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UNEQUAL EXCHANGE AND AUSTRALIAN ECONOMIC DEVELOPMENT: AN EXPLORATORY INVESTIGATION

DAVID CLARK

There is no branch of economics in which there is a wider gap between orthodox doctrine and actual problems than in the theory of international trade.

Joan Robinson

IN HIS INTRODUCTION to Volume One of these essays, E.L. Wheelwright pointedly remarked on the 'almost total lack of any Marxist based attempts to analyse the development of Australian capitalism', and warned that conventional economics as taught in most Australian universities provided little help towards such a task.¹ Similarly, the efforts of Australian economic historians, despite an upsurge in activity amongst them, are also of limited utility.² Yet although it is relatively easy to deplore the limited use of Marxian analysis and insights by Australian researchers, it is considerably more difficult to offer constructive, viable research programmes, without which no effective challenge to orthodox interpretations of our past can emerge. Historians working in the tradition of Anglo-Saxon empiricism become very restless with any serious discussion of epistemological questions; they demand application of theories, they demand results.³ These demands tend to intimidate potential critics, Marxist or otherwise, to the detriment of a more critical historiography. In the Marxian toolbox there rests a variety of useful aids, but the first task must be to understand these aids and their possible limitations in certain historical projects. An overview and assessment of received notions about our general pattern of development was provided in Volume One of these essays.⁴ In the

present contribution the usefulness of the concept of 'Unequal Exchange'—its origins, its various interpretations, its limitations—will be critically assessed. In doing so, the work of Arghiri Emmanuel will be given special attention in an effort to make his fundamental theses easier to comprehend and to test. No prior apologies are offered for the theoretical emphasis of this essay; it is necessary and unavoidable. Nevertheless, a preliminary attempt is made to relate Emmanuel's work to the economic relationships between Australian and British development over the last century, in the hope of prompting further work in this area.

Too much recent Marxist writing, especially that inspired by the French linguistics *savant* Louis Althusser, tends to obscure its message by limiting the appeal of Marxism to those with a philosophical bent, to those with a penchant for metaphysical jousting.⁵ Most importantly, such writing serves as a poor means of directly confronting received historical research, for the orthodox researcher soon tires of the obsessive use of jargon which the Althusserians hide behind. 'Authorities of the social formation', 'diachronies', and 'synchronies' will not be employed in what follows. Deliberate obfuscation will be avoided and it is hoped that the reader will be assisted by the notes and bibliographical guidance provided. The most enlightening analysis is not always the simplest; if the problem at hand is multi-faceted and involved, its understanding necessitates patience and rigour. Those readers with some background in Marxian economics and in orthodox international trade theory will find the going easier; those without such an advantage will hopefully not be deterred. It is too often forgotten that Marx's interest in political economy was something that developed after his undergraduate days, and that he spent the rest of his life trying to compensate for his earlier ignorance of the discipline.⁶

Ricardo, Marx and Emmanuel

Arghiri Emmanuel's *Unequal Exchange* first appeared in French in 1969, although there had been explicit discussion of its major themes amongst French-speaking Marxists for some years before.⁷ It was not until 1972, when an English translation appeared, that these debates attracted attention amongst Anglo-Saxon scholars. But even since then, only limited attention has been paid by such scholars to his challenge compared with the interest shown by their French and Italian counterparts.⁸ Particularly interesting is the fact that the doyen of neo-classical economics, P.A. Samuelson, Nobel Prize winner and textbook entrepreneur *extraordinaire*, has recently given serious attention to the book in his postgraduate seminars. This should in itself arouse the curiosity of all types of economist; Samuelson's *imprimatur*, reactionary as it may be, is rarely given to writers outside the neo-classical camp. The effect of Samuelson's interest has been to encourage orthodox international trade theorists to try to grapple with known alternatives to Ricardo's theories of comparative advantage. One internationally recognised trade theorist has even written a paper which appears to be an attempt

to prove that the existence of imperialism is logically impossible! It is thus important to explain why the orthodox theorists have shown such interest in Emmanuel's work and to show how his work constitutes a challenge to orthodox international trade theory.

The clearest and most concise statement of Emmanuel's target is contained in the opening paragraph of *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; in which everything is various and contradictory, up to and including the categories and concepts employed, so that even discussion itself becomes impossible for lack of a common language—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.⁹

To appreciate Emmanuel's message requires at least a cursory understanding of the history of the theory of international trade. In *Unequal Exchange*, he provides a useful and enlightening discussion of this history which serves as a most essential prologue to his own work. In fact the concept of 'unequal exchange' is meaningless taken out of the context of this historical setting; just as one cannot study Marx without studying Ricardo, so one cannot begin to appreciate Emmanuel without such a background. It was correct and inevitable that Marx's followers would try to widen his model of capital accumulation so as to include foreign trade; to try to show the economic importance of colonial involvements. Rosa Luxemburg in her debate with Lenin on imperialism stressed the importance of colonies in providing new markets for the ever increasing output of the more industrialized powers, thereby enabling the capitalist to 'realize' his return from his exploitation of wage labour. In her work, and in the work of Nikolai Bukharin, is the concept of an 'unequal exchange' between the capitalist, industrialized economy and the colony or dominion.¹⁰ The concept was further developed, and in a most challenging way, by E.A. Preobrazhensky in his contributions to the 'Soviet Industrialization Debates of the 1920s', where he suggests that the only way the infant Soviet could accumulate the capital needed for rapid industrialization was *via* an 'unequal exchange' between the 'socialist' State sector and the 'capitalist' peasant economy. But this is not the place to pursue this interesting digression.¹¹ In the simplest terms, Emmanuel's case against orthodox predecessors rests on their failure to make international trade theory more in accordance with reality, their failure to acknowledge the *mobility* of both capital and labour. The result is the orthodox view that it is the prices of commodities entering into foreign trade which determine the return to their producers and not *vice versa*; that it is the yield of man's economic activity which determines his earnings, it is not his earnings which determine the yield of

his activity. This view rests on foundations provided by David Ricardo which must be briefly sketched here, to permit further elaboration of Emmanuel's critique of Ricardian comparative advantage.

Ricardo's famous example in terms of two countries, England and Portugal, each producing both wine and cloth, is to be found in almost every economics textbook. It rests on certain key assumptions, the most important being that there is a constant amount of labour in each country which can be transferred from one type of production to the other without difficulty or loss, and that constant returns prevail for both commodities right up to full employment of the whole labour force. Because output per head of wine in Portugal relative to output per head of cloth is greater than in England, then total output is increased when trade permits labour to be moved into production of wine in Portugal and cloth in England. Of special importance to Emmanuel is the fact that this model does not weigh one against the other, the costs of production of a commodity in two different places, but the differences between the costs of production of two commodities in each of the countries concerned.¹² Even more important is that Ricardo's model merely demonstrates that irrespective of what actual prices may be, the international division of labour will be advantageous to the exchanging parties in general and to each other separately. The question which is of vital concern to Marxist scholars and to most underdeveloped countries today, namely the proportion in which the trading nations will share the advantage gained by their exchange, did not concern Ricardo. To him and his disciples, this distribution, as with price itself, is determined by subjective forces which are outside the powers and assumptions of his analysis. This point deserves further elaboration if Emmanuel's model is to be properly understood.

