shown in Appendix V to Unequal Exchange: "To set up the productivity of labour as the determining element in the value of labour power, and so of wages, is an idea that is diametrically opposed to the Marxist or even to any objectivist conception of value [Marx himself was obviously completely wrong therefore, S.B.]. The productivity of labour is merely the use value of labour power, its utility and its marginal productivity is merely its marginal utility ... For Marxism, however, wages are not the price of labour but the price of labour power, and the value of labour power is determined like that of any other commodity, not by conditions of its consumption but by those of its production. Now the productivity of labour relates to the [productive] consumption of labour power ... and not to its production. It is just as much out of place for a marxist to say that more productive labour is worth more than less productive labour as it would for him to say, for example, that a visit to the cinema is worth more than a beefsteak because it is more useful or more pleasant" [U.E., p.418]. So now the value of labour power relates to its production, and productivity of labour to its consumption. But what Emmanuel himself has argued is that the "production" of labour power is determined by a biologically and historically given "basket of goods". But this "basket of goods" are themselves commodities, or values, resulting from the previous "consumption" of labour power. Therefore the "consumption" of labour power, even though Emmanuel does not like to acknowledge it, must have something to do with the "production" of labour power.

16. The fact that Emmanuel fails to distinguish between surplus value and profit is not necessarily surprising. As Rosdolsky points out, the distinction in Marx has a "distinctly Hegelian flavour" [Rosdolsky, 1977, p.367], such a flavour being repudiated by Emmanuel. Surplus value, for Marx, is posited in the immediate process of production, whereas profit is the form of appearance of surplus value, as a result of circulation, and the movement of surplus value outside the immediate process of production. Here "surplus value appears no longer to be posited by its [i.e. capital's] simple direct relation to living labour" [Marx, Grundrisse, 1973, p.745]. Given Emmanuel never analyses the immediate process of production, but only ever deals with the 'concrete concept' or

'form of appearance', he never considers the essence of profit, surplus value, as anything distinguishable from profit. The two, for him, are synonymous, and surplus value essentially equals profit (though technically measured using a different formula to that of profit).

17. Emmanuel's own definition of the "social product" is never clearly stated in the main text. It is only in Appendix V [U.E., p.401] under pressure from his critics, that he directly addresses himself to the problem of defining 'social product'; but here his argument breaks down. He cannot accept either 'use value', 'exchange value' or "'values' on its own as the common, homogeneous substance contained in all commodities" as the basis for a definition for social product. In the end, he returns to consider the sum of the rewards to the factors, being inversely related - but within the framework of his analysis established so far, he cannot make this the basis of profit, it would be a complete tautology. As a result of these and other problems, Emmanuel is forced to abandon his 'Marxian' approach. We will be examining his alternative (Sraffian) approach in a later chapter.

18. This point is taken up and rejected by Rosdolsky when commenting on Marx's theory of wages and profits. In Marx's theory, he says, it would be quite wrong to think there is no upper limit at all to the value of labour power: "Such a limit does exist, and is in fact quite narrowly drawn. However, this can be derived neither from the form and extent of the working class's socially given standards of living, nor from some abstractly understood size of national product which is to be distributed, but only from the nature of capital itself. For it is simply not the case that labour and capital represent two autonomous powers, whose respective 'shares' in the national product merely depend on their respective strengths; rather, labour is subject to the economic power of capital in capitalism from the outset, and its 'share' must naturally always be conditioned on the 'share' of capital. Therefore the real uppermost limit of wages is given by the size of profit, and more precisely, but the movements of profit" [Rosdolsky, 1977, p.284].

FOOTNOTES TO CHAPTER IV

1. The limitations of Smith's work have led him to be described as "a transitional figure in every sense" [Pilling, The Law of Value in Ricardo and Marx, 1977 p.292].

