Bulletin of the Conference of Socialist Economists

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CSE BULLETIN No. 2.

Contents

PRINTERS' FORWARD.

This issue of the Bulletin contains papers all of which are concerned with aspects of the world economy. First is a paper on imperialism by Prabat Patnaik, and the limits imposed on the development of non-socialist states in the light of Indian experience. This is followed by an interpretation of Nixon's economic policy by the American Marxist economist, Paul Mattick, whose book on Marx and Keynes was reviewed in the last issue. Thirdly, in response to the suggestion made at the last conference that more detailed work was needed on the process of centralisation and concentration in Western Europe, Mary Kaldor has contributed a case study on the European aerospace industry. As the final paper we have printed a translation of Christian Palloix's article on Unequal Exchange. This article is part of the debate on unequal exchange which stemmed from the publication of Arghiri Emmanuel's book of that name - a book which is now available in English together with Charles Bettleheim's reply, from New Left Books. Christian Palloix himself has just published a two volume work on the world economy which is reviewed in this issue by Hugo Radice. We also print a bibliography on Imperialism compiled by George Lee - offprints are available at 5p a copy, or £1 for 50.

The production of this issue of the Bulletin has been a hard struggle, mainly because the Sussex group has not been able to get together as a production team as they did for the first issue. Most of the production work has been born by Rick Brandon and Steve Parker, who find a third issue under the same conditions Augean prospect. We will try to get a larger team together for the next issue, but everything does depend on receiving manuscripts on time. The copy date for the Autumn issue is <u>July 31st,</u> a date to which we will ruthlessly adhere. Please send articles to Rick Brandon, IDS, University of Susse Sussex, Falmer, Brighton, Sussex. Thoughts and action with respect to book reviews should go to John Harrison, 68 Poynards Road, London, S.W.4. Finally, many thanks to Elaine Eastabrook, who has typed the bulk of this issue.

INTRODUCTION TO THE CONFERENCE OF SOCIALIST ECONOMISTS (CSE).

The CSE was formed three years ago with the aim of bringing socialist economists together in order to help develop political economy in the socialist movement. Broadly speaking, our work lies within a Marxist perspective, but the organisation embraces all political tendencies on the Left, believing this is essential if our work is to be worthwhile. We also aim to include not only 'professional' economists - lecturers and researchers - but also all students and trade unionists actively interested in questions of political economy.

The basis of the organisation is as follows:

(a) An annual conference - open to all members, centred on one topic of general interest: the conference is also seen as a meeting place and as the decision making body of the CSE.
(b) A publication called the CSE Bulletin, published at present three times a year as a general forum for articles, comments, reviews, and news of activities. In the case of individuals, the Bulletin is only available to paid-up members of the CSE. The Bulletin is supplied to libraries and other similar institutions at £6 p.a. In addition the Bulletin will be supplemented by occasional papers.
(c) Local Groups - formal or informal, seen as forming the base of the CSE, the source of material for discussion and of ideas, drawing in new comrades around seminars, collective work etc.
(d) Seminars or smaller conferences - devoted to more specialised topics.
(e) A co-ordinating committee based in London.

Membership of the CSE costs £3 (£1 for students and others on limited incomes, e.g. unemployed). Subscriptions are taken to run from December 1st for 1 year.

Bulletin Notes.

The fourth CSE conference is on December 9th and 10th, 1972 in London. The subject is "The Marxist Theory of Crisis". The main sessions planned are on:

(i) The dynamics of capitalist development with special reference to crisis;

(ii) Mechanisms of crisis and renewal in post-war capitalism;

(iii) The contribution of Marxist theory to economic science.

There will be a working conference to discuss the programme and finalise papers on Saturday, June 24th from 1.00 p.m. to 5.00 p.m. in Sam [illegible] office, second floor, U.G. annexe, 172 Tottenham Court Road, London, W.C.1. (tel. 01-387-7050). All those who would like to offer papers are encouraged to come, with a one-side outline.

The CSE held its first day-school at Cambridge on May 13th on "The Capital Theory Debate". Over sixty people attended. Ian [illegible] from Manchester gave a clear outline of the main points of the debate. Bob Rowthorn from Cambridge followed with a paper establishing the distinction [illegible] neo-Ricardian and Marxist positions on the issue. The discussion in the afternoon suggested that the debate, at least in its present form, was of little direct help to economists, confronting bourgeous problems, (e.g. cost/benefit analysis), rather its value would be in providing a basis for developing a more stringent Marxist political economy. It was also argued, not without strong responses, that general equilibrium theory was unaffected by Cambridge criticism. Most participants we have heard from found the day school very helpful; we hope to publish the two main papers in the next issue of the Bulletin.

The next CSE school is a work-in-progress seminar on the international firm, to be held in Brighton from October 26th - 28th. This is intended for those working on aspects of the internationalisation of capital.

Membership now stands at 167, of whom just over a third are students. Geographical distribution:- London 46, Oxford 14, Cambridge and Sussex 11 each, Manchester 10, Birmingham 6, Warwick 5, East Anglia and Bristol 4 each, Leeds and Glasgow 3 each, Hull, Keele, Lancaster and [illegible] all 2, Bath, [illegible], Coventry, Durham, Leicester, Nottingham, St. Andrews, Southampton and unspecified all 1. 31 subscribers are from abroad.

Steve Boddington is revising his book, "Political Economy", published under his pseudonym - John Eaton, by Lawrence and Wishart, 1963. He would welcome comments on the original edition.

It has been suggested in the past that it would be useful to circulate information about recent papers produced by subscribers, as well as other work related to the concerns of the CSE. The following is a brief list of what we have been able to gather together of such recent work.

Michael Barratt Brown, Essays on Imperialism, Spokesman Books, 1972.
George Catephores, "Marxian Alienation - a Clarification" Oxford Economic Papers, March 1972.
Rose Dugdale, "Economics and Class Society" in: ed.T.Pateman,Counter Course, Penguins 1972.
Michael Kidron, Pakistan's Trade with Eastern Bloc Countries. Praeger, 1972.
[illegible] MacLennan, "Jevons' Philosophy of Science," Manchester School, March 1972.
Robin Murray, UCS,The Anatomy of Bankruptcy, Spokesman Books, 1972.
Christian Palloix, L'Economie Mondiale Capitaliste, 2 vols., Maspero, 1972.
Jesse Schwartz and E.K.Hunt, A Critique of Economic Theory, (including papers by Alfredo Medio, Mario Nuti, and Maurice Dobb's paper to the 1st CSE)Penguin 1972.
Ian Steedman,"Jevons' Theory of Capital and Interest,"Manchester School,March 1972.
Bob Sutcliffe, Industry and Underdevelopment, Addison Wesley, 1972.

BACKWARD PRINTERS

Please could you note the following corrections in this copy of the bulletin.

p. 4 John Harrison, 68, Poynders Road, London SW4

p.52 Note 1 Paul Mattick is now retired. He has written a number of books and many articles on Marxian political economy.

p. 6 line 9 Sam Aaranovitch's

line 14 Ian Steedman
line 17 between the Neo-Ricardian

line 33 Bath, Bradford, Coventry, ..., and Wales.

line 46 Barbara MacLennan, "Jevons' Philosophy of Science", Manchester School, March 1972

p.35 Note 26 No reference for this footnote was submitted to the printers.

After the issue of the last bulletin we were inundated with enquiries about the CSE from people who had heard about the Conference and the Bulletin from the grapevine. It makes the processing of applications for membership a great deal easier if they are submitted on a standard form. If, therefore, you speak to anybody who would like to join the CSE, would you give them the tear-off form below.

MEMBERSHIP AND INFORMATION FORM

Please return to: C.S.E., c/o Robin Murray, I.D.S., University of Sussex, Brighton BN1 9RE. Cheques payable to 'Conference of Socialist Economists'.

Name ....

Address ....

....

....

I would like to join the C.S.E. and enclose £3 (£1 student/limited income).

THE POLITICAL ECONOMY OF UNDERDEVELOPMENT

Prabhat Patnaik

Introduction

Most theories of underdevelopment outside the Marxist tradition are united by a common theme - that the phenomenon of underdevelopment is a result of factors which are essentially internal to the underdeveloped countries. One can crudely summarise their general position as follows: all countries started from a similar state of underdevelopment, but while some developed others suffering from various handicaps lagged behind. Different writers of course emphasize different factors as constituting handicaps - size of population, the inhibiting role of social institutions like caste, absence of dynamic entrepreneurship, etc. Similarly, views differ on the impact and the role of colonisation in shaping the economic structure of these countries. Some ignore it altogether; others argue that it introduced some dynamism in the hitherto stagnant societies, though not to a sufficient extent. Perceptive writers like Mydral recognise its adverse impact on institutions but treat it as one of several factors operating in the past to shape these institutions which are the main obstacles today. Its effects are thus confined to the past and considered to have been internalised. From this "internal handicap" approach follows the corallary that it is the duty of advanced countries to help their poor brethren and also that this help should be of great use to the latter. The debate then goes on about how best this can be done - types of aid, aid versus trade and so on.