Emmanuel acknowledges that there has been considerable development of Ricardo's model, that many of its key assumptions have come under close scrutiny and some even modified. But to him the most important question is whether it is costs that determine value or whether value determines cost. With the 'Marginal Revolution' of the 1870s, and with Walra's contribution in particular, came a reverse approach to the determination of costs and prices. Prices were not considered to be determined by costs; costs were determined by price. This allowed neo-classical theorists to reject the general conclusion of the classical theory of value, that commodities are exchanged in terms of the quantities of the factors of production incorporated in them, while still retaining the law of comparative costs. In other words, in neo-classical international trade theory, costs no longer coincide with the quantities of the factors used up in their production, because the factors are no longer competitive between countries (assuming benefits of trade have been maximized). Ricardian and Marxian theories of distribution can therefore be avoided. Prices are the product of supply and demand forces, with the theory of comparative costs merely setting limits on price fluctuations. The upper limit is the price beyond which it is preferable for a country to produce

the would-be imported commodity itself, and this limit corresponds to the lower limit of the exported article (and *vice versa*), since it is assumed that imports are paid for by exports. Within these limits the precise rate of exchange is fixed by the respective intensities of consumer needs for each commodity. In contradistinction to this approach, Emmanuel sets out to demonstrate that once we leave a two commodity world analysis, or we vary the size of the trading partners, prices are then completely predetermined by the relations between costs, and not by demand forces. The manner in which the distribution aspect of Ricardian comparative advantage was excised from the original model by neo-classical theorists—by replacing a labour theory of value with a neo-classical one—helps to explain why Ricardo's contribution to trade theory has outlived in general acceptance most other aspects of his analytical contribution to economics.

A major inadequacy of Emmanuel's potted history of the theory of international trade is his failure to outline clearly the mechanism by which Ricardo argued trade would be balanced in the long run. Of great importance to Ricardo's case against the Corn Laws which inspired his work, Ricardo's theory of profit argues that the rate of profit on capital is dependent upon the labour cost of producing the necessary real wage. Thus if the imported commodity is a wage good, trade will have the effect of increasing the rate of profit. Trade is balanced under the assumption of a different rate of profit in the two trading countries, whereas within each country the rate of profit would tend to equalize between regions as supply and demand pressures come into play. In Ricardo's own words:

Experience, however, shews that the fancied or real insecurity of capital, when not under the immediate control of its owner, together with the natural disinclination which every man has to quit the country of his birth and connexions, and intrust himself with all his habits fixed, to a strange government and new laws, check the emigration of capital. These feelings, which I should be sorry to see weakened, induce most men of property to be satisfied with a low rate of profits in their own country, rather than seek a more advantageous employment for their wealth in foreign countries.¹³

More recent developments of the law of comparative advantage have not provided a very satisfactory explanation of why trade between countries should balance. As Joan Robinson put it, the most famous English neo-classical, Alfred Marshall, 'only succeeded in producing a degenerate version of Ricardo's model' and he had little excuse for not discussing the possible effects of different rates of profit in the separate trading countries, writing as he did when the sentiments so well expressed above by Ricardo, were certainly not those of British capitalists of Marshall's day, in the era of the golden age of British overseas investment. Robinson is even more scathing in her criticism of post-Marshallian developments—'Samuelson's version of the Heckscher-Ohlin theory is still more degenerate'¹⁴—and like Emmanuel, she deplors the failure

of theorists to adjust their theories adequately to changes in capitalism since 1817, when Ricardo's *Principles* appeared. Robinson's own work has qualified her as a most constructive critic, but her theoretical thrust against orthodox trade theorists is different from that of Emmanuel; and lest it be thought that Emmanuel's work is the only substantive critique available of orthodox trade theory, some brief comments are necessary here on the 'Cambridge' or neo-Ricardian challenge to such theory. By refuting neo-classical claims that 'rewards to the factors of production' (in other words the distribution of income) are purely the product of market forces, and by demonstrating that there is no such thing as 'capital' which can be quantified without a prior knowledge of prices (and hence of income distribution), the neo-Ricardians led by Piero Sraffa¹⁵ have reminded economists of the need to consider the political element in the distribution of income between classes and nations. The full implications of this challenge remain to be fully enunciated, but promise to challenge seriously the way in which orthodox economists and economic historians look at development.¹⁶ Thus Emmanuel's work and the neo-Ricardian contribution constitute a potential double-handed assault on the theoretical foundations of much orthodox scholarship.

The most glaring contrast between the supporters of the law of comparative advantage and the reality of world trading developments since the law was first enunciated by Ricardo, has been the failure of the terms of trade (the prices at which goods are bought and sold) to follow the course usually predicted for them. Central to Ricardo's prediction of a falling rate of profit and hence the likelihood of a 'stationary state', was his belief that the price of primary products would rise steadily, making wages high and thus depressing profit levels. He was joined by J.S. Mill and most other classical economists; as Emmanuel puts it, they all 'arrived at forecasts that were absolutely contrary to what happened—unreservedly pessimistic as regards the prices of manufactured goods and unhesitatingly optimistic as regards the prices of primary products'.¹⁷ His complete list, and one well documented, includes Marx, Marshall, Bukharin and even Keynes. More recent predictions by Colin Clark in 1942 suggested that, by 1960, the terms of trade for primary products would improve by 90 per cent when compared with 1925-1934 levels.¹⁸ Such a prediction, like so many others, was cruelly refuted by fact.¹⁹ Attempts made by modern theorists to explain these trends, with much discussion of demand elasticities, are, according to Emmanuel, 'merely so many rationalizations constructed for the needs of the cause by writers who are in confusion before a phenomenon that they had not foreseen and that is inconvenient for them'.²⁰ The main defect of these demand studies is that they mistakenly identify the exports of the wealthy country with the export of manufactured goods, and the exports of the poor countries with the export of primary products. To cite an example, Emmanuel notes how textiles, once the backbone of British export trade, have now become a speciality of poor countries,

and he asks whether at the moment when the change of location of this industry took place there occurred a reversal in the elasticities of demand. This point leads Emmanuel to state what is in his opinion the most fundamental question of his work:

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 large amount of their national labour for a smaller amount of foreign labour?²¹

Emmanuel's theoretical attempt to answer this question is a rejection of the view that international trade is the Achilles heel of the labour theory of value; instead he argues that only by utilizing Marx's value theory can we explain trends in international trade that have been unsatisfactorily explained by work based on the law of comparative advantage. He has taken up the challenge, thrown down by the prominent orthodox theorist Bertil Ohlin, to develop Marx's theory towards this end, and this helps make the book of special interest.

Emmanuel chastises not only orthodox economists for not successfully challenging Ricardo's hegemony, but Marx and his followers as well. It is well known that Marx fully intended to include in *Capital* a comprehensive discussion of international trade theory but this intention was frustrated by illness, and finally by death. One of the ironies of the history of Marxian scholarship is that in an area where Marxists were later to have much to say, Marx himself provided limited direct guidance. Emmanuel sees this long-standing hiatus and valiantly tries to remove it. Yet unlike most other Marxists as will be explained below, he does not use capital migration as his starting point. Instead he commences with the theory of surplus value in a search for the determinants of international values, and in doing so he must rely heavily on the complex debates that have been engendered by Marx's development of Ricardian value theory. However, the failure of Marxists to use a similar starting point in discussing imperialism is not his only critique. Marx himself must be criticized for not seeing the importance of capital and labour mobility and their consequent effects on international prices, particularly as it was in the period immediately before the 'imperialist epoch' that such mobility was greatest. Marx's followers, as well as the orthodox economists, deserve condemnation for not recognizing the growing contradictions between the assumptions of Ricardian comparative advantage and reality:

From Quesnay onwards economists have worked on models constructed according to a noble logic and carried on as though the real world did not exist. They have reasoned as much as the mind could possibly wish, but they can no longer claim to *know*, in the sense that the veterinary or the electronics expert knows. From this time onward the laity have no longer been obliged to stay quiet and listen in the way they do with those who *know*. Political economy has ceased to be a respectable science.²²

Yet *Unequal Exchange* is much more than just a critique of orthodox theory. It is a particularly interesting and challenging book because its critique rests on radically different theoretical foundations, which automatically raise a number of important questions crying out for empirical testimony. Before this is possible, though, a serious effort must be made to understand his alternative theoretical foundations, and the criticisms that have been made of them by his fellow Marxist scholars. Having discussed Emmanuel's position *vis-à-vis* his predecessors, we are now in a position to delineate his alternative model.