2. This problem in Ricardo's theory, and the doubts he expressed in his letter to McCulloch [Letter to McCulloch 13 June 1820, reprinted in Sraffa Ed. 1951] have led some, including Professor Samuel Hollander, to argue that Ricardo abandoned the labour theory of value towards the end of his life. Piero Sraffa, in his introduction to Ricardo's Works refutes this argument [Sraffa, 1951]. But as I will argue later, in this chapter, even taking Ricardo's letter to McCulloch as Ricardo's final word on the subject, Ricardo never actually abandons the labour theory of value, rather he supplements it, arguing there are two causes affecting value, (i) labour embodied, and (ii) the time capital lies dormant. On this basis, I take the position throughout this thesis that Ricardo never abandoned the labour theory of value under capitalism, at the most he only modified it.

3. This point is supported by Piero Sraffa in his Introduction to the Edited Works of David Ricardo: "In edition 3, the standard adopted was money produced with such proportions of the two kinds of capital as approach nearest to the average quantity, employed in the production of most commodities; and the relevant passages were accordingly altered to the effect that, with a rise of wages, some commodities would fall and others rise in terms of this standard. (If measures in such a standard, the average price of all commodities, and their aggregate value, would remain unaffected by a rise or fall of wages.)" [Sraffa Ed., Ricardo, 1951, p.xliv]

4. See, for example, Pilling, 1973, p.167.

5. Professor Jacob Viner in his book Studies in the Theory of International Trade disagrees that a rigid distinction exists between the policies of the two periods before and after 1620. Viner argues that: "The most pervasive feature of the English Mercantilist literature was the doctrine that it was vitally important for England that it should have an excess of exports over imports, usually because that was for a country with no gold or silver mines the only way to increase its stock of the precious metals" [Viner, 1955, p.6].

6. There is some dispute over the role of the merchants in the breakdown of feudalism, which we cannot go into here [see, Hilton, R., 1978] but will examine briefly in Chapter VI.

7. The point regarding profit is made by Marx. Whilst discussing and documenting Smith's switching from one definition to another, Marx comments: "This something given for the profits of the undertaker, when the complete work is exchanged, does it come from the sale of the commodity above its value, is it Steuart's profit upon alienation?" [Marx, TSV I, p.78]. But Smith redeems himself by then reverting back to profit derived from labour. This argument regarding the relation between Steuart and Smith is taken a lot further by some commentators on the work of Sir James Steuart. S.R. Sen, for example, argues: "Smith knew that Steuart had developed a comprehensive system in which many a strand was carefully interwoven and which was not easy to refute completely. In

fact he himself borrowed a good deal from Steuart in building up his own system. But his main concern was not only to refute Steuart's central argument but also to inflict such a total defeat upon his system that it would vanish into oblivion. His strategy was to refuse to Steuart's work any public recognition whatsoever, and so he deliberately refrained from even 'once mentioning it'" [Sen, 1957, p.58].

8. This thesis is a refutation of the belief that whilst there might be superficial similarities between Emmanuel and Mercantilism, because of Emmanuel's use of Marx's transformation tables, Emmanuel's underlying theory is not Mercantilist. As Geoff Kay has said: "Emmanuel does not explain unequal exchange in terms of the operations of merchant capital; he sees it quite differently as a result of the way in which values are transformed into prices" [Kay, 1975, p.108]. I am arguing that, on the contrary, despite Emmanuel's use of the transformation tables, because of his integration of a Smithian adding up theory of value, where profit is unexplained, Emmanuel's theory of unequal exchange in international trade depends solely on the Mercantile relation.

FOOTNOTES TO CHAPTER V

1. Christian Palloix's main criticisms of Emmanuel's theory were contained in C. Palloix, 'La question de l'échange inégal' Table Ronde du C.E.R.M. May 30, 1970. See Footnote 2 Chapter I.

2. For important discussions of this debate see, for example, Carchedi, G. (1984); Fine, B. and Harris, L. (1976); Gerstein, I. (1976); Rowthorn, B. (1974); Yaffe, D. (1975); and Himmelweit, S. and Mohun, S. (1978).