The best of these theories only partially illuminate a complex totality. Consider Myrdal's theory as a genuinely sincere attempt to grapple with the problem.[2] Certain causally interrelated conditions - output and income, conditions of production, attitudes and institutions - characterise a "social system"; inertia, especially of attitudes and institutions, keeps it stable at a low-level equilibrium, and growth of population further thwarts any tendency towards cumulative improvement that right policies could initiate. Moreover, policies designed to change institutions are ineffective because these countries have "soft" states.

No one will deny that development may have a cumulative character or that population explosion and rigid attitudes and institutions may pose serious obstacles to development, but to what extent do they explain underdevelopment? For if they do not, then focussing attention upon them can be seriously misleading. Population explosion is a recent phenomenon. In the Indian subcontinent for example it dates back to the twenties and makes its statistical appearance only on a comparison of 1921 and 1931 censuses.[3] The stagnation of the economy however existed much before that. Between around 1860 and around 1910, the per capita income at 1948-49 prices is estimated to have increased from 169 to 220 rupees - approximately one rupee per year.[4] Simultaneously significant changes were taking place in the institutional structure. A large section of the peasantry was being "pauperised". Landless labourers as a proportion of rural working force rose from 13 per cent in 1891 to 25 in 1901 and stabilised at 22 in 1911. [5] The proportion of tenants-at-will increased even more spectacularly. We would clearly blame the policies: but the question remains - at a time when governments in Germany and Japan were following policies to actively promote development why was the Indian government actively or even passively following policies that led to underdevelopment. Or consider the recent period. "Soft" states, singularly susceptible to the influence of privileged groups like landlords, have shown extreme determination, competence and "hard"ness in dealing with other groups and situations - militant peasants, guerrilla movements or communists as in Indonesia. Their systematic "soft"ness in certain directions combined with systematic "hardness" in others suggests that blanket concepts like "soft" and "hard" be discarded and that we look more closely at the influence of social structure on the state. Similarly, if attitudes and institutions are the obstacles to development, why have those political forces most determined to transform these been constantly attacked by major capitalist powers? It is not merely a question of quixotic acts, imperialist "ventures", but systematic efforts since 1917 by whichever happen to be the major capitalist powers of the time to stamp out the prospects of any revolutionary transformation of these obsolete institutions. Thus the persistence of certain institutions, the pursuing of certain policies themselves have to be explained. Governments display certain systematic relations to the social structures and to other governments, which social science must analyse. Concepts of a different kind which situate the "internal" and the "external", society and state, in a total picture are needed, and the Marxist approach attempts to provide such concepts.

The central concept here is the "mode of production".[6] In the process of production in society, men appear in certain relationships to one another. Among these production relations those associated with the ownership of the means of production occupy a crucial role and determine the forms in which economic surplus - the surplus over the consumption of producers and the replacement of means of production - is utilised. Corresponding to the different levels of development of social productive forces we observe different relations of production. An integrated complex of social relations and forces of production is called a "mode of production". Within each mode we can distinguish certain classes on the basis of their role in the production, circulation and appropriation of social product. Since the state apparatus exists on this basis, the overall direction of policy despite all its particularities is towards the defence of certain class positions and interests as opposed to others. In real history of course we find not modes of production in their pure form, but all kinds of mixtures, peculiarities, amalgams, and coexistence of different "impure" forms. Nevertheless, these concepts can be used for a concrete analysis of real history.

The dominant mode of production in many countries in Europe and Asia around the 17th century was what with some oversimplification may be called feudalism:agriculture was the basis of economic life; surplus product was appropriated from direct producers who possessed their means of production through politico-legal compulsion by a class of landlords; the state acted in the interests of these landlords.[7] This mode, for internal and external reasons which mutually interacted and strengthened each other, was showing clear signs of decay in varying degrees.[8]

Commodity production i.e. production for the market had developed with several consequences - increasing monetisation and growth of merchant capital, appropriation of surplus in money form, differentiation among producers (especially the peasantry) and the emergence of trade as a two-way process between country and town, giving the latter an independent producer role. [9] Similarly, the insufficiency of available surplus to meet conspicuous consumption and military expenditure led to greater pressure on the peasants resulting often in peasant rebellions, desertion of serfs etc. [10]

Where this disintegration had proceeded far enough - in England for example - and petty-producers had attained substantial independence, the better-off among them could carry out a bourgeois revolution and establish a state which immensely aided their growth; capitalist production could develop rapidly. [11] In countries where a similar revolutionary course was not possible, subsequent developments followed two different patterns. Some countries which were insulated from the operation of this capitalism, responded by taking a short-cut to capitalism themselves, creating a state which from above encouraged capitalist development through merchants and landlords, e.g. Germany and Japan. [12] In others, however, the economic structure changed in a different direction and came to resemble what we know today as underdevelopment. Some of these, notably India, whose economic strucutre was not dissimilar to Japan's, [13] could if left alone have conceivably followed the latter's example, but their very exposure to European capitalism sabotaged this prospect. [14] Countries with different pre-capitalist structures, but similarly exposed, were experiencing a parallel development. In Latin America, where feudalism grew out of an empire based on the search for precious metals, European links had been maintained from the beginning, while Africa with its unique mode was opened up to capitalism somewhat later. [15] The common features of their subsequent development despite different histories was essentially because this subsequent development resulted from their interaction with capitalism, and not from their autonomous dynamic, though internal factors affected its form and were possible secondary influences. This imperialist impact of capitalism must be regarded as neither fortuitous nor necessarily a result of any planned conspiracy but only as a necessary part of its modus operandi. Ceteris paribus, capitalist development necessarily produces underdevelopment and the matter can be looked at theoretically as follows.

The Process of Capitalist Development

Capitalist production arises only when two different kinds of commodity-possessors come face to face and into contact - owners of money, means of production and subsistence eager to increase the sum of values they possess and "free" labourers with nothing to sell but their labour-power. Historically this happened through a combination of two processes - a process of expropriation, i.e. separation of pre-capitalist producers from their means of production (or directly from their products, which are after all potential means of production), and a process of appropriation or possession by a few of the things so expropriated. This combination, called "primary" accumulation, involved the state apparatus and the use of force to set the capitalist mode on its feet and simultaneously provide it with a market.[16] This process is "primary" in the sense that once on its feet the capitalist mode uses "normal" methods to achieve the same ends - the progressive growth and gathering of capital in larger and larger blocks through expropriation and appropriation.[17] The chief motive force of capitalist production is this accummulation process, which has three distinct but inter-related elements - accummulation, concnetration and centralisation. Capital expropriates and appropriates unpaid labour as surplus value, a source of further accumulation. New captial appears in new forms owing to technical change which substitutes dead for living labour and raises the ratio of constant to variable capital for a given real wage in terms of goods. Finally as the minimum capital required for introducing new techniques increases, larger capitals appropriating larger surplus values have an advantage. The spread of new techniques forces others either to adopt them or leave the field to ever fewer capitalists and ever larger capitals. This centralisation or expropriation of many small capitalists by a few large ones - which is aided by the stock-exchange - further reinforces the pressure on each capitalist to accumulate and "concentrate".[18]

Now suppose we ignore countries and visualise a world with a single state where the capitalist mode is developing out of pre-capitalist mode(s). The accumulation process gives rise to two separate tendencies.