The Unequal Exchange Process

To those familiar with orthodox international trade theory, a simple way of categorizing the most distinctive feature of Emmanuel's alternative model, would be to see it as resting on the assumption of capital mobility. This does a disservice to the model, though, as one can speculate on the effects of capital mobility, without adopting Emmanuel's attempt to extend the labour theory of value to the international plane. To reiterate the basic themes of the previous section, the two main hypotheses of the law of comparative advantage which Emmanuel specifically sets out to replace are first, the immobility of labour and capital, and second, the idea that prices are determined by market forces. Ricardo believed that wage levels (the price of labour) are determined by a level of minimum subsistence for workers, which could differ from country to country according to climatic differences, but such wage disparities were not a product of foreign trade or of prices of traded goods. To him the only factor whose price could vary from country to country in accordance with the return from foreign trade, was capital. Thus any consideration of the advantages or disadvantages of foreign trade would be reflected in the rate of profit on capital. The price of labour to Ricardo was an exogenous price. Marx on the other hand replaced Ricardo's theory of wages with one that placed class struggle at the centre of wage determination and income distribution. But, as explained above, most modern trade theorists since the 'Marginal Revolution' have rejected both these theories of the determination of the price of labour. 'Modern' reasoning in simple terms goes something like this: the state of international demand determines the prices of export products, the prices of these products determine the level of national revenue; the level of the national revenue (the total of factor earnings), together with the relative scarcities of these factors, determine the distribution of revenue, and therefore, finally wages and profit. Prices are the given variable, factor earnings are merely the effect. Emmanuel turns this causality upside down: the price is no longer the given variable and the wage unknown; he makes the wage given and the price the unknown. The result is a maxim that illustrates the implications of this reversed causality: '*One is not poor because one sells cheaply, one sells cheaply because one is poor*'.²³

To justify this position, Emmanuel stresses two important historical developments which have had the effect of making wage levels in all

countries more rigid. One is the development of trade unionism in the developed countries, which reduced the responsiveness of wage levels to market forces, especially when it came to downwards pressure on wages; the other is the increased mobility of capital, which has tended to equalize the rate of profit on the international plane. But by equalization Emmanuel does not mean that the rate of profit is the same everywhere.²⁴ This equalization has prevented wage disparities from being passed on to profits; it prevented low-wage countries from counterbalancing low wages by high profits, in order to retain within the country the extra surplus value extracted from the workers. Instead, this surplus has been increasingly 'removed' to the benefit of consumers in the more developed countries. As the terms of trade continue to worsen (ignoring short-run fluctuations like the recent oil price rise) against the less developed countries, the transfer of surplus will also increase, *via* the widening gap between wage levels in the centre and the periphery countries. The internationalization of the rate of profit prevents the differences in wage levels being passed on to national profits, forcing only one conclusion: that the centre countries exploit the periphery countries not primarily through investment and profit repatriation, but through the mechanism of trade:

Once triggered, this process becomes cumulative. Low wages give rise to a transfer of value from backward countries to the advanced countries and this loss reduces, in its turn, the material potential of a future improvement in their wages. It provides, on the contrary, recipient countries with the necessary potentiality for employers' concessions which further widen the gap between national wages. This widening of the gap worsens the inequality of exchange, and eventually the resulting value transfers. The poorer one is, the more exploited one is, and the more exploited one is the more impoverished one becomes: as in the relations between proletarians and capitalists within a nation, likewise between countries; poverty conditions exploitation and exploitation reproduces through its effects its own condition.²⁵

For those readers familiar with Marxian economics the process described above can be illustrated by the use of the accompanying table.

Branch or country	C	V	S	Value	Rate of profit	Price of production
A	240	60	60	360		375
B	120	60	60	240	25%	225
	360	120	120	600		600

If the wages (v) rise by one third in A, all other things remaining equal, the scheme becomes:

A	240	80	40	360		384
B	120	60	60	240	20%	216
	360	140	100	600		600

The inequality of exchange can then be expressed by:

$$\frac{384}{216} > \frac{375}{225}$$

The use of Marx's prices-of-production schema puts Emmanuel on rather unstable ground, for he is forced to enter into the famous 'Transformation Problem' debate begun by E. Boehm-Bawerk and developed by L. von Bortkiewicz at the turn of the century.²⁶ Space limitations prevent a detailed discussion of the implications of this particular debate for his model, but suffice it to point out that Emmanuel's appendix on the problem itself is a valuable discussion of the issue.²⁷ A serious critical examination of Emmanuel's work really requires a concentrated foray into this area, as does any analytical discussion of the labour theory of value. It is hoped that the reader will be encouraged to pursue this matter in response to these comments. For those familiar with the 'Transformation Problem', the basic difference between Marx's analysis and Emmanuel's is as follows. To Marx, the transfer of values from economies with high rates of exploitation to economies with lower rates was necessitated by differences in the organic composition of capital ($\frac{C}{V}$), by different rates of exploitation, but for the sake of analysis he assumed that wage rates were equal. Emmanuel, on the other hand, is stressing that the different rates of exploitation are the result of differences in respective wage rates. Despite his acknowledgement of the difficulties which the 'Transformation Problem' raises for his model, Emmanuel does not provide a very satisfactory solution; most importantly his approach leads him to ignore the role of capital in unequal exchange and it results in considerable confusion. This limitation is especially important when it comes to empirical application of his model. He fails to distinguish adequately between real wages, the value of wages and the rate of surplus value²⁸; and his model assumes technological equality between trading partners, which clearly conflicts with past and present realities. Ricardo's famous search for an absolute, invariable standard of measurement of value, which began the 'Transformation Problem', raises a fundamental problem for Emmanuel. Namely, what units of measurement can one use in tracing trading flows? Emmanuel, in holding tightly to 'labour power' measures, makes such measurement a difficult process. Piero Sraffa's 'Standard Commodity' solution to Ricardo's unsuccessful search would be more useful here, and offers greater hope for precise empirical application of the Emmanuel model. Most interestingly, Emmanuel in his latest paper has provided a version of his model in Sraffian terms, which helps him circumvent the 'transformation' hurdle,²⁹ and some readers may react sympathetically to the following comments of Thorstein Veblen, the arch iconoclast and critic of orthodox economics:

The feint which occupies the opening paragraphs of the *Kapital* and the corresponding passages of *Zur Kritik*, etc., is not to be taken seriously as an attempt to prove his (Marx's) position on this head (the labour theory

of value) by the ordinary recourse to argument. It is rather a self-satisfied superior's playful mystification of those (critics) whose limited powers do not enable them to see that his position is self-evident.³⁰

As has been shown above, Emmanuel's model has Marx's theory of value as its main inspiration but it is rather surprising to find him giving only passing attention to Arthur Lewis,³¹ whose ideas bear considerable resemblance to those expounded by Emmanuel. In his famous 1954 *Manchester School* article, 'Economic Development with Unlimited Supplies of Labour', Lewis drew attention to two phenomena that are central to Emmanuel's work. The first concerned the existence of capital movement from countries with labour surplus and subsistence-level wages, to countries with higher wages: 'Many capitalists residing in surplus labour countries invest their capital in England or the United States'.³² This is important to Emmanuel's claims about the mobility of capital and the tendency for rates of profit to equalize, for it shows a two-way process of capital movement, which serves as some embarrassment to adherents to a simple Leninist model of imperialism based on investment. Emmanuel should be respected for accepting the reality and for trying to fit it into a Marxian framework. Of even more importance is Lewis's questioning of the traditional view that wages in the export sector follow the fluctuations in world prices. He asks how much wages can rise, in the face of increased demand, if the country possesses an almost unlimited reserve of surplus labour power in the self-subsistence sector. For once industrial wages reach a level where the peasant can purchase with them more goods than he can purchase from his land in his village, then he will become a factory worker. In these circumstances, Lewis argues, the wage paid in the export sector, irrespective of worker demand and the productivity of the sector, will in fact be governed by the amount of produce that a man can extract from the soil under the conditions of low productivity that typify subsistence agriculture. Emmanuel rightly points out the long history of this approach, used by Malthus in discussing the comparative wage levels and soil fertilities of Europe and America, and later by the heretic Silvio Gesell.³³

Emmanuel's differences with Lewis rest on the specificity of the latter's model; it is limited to cases where a low-yield self-subsistence sector is present—'dualistic economies'. Differentiation in wages to Emmanuel is not simply a product of the forces Lewis describes; and more important, Emmanuel is especially concerned with the question of who gets the benefit of the wage differences between countries. To him, 'unequal exchange' occurs only when the foreign consumer receives the benefit, when he receives goods with a higher labour content than the goods he has helped to produce and export. Emmanuel has undoubtedly received inspiration from Lewis; but in developing the phenomenon described and relating it to the labour theory of value and the possibility of profit equalization, Emmanuel's work can and should be differentiated from Lewis's.