3. Against the Bortkiewicz-Sweezy argument, Rosdolsky has argued that Marx was never an equilibrium economist anyway: "Bortkiewicz's supporters propose the thesis that 'Marx's method of transformation would lead to a violation of the equilibrium of simple reproduction', and is therefore 'logically unsatisfactory'. However, this objection would only be valid if Marx were in fact a 'Harmonist', i.e. if his schemes of reproduction were to be interpreted in the way adopted by Tugan-Baranovsky. (It is self-evident that the transition from commodity-values to 'prices of production' would necessarily be accompanied by disturbances in the 'equilibrium of simple reproduction'; but since when has it been the task of marxists to prove that it is theoretically possible for the capitalist economy to proceed without distrubances?)" [Rosdolsky, 1977, p.411].

4. The fact that Emmanuel attempts later to convert his physical table into "labour hours" [U.E., p.405], does not help to explain anything, because 'labour hours' are expressed as equivalent to a certain basket of physical goods (50A + 20B = 500 hours), and it is on the basis of this quantity of goods and his arbitrarily chosen numeraire that Emmanuel attempts to expand his table using "labour". Therefore we are still back with our physical bundles of goods, and have got nowhere in determining the source of surplus.

5. This is entirely consistent with Emmanuel's view in the Marxian model that value and price can only be relative and his rejection of any notion of absolute value, which he argues is an "unconsciously metaphysical belief in a perennial content of value, independent of its form, a sort of thing in itself, [which] is to be found to a greater or lesser extent among most Marxists" [U.E., p.325].

6. This argument stays the same even if the wage were divided up so that the subsistence element formed part of the technically determined physical inputs of production, and only that part of the wage over and above subsistence formed part of the suplus. It is the inclusion of this variable element as part of the unexplained surplus which is the key to the argument of neo-Mercantilism, were the wage treated solely as a physical subsistence input, Emmanuel's whole theory would collapse anyway.

7. "Marx's solution of the 'transformation problem' is incorrect, not only with respect to prices of production but also, more importantly, with respect to the rate of profit. The rate of profit in a competitive, capitalist economy is not equal, in general, to [S/(c + v)], where S, c and v are aggregate surplus value, constant capital and variable capital respectively. Indeed, since the profit rate and all prices of production can be determined without reference to any value magnitude, the 'transformation problem' is a pseudo-problem,

a chimera; there is no problem of deriving profits from surplus value and production prices from values to be solved." [I. Steadman, 1977, pp.14-15]

8. Chris Edwards (1985) is wrong, I believe, to argue with reference to the Marxian model that: "The obvious question that arises from the allegedly higher rates of exploitation in India is: why does capital not flow to India to produce both corn and cloth there, since surely with higher rates of exploitation in India, the world-wide rate of profit could be raised by producing both goods in that low wage country". [Edwards, 1985, p.67] The whole point of the Marxian model is that it distinguishes between the rate of exploitation (which is unequal) and the rate of profit (which is equal). The individual capitalist is only aware of and responds to the rate of profit, not the rate of exploitation, otherwise it would not be a capitalist economy, and transformation of value into price would be unnecessary. Given the rate of profit in the Marxian model as soon as capital becomes mobile, there is no incentive for capital to flow to India (and even if it did, it would raise the organic composition and bring the rate of profit in India down further). It is only in the Sraffian model that this becomes a problem, because no distinction is made between the rate of exploitation and the rate of profit, the origin of profit is unexplained, and the capitalist reacts solely to a comparison of static profit rates.

9. Again, Chris Edwards says, with reference to the Marxian model, that Emmanuel himself accepted differences in productivity and production techniques, so that one country is more productive in some branches and yet less productive in others [U.E., 1972, p.422]. But Emmanuel only (grudgingly) acknowledged this in Appendix V to Unequal Exchange, after his Marxian model had been supplanted due to the force of criticism, not least by Bettelheim. Emmanuel never acknowledged this at the height of defending his Marxian model.