(1) The constant expropriation of many by few constantly tends to create a relative surplus population" - a mass of unemployed and under-employed, i.e. "pauperised" producers."[19] As a certain sector is invaded by capitalist production, inroads are made into pre-capitalist markets. As it becomesincreasingly difficult to penetrate the latter, smaller capitalists nearby are also swallowed along with the distant "artisans" and centralisation becomes increasingly operative. Since this growth involves merely the replacement of one kind of production by another with higher labour productivity, it clearly produces "relative surplus population" which would progressively increase if all growth was of this kind - i.e. with the total size of the market for all producers given. But clearly this is not so. Capitalist production requires machinery and new means of production and sectors producing these will grow. In addition, total markets expand for three other reasons,

(i) the spread and growth of capitalist production to other sectors implies the creation of "endogenous" demand, i.e. different sectors produce both inputs and consumption goods for one another. Neoclassical theory empahsizes this insofar as it visualises steady growth for the capitalist mode producing for its own internal market.[20] This however can not adequately explain sustained growth. Growth built up on its own steam may well collapse if it runs out of steam, unless certain outside factors keep it up.[21]

(ii) These may be innovations in a broad - new sectors, new products and new processes - as emphasised by Schumpeter and recently Pasinetti.[22]

However, innovations themselves are linked to the tempo of growth; in a period of crisis the inducement to innovate is likely to be low.[23] Except for major chance discoveries therefore, innovations rarely provide a way out of serious crises.[24]

(iii) Thus along with State expenditure, the importance of which is of recent origin, precapitalist markets play a crucial qualitative role. With a fresh push into these markets - which may take the form of export of goods and not necessarily of capital,[25] a new round of growth begins. Even when their quantitative importance over a period is small, such markets are nevertheless of importance to sustain growth under capitalism.

Still, the quantitative importance of other factors over long periods may (despite natural population and productivity growth) help to decrease the relative surplus population, while never eliminating it. Its shrinking below a certain percentage of the work-force would cause labour shortage for individual entrepreneurs and investment would be reduced. Persistent labour-shortage in the long run will encourage the introduction of more labour-saving machinery, thus restoring surplus population to an "adequate" level.[26] To sum up, capitalist production necessarily creates a relative surplus population which cannot fall below a certain level.

(2) Capital tends to be regionally concentrated - the accumulation of capital in one geographical area tends ceteris paribus to draw other capital to the same area. This is mainly bexause of "external economies" in the widest sense of the term.

(i) On the one hand capital accumulation in a particular region results in the creation of skills, development of social and economic overheads, growth of institutions like banks and readier availability of information etc., all of which can benefit new capital in the same region. Capital operating in this region looks upon these as minimum requirements and develops a certain inertia which is reinforced by the process of centralisation. Along with the increase in the size of capital and in the size of project, these minimum requirements also increase and backward regions have greater difficulty in drawing capital from advanced regions. Such capitalists as do emerge there themselves are in constant danger of being eliminated through competition unless sheltered by some relative advantage - proximity to raw materials, market imperfections, etc.

(ii) Moreover in several sectors, capital tends to flow near where the market is. We noted above that despite the crucial qualitative role of pre-capitalist or "exogenous" markets, quantitatively "endogenous" factors become more and more important, i.e. a large of growing capitalist production is marketed within the mode itself. This factor would clearly strengthen the tendency towards regional concentration. To summarise, if capital historically accumulated in one region and not in another, then this pattern is likely to be cumulatively reproduced, though of course it may be broken by conscious efforts by the State to promote capital accumulation in the backward region.

Now, historically the penetration of pre-capitalist markets has rarely involved any movements of capital to those areas precisely because they are economically and politically unable to defend themselves against imports of goods from the capitalist sector. Thus free trade quaranteed by the bourgeois state removes any necessity for capital to flow from one region to another. Capital from the beginning is not spread widely but concentrated in a specific region and this concentration grows over time unchecked even by the rise in relative wages in the developed region.

The simultaneous operation and mutual interaction of these two tendencies define the specific nature of capitalist development. While capitalist production destroys petty-production and creates a relative surplus population over a wide area, only a part of it - in areas adjoining the capitalist region - is actually absorbed into capitalist operation. Typically labour is not freely mobile; its mobility itself requires some capital.[27] If as we have seen capital also does not move freely then labour shortage may be experienced long before the entire surplus population has been absorbed. This is associated with tow major consequences. (1) A certain pattern of specialisation develops between the capitalist or advanced region and the distant backward regions - the former developing manufactured goods while the latter concentrate on primary production. Not all primary production, of course, is left to pre-capitalist producers in backward regions. Some of it is developed by capital flowing in from the advanced region e.g. minerals and plantation agriculture. But this lateral extension of capital has little effect on the region itself; the chief theatre of operations continues to be in the advanced region from where the skills come and where the profits go. (2) Labour-shortage may slow down accumulation and in the long-run encourage labour-saving techniques, even though surplus population exists elsewhere. Thus the relative surplus population gets fragmented and the accumulation process adjusts itself to the labour supply it faces locally, so that a part of this surplus remains perpetually untouched by capital accumulation, forming a vost "pauperised" mass in the backward region. There, in other words, capitalist production, having destroyed previous modes and created relative surplus population, turns its back upon them.[28]

These two features - integration into the market-system as primary producers and existence of a surplus population - mutually complement each other and jointly cause important secondary changes which act as additional "built-in depressors". These however we shall discuss later. The main point here is that these two features constitute the essence of underdevelopment and are themselves the result of capitalist development. To summarise, in the absence of conscious state action to the contrary capitalist development in one region necessarily produces underdevelopment in another. The problem of underdeveloped countries is essentially a result of the operation of this principle at an international level though two extra considerations must be borne in mind. (1) At the world level we have not one single state which interferes or does not interfere in the interests of capital, but a multiplicity of states. These states nevertheless stand in certain relationships to one another; one such is the relationship of hegemony and subordination which is itself determined ultimately by their relative economic strength, i.e. the development of the modes of production on which they are based. Thus the domination of capital is asserted in a complex manner through the determination and inter-relationship of state policies. (2) The experience of one country within the backward region or "periphery" need not be identical to that of another. Features of underdevelopment are not uniformly distributed among countries - surplus population may arise in one but not in another, primary products may be more important in one than in another, and so on. Moreover changes in the composition of primary products required by the advanced region, or the "centre", which we have ignored in our aggregative picture assume great importance for individual countries whose decline or propserity may depend on such changes. Nevertheless our simple model isolates the general phenomenon underlying particular cases, and helps us to analyse the genesis of underdevelopment in history.

Historical Genesis of Underdevelopment

We can broadly distinguish two phases of the relationship between capitalism in advanced countries and the pre-capitalist modes elsewhere. The first belonged to the period of primary accumulation of capital, one important element of which was the accumulation of money-capital supported by the drain of wealth from the colonies. The Spanish plunder of Latin America, the sacking of Indonesia by the Portuguese and the Dutch, the French profits from the slave trade, the British gains from negro-labour in the West Indies and the loot of India - these were some of the episodes of this phase. A very conservative estimate of merely these would amount to over a billion pounds sterling by 1800, which was "more than the capital of all the industrial enterprises operated by steam which existed in Europe" around that date . [29] Digby records estimates which for India alone put the figure for treasure taken between Plassey and Waterloo anywhere between£500 m. and £1000 m. [30] This unprecedented plunder left three continents impoverished, their domestic economies altered beyond recognition and part of their population decimated. Its impact on the modes of production differed as the modes themselves did but everywhere the prospects of capitalist development dimmed and indeed any future development became a far more arduous task. In India, where as we have noted feudalism had disintegrated considerably, this plunder, with one stroke giving a shattering blow to the old mode and undermining the prospects of the new, plunged the economy into utter chaos and initiated the "development of underdevelopment". On the other hand, this plunder, analogous in effect to the accrual of vast surplus values in Europe, partly went into accumulation as money-capital and partly into luxury consumption which stimulated certain types of manufacturing industry.[31] The importance of this capital for the industrial revolution was pointed out by Brooks Adams in the following words:

'.....the Bengal plunder began to arrive in London, and the effect appears to have been instantaneous ... the industrial revolution ... began with the year 1760 (the battle of Plassey occurred in the year 1757) ... At once in 1759, the bank (of England) issued £10 and £15 notes (for the first time)...' [32]

This transfer of wealth was merely an exaggerated form of a more general process - a drain of surplus, which has continued throughout the history of capitalism, from the backward countries to the advanced capitalist ones. The chief mechanism of this drain are unequal exchange in trade relations,[33] transfer of profits, interest and dividend payments on account of foreign capital and different kinds of unrequited exports made by the backward countries. In this last category outflow on account of colonial administration, e.g. India's payment of "Home Charges"[34] to Britain before 1947, and other similar items are included. Although this later drain is important, if not as a proportion of income at least of the economic surplus, it is an integral part of the overall economic structure encompassing both sets of countries which developed once capitalist mode was on its feet. This economic structure - e.g. the pattern of international division of labour - which we discussed abstractly and briefly before lies at the root of the problem and this later, 'normal' drain is a necessary by-product of the maintenance of that structure. The development of this strucutre therefore forms the second phase of the relationship between advanced and backward countries.