As he is describing a process, Emmanuel has apparently been reluctant

to offer a 'simple' definition of 'unequal exchange'. The first attempt he provides is unnecessarily confusing and difficult:

Regardless of any alteration in prices resulting from imperfect competition on the commodity market, unequal exchange is the proportion between equilibrium prices that is established through the equalization of profits between regions in which the rate of surplus value is 'institutionally' different—the term institutionally meaning that these rates are, for whatever reason, safeguarded from competitive equalization on the factors market and are independent of relative prices.³⁴

A superior definition appears in his confrontation with Charles Bettelheim, a confrontation which takes up almost the second half of *Unequal Exchange*:

My entire study of unequal exchange is based on the premise that in exchange it is not the incomes of the producers that depend on the relative prices, but the relative prices that depend on the incomes of the producers, that is, on the predetermined 'income' of the labour factor, since the income of the capital factor is only a residue, and whatever incomes of other factors there may be result merely from the redistribution of this residue.³⁵

Far superior to both these is one he refined for a critical Anglo-Saxon audience during a visit to the University of Sussex; at last we are given something to hang our analytical hats on:

If the wage is exogenous (an institutional, independent variable), and if a tendency exists for the formation of a general international rate of profit, then any autonomous variation in the wage rate in one branch or in one country will entail a variation in the same direction of the respective price of production and a variation in the opposite direction of the general rate of profit.³⁶

This passage can be expressed in a slightly different manner, but one which further clarifies the issue. At any point in time the sum of wages and profit in the international sphere is a particular magnitude; a change in wages in a particular country will in turn affect in an opposite direction the world total of profit, and also therefore the profit in the country in which the wage variation took place. However, the variation in total profits is distributed amongst all countries and only part of it may affect the products of the country in which the wage variation occurred. At the same time an equivalent but opposite variation of wages is passed on in its entirety to these products alone. As a result, the relative prices of these products will vary in the same direction as that of the supposed variation of wages, with the general rate of profit varying in the opposite direction. (Reference to the numerical example provided above of the Marxian scheme of prices of production may make this process clearer.)

Finally, before turning to the question of the applicability of the Emmanuel model to the Australian development experience, some recognition of the polemical heat the book has generated within the Marxist camp is in order. The point as to whether the worker in the more advanced country exploits his counterpart in the less developed country is the most controversial political implication of *Unequal Ex-*

change; it is over this that the most polemical debate has occurred. More orthodox Marxists such as Charles Bettelheim and Michael Kidron categorically reject such a conclusion for its divisiveness to the notion of international class struggle, and for its implicit policy suggestion that all that is needed to eliminate imperialism is a readjustment of prices and wages. Readers are urged to consult the Emmanuel-Bettelheim debate in *Unequal Exchange*, but Bettelheim's general position is best summarized in the following passage:

... his book offers what seems to me the most radical 'criticism' that can be made of the conclusions of political economy regarding the effects of international trade between countries that are at unequal levels of development, as long as one limits oneself to theoretical positions that are still 'precritical'—which does indeed ensure that one is 'listened to' by all economists. Thus this book seems to me to set out, within the 'precritical' domain, the most advanced conclusions on international trade that can be arrived at while keeping within this domain.³⁷

This kind of attack has been further developed by other commentators, especially in French journals. It raises interesting epistemological questions which cannot be ignored but deserve much deeper discussion than is possible here. Essentially the main thrust against Emmanuel is that he is guilty of not *explicitly* utilizing historical materialism in his analysis. To quote his most vituperative critic, S. Amin: 'Economistic Marxist economics has led to dealing with the trends of the system in mechanistic, unilateral terms ... These are false debates which come to an end once they are placed in their proper content: defined not by economics but by historical materialism'.³⁸ To Amin the 'unequal exchange' debate is 'closed', as is the much older 'Transformation Problem' debate, once 'economistic Marxism' is seen to be 'Ricardian' and 'vulgar'. Such a position appears to be aimed at destroying any possibility of direct confrontation with orthodox theory. It is much easier for Samuelson and the like to ignore Amin's discussions of historical materialism than Emmanuel's more direct assault on a crucial tool in the orthodox economist's toolbox. These teleological purists conveniently overlook the fact that Marx himself realized the need to fashion his material for a wider audience, and the pamphlets he produced with Engels's help became invaluable introductions to Marx's political economy. One gets the very strong feeling that those who hide behind slogans of 'social relations of production' and other fashionable jargon are either incapable, or afraid, of confronting the orthodox economists on their own ground. Instead they stand aloof and say, 'we will only debate if you come into our battle-field'—a safer and intellectually easier position, but one Marx never believed in. His 2,000 or more pages on Ricardo illustrates this only too clearly. In this atmosphere, Emmanuel deserves special praise for attempting to fashion his argument in a way that enables confrontation; in a way that has at least forced acknowledgement of his challenge.

Nevertheless, for those unfamiliar with Marxian economics and the history of economic thought, *Unequal Exchange* is a miasma; it is hoped

that the lengthy discussion of the Emmanuel thesis provided in this essay has provided some pathways into this complex world for the interested reader. To summarize Emmanuel's theoretical contribution: 'Unequal Exchange' is implicit in the famous 'Transformation Problem' of *Capital*; it is implicit in the possible stable coexistence of different branches of production, with different internal structures (or organic compositions of capital) but with similar rates of profit. Its relevance to the analysis of relations between developed and backward regions has been seen by numerous Marxists before Emmanuel. What is new about Emmanuel's use of the concept is the mechanism he uses to illustrate the phenomena, the quality and clarity of his discussion of the mechanism, and the controversial political conclusions that follow from his work.

The Emmanuel Model and Australian Experience

The utility of the Emmanuel model for explaining Australian development experience should be examined on two separate levels: the first involves general questions which his distinctive approach to trade analysis raises, the second involves an attempt to verify empirically his more precisely posited relationships between key variables. Application of his model to Australian experience, even on the most superficial level, appears to offer useful insights for a country whose development by any criterion has been heavily influenced by foreign trade. One of the few extensive debates amongst Australian economic historians in recent years revolved around the applicability of a particular theory of international trade to the Australian development case. 'Staple theory' emphasizes the vital role that the successful development of viable export commodities plays in the growth process; it attempts to show how the choice of a particular staple or staples can exert wide influence on the general course of development. Begun by J.W. McCarty,³⁹ the staple theory debate raised a number of interesting questions, but a general consensus of opinion emerged that by itself staple theory does not provide a complete theoretical explanation of why Australia developed when and how it did. Most importantly for our purposes, staple theory rests on the kind of assumptions which, Emmanuel argues, poorly reflect reality and on which the Cambridge debates in capital theory have cast very serious analytical doubts.