10. Emmanuel in the Introduction to U.E. quite clearly aims to reject the Prebisch-Singer view that poor and rich countries are distinguished by the production of primary and industrial produce, or that it is what they produce which characterises the distinction between nations. As he shows, the products of many poor nations require a high degree of manufacture and many rich nations export primary products: "Are there really certain products that are under a curse, so to speak; or is there, for certain reasons that the dogma of immobility of factors prevents us from seeing, a certain category of countries that, whatever they undertake and whatever they produce, always exchange a larger part of their national labour for a smaller amount of foreign labour? This is the most fundamental of the questions I shall have to answer in this study." [U.E., p.xxxi] Critics of Emmanuel, such as J.O. Andersson, have argued that: "Emmanuel's theory is empirically dubious since it rests on the assumption that the developed and underdeveloped countries do not produce and export the same commodities." [Andersson, 1976, p.13] However, this assumption is only relevant to the Sraffian, not the Marxian model of unequal exchange, and is a negation of Emmanuel's original aim. Ironically, though, Emmanuel's need to make this assumption for the Sraffian model to work takes his theory of trade back to a Smithian theory of absolute advantage in trade, i.e. the 'rich' countries have an absolute advantage in producing one type of good, and the 'poor' countries an absolute advantage in producing another type of good. But this is consistent with my overall thesis that the logic of Emmanuel's theory is a Smithian one.

FOOTNOTES TO CHAPTER VI

1. Charles Bettelheim, amongst others, has strongly criticised Emmanuel's view that exploitation can be of one nation by another. Bettelheim argues that exploitation can only be of one class by another, i.e. the appropriation of the surplus labour of one class by another class [Bettelheim, U.E., p.303].

2. In this respect, Ricardo's trade theory is very close to the work of Adam Smith. Ricardo's theory of comparative advantage was only one step on from Adam Smith's theory of absolute advantage in trade. Neither attempted to apply the labour theory of value to trade.

3. See R. Brenner, NLR 104, July/August 1977.

4. This view has its origins in the debates surrounding the historical transition from feudalism to capitalism held particularly between Maurice Dobb and Paul Sweezy, and others, in the 1950s. The main contributions to this debate are collected in R. Hilton (Ed.) The Transition from Feudalism to Capitalism, London, 1976.

5. See C. III, pp.332-334.

6. See R. Brenner, NLR No.104 July/August 1977 and E. Laclau, NLR No.67 May/June 1971.

7. Like much of Emmanuel's theory, however, his formal attempt to use Ricardo and Marx does lead to contradictions. In his paper 'Unequal Exchange Revisited' [IDS, 1975], he does formally recognise the role accumulation plays in economic development, especially in the shift from an agricultural to industrial economy. But this discussion remains very abstract and general. At the end of the day, like Sismondi, Emmanuel believes that no investment takes place without individual consumption, and that overproduction is essentially the under-consumption of use values or goods.

8. As Lenin said: "It goes without saying that if capitalism ... could raise the living standards of the masses, who in spite of amazing technical progress are everywhere still half starved and poverty stricken, there could be no question of surplus capital. This 'argument' is very often advanced by petty bourgeois critics of capitalism. But if capitalism did these things it would not be capitalism; for both uneven development and a semi-starvation level of existence of the masses are fundamental and inevitable conditions and constitute premises of this mode of production" [Lenin, C.W. 22 , p.241].

9. This point is also made by Palloix: "In the realm of theory the internationalisation of capital as a social relation is the theme of Arghiri Emmanuel's theory (1972) of 'unequal exchange'. But Emmanuel's theory betrays all the defects of a restricted theoretical position in relation to the total circuit of social capital: he generalises about internationalisation from the act c - m - c alone. His whole theory of unequal exchange, of the unequal distribution of the world's surplus value, rests on this act alone, though it is the reverse side of the basic act m - c(L/mp). In as much as his theory touches on only a part of the whole question of the internationalisation of capital and of the relations of production, its bearing is limited." [C. Palloix in, H. Radice Ed., 1975, pp.79-80]