After the Napoleonic Wars the flow of machine-produced manfactures multiplied and petty-production everyhwere suffered a severe setback. In 1822-23 cloth imports to the Bengal Presidency alone in India stood at a figure seven times that for 1813-14, while exports from the same area fell from 4,600,000 to 300,000 rupees. Spinners were affected there with a timelag. In 1825-6, yarn imports were 81,000 rupees, but the next year the figure rose to 800,000 rupees.[35] Those who survived this competition did so either due to market-imperfections - both geographical remoteness of switching to non-competing varieties - or by cutting into subsistence to sell cheap. Thus urban spinning and weaving were virtually wiped out while rural crafts though crippled often survived. But their survival was not a proof of strength; many rural artisans fell ready victims to the terrible famines of the late nineteenth century.[36] While the old industrial base was destroyed, little new industry developed essentially as we shall see later because of the policy of free trade followed by the colonial government. The consequent growth of relative surplus population intensified the pressure on land leading to a rise in rents and a fall in real wages in the latter half of the century.

What did develop however was the production of commercial crops for the world market. To indigo and jute was added raw cotton in the 1860's. The increased commercial production meant an increased need for credit and the money-lender came to occupy a strategic position in the peasant economy. As peasants defaulted in years of drought or sluggish world demand, he gradually acquired rights over land. This polarisation of the agricultural sector with a mass of pauperised peasants and labourers at one end and a group of money-lender-cum-landlords at the other end (to which of course population growth contributed later), combined with slow industrial progress, resulted in the virtual stagnation of agriculture. Much of the peasantry had little surplus to invest, for in addition to rent and wage exploitation, they usually bore the icf burden of the vast state expenditure. Those with the surplus could invest it either productively or in usary and trade or could consume it. Given the uncertainties of agriculture and the virtually stagnant markets owing to slow industrial growth, the first was the least attractive channel. Therefore techniques changed little and inso as cultivated area and irrigation did not expand much output changed little especially between 1890 and 1947.[37]

A similar process of destruction of local crafts, integration into the world market as primary products and limited industrialisation within an overall context of free trade occurred in Latin America as well.[38] There were of course several significant differences, but two among these must be emphasised in the present context: (1) Unlike India, there was no direct colonial state. Instead, state power was in the hands of classes which benefited in different ways from this very integration, i.e. landlords and "comprador" bourgeoisie engaged in trade with metropolitan countries. These tended to be the natural allies of metropolitan capital in perpetuating this particular economic relationship. Of course in India too the colonial state had the support of landlords and comprador elements but it clearly represented in a direct manner the interests of metropolitan capital. (2) This capital was far more directly involved in the economy and especially in the agricultural sector. There has been nothing comparable in India to the possession of vast tracts of land by the United Fruit Company, which feels directly threatened by any moves towards land reforms.[39]

Thus the factors involved in the stagnation of agriculture and the freezing of rural institutions were mainly internal in India, whereas in Latin America they were often immediately linked to the country's external relations. Whatever the mechanisms, emphasis and variations, we can broadly and schematically say that the economic structure was based on a political alliance between landlords, comprador bourgeoisie and above all metropolitan capital.

The industrialisation that took place was of necessity limited - it consisted in the shift of certain "activities" or "processes" from the metropolis to the underdeveloped country, i.e. industry in the latter developed a "niche" for itself within the overall pattern of specialisation. Two types of industry tended to develop - (1) instead of crude primary products being exported, these began to be processed and the manufactured goods exported. The markets for these being essentially in the metropolis, these were usually developed by foreign capital sometimes as an extension of and sometimes in competition with capital based in the metropolis. An example of the latter was India's jute industry whose growth was limited by the slow growth of world demand and the fierce competition of Dundee manufacturers.[40] (2) Far more important were consumer goods industries for the home market which slowly expanded owing to the growth of exports. Where an industrial nucleus existed as in Mexico or where industry could quickly create one by replacing partially the remaining petty production as in Indian textiles, an expanding market could be of benefit if imports could be gradually replaced. Cotton textiles, sugar, cement which has special locational advantages, were some of the industries which developed for the home market, and most of them by gradually replacing imports.[41] Of necessity they had to adopt technology similar to that of the metropolis, i.e. high productivity techniques, which had two major consequences - (1) the impact of this industrialisation on the relative surplus population was even smaller, (2) the minimum capital requirements were high and given the limited markets, manufacturers tended to be monopolistic. Moreover, owing to the overall slow growth of the market, capital spilled over from one sector to another, from industry to trade and finance, so that the indigenous capitalist development tended to assume a zaibatus-type appearance. Simultaneously, luxury consumption was high - this last tendency this last tendency being strengthened by the demonstration effects of the consumption standards of the metropolitan bourgeoisie which got passed on through landlords and comprador bourgeoisie.

This type of industrialisation was thus based on narrow markets, was limited in its range and depended essentially on the overall growth of exports. The inter-war years, which ushered in a major crisis in primary product markets even before the Great Depression, terminated this phase of industrialisation. Under pressure from the industrial bourgeoisie, departures in varying degrees were made from the system of free trade and the consequent pattern of specialisation. Protection was introduced in several countries in Latin America and also in India, and industries expanded to substitute for imports.[42] Simultaneously at a political level the old alliance was under attack. The 1929 crisis had serious political repercussions in most Latin American countries, but not everywhere was the old alliance immediately ousted. In Mexico where the export sector was in foreign hands, the clash with the state was the clearest. In Brazil the Vargas government, installed after the coffee oligarchy was ousted from power, pursued a policy of compromise. In Argentina however the exporting interests succeeded in re-asserting their authority in 1930.[43] Even where import-substituting industrialisation was pursued, it too had clear limitations. Given the limited total markets, sooner or later it had to exhaust its potentialities. What was needed was a sustained stimulus by the state. This was also necessary if the relatively more risky producer goods industries were to develop. Despite the development of the extensive railway net-work, India had an insignificant engineering industry at independence essentially because of the colonial government's reluctance for a long time to give a purchase guarantee. In fact its insistence on purchase from abroad sabotaged the possibility of an early development of locomotive production.[44] The involvement of the state in the industrialisation process had to wait until after the second war, and the post-depression years were in many cases a transitional period between the earlier pattern of specialisation and the new emphasis on national development.

In several countries the state has entered the industrial field itself as a producer and in varying degrees we find a state capitalist development.[45] It has resulted in many cases in growth rates all round which were unprecedented in their histories, and which have put pressure on their resources. What are the limits to this development? To answer this question we must analyse again at a general level the nature of the new state itself.

Nature of the New State

We need to look more closely at the break-up of the old pattern of imperialism and for this we must examine the class-structure which developed under it. Needless to say the picture differed vastly between countries and our generalisations are abstract: they refer to a sort of "ideal-type" which does not correspond to any single country but is extracted from the experiences of several countries - mainly in Asia and Latin America [46]

Mention has been made of the landlords and comprador bourgeoisie. Within these there were several different elements Landlords for example included not only the large feudal lords owning dozens of villages but also small landlords who lived mainly nevertheless by the rent-exploitation of petty tenants. The limited industrialisation threw up a manufacturing bourgeoisie and working class, the former again consisting of monopoly bourgeoisie operating in several industries on a national scale and smaller bourgeoisie confined to single industries or regions. Below this a sizeable and vocable petty-bourgeoisie developed: self-employed traders, small businessmen and the white collar employees, especially those employed by the state apparatus who usually exceeded in numbers the workers in organised industry. [47] The rural counterpart of the petty-bourgeoisie was the middle range of the peasantry which neither hired in nor hired out labour to any significant extent. Above it were the rich peasants relying predominantly on hired labour while below were the poor peasants who often hired themselves out to supplement their farm incomes. All these different layers of peasantry were subject to varying degrees of rent exploitation though the incidence of course was much higher in the lower layers. Finally the totally landless labourers, a substantial proportion of the total rural population, formed the poorest social class with irregular employment and subsistence wages. [48]

The challenge to the old political and economic order had the support in varying degrees of several classes - not only the manufacturing bourgeoisie but the workers, petty-bourgeoisie and the peasantry as well. [49] Where this challenge was led by the workers and peasants as in China, the subsequent break with the old economic structure was radical and complete, both internally in the sphere of agrarian relations and externally in the relation with capitalist metropolises. Where the challenge was led by the bourgeoisie, however, later development followed a totally different course.
The bourgeoisie, on gaining ascendancy, instead of carying further the struggle against its erstwhile enemies, hastily reached a compromise with them and turned against its erstwhile friends and allies. Thiswas not unexpected - the result of some special wickedness or folly - but followed from the objective situation in which the bourgeoisie found itself. Consider the internal aspects first.