Emmanuel's special emphasis on capital mobility and the consequential equalization of profit process does find some reflection in Australian historical experience. For example by the late 1880s, after a period of heavy capital inflow, the confidence of British investors in Australian colonial loans was so high that interest rates were almost as low as those on the safest domestic loans, British government consols. This occurred at the height of the Long Boom but it nevertheless illustrates a phenomenon that Emmanuel rightly argues is not adequately represented in most orthodox trade theory. Similarly, Emmanuel's opposition to neo-classical trade theory can be supplemented by pointing out that such tools as staple theory utilize the aggregate production function, a con-

cept that a growing number of neo-classical economists are refusing to continue to use and which the Cambridge School jettisoned over twenty years ago.⁴⁰ Given this situation of challenge, of theoretical ferment, Emmanuel's work can serve to clarify which tools are the best to be applied to Australian experience.

In support of his general thesis, Emmanuel briefly discusses the comparative development experience of the United States, Canada, Australia, New Zealand and South Africa and asks why the last of these has only achieved a national income per capita well below that of the others, despite her more than comparable natural resources. All were tied to the same mercantile and financial networks, all were connected with the same source of capital; and 'All five were colonized by men of the same northern stock, tough and fearless'.⁴¹ The only difference he sees is the treatment of the indigenous population. Because the South African indigenes could not be 'eliminated' as easily as their brothers in the other four countries, average wages have remained low despite the affluence of the small minority white population. It would thus be to the whites' advantage, to take a purely hypothetical case, to exterminate the Bantus and replace them with white, high wage labour. Gold production (and presumably also diamonds) would be hit severely, but Emmanuel argues that the drastic cut in world supply would force an increase in the world price of gold more than enough to cover the increased cost of production brought about by the increased wages paid to the substitute white workers.

To give another example, why did North America achieve so quick and great a dominance over Latin America, when the climatic conditions and natural resources are not so different? Emmanuel argues that the answer basically lies in the fact that the persons who settled North America came from parts of Europe with a higher living standard than those who settled south of the American border, and it was natural for them to seek even higher incomes. Thus, in the last analysis, it is the uneven development of the world that produces marked wage differentials, which in turn have greatly influenced the development pattern of the newly settled regions. Starting with the handicap of low wages it is no wonder that the majority of underdeveloped countries fall further and further behind their developed counterparts. The long term deterioration in the terms of trade is a product of these wage differentials and it is through trade, not investment or profit repatriation, that exploitation of these less underdeveloped countries occurs. These examples are clear illustrations of Emmanuel's insistence that wages are the 'independent variable'.

Behind this assertion lies the argument that high wages encourage the application of more capital intensive techniques (in Marxist terms a rise in the organic composition of capital) and hence productivity growth and, by their impact on 'effective demand', would encourage investment so that the expanded market demand could be fulfilled. This kind of analysis can leave the Emmanuel thesis open to a particularly dangerous and erroneous interpretation which must be carefully guarded

against. Like Malthus and Sismondi, who argued early last century that consumption demand creates its own production, Emmanuel does tend to imply that countries are developed because of their high levels of consumption, facilitated by their high wage levels.⁴² But this is merely begging a further question: Are countries developed simply because of their high levels of consumption or is it more fruitful to argue that they consume so much because they are developed? In other words, instead of studying export-led growth and the development of Australia's export staples, should Australian economic historians instead emphasize our particular pattern of imports, which in turn were influenced by our high wage levels, especially in the 1870s and 1880s? Attempts have been made at comparative study of import patterns of countries such as Australia, Canada, and the United States, perhaps inspired by Emmanuel's work, but such exercises in themselves are rather futile if one is interested in *explaining* the growth of such economies. Surely a developing country's ability to import deserves first consideration. Without either export income or capital inflow (and the latter in the Australian case usually went to assist directly or indirectly the development of our export industries), imports of any real magnitude are impossible. By placing emphasis on import patterns, one is merely dealing with the *effects* of a particular development course and not its cause. This raises perhaps the most fundamental question about the Emmanuel thesis. Are high wages the cause of a particular development pattern, such as that experienced by Australia, or are they merely a product of *other* forces? Certainly high wages may reinforce existing trends of development but can they be considered an 'independent' variable in the manner Emmanuel suggests? It is a fair and serious criticism of Emmanuel to point out that his failure to utilize the Marxian reproduction models of Volume II of *Capital*, and their later application to development problems by Rosa Luxemburg in her *Accumulation of Capital*, and by others, is primarily responsible for the dangerous 'consumption determined' growth approach that Emmanuel's work can encourage. Any attempt to apply his thesis to Australian experience must be especially careful on this point; a good dose of Luxemburg and the Marxian reproduction models would be a useful antidote here for Marxist scholars.⁴³

Certainly Emmanuel's model offers guidance on Australia's relative development success of a kind quite different from, and in fact superior to, that offered by André Gunder Frank. It is fashionable amongst many Marxists and their fellow travellers, and particularly amongst liberal scholars, to take up Frank's 'development of underdevelopment' thesis and attempt to apply it to historical experiences outside those of Chile and Brazil from which it was originally deduced.⁴⁴ Showing keen insight, Emmanuel rejects such an exercise, and criticizes the simplistic view that 'development' is a synonym for 'non-dependence': 'So what is the good of wasting time looking for causal relations between dependence and underdevelopment when *by definition* the latter is *nothing but another word* for the former'.⁴⁵ Emmanuel thus rejects the explana-

nation of Australia's ability to develop offered by Frank, namely: 'The development of the British ex-colonies in North America and Oceania was rendered possible because the ties between them and the European metropolis at no time matched the dependency of the now underdeveloped countries of Latin America, Africa and Asia'.⁴⁶ Certainly it is difficult to measure degrees of 'dependency', but Frank does seem to have forgotten the 'blocking' and 'dependency' that existed in North America and in the Australian colonies. Were not the Navigation Acts greatly restrictive to both areas? Did not Australian development rest heavily on the dependent inflows of capital and labour and on the British market for our key exports, on the international division of labour of which we were part? Emmanuel is correct to draw our attention, as did Brian Fitzpatrick, to the importance of our trading arrangements with Britain.

The 'unequal exchange' model also suggests that penetration of foreign capital *per se* cannot be used as the single cause of underdevelopment.⁴⁷ Australia at key periods, notably in the 'Long Boom', 1920s, and since World War II, has received substantial inflows of foreign capital. The fact that the first two of these flows were tightly bunched, which made Australia more vulnerable to the vicissitudes of the London capital market and hence to international crises, cannot be overlooked in any discussion of the positive and negative features of our dependence. Nevertheless Australia has developed and emerged as a 'small industrial state'. This should be qualified by pointing out that foreign capital up to World War II was not primarily directed into industrial enterprises, but was largely raised by Australian governments to allow construction of the social overhead capital, so necessary if the private sector was to industrialize. There can be no general, simple relationship between capital inflow and the level of development. Australian and Canadian experience illustrates that there can be heavy capital inflow *and* industrialization *and* development. On the other hand, Indian industrialization has largely been promoted by the local bourgeoisie, little reliant on foreign investment.⁴⁸ It too does not support the simple capital inflow-level of development thesis.

What Emmanuel provides is an analytical framework that does permit, admittedly with some difficulty, more concise study of the Britain-Australia links than the Frank or capital-inflow hypotheses. But as with all models it is the attempt to apply them in a consistent and thorough manner to real-world situations that is most difficult. Part of the appeal of the Frank type approaches is that they permit analysis to remain at the level of very broad generalization. Emmanuel's model in contrast opens up a number of interesting relationships which can and should be explored, avenues which force one back to primary sources and to statistics. His model reminds us just how much work there remains to be done in applying Marxian insights to the Australian development experience. To support this contention some attention will now be given to more specific applications of his model.