10. This point is made by Geoff Pilling, who argues: "Indeed, for [Emmanuel], the division of the world into 'rich' and 'poor' countries is not the result of economic forces which are endemic to imperialism, and notably its tendency to ever greater unevenness of development; he prefers instead to see this division in terms of 'Mercantile imperialism'. He wishes, that is, to understand the structure of world economic relations, from the standpoint of forces which pre-date imperialism. In this respect we believe that his work rests upon a fundamental methodological error." [Pilling, 1973, p.167]

BIBLIOGRAPHY

BIBLIOGRAPHY

Anderson, G. and Tollison, R. (1986) 'Sir James Steuart as the Apotheosis of Mercantilism and His Relation to Adam Smith'. Southern Economic Journal, Vol.52, No.3, January.

Andersson, J.O. (1976) Studies in the Theory of Unequal Exchange Between Nations, Abo Akademi, Abo, Finland.

Bacha, E.L. (1978) 'An Interpretation of Unequal Exchange From Prebisch-Singer to Emmanuel', Journal of Development Economics, 5, December.

Baran, P. and Sweezy, P.M. (1966) Monopoly Capital, Penguin Books, Harmondsworth.

Baran, P. (1978) The Political Economy of Growth, Penguin Books, Harmondsworth.

Barratt-Brown, M. (1974) The Economics of Imperialism, Penguin Books, Harmondsworth.

Bernstein, E. (Ed.) (1978) Underdevelopment and Development, Penguin Books, Harmondsworth.

Bettelheim, C. (1972) 'Additional Comments' in Emmanuel, E. Unequal Exchange: A Study of the Imperialism of Trade, NLB, London.

Bhagwati, J. (1964) 'The Pure Theory of International Trade: A Survey'. The Economic Journal, March.

Bleaney, M. (1976) Underconsumption Theories, Lawrence and Wishart, London.

Blomstrom, M. and Hettne, B. (1984) Development Theory in Transition, Zed Books, London.

Bohm-Bawerk, E. von (1975) Karl Marx and the Close of His System, Edited by Sweezy, P., The Merlin Press, London.

Bortkiewicz, von L. (1952) 'Value and Price in the Marxian System', International Economic Papers, No.2.

Bortkiewicz, von L. (1975) 'The Correction of Marx's Fundamental Theoretical Construction in the Third Volume of Capital', in: Sweezy, P. (Ed.) Karl Marx and the Close of His System, Merlin Press, London.

Booth, D. (1975) 'Andre Gunder Frank: An Introduction and Appreciation', in: I. Oxaal, T. Barnett and D. Booth, Beyond the Sociology of Development, Routledge and Kegan Paul, London.

Brenner, R. (1977) 'The Origins of Capitalist Development: a Critique of Neo-Smithian Marxism', New Left Review, No.104, July/August.

Brewer, A. (1980) Marxist Theories of Imperialism, Routledge & Kegan Paul, London.

Bukharin, N. (1972) Imperialism and World Economy, Merlin Press, London.

Carchedi, G. (1984) 'The Logic of Prices as Values', Economy and Society, Vol.13, No.4, November.

Cardoso, F.H. (1972) 'Dependency and Development in Latin America' New Left Review, No.74, July/August.

Cardoso, F.H. and Faletto, E. (1979) Dependency and Development in Latin America, University of California Press.

Coakly, J. (1982) 'Hilferding: Finance Capital', Capital and Class, No.17.

Coleman, D.C. (1969) Revisions in Mercantilism, Methuen, London.

Dobb, M. (1973) Theories of Value and Distribution Since Adam Smith, Cambridge University Press, Cambridge.

Dobb, M. (1975) Studies in the Development of Capitalism, Routledge and Kegan Paul, London.

Dobb, M. (1980) Political Economy and Capitalism, Routledge and Kegan Paul, London.

ECLA Anthology (1970) Development Problems in Latin America, 'An Analysis by the United Nations Economic Commission for Latin America' published for the Institute of Latin American Studies by the University of Texas Press.