The bourgeoisie having arrived late on the hisorical scene was constantly haunted by the fear which had first appeared in February 1917 in Russia - that owing to the presence of the socialist challenge, a thorough-going attack on landlord property might well rebound into attack on bourgeois property itself. [50] So the new state which appeared was based on an alliance between the bourgeoisie and the landlords. Of course in theprocess of forging the alliance, certain reforms or cutailment of "excesses" - e.g. the elimination of the very big feudal lords - were carried out, but these were not as far-reaching as the boureoisie had promised earlier. Where the ruling class-alliance was stable, the form of government was a bourgeois democracy with oftem a federal structure. Where it was unstable owing either to challenge from below or to internal strife among the partners, a military dictatorship appeared. Moreover, given the acute conflicts in most underdeveloped countries (e.g. within the bourgeoisie between the monopoly and small provincial elements, between the bourgeoisie and the landlords), the tendency to pass from the first to the second form of government, albeit for certain periods, was ever present.

Both forms gave the state an aura of great authority and impartiality. But in fact the basis of the state defined strict limits to its actions. As the arbiter between the ruling classes and between them and the masses, the state appeared to be placed high above society with extensive powers to interfere in its functioning, but it could not hit any element of the ruling alliance too hard for that would reduce the collective strength of the ruling classes by making them antagonistic to one another and hence more exposed to onslaughts from below. This lay at the root of the so-called "softness" of the state - the paradoxical situation where the state appeared ubiquitous in its presence and intervention, yet peculiarly impotent in effecting desirable institutional changes. Within these broad limits, imposed by the need to preserve the ruling class-alliance, the specific form of state intervention was determined by the relative class-strengths. The existence of a strong and articulate petty-bourgeoisie helped the small bourgeois elements in the alliance and checked the power of the monopolists. This could explain why in India the state sector became a permanent feature, unlike in Pakistan where as in Japan earlier the state having built up enterprises sold them to private monopolists at low prices.

The failure of the state was nowhere as glaring as in its efforts to mobilise resources for development. Before discussing state action however, some general remarks on the subject may be in order. The problem of mobilising resources has two major aspects - (i) greater employment of available but unutilised resources in particular labour-time (ii) the mobilisation for productive investment of the economic surplus appropriated from those who are already employed. The distinction between these two aspects may be seen as follows: by postulating certain "norms" as regards working-day etc. we can define the endowment of social labour-time. Only a part of it utilised and the remaining unutilised labour, which is sometimes called "surplus labour", exists in the form of unemploument and under-employment, i.e. forced idleness for part of the year or a given job being shared by many each of whom "takes it easy". [51] Of the utilised labour-time a part goes to replace the means of production used up and to meet the consumption requirment of the producers, the remainder being "surplus labour-time" or simply "surplus" in our sense though we often look at it in product terms. [52] In any concrete situation of course there is an element of arbitrariness in identifying "unutilised labour" and "surplus" but this does not reduce their usefulness or importance as categories.

On both counts the potential resources that can be mobilised for development are substantial. The relative surplus population and natural population growth have combined to intensify the pressure on available land to a degree where a large part of the rural labour potential remains unutilised. An estimate for India of unemployment alone suggests that on average a labourer found employment on 220 days every year (i.e. for whole or part of the day) while for 60 days though willing to work he could find no work.[53] The proportion of property income to the total, which is a rough index of the share of surplus, stands around 30 per cent in India and a similar figure in other underdeveloped countries. Though the surplus may be small in absolute terms, its high share indicates that a substantial proportion of income could be accumulated and a high growth-rate could be generated without adversely affecting the living conditions of the bulk of the population. Thus the usual argument - "a country is poor because it is poor" - that somehow a country's poverty constrains its growth-rate is completely erroneous. The potential growth-rate, which has little to do with absolute poverty, is high; if the actual rate is low it is because of the mode of utilisation of the surplus. Development effort thus requires (i) an alteration in the way the surplus is used and (ii) an increase in labour-utilisation.

A precondition for improved labour utilisation is a more egalitarian distribution of land. Where extreme inequality in possession is associated with lack of utilisation of land by rich owners owing to monopolistic or other reasons as in Latin America, the need for such distribution is obvious.[54] Where no such unutilised land exists, redistribution could still lead to greater application of labour and intensified land-use, though clearly new modes of agrarian organisation are called for. Unutilised labour could be pooled and set to work on small rural works or irrigation projects of common benefit, possibly on an ex post payments system, provided an adequate basis for cooperation could be created through a more egalitarian social structure, i.e. by removing the landlord-moneylender from his leading position.[54] This required a comprehensive programme, the two necessary elements of which were tenancy reform designed to eleminate rent-exploitation, and land redistribution through a ceiling on holdings. Such a programme would simultaneously have curtailed the flow of surplus into unproductive channels Thus organisational changes could have stimulated employment and output without necessitating large additional investment - almost giving the economy "something for nothing" or for very little.

What actually happened however was very different. Removing at most the upper crust of landlords, the state allowed the rest to function provided they took a direct interest in cultivation. This meant in practice that former tenants either appeared in the disguise of "helpers", "partners" etc. or actually lost their tenure and worked as labourers on the same land. On the other hand, land reforms conferred ownership rights on tenants of former large landlords on payment of a certain sum of money, which in effect could benefit only the rich peasants who had moved up and smaller landlords and this class was then provided with incentives, technical information and cheap inputs to usher in a capitalist development in agriculture. Ceilings where imposed were large and usually evaded and often holdings developing capitalist farming were excepted, so that little radical land distribution took place.

Lenin, discussing the mergence of capitalist agriculture, had distinguished between two paths - the American path of "peasant capitalism" and the "landlord capitalism" of Prussian Junkers. 56 State policy in several underdeveloped countries - and this includes a large spectrum from heavily populated India at one end to Iran at the other - attempted a curious mixture of the two, the exact proportions of the ingredients varying between countries according to the relative class-strengths in each. 57 But in any case (i) this promotion of capitalism did nothing to improve labour-utilisation and indeed as we shall see later, may aggrevate the situation further; (ii) the position of the poorer classes, tenants and the landless was not much strengthened - where reforms led to resumption of land, tenants were pushed into the category of labourers; (iii) traditional investment outlets in the form of usury etc. with a view to taking over poor peasants' land continued to exist.

As for the second aspect of resource mobilisation, i.e. raising the share of productive investment in the economy, efforts were made in two directions: (1) to increase the share of surplus in national output through a relative shift in distibution in fabour of the so-called "thrifty" classes and/or the state, (2) to secure mainly through various indirect means an altered mode of utilisation of surplus. The first kind of efforts were generally more successful than the second. In a capitalist economy governed by the profit-motive, production depends on demand so there was no question as in a socialist economy of curtailing luxury consumption through the restricted production of these goods; consumption decisions themselves had to be altered. And the instruments available to the state for this purpose were very limited. Taxes, when they are not evaded, may simply result in a tranfer of savings from the private sector to the state. Even those which explicitly discriminate against consumption and in fabour of savings may still fail to restrict consumption. Thus when the pressure to maintain the growth of consumption is strong among the upper-income groups, the state can do little to restrain it. And there is evidence that the pressure was strong, possibly owing to a combination of international and internal demonstration effects. Since the supposedly "thrifty" classes were not so thrifty after all, relative income shifts from the poor to the rich which took place for example when the state used tax revenue raised largely through indirect taxes on the poor to subsidise private industrialists in various ways, were to a large extent squandered on luxury consumption. Of course where the state itself invested and owned certain industries the extent of "squandering" was less, but the difference was only one of degree. In either case, stepping up of investment implied an increased inequality in income distribution and yet savings did not increase adequately.