Any discussion of the possible application of the Emmanuel thesis to

Australian experience must be closely tied to the problems involved in the use of available statistics. '*La statistique est une maîtresse perfide qui égare ses adorateurs*' (Statistics is a mistress who makes fools of her admirers) is a maxim well worth repeating in this context. Even a simple outline of all the major dangers and problems in relating 'unequal exchange' to the Britain-Australia relationship is beyond the scope of this essay, for it would necessitate a lengthy and critical commentary on the relevant statistics that are available and on the gaps that need to be filled. Nevertheless, some important questions arise from even the crudest attempt at statistical testing. One possible starting point could be the controversial work of the Marxist statistician, Jurgen Kuczynski, and in particular his *A Short History of Labour Conditions under Industrial Capitalism in Great Britain and the Empire*. In the light of more recent studies, it would be difficult today to accept uncritically all the conclusions of this work, but he did look at the available statistics through Marxist eyes, even if his vision was clouded by the dogmatism of the Stalin era. Unlike most others who utilize statistics, he was remarkably frank in reply to accusations that his work was biased:

I shall always make use of my statistical knowledge in the interest of the people. I shall always endeavour to do it in such a way that the technique is faultless, that the training I have got has not been misspent. I hope that I shall succeed more and more in presenting just those statistics which the working class and the people need in their fight for freedom and democracy. If that is bias then I hope I shall get more and more 'biased'. (pp.35-6)⁴⁹

Kuczynski, unlike Emmanuel, was determined to play down the relatively high wages in Australia, Canada, and New Zealand at key stages over the last century, so as to add support to his general thesis that Western workers' living standards were on a continual downwards spiral from the Industrial Revolution onwards. It is highly doubtful whether Marx would have accepted Kuczynski's rather simplistic thesis, and his vulgar Marxism today looks rather quaint. Despite his stated aims, his compilations of official statistical series and of work done by non-Marxist scholars can be used to help test Emmanuel's thesis, at least as a preliminary to the more sophisticated statistical examination it deserves.

From the accompanying table we can at least see the relative changes in real wages in the two economies over the time period in question, but we should be very careful in trying to deduce much else. Especially noteworthy is the fact that these are two separate indexes, compiled from data collected according to different criteria and selection procedures. The numbers shown are not *absolute* figures, or actual wages paid, and Kuczynski's conversion of money wages into real wages is only as reliable as the price indexes and other information he was forced to rely upon. With all such series there is always considerable scope for refinement and improvement. For the purpose of international comparison, Kuczynski estimated that in 1900 the ratio of real wages between Britain, Aus-

BRITAIN AND AUSTRALIA CHANGES IN NET REAL WAGES, 1850-1939 (1900=100)								
Year	Britain		Australia		Year	Britain		Australia
1850	59	58	1880	75	93	1910	95	97
1	60	58	1	78	91	1	95	100
2	59	61	2	78	82	2	93	95
3	63	78	3	81	83	3	95	97
4	57	77	4	78	88	4	97	91
5	55	65	5	87	87	5	83	80
6	56	68	6	79	82	6	78	86
7	55	68	7	84	92	7	74	85
8	55	64	8	88	91	8	84	83
9	61	65	9	91	86	9	98	79
1860	62	69	1890	95	85	1920	100	82
1	58	78	1	93	89	1	101	101
2	58	77	2	90	89	2	90	106
3	62	73	3	90	86	3	90	106
4	69	71	4	92	98	4	91	108
5	69	61	5	95	90	5	94	108
6	68	69	6	99	85	6	93	111
7	61	85	7	98	81	7	97	114
8	61	76	8	98	88	8	96	110
9	64	84	9	102	93	9	96	107
1870	68	95	1900	100	100	1930	103	101
1	72	90	1	107	94	1	104	92
2	73	101	2	98	89	2	106	88
3	76	95	3	97	91	3	105	93
4	78	81	4	96	97	4	105	98
5	79	87	5	96	93	5	103	102
6	79	73	6	98	94	6	105	108
7	76	78	7	99	97	7	104	112
8	73	79	8	97	93	8	107	116
9	72	89	9	96	96	9	98	115

Source: Adapted from tables in J. Kuczynski, *op. cit.*, pp.89-90, 105, 107, 131.

tralia, Canada and India was 30:35:40:4½,⁵⁰ and using this information we can draw some general conclusions about the relative changes in real wages in Britain and Australia. For the period 1850 to 1890, Australian real wages were usually higher than those in Britain; but over the period 1900-1939 there is greater instability in relative changes. Kuczynski's indexes need much development before it would be possible to use them with any more precision to test Emmanuel's model. They do remind us however that for most of the period under review, both money and real wages were higher in Australia than in Britain and this fact was of course very important as a 'pull' force behind heavy British emigration to Australia, especially in the Long Boom, the few years before the Great War and in the first half of the 1920s.

As it is a central political ramification of 'unequal exchange' that the workers in the higher wage countries exploit their counterparts in the lower wage countries, can we conclude from the fact that Australian wages have generally been higher than British ones that the Australian

worker, through 'unequal exchange', has exploited his British brethren? Assuming for the sake of argument that Australia was the less developed country of the partnership for most of the past century—and Emmanuel believes that productivity of labour is the only meaningful measure of development—what kinds of influence did changes in British wages have on the pattern of Australian development? To Emmanuel all wages are supposed to be the 'independent variable'. However, he believes that the real wages of workers in the less developed economy are significantly influenced by changes in the money wages paid to workers in the developed economy, *via* increases in the price of products imported from the developed economy. Thus any discussion of empirical validation of 'unequal exchange' must also examine changes in the terms of trade between the trading partners. In the Britain-Australia case we need to examine not only the changing prices of key British imports into Australia, but also the forces behind the prices received for our major exports; and the latter can only be discussed in terms of world supply and demand for such products.

Once we turn to the question of our terms of trade with Britain we are again reminded that the difficulties associated with applying the Emmanuel thesis to Australian experience are not just related to the impressive manner in which he has presented his model, but are also very much a product of the research gaps in Australian economic history generally. We know that there have been wide fluctuations in the terms of trade between us and our trading partners over the last century, but if we ask whether there has been a secular deterioration in our terms of trade, either in the relative short-run or over longer-run periods, then definitive answers are difficult to provide. What is first required are indices of export and import prices which take into account 'invisible' trade and changes in the quality of traded goods, and the provision of such indices is not a minor task. As one authority has noted: 'It is surprising that in an economy as open as the Australian, the government statistician has yet to produce—even for relatively short periods—national income series adjusted for the terms of trade'.⁵¹ Until serious efforts are made to provide historical series of this kind, discussion of the Emmanuel thesis in the Australian content can only be restricted to broad generalization.

Testing of the Emmanuel thesis requires consideration of further statistical problems. He talks about a 'general international rate of profit' and argues as to how a change in wages in one country will affect this profit rate in an opposite direction, assuming that the economy in question is large enough to influence the general profit rate. This is easy to theorize about but very difficult to test empirically. No tables of actual profit rates are provided which would be of use to a Britain-Australia study, and much work remains to be done on historical aspects of Australian income distribution before the relationships between changes in relative wage levels and changes in the 'general international rate of profit', and between wage changes and changes in Australian profit

levels, can be closely analyzed. (J.H. Dunning's *Studies in International Investment* would provide considerable guidance for the analysis of profit relationships.)⁵²

On a more general level, it is hard to find in the historical relationship between Britain and Australia the precise kind Emmanuel postulates as existing between the third world and the centre economies today. An attempt to measure the precise extent of exploitation *via* our trade with Britain is, as has been suggested above, a worthwhile if difficult task. But it would be foolhardy for radical historians to confine their analysis of our economic ties with Britain to possible exploitation *via* trade, to the exclusion of consideration of the effects of British investment and profit repatriation (or ploughing back of profit which was the more frequent phenomenon). Nevertheless, Emmanuel's thesis does open up the whole question of possible exploitation through the trading mechanism and does offer a research challenge to radical historians. It stimulates thought about the possible ways in which Marxian analysis could be applied to understanding our past; it illustrates the need for radical scholars to think very carefully about the theoretical tools they need; it suggests that the unrealistic foundations of orthodox trade theory make it unsuitable for analyzing Australian development and it offers a different set of questions for investigation. What this discussion of the applicability of the Emmanuel thesis to Australian development illustrates is the urgent need for a thorough, comparative testing of orthodox theories of international trade and the Emmanuel thesis against our historical experience.