Edwards, C. (1985) The Fragmented World, Competing Perspectives on Trade, Money and Crisis, Methuen, London.

Emmanuel, A. (1972a) Unequal Exchange: A Study of the Imperialism of Trade, NLB, London.

Emmanuel, A. (1972b) 'White Settler Colonialism and the Myth of Investment Imperialism', New Left Review, No.73, May/June.

Emmanuel, A. (1974) 'Myths of Development Versus Myths of Underdevelopment', New Left Review, No.85, May/June.

Emmanuel, A. (1975) Unequal Exchange Revisisted, IDS Discussion Paper No.77, IDS, Sussex.

Emmanuel, A. (1977) 'Gains and Losses from the International Division of Labour', Review, Vol.1, No.2.

Evans, D. (1979) 'International Commodity Policy: UNCTAD and NIEO in Search of a Rationale', World Development, Vol.7.

Evans, D. (1980) Emmanuel's Theory of Unequal Exchange: Critique, Counter Critique and Theoretical Contribution, IDS Discussion Paper 149, IDS, Sussex

Evans, H.D. (1981a) 'Unequal Exchange and Economic Policies: Some Implications of the Neo-Ricardian Critique of the Theory of Comparative Advantage', in: Livingstone, I. (Ed.) Development Economics and Policy: Readings, George Allen & Unwin, London.

Evans, D. (1981b) 'Trade, Protection and Self Reliance', in: Seers, D. (Ed.) Dependency Theory, A Critical Reassessment, Frances Pinter, London.

Evans, D. (1984) 'A Critical Assessment of Some Neo-Marxian Trade Theories', The Journal of Development Studies, Vol.20, No.2, January.

Fine, B. (1980) Economic Theory and Ideology, Edward Arnold, London.

Fine, B. and Harris, L. (1976) 'Controversial Issues in Marxist Economic Theory', The Socialist Register, London.

Fine, B. and Harris, L. (1979) Re-Reading Capital, Macmillan, London.

Frank, A.G. (1966) 'The Development of Under Development', Monthly Review, Vol.18, No.4, September.

Frank, A.G. (1967) Capitalism and Underdevelopment in Latin America: Historical Studies of Chile and Brazil, Monthly Review Press, New York.

Frank, A.G. (1969) Latin America: Underdevelopment or Revolution, Monthly Review Press, New York.

Frank, A.G. (1971) The Sociology of Development and Underdevelopment, Pluto Press, London.

Frank, A.G. (1973) On Capitalist Underdevelopment, Oxford University Press, Oxford

Friedberg, A.S. (1969) The UN Conference on Trade and Development of 1964, Rotterdam University Press, Rotterdam.

Gerstein, I. (1976) 'Production, Circulation and Value: The Significance of the Transformation Problem in Marx's Critique of Political Economy', Economy and Society, Vol.5, No.3, August.

Gibson, B. (1980) 'Unequal Exchange: Theoretical Issues and Empirical Findings', The Review of Radical Political Economics, Vol.12, No.3.

Gray, A. and Thompson, A.E. (1980) The Development of Economic Doctrine, Longman, London.

Grossman, H. (1943) 'The Evolutionist Revolt Against Classical Economics', The Journal of Political Economy, Vol.LI, No.5, October.

Grossman, H. (1977) 'Marx, Classical Political Economy and the Problem of Dynamics', Parts I and II, Capital and Class, Nos.2 and 3.

Heckscher, E.F. (1949) 'The Effects of Foreign Trade on the Distribution of Income'. Reprinted in Readings in the Theory of International Trade.

Heckscher, E.F. (1955) Mercantilism, George Allen & Unwin, London.

Hilferding, R. (1981) Finance Capital. A Study of the Later Phase of Capitalist Development, Routledge & Kegan Paul, London.

Hilton, R. (1978) The Transition From Feudalism to Capitalism, Verso, London.