Pakistan, only lately hailed as a model of success, provides a very clear emaple of the phenomenon. The development stretegy placed considerable reliance on private enterprise and the poorer classes especially in the rural sector were squeezed in several ways (e.g. licensing of scarce foreign exchange earned primarily by agriculture to the industrial sector) to increase the surplus in the hands of urban industrial capitalists. So successful was the squeeze that an economist wrote in 1965, " the vast majority of the Pakistani population probably have a lower standard of living today than when the country achieved independence". 58 Yet it was estimated "that at least 63 to 85 per cent of the savings transferred from agriculture are dissipated in higher consumption in urban areas." 59

Savings estimates, though notoriously unreliable indicate gross domestic savings as a proportion of gross national product to have stabilised around 10% towards the end of Second Plan after an initial rise. [60] In India as well despite more direct intervention, including ownership of industry by the state, the savings ration after an initial rise levelled off around 10% during the late 50's and the 60's. Moreover, within this a slight fall in the private share was made up by a slight rise of the state's contribution, and this despite an increase in the income inequalities. The marginal savings-ratio, though the estimates are susceptible to the choice of base-year, could be no higher than 13-14%, and the figure for Pakistan was not very different. [61] A part of the difference between marginal and average figures being due to lags etc., the average is unlikely to have been showing a trend increase beyond the levels attained. And these cases were not exceptional. In Brazil over a period 1939-1960, the savings ratio remained virtually stagnant though at a higher level despite a more rapid rise in productivity than in wages, i.e. a relative income shift in favour of capitalists. [62] For 12 of the countries studied by Chenery and Strout, the marginal rate of savings was actually found to be below the average ! [63] Thus while the share of surplus was often increasing its mode of utilisation changed little and if anything a larger share was being diverted to luxury consumption. Of course the burden of the increased surplus was distributed in different ways in different countries among the poorer classes, depending on the terms of trade between the rural and urban sectors, the relative movements of money wages, prices and productivity etc. but everywhere the growth of upper class consumption prevented even this increased burden from supporting a larger investment programme; recourse to aid had to be taken. And this leads to a consideration of the compromise on the external front.

Though a new state took over certain key sectors from old foreign capital and, by its very decision to industrialise and break away from the old division of labour, asserted its new independence, it did not sever its links with the metropolis completely. Indeed in its position it could not. The same factor which lay behind the alliance with domestic landlords now forced the bourgeoisie to bargain with the metropolis - politically it could buttress its position against internal opposition with the help of the metropolitan power. Besides there were economic reasons. Lacking in technology it had to turn abroad for help and as we saw, to achieve even moderate industrialisation and growth, it had to rely on foreign aid. Of course these could come from the Soviet Union as well and this gave the bourgeoisie room for manoeuvre, a certain relative autonomy vis a vis the metroplis. But Soviet help despite its importance and strategic role - examples of which are the building of India's heavy industry base, the purchase of Cuban sugar after the boycott and more recently of Peruvian oil after the nationalisation - was limited. It could not match the aid requirement and forthe new industrial pattern with luxury goods occupying a leading role, its technological assistance was necessarily limited. Inevitably therefore the reliance on metropolitan capitals and states increased.

Greater reliance itself need not always lead to greater subordination. Countries of Western Europe and Japan after all received aid and/or technology at different times from the United States but are now in a position to challenge the latter's hegemony. Where the underdeveloped countries differed from these others was that even while taking this aid, they did little to eliminate the future need for it.[64] The resource gap persisted and some writers even suggest that with the availability of aid, the savings-ratio went down. Even if this were not so, an unchanged savings-ratio would imply that the maintenance of the (modest) growth-rate required the reliance on aid to be continuous and indeed increasing if amortisation and interest payments are considered. Import substitution in technology has been negligible. Individual domestic firms, being generally much smaller compared to foreign collaborators, (i) have a weak bargaining position in drawing up agreements (some of which prohibit research), (ii) can not spend adequate amounts on R & D in any case and (iii) often do not even wish to in their desire for quick and secure profits. But the state could have taken the initiative and built up an indigenous technological base possibly through a dual policy of centralised purchase of technology (with subsequent domestic resale) and centralised research. However even where the state was aware of the problem, since the resource gap showed itself in an exchange deficit and the problem of raising exports occupied a central position, it had to sanction the import and use of up-to-date foreign techniques so that the country's exports could compete in the world market.[65]

From the donor countries' point of view, the whole system of aid served two main objectives - (1) to keep the country within the capitalist orbit by supporting the ruling classes against internal threat, (2) to assert the hegemony of metropolitan capital over its national capital. Of course more narrowly economic motives underlay specific aid agreements - e.g. dumping of surplus produce through PL480 loans, finding a market for indsutrial goods etc. - and these may have been more important for the smaller metropolitan countries like Germany and the U.K., but the primary overall objective especially guarded by the leading metropolis - the U.S. - was to create conditions for the free play of metropolitan capital.[66] From its very infancy capital has needed the support and protection of a nation state. Aid was a means by which the metropolitan state, by putting pressures on the underdeveloped state, supported the operation of its own national capital - be these trade or investment - in the latter's territory. Pressures for example were directed against policies of protection or of restriction of foreign capital.

Protection in an economy not dominated by metropolitan capital already, was after all protection of domestic capital, hence both measures were aimed at a negation of economic nationalism. And several underdeveloped countries succumbed to these pressures. No doubt the subordination was not complete and perhaps never could be; the domestic bourgeoisie could once again turn against metropolitan capital given a suitable international and internal situation e.g. when assured of mass support without the fear of being swamped by mass demands. But given the basic and perpetual need for dependence on the metropolis, such insubordination could only be temporary.[67]

Thus the relationship between the domestic bourgeoisie and metropolitan capital has not been a rigid or fixed one. It has changed: a tendency towards greater subordination has operated along with periods of reversals. Nevertheless, all these oscillations have taken place around a point which itself involves substantial subordination; e.g. a few nationalisations by a bourgeois state would still leave metropolitan capital in dominant positions. In this sense whereas the relationship between capitals of developed countries has become symmetric with increasing mutual penetration, that between capitals of developed and underdeveloped countries has retained a fundamental asymmetry - all penetration has been only one-way - and hence the dominance of one over the other. This dominance and freedom of operation which was ensured to foreign capital by the colonial or comprador state in the past has now been sanctioned by the new state created by the national bourgeoisie itself.

To conclude, the internal and external compromises made by the bourgeoisie were organically linked. The political motives for both were similar. Moreover, the inability to raise domestic resources owing partly to the alliance with landlords, resulted in the perpetual reliance on aid, hence subordination; and the metropolitan state in turn encouraged the alliance with landlords. So the two mutually conditioned each other. The fundamental characteristics of the old state were reproduced to some extent though at a higher level. Instead of the comprador - landlord - foreign capital alliance, we had a new one between the national bourgeoisie, "progressive" or capitalistic landlords and foreign capital often of a new kind which as we shall see differed in many ways from the old.

<u>The Record of Development</u> - The development that took place exhibited certain specific characteristics.

(i) Since it was accompanied by a greater squeeze on the masses to obtain a larger surplus, the demand for industries producing mass consumption good did not increase very much and indeed substantial unutilised capacity often developed in these industries. On the other hand industries producing certain types of investment goods and goods for luxury consumption expanded faster. These in any case required less labour per unit of capital; moreover, since they used foreign technology without any adaption to local conditions industrial employment increased at a very slow pace. An estimate for India has put the amount of fixed investment required per worker for industry as a whole i.e. including small scale industry at 20,000 rupees which is higher than the corresponding Japanese figure.[68] Of course in some ways India and Pakistan were exceptions;[69] nevertheless the general point holds: the effect of the investment programme on the proportion of work force employed in industry was very small,[70] and indeed this was one reason for the stagnation of markets for mass consumption goods. Thus development took on a "top-heavy" appearance with little impact on the rest of the economy in the form of better living conditions or substantially increased employment opportunities. And this "top-heaviness" was the physical counterpart to the strategy of financing investment by increasing the share of surplus which as we saw earlier was commonly followed. Consequently, despite the industrialization effort, the pressure of population on land and the basic poverty remained unaltered, e.g. the proportion of Indian population below the poverty line (defined to correspond to a food intake ensuring 2250 calories per head per day) is estimated to have remained constant at 41% between 1960-61 and 1967-8,[71]

(ii) Similarly the disposal of surplus as between luxury consumption and investment had its physical counterpart in the disparate growth of these industries and its effect was felt on the balance of payments. The resource gap which began to be fet when the development effort started manifested itself in a foreign exchange scarcity and in response to this, severe quantitative restrictions etc. were imposed on the import of inessential i.e. luxury goods. If the total availability of these could have been strictly checked, i.e. the financial savings-ratio kept up, the investment programme would have been viable, but as we know such was not the case. Behind the import barriers, domestic industries bagan producing these goods with the help of imported capital equipment and semi-finished inputs. This type of industrialisation thus merely transferred a few activities from abroad to home while depending on imports for "earlier-stage" activities. This import demand combined with that arising from the investment programme raised the import-bill substantially while simultaneously the same pressure of domestic demand prevented exports from increasing sufficiently. There were of course exogenous limits to the growth of exports - sluggish world demand for primary goods, high tariffs of developed countries etc. - but in many cases home absorption prevented exports from rising to the extent possible even within these limits. [72] The consequence was a chronic balance of payments problem to which of course (as we shall see later) operations of foreign capital contributed.