Proceeding beyond our starting point of relative wage levels between Britain and Australia over the last century, we can look at 'unequal exchange' from a slightly different angle. As noted in the discussion of similarities between the Lewis model and Emmanuel's thesis above, Emmanuel believes 'unequal exchange' only takes place when the foreign consumer (for our purposes the British) receives goods with a higher labour content than the goods he has helped to produce and export (to Australia). Wage levels are only a partial guide to this transfer process; for Emmanuel, 'labour content' is equal to labour power, using traditional Marxian terminology; and this concept is not simple to quantify as mentioned earlier. This problem highlights a more general one facing all radical scholars of Australian history. In some ways we are fortunate to have at our disposal a substantial mine of quantitative material concerning our development, thanks especially to the work of T.A. Coghlan at the turn of the century and more recently to N.G. Butlin. However, care should be exercised in use of this material; a thorough and conclusive test of the Emmanuel thesis firstly requires the reconstruction of Australian national accounts according to the analytical framework Emmanuel uses. This is far from being a minor task and is certainly far beyond the scope of this essay. Discussion of the Emmanuel thesis helps to remind us once again of the lacunae that exist in Australian historical research.

Even if we accept Emmanuel's emphasis on wages as the 'independent variable', we are still left with the task of explaining the reasons behind the relative wage levels that have existed between Australia and Britain, and to do so necessitates an overview of the international division of labour of which we were and still are only a small part. Clearly, then, the Emmanuel thesis in itself is inadequate as a complete theoretical guide as to how we developed when we did and how we did; but, although he does briefly discuss the Australian case in support of his thesis, his work is primarily aimed at elucidating the surplus transfer process between rich and poor economies. Nevertheless it still raises a number of interesting questions, and questions are what the economic historian hopes to get from a study of economic theory. Insufficient work has been done on the relationships between British and Australian wage levels and the effects of these on changes in the terms of trade between the two countries. The Emmanuel thesis highlights these research gaps and provides yet another example of the value of serious study of development theory in explaining actual development experiences.

Finally, and most important, the above discussion of Emmanuel's work serves as a clear reminder of the variety of tools in the Marxian tool-box; tools which offer constructive alternative guidance to that proffered by orthodox, neo-classical economists. It is hoped that this essay, exploratory as it is, will encourage more examination of Marxian concepts and more sophisticated attempts at the application of such concepts to Australian economic history. Only after this has been done on an extended scale will comprehensive histories of the political economy of Australian capitalism be possible.⁵³

NOTES

- 1 E.L. Wheelwright, 'Introduction' in E.L. Wheelwright & K.D. Buckley (edd.), *Essays in the Political Economy of Australian Capitalism, Volume One* (Sydney, 1975), pp.1-2.
- 2 For guidance on this question. see the debate between G. Snooks and T. Rowse in *Labour History* 28 (May 1975) and my 'Marx versus Butlin: Some Comments on the Snooks-Rowse Debate', *Labour History* 30 (May 1976).
- 3 A useful critique of much Anglo-Saxon historical scholarship is provided in G. Stedman-Jones, 'History: the Poverty of Empiricism', in R. Blackburn (ed.), *Ideology in Social Science* (London, 1972).
- 4 D.L. Clark, 'Australia: Victim or Partner of British Imperialism?', in Wheelwright & Buckley, *op. cit.*
- 5 It is tempting to pursue and develop these rather inflammatory asides about the Althusserians, but in this context it could only be a digression. The theological nature of Althusserian work perhaps helps to explain its appeal to 'Catholic Marxists', especially in French-speaking universities and in Latin America. But critical Marxists should not just read the Gospel according to St. Louis. See the essay by H. McQueen in Volume Two of these essays for a very rare example of Althusserian methodology applied to concrete reality.
- 6 Engels, in discussing Marx's undergraduate years, noted: 'He knew nothing whatever about political economy ...' Cited in E. Mandel, *The Formation of the Economic Thought of Karl Marx* (London, 1971), p.11.
- 7 Emmanuel's major works include: 'Les salariés des pays développés sont-ils plus exploités que ceux des pays sous-développés' and 'Les effets des variations des salaires dans une système économique ouvert' (Mimeographed papers, University of Grenoble, June 1969); *L'échange inégal* (Paris, 1969) — the first English edition, *Unequal Exchange*, appeared in 1972; 'Le colonialisme des "poor whites" et le mythe de l'impérialisme d'in-

- vestissements', *l'Homme et la Société* 22 (see *New Left Review* 73, for an English version); 'Myths of Development versus Myths of Underdevelopment. *New Left Review* 85: *Le profit et les crises: Une approche nouvelle des contradictions du capitalisme* (Paris, 1974)--this book, by utilizing the Marxian reproduction models, provides a more general view of capitalist development.
- By far the best presentation of his case is contained in a paper written for a critical Anglo-Saxon audience: 'Unequal Exchange Revisited', *University of Sussex, Institute of Development Studies Discussion Paper No. 77* (Mimeographed) 1975. (My thanks to Melanie Beresford and Bruce McFarlane of the University of Adelaide for acquiring a copy of this paper for me during a visit to the University of Cambridge). The recent appearance of a paperback edition of *Unequal Exchange* will hopefully generate more interest in Emmanuel's work.
- 8 Important discussions of Emmanuel's thesis in French include C. Palloix, 'L'impérialisme et l'échange inégal', in *l'Homme et la Société* 12 (1969), and his 'La question de l'échange inégal' in no. 18 of that journal. (Palloix's views are summarized in 'The Question of Unequal Exchange: A Critique of Political Economy', *Bulletin of the Conference of Socialist Economists* vol. II [1] Spring 1972).
- Samir Amin's *L'échange inégal et la loi de la valeur* (Paris, 1973) and his 'Unequal Exchange and the Law of Value: The End of a Debate', *United Nations African Institute for Economic Development and Planning, Dakar* (1973), constitute a rather precocious assessment of Emmanuel and should be read critically.
- A more useful discussion is found in A. Emmanuel, E. Somaini, L. Boggio & M. Salvati, *Salaires, sous-développement, impérialisme: Un débat sur L'Echange inégal* (Paris, 1973), originally published in Italian. See also G. Pilling 'Political Economy and Imperialism: the Work of Arghiri Emmanuel', *Economy and Society* II (May, 1973), and M. Kidron, 'Black Reformism: the Theory of Unequal Exchange' in his *Capitalism and Theory* (London, 1974). To my knowledge (stated at the risk of offending other Australian colleagues), the only serious discussion of Emmanuel in an Australian journal is A. Giles-Peters, 'Unequal Exchange', *Arena* 32-3 pp.103-10.
- 9 A. Emmanuel, *Unequal Exchange*, p.vii.
- 10 T. Kemp, *Theories of Imperialism* (London, 1967), provides a useful starting point for an understanding of these questions.
- 11 For Preobrazhensky's 'model', see his *The New Economics* (Oxford, 1965), first published in Russian in 1926. My 'The Marxian Reproduction Models as a Theory of Growth: the Soviet Industrialization Debate Revisited', *Working Paper* no. 4 (Department of Economic History, University of New South Wales, 1975), and *Studies in the Origins and Development of Growth Theory, 1925-1950* (Ph.D. thesis, University of Sydney, 1974), discuss these debates in some detail.
- 12 A. Emmanuel *Unequal Exchange*, p.viii. See pp.40-2 for a fuller statement.
- 13 D. Ricardo, *Principles of Political Economy and Taxation* (Cambridge, 1951 Sraffa edition), pp.136-7. Ricardo's 'discovery' of the doctrine of comparative advantage is usually used as the yardstick by which other Classical economists are judged regarding their contributions to the theory of international trade. H. Myint has recently argued that Adam Smith's failure to 'discover' comparative advantage meant that 'instead of ruling out international mobility of capital by assumption, Smith analyzed how the allocation of capital funds between domestic investment ("the near employment") and foreign investment ("the distant employment") would be adjusted until the natural rate of profits in the two were equalized'. (H. Myint, 'Adam Smith's Theory of International Trade in the Perspective of Economic Development', *Paper presented to the History of Economic Thought Conference*, University of Glasgow, September 1976, p.7). In sum, all the 'sins' of Ricardo should not be placed on the shoulders of all the Classical economists, and Emmanuel's extensive discussion of the development of trade theory would have been greatly improved if Smith's more catholic approach had been acknowledged, especially given the weight Emmanuel places on capital mobility in his assault on Ricardian comparative advantage.
- 14 J. Robinson, 'The Need for a Reconsideration of the Theory of International Trade', *Collected Economic Papers*, vol. IV (Oxford, 1973), p.18.
- 15 P. Sraffa, *Production of Commodities by Means of Commodities* (Cambridge, 1960).
- 16 Some details of the 'Cambridge' challenge are enunciated in my 'The Cambridge Controversies in the Theory of Capital: Their Significance to Economic Historians' (Paper presented to an Inter-University Seminar at the University of New South Wales, November 1974). A substantially revised and improved version of this paper is also available.
- 17 A. Emmanuel, *op. cit.*, p.xxviii.