Himmelweit, S. and Mohun, S. (1978) 'The Anomalies of Capital', Capital and Class, No.6.

Hobson, J.A. (1961) Imperialism A Study, George Allen & Unwin, London.

Jevons, W.S. (1970) The Theory of Political Economy, Penguin, Harmondsworth.

Kay, G. (1975) Development and Underdevelopment: A Marxist Analysis, Macmillan, London.

Kemp, T. (1967) Theories of Imperialism, Dobson, London.

Laclau, E. (1971) 'Feudalism and Capitalism in Latin America', New Left Review, No.67.

Lebowitz, M. (1974) 'The Current Crisis of Economic Theory', Science and Society, Vol.XXXVII, No.4.

Lenin, V.I. (1964) 'Imperialism, The Highest Stage of Capitalism', in: Collected Works, Vol.22, Progress Publishers, Moscow.

Love, J. (1980) 'Raul Prebish and the Origins of the Doctrine of Unequal Exchange', Latin American Research Review, Vol.XV, No.3.

Magdoff, H. (1966) 'Economic Aspects of US Imperialism', Monthly Review, Vol.18, No.6 (November 1966).

Mainwaring, L. (1984) Value and Distribution in Capitalist Economies An Introduction to Sraffian Economics, Cambridge University Press, Cambridge.

Mandel, E. and Freeman, A. (Eds.) (1984) Ricardo, Marx, Sraffa, Verso, London.

Marx, K. (1969) Theories of Surplus Value, Volumes I, II and III, Lawrence & Wishart, London.

Marx, K. (1970) 'Manifesto of the Communist Party', in: Marx and Engels Selected Works, Lawrence & Wishart, London.

Marx, K. (1973) Grundrisse, Penguin, Harmondsworth.

Marx, K. (1974) Capital, Volumes I, II and III, Lawrence & Wishart, London.

Marx, K. and Engels, F. (1975) Selected Correspondence, Progress Publishers, Moscow.

Marx, K. (1977) A Contribution to the Critique of Political Economy, Progress Publishers, Moscow.

Meek, R.L. (1967) Economics and Ideology. Studies in The Development of Economic Thought, Chapman & Hall, London.

Meek, R. (1973) Studies in the Labour Theory of Value, Lawrence & Wishart, London.

Mill, J.S. (1880) Principles of Political Economy, Longmans, Green & Co, London.

Munroe, A.E. (Ed.) (1924) Early Economic Thought.

Ohlin, B. (1933) Inter-Regional and International Trade, Harvard University Press, Harvard.

Owen, R. and Sutcliffe, B. (1972) Studies in the Theory of Imperialism, Longman, London.

Palloix, C. (1975) 'The Internationalisation of Capital and the Circuit of Social Capital', in: Radice, H. (Ed.) International Firms and Modern Imperialism, Penguin, Harmondsworth.

Palma, G. (1978) 'Dependency: A Formal Theory of Underdevelopment or a Methodology for the Analysis of Concrete Situations of Underdevelopment?', World Development, July/August.

Pasinetti, L. (1977) Lectures on the Theory of Production, Macmillan, London.

Pilling, G. (1973) 'Imperialism and Unequal Exchange: the Work of Arghiri Emmanuel', Economy and Society, Vol.2, No.2, May.

Pilling, G. (1977) 'The Law of Value in Ricardo and Marx', Economy and Society, Vol.I, No.3.

Pilling, G. (1980) Marx's 'Capital' Philosophy and Political Economy, Routledge & Kegan Paul, London.

Prebisch, R. (1950) 'The Economic Development of Latin America and its Principal Problems', United Nations Publication, Santiago, Chile.

Radice, H. (Ed.) (1975) International Firms and Modern Imperialism, Penguin Books, Harmondsworth.

Rashid, S. (1986) 'Smith, Steuart and Mercantilism', Southern Journal of Economics, Vol.52-3, January.