This problem which was temporarily solved through aid reflected the fact that the surplus available for investment fell short of investment requirements, and not merely as some economists have argued, "inefficient" industrialisation. [73] The distinction is crucial: a move in the direction of autarchay may be "inefficient" (though in a dynamic context where time plays a crucial role, e.g. through external economies and the existence of uncertainties etc., the criteria for "efficiency" are exceedingly difficult to specify) but it need not be unviable, i.e. lead to heavily import-dependent import substitution, provided available resources are mobilised to build up adequately the strategic industrial base. The trouble with underdeveloped countries especially the large ones with potentially large internal markets was not so much that they went in for import substitution, but that they achieved so little import-substition in depth. [74] In other words there was a wrong kind of import substition. The scarce exchange earnings were used not to build up strategic sectors but were frittered away in erecting a large complex of luxury goods industries. And this was inevitable given the inability of the state to mobilise resources by restricting this type of consumption. So the roots of the problem lay deeper and not just in the choice of strategies - import substitution versus export promotion - even if one could argue that this choice was erroneous which is doubtful in many cases.

(iii) Simultaneously this very inability to mobilise resources left the economy without any cushion against contingencies. If aid was slightly delayed and certain important projects were held up, exchange could not be diverted from low-priority sectors to make good the resultant shortages and this often created a serious bottleneck affecting a large area. Similarly if there was a crop failure and immediate aid was not forthcoming, this spelled a serious disaster since the government often could not introduce compulsory procurement and rationing. The contrast between China and India is illuminating: successive draught years in China after the Great Leap did not lead to any famines or starvation while in India despite large aid drought in mid-sixties caused a famine in Bihar. [75] Thus the same factors which led to an overall scarcity of resources also implied that individual stresses and strains in the economy when they arose could not be dealt with. These caused therefore serious additional imbalances holding up the tempo of development. This type of "disproportionality crisis" which arises in any capitalist economy owing to the anarchy of production took on in the underdeveloped countries a new significance. Given the nature of their economies - predominance of agriculture, rigid reliance on aid etc. - it was both more frequent and more damaging.

To summarise: the development which took place was top-heavy, continuously dependent on aid and often jerky and uneven. Moreover it failed to have much impact on the basic social problems of poverty and unemployment.

It was natural that the policies behind such performance should be under attack. The alternative course suggested by the metropolitan countries and agencies like the World Bank involved a change in policy in at least three directions: (1) a liberalisation of trade combined with exchange rate adjustments to promote exports (2) a greater emphasis on agriculture and (3) greater efforts to draw private foreign capital. This package of inter-related policies had been advocated by metropolitan agencies all along but only recently did several countries begin to accept it and its implications are becoming clearer.

The New Course - (i) A more liberal trade policy with a de facto or de jure devaluation has of course stimulated exports in many of these countries but simultaneously imports have often gone up even more. Indeed this worsening of balance of payments seems fairly common among countries opting for "liberal" trade, though it is concealed by the greater foreign capital and aid inflow which accompanies such "liberalisation". In Thailand after the 1955 devaluation and unification of exchange rates, the trade deficit increased, the total deficits over 1955-64 amounting to U.S $648m. Nevertheless there was an overall surplus in balance of payments except in 1958, make possible through aid and loans from the World Bank and the U.S. Similarly Pakistan's import liberalisation substantially widened the trade deficit. The deficit on commodity trade rose from 620 m rupees in 1959-60 to 3000 m in 1964-65 and simultaneously foreign aid which totalled around $ 1.6 billion over 1951-60 increased after 1960, total flow over 60-64 being 3 billion. For the Philippines, it is even doubtful if trade liberalisation stimulated exports at all. [76]

This is hardly surprising. Where exports are limited by sluggish world demand, changes in trade policy would of course be of little help. Where the limits to exports arise from an excessively high domestic capacity to absorb, mere exchange rate adjustment which affects this problem through only indirect and tenuous channels would again be of little consequence. If it has stimulated exports significantly it is because the simultaneous import liberalisation has generally made more goods available directly and also by permitting better capacity utilisation where exchange scarcity had acted as a cottleneck. By the same token, however, a part of the imports have directly or indirectly gone into satisfying residual pent-up demand at home. Similarly, another part of the imports has purely replaced the domestic production of substitutes, thus being totally unnecessary from the country's point of view. [77]

Therefore this entire process of trade liberalisation has usually left the country even more indebted, retarded the growth of import substitute industries and yet left the main problem of how to achieve self-reliant growth completely untouched. The Indian case superficially appears different as the balance of payments situation has improved considerably since the devaluation of 1966. But this is largely because during this period there has been a serious recession in the economy reducing home demand hence the demand for imports and encouraging a certain amount of forced exports. Thus even there the conflict between maintaining certain desired rates of growth and balance of payments stability has remained largely unresolved.

Of course from the point of view of metropolitan agencies, this conflict is meaningless. Growth should be left to the operation of private including foreign capital instead of being artificially maintained by the government. The government should concentrate on investing in overheads, providing adequate incentives for private capital and devoting greater energies to the promotion of agriculture, control of population etc. Thus the common theme underlying both the stabilisation policies of the I.M.F. [78] and the new course proposed by the World Bank, AID etc. is the emphasis on greater reliance on the free play of capital, from which it follows that the economy should be exposed to the "winds of international competition" and the framework of economic nationalism which hot-house fashion had encouraged industrialisation should be dismantled. Free play of capital implies in effect the domination of foreign capital to which domestic capital if unaided by the state can never stand up. Let us see to what extent this new course can solve the social problems of poverty and unemployment.

(ii) A greater emphasis on agriculture is highly desirable provided <u>appropriate</u> institutional changes have already been made. In many underdeveloped countries however, this emphasis has implied the promotion of investment and technical progress - e.g. the introduction of high-yielding varieties of seed, within the developing <u>capitalist</u> relations. This in turn has accelerated the process of capitalist development in agriculture. Whatever its effect on output etc. this development is likely to accentuate the problem of poverty for the majority of the rural population. Let us look for example at the Indian case. (a) The bulk of the peasantry is becoming relatively and in some cases absolutely worse off. The new technology ushered in by the "green revolution" requires a certain minimum investment which is usually beyond their means. Moreover the increased profitability of agriculture is reflected in an increase in land values hence land rents so that small peasants cultivating on leased-in land while not getting any benefits from the new technology have still got to pay higher rents as a result of it. [79] Besides where the higher profitability induces the landlords to undertake direct cultivation they resume land by evicting the tenants. Both these processes which according to observers are taking place in rural India, accelerate the pauperisation of small tenants. Together with population growth this would raise the proportion of wage labourers to rural work-force which is what in fact seems to be happening. A comparison of 1961 and 1971 census data suggests that the proportion of agricultural labourers to the total rural work force has ingreased in several states and nationally almost by 10 per cent. [80] (b) Simultaneously this spreading capitalism has serious implications for labour utilisation. In the beinning the adoption of new technology by making possible double or triple cropping increased the demand for labour. However, it has been shown that the introduction of certain types of machinery - pumpsets, threshers, and tractors - would eventually push the demand down to even below the original level. [81] These machines and others like combine harvesters which are even more labour-saving are being increasingly used and the turn down in labour demand has already appeared in certain areas, e.g. in the Punjab and Haryana states where labour-demand is expected according to one estimate to have dropped by 11% in 1968-69. [82]

Farm mechanisation in a situation of unutilised labour may appear paradoxical but is wholly rational for the capitalist farmer. Owing to the seasonal nature of agricultural operations, despite the existence of unutilised labour throughout the large part of the year, a certain tightness arises in the labour market during the peak season. Since the very multiplicity of cropping imposes a strict time-schedule for agricultural operations, this tightness is intolerable for the capitalist farmer. He is uncertain whether he can get an adequate amount of labour at the right time and if he does not - i.e. if he gets 90 labourers instead of 100 - the loss may be substantial. So he introduces machinery which however replace not only the 10 absent labourers, but the other 90 as well. Moreover, he hires the machinery out to neighbouring capitalist farmers who even while not facing shortages may prefer to use these. If the rural economy was organised along collectivist lines, labour utilisation in peak seasons could be planned e.g. transfers from the other sectors arranged to meet gaps etc But within the capitalist mode where the profit-motive dominates, if tractors guarantee profits, they are used irrespective of their impact on labour utilisation.

The net effect on labour utilisation of course depends on a number of factors e.g. rate of growth of output, rate of growth of output, rate of speed of machinery etc. but we can safely say that the problem far from nearing solution will grow more acutely, if no other reason at least owing to population growth. [83]

(iii) Will foreign capital-led industrial growth provide a solution? Indeed, to what extent would opening the door even wider for foreign capital help industrial growth? The growth of foreign capital in underdeveloped countries in recent years has been very rapid, and this has been a new kind of foreign capital.