- 18 C. Clark, *The Economics of 1960* (London, 1942), pp.52-4. Clark's work illustrates the pitfalls in crystal-ball gazing, by conservatives or by Marxists. Those who have read in *Nation Review* his vituperative reviews of anything he suspects to be 'pink' (including his review of Volume One of these essays) should consult this interesting book. Like some Marxists, Clark is also fallible. Yet he does his other earlier work a disservice with his current *enfant terrible, bête noir* rôle on behalf of Australian reactionary forces. (David Clark, author of this essay, is not related, by either heredity or ideological inclination, to his famous namesake).
- 19 See F.F. Clairmonte, 'A Note on the Terms of Trade of Primary Producing Countries, 1952-1972', *Journal of Contemporary Asia* V, 4.
- 20 A. Emmanuel, *op. cit.*, pp.xxix-xxx.
- 21 *ibid.*, p.xxxi.
- 22 *ibid.*, p.xiv.
- 23 A. Emmanuel, 'Unequal Exchange Revisited', *loc. cit.*, p.37.
- 24 He approvingly uses A.R.J. Turgot's description of 'equalization', viz. 'The different uses to which capital may be put thus bring in very unequal returns; but this inequality does not prevent them from having a reciprocal influence upon each other, and a sort of balance being established between them, as between two liquids of unequal weight and communicating with each other through the base of an upturned siphon, the two branches of which they occupy; they would not be at the same level, but one would not be able to rise higher without the other one also rising, in the opposite branch of the siphon'. (*Reflections on the Formation and Distribution of Wealth*, London, 1794, Cited in Emmanuel, *Unequal Exchange*, p.71).
- 25 A. Emmanuel *Unequal Exchange*, p.38.
- 26 The literature on the 'Transformation Problem' is voluminous and ever expanding. Useful starting points include: E. von Boehm-Bawerk, *Karl Marx and the Close of his System* (see the 1949 reprint with an introduction by P.M. Sweezy, which has recently been reprinted in paperback); R.L. Meek, 'Some Notes on the Transformation Problem', *Economic Journal* 66: M. Dobb, 'A Note on the Transformation Problem', in his *On Economic Theory and Socialism* (London, 1955); P. Mattick, 'Value and Price', *Science and Society* 23; and A. Medio, 'Profits and Surplus Value: Appearance and Reality in Capitalist Production', in E.K. Hunt & J.G. Schwartz (edd.), *A Critique of Economic Theory* (Penguin, 1972). My 'Contradiction, Confusion, and Calumny: the Continuing Significance of the Transformation Problem', Paper presented at *Marxist Scholars Conference, University of Adelaide September 1974*, surveys and assesses the major aspects of the controversy.
- 27 A. Emmanuel, *op. cit.*, Appendix V. See also note 33, p.99.
- 28 For an excellent discussion of this point see Giles-Peters, 'Unequal Exchange', *Arena* 32-33, pp.106-7.
- 29 A. Emmanuel, 'Unequal Exchange Revisited' *loc. cit.*, pp.39-43.
- 30 Quoted in D. Seckler, *Thorstein Veblen and the Institutionalists* (London, 1975), p.48.
- 31 A. Emmanuel, *Unequal Exchange*, pp.87-9. There is also a brief discussion of the Lewis-Emmanuel similarities in A. Emmanuel *et. al.*, *Salaires, Sous-développement, impérialisme*, pp.27-8.
- 32 The 'Lewis model' first appeared in *Manchester School* 1954 and is reprinted in A.N. Agarwala & S.P. Singh (edd.), *The Economics of Underdevelopment* (New York., 1963). The sentence cited is on page 440 of the reprint.
- 33 A. Emmanuel, *Unequal Exchange*, p.88.
- 34 *ibid.* pp.61-4.
- 35 *ibid.* p.368.
- 36 A. Emmanuel, 'Unequal Exchange Revisited' *loc. cit.* p.38.
- 37 A. Emmanuel, *Unequal Exchange*, p.351.
- 38 S. Amin, 'Unequal Exchange and the Law of Value', *loc. cit.* p.65.
- 39 J.W. McCarty, 'The Staple Approach in Australian History', *Business Archives and History* IV, 1.
- 40 This question is discussed at length in my 'The Cambridge Controversies in the Theory of Capital: Their Significance to Economic History', *loc. cit.*
- 41 A. Emmanuel, *Unequal Exchange*, p.124.
- 42 In his 'Unequal Exchange Revisited', p.71, Emmanuel does stress that this is a peculiar feature of contemporary advanced economies rather than a general rule of development for all economies at all times.
- 43 As well as Luxemburg, the growth theory of Michal Kalecki would also be useful for guidance purposes.
- 44 Some comments were made on this question in my 'Australia: Victim or Partner of

- British Imperialism' *loc. cit.* pp.50-1, 70.
- 45 A. Emmanuel, 'Unequal Exchange Revisited', *loc. cit.*, p.83.
- 46 A.G. Frank, *Capitalism and Underdevelopment in Latin America* (New York, 1967), p.12.
- 47 Emmanuel's position on this question is best outlined in his 'White-Settler Colonialism and the Myth of Investment Imperialism' (referred to in footnote 7).
- 48 See M. Kidron, *Foreign Investments in India* (Oxford, 1965).
- 49 J. Kuczynski, *A Short History of Labour Conditions under Industrial Capitalism in Great Britain and the Empire* (London, 1972 reprint), pp.35-6.
- 50 *ibid.*, p.181.
- 51 N. Cain, 'Trade and Economic Structure at the Periphery: The Australian Balance of Payments, 1890-1965', C. Forster (ed.), *Australian Economic Development in the Twentieth Century* (London and Sydney, 1970), p.96, n. 16.
- 52 J.H. Dunning, *Studies in International Investment* (London, 1970).
- 53 The recent publication of W.A. Sinclair's *The Process of Economic Development in Australia* (Melbourne, 1976), the first survey economic history of Australia to appear for many years, has not changed the conclusions of this paper. Sinclair's work deserves serious and close scrutiny, of a kind not feasible here.