Ricardo, D. (1951-73) The Works and Correspondence of David Ricardo, P. Sraffa Ed., 10 volumes, Cambridge University Press, Cambridge.

Ricardo, D. (1973) The Principles of Political Economy and Taxation with Introduction by D. Winch, J.M. Dent & Sons, London.

Robinson, J. (1965) 'Piero Sraffa and the Rate of Exploitation', New Left Review, No.31.

Roll, E. (1978) A History of Economic Thought, Faber, London.

Rosdolsky, R. (1977) The Making of Marx's Capital, Pluto Press, London.

Rostow, W.W. (1960) The Stages of Economic Growth, Cambridge University Press, Cambridge.

Rowthorn, B. (1974) 'Neo-Classicism, Neo-Ricardianism and Marxism', New Left Review, No.86, July/August.

Roxborough, I. (1979) Theories of Underdevelopment, Macmillan, London.

Rubin, I.I. (1972) Essays on Marx's Theory of Value, Black & Red, Detroit.

Rubin, I.I. (1979) A History Of Economic Thought, Ink Links, London.

Samuelson, P. (1939) 'The Gains From International Trade', Canadian Journal of Economic and Political Science, May.

Samuelson, P.A. (1976) 'Illogic of Neo-Marxian Doctrine of Unequal Exchange', in: Belsley, D.A. et al (Eds.) Inflation, Trade and Taxes: Essays in Honour of Alice Bourneuf, Ohio State University Press, Ohio, 1976.

Sau, R. (1978) Unequal Exchange, Imperialism and Underdevelopment, Oxford University Press, Oxford.

Semmel, B. (1970) Free Trade Imperialism, Cambridge University Press, Cambridge.

Sen, S.R. (1947) 'Sir James Steuart's General Theory of Employment, Interest and Money', Economica, February.

Sen, S.R. (1957) The Economics of Sir James Steuart, G. Bell & Sons, London.

Shaikh, A. (1980) 'Foreign Trade and the Law of Value', Parts I and II, Science and Society, Vol.43, No.3 and Vol.44 No.4.

Singer, H. (1950) 'US Foreign Investment in Underdeveloped Areas: The Distribution of Gains Between Investing and Borrowing Countries', American Economic Review, Vol.1, No.40.

Smith, A. (1905) The Wealth of Nations, Volumes I and II, George Bell & Sons, London.

Smith, A. (1977) The Wealth of Nations (Edited by A. Skinner), Penguin Books, Harmondsworth.

Sodersten, B. (1980) International Economics, Macmillan, London.

Spraos, J. (1983) Inequalising Trade, A Study of Traditional North/South Specialisation in the Context of Terms of Trade Concepts, Oxford University Press, Oxford.

Sraffa, P. (1951) Introduction to Ricardo's Principles in Ricardo, D. (1951) The Works and Correspondence of David Ricardo, Volume I.

Sraffa, P. (1960) Production of Commodities by Means of Commodities, Cambridge University Press, Cambridge.

Steedman, I. (1977) Marx After Sraffa, NLB, London.

Steedman, I. (Ed.) (1979a) Fundamental Issues in Trade Theory, Macmillan, London.

Steedman, I. (1979b) Trade Amongst Growing Economies, Cambridge University Press, Cambridge.

Steedman, I., Sweezy, P. et al. (1981) The Value Controversy, Verso, London.

Steuart, Sir J. (1805) Principles of Political Economy in: The Works of Sir James Steuart, Volume I, Ed. General Sir James Steuart, 6 Vols, London.

Sweezy, P.M. (1942) The Theory of Capitalist Development, Monthly Review Press, New York.

Thirlwall, A.P. (1978) Growth and Development With Special Reference to Developing Economies, Macmillan, London.

Viner, J. (1955) Studies in the Theory of International Trade, George Allen & Unwin, London.

Weintraub, S. (Ed.) (1977) Modern Economic Thought, Basil Blackwell, Oxford.

Yaffe, D. (1975) 'Value and Price in Marx's Capital', Revolutionary Communist, No.1, January.