The value of U.S. direct investments in Latin America which had declined from $3.5 billion in 1929 to 2.7 billion in 1943 has risen at an average annual rate of 7.3% during 1943-50, 6.9% during 1950-60 and 4.6% during 1960-67. [84] Moreover within this growth there has been a relative shift away from traditional lines - public utilities and agricultural exports - towards petroleum and manufacturing. The share of these two activities in the increment of the stock of U.S. investments in Latin America during 1950-60 was 42.1 and 21.3% respectively and during 1960-67, 6.4 and 64.8%.[85] Similarly in India after the collapse of the old empire, the old foreign capital much of which was in the form of branch investments in finance, utilities, tea and jute has been on the decline. The nationalisation of the Imperial Bank of India removed it from a dominant position. A number of agency houses changed hands and Indian big business took on several foreign enterprises in tea, jute and trading. Even in those agencies which continued growth has been limited. However a new kind of foreign capital has been coming in since then. Petroleum and manufacturing have been again the favourite fields [87] and the form of investment has been through subsidiaries or join ventures where foreign capital has minority holdings but a dominant position through the control over technology.

Taking the old and new together, foreign capital holds a substantial and often a strategic position in the underdeveloped economies. An estimate puts the book value of U.S. direct investment in Latin American and Caribbean region at $12,989m. in 1968. The same year U.S. subsidiaries in Latin America exported $4,500m. or 35% of all Latin American exports and the share in manufactured goods alone was 41%. Of course in case of specific countries - Venezuela (oil), Chile (copper), Honduras (bananas) - the share in exports was 75% or more. [88] In India, the sales, of branches of foreign companies and "foreign controlled rupee companies" - a term used by the Reserve Bank to cover subsidiaries and certain minority ventures - as a proportion of those for <u>all</u> public and private limited companies stood at 29.7 per cent in 1967-68. An estimate which includes a wider range of minority ventures - those indirectly controlled through technology etc. - puts the figure at 46.8% [89] In specific branches of manufacturing - chemicals, rubber, electricals etc. - which incidentally are the fastest growing and the most profitable areas, the share of foreign companies is substantially higher. [90]

While this rapid growth has taken place, there has actually been an outflow of surplus from these countries. Over the period 1950-65 the net outflow of surplus from Latin America on account of private foreign capital has amounted to $7.5 billion. [91] The net outflow from India between 1956-61 was 672m. rupees, which has increased much since then. [92] Moreover, these official figures grossly understate the actual figures involved since excessive charges for materials and spares, payments for unnecessary goods and services etc. are not included. To give an example: international oil companies which refine in India crude oil imported from the Gulf area fix crude prices. The prices were exorbitantly high so the Soviet Union offered to sell crude on barter terms to India. The Companies refused to handle it and it has been estimated that Russian crude would have saved India $140m. of foreign exchange annually, about 10% of the total annual export receipts in the fifties. [93] Thus the actual outflow even if small compared to the national income, is usually a large part of the mobilised surplus and also exchange receipts.

This of course has been a general phenomenon. Whenever metropolitan capital has operated elsewhere, it has tended to drain away the surplus it acquires back to its own base - the metropolis. During 1950-1961 when American capital was unquestionably leading the world, American corporations took $9500 m. more as income than they sent out as capital, while at the same time expanding foreign holding by $22,900m.[94] When Britain was the leading metropolis, between 1870 and 1914, her net export of capital amounted to £2400m. while the income received was £4100m.[95] When capitals based on different metropolitan countries operate within each other's territories some of these flows if they occur cancel each other out. But when they operate within underdeveloped countries, all the flow of surplus is eventually only one-way.

Thus the outflow of surplus is only a particular manifestation of a more general conflict - that between the metropolis-based international capital and the underdeveloped nation state. The other ways in which this conflict manifests itself are - excess capital imports, restrictions on exports, restrictions on research etc. This particular manifestation - i.e. surplus outflow - arises because of the tendency towards geographical concentration of capital we discussed in section 2 above which give metropolitan capital only a limited interest in the peripheral countries, its real theatre of action being the metropolitan area generally and its own metropolis in particular. This general conflict and the fact that foreign capital has the support of a powerful foreign state in case of a show-down make it fundamentally different from domestic capital. It must be judged on different and more restrictive grounds and indeed whenever possible the domestic state has judged it so. When it raises a large part of its funds within the underdeveloped country, or seeks to preserve its technological monopoly, it is doing what is normal for any capital and rational from its point of view, and yet this raises the cost to the domestic economy. This conflict must also be borne in mind in assessing the prospects of foreign capital-generated growth.

Clearly a distinction between mineral investments and manufacturing investments must be made here. The location of the first type of investment clearly depends on geographical factors of availability of minerals. Hence a mere "opening of doors" may not lead to much inflow of foreign capital in all cases. Moreover even when foreign capital does come in to develop the minerals, the linkage effects of such development on the rest of the economy are usually very weak. Most of the machinery and materials for current operation come from the metropolis. Of course part of the proceeds go for the remuneration of labour but this is usually small since the techniques employed are highly capital-intensive. Even a part of this in any case accrues to foreign personnel, who fill managerial, semi-managerial and skilled positions and who either send hom their salaries or consume imported goods. Local currency expenditures generated by such investments rarely exceed 15-20% of the value of total product, a figure not likely to be altered much even if we take into account the taxes paid locally.[96]

Thus the foreign sector is usually a little island in the domestic economy, strongly linked to the metropolis benefitting at most a small part of the local population with no effects on the rest. Besides since particular mineral deposits do get exhausted, at the end of it foreign capital leaves and the country is almost "back to square one" with one important difference - part of its mineral resources have been depleted. [97] It is often argued that but for foreign capital, these resources would not have been developed anyway. But (i) even if this was true, the above argument suggests that development of this kind has little impact on the domestic economy, (ii) moreover this is irrelevant since the very introduction of foreign capital perpetually maintains the country's dependence on it and justifies its own existence owing to its perpetual control over technology and markets.

Investment in manufacturing is governed by rather different considerations. The substantial growth of manufacturing investment has been a result of two sets of factors - (i) the enormous centralisation of capital that has taken place in recent years, leading to the emergence of giant corporations which usually is a precondition for their going multi-national, [98] (ii) the political and economic changes following the break-up of empires. In a sense of course the break-up of empires was a reflection of these changes which had begun earlier but which gathered momentum subsequently. Along with empires, exclusive preserves were broken up allowing for greater competition between metropolitan capitals and also between these and the domestic national capitals which were sheltered behind protective walls. Simultaneously the operations of the underdeveloped states expanded their domestic markets. To jump tariffs and participate in this market, metropolitan capital established enterprises - subsidiaries or joint ventures - in these countries where previously the markets were supplied through trade from production carried on in the metropolis. [99] In the collaboration agreements between the parent company and the local "off-shoot" there were often explicit clauses restricting exports to the parent country and such other countries where other "off-shoot" companies operated. Exports were usually allowed to a few neighbouring countries or to virgin territory elswhere. [100]

This investment thus being predicated upon an expansion of the local market to which it responds, cannot be expected to initiate such an expansion itself. Thus growth must be generated by other factors to attract foreign capital; foreign-capital-generated growth is a rather remote possibility. Moreover even growth generated by other factors runs into difficulties owing to its operation. With growth the import-bill increases and foreign companies with their surplus capital outflow and excessive capital imports etc. contribute to the inflated import-bill. Simultaneously, however, exports are restricted from the most dynamic sectors where foreign companies usually operate. Consequently the balance of payments problem is exacerbated. But any slowing down of growth as a result of it makes things even worse: foreign capital loses interest in the country in question and surplus outflow increases. The whole problem can possibly be checked and balance of payments strengthened by drawing even more foreign capital through greater concessions and guarantees etc. but this increases the potential threat to the economy. Thus to rely on foreign capital to generate growth is both uncertain and would presumably require ever increasing guarantees and concessions.

Finally, there is a third type of foreign capital inflow whose potentials for generating growth are prima facie greater. This is capital drawn to underdeveloped countries for locational reasons (the existence of cheap labour etc.) to meet not local but international demand. Typically as we saw in sections 2 and 3, such investments have been historically limited since capital has usually tended to gravitate towards the metropolis. It is argued that this pattern may be changing. Though several of the examples cited - Hong Kong being one - are rather special cases hence not very convincing generally, some change may be indeed taking place e.g. Mitsubishi have shown an interest in setting up plants in India to meet World demand. [101] Nevertheless the scope for such development seems limited: (i) even if such plants are set up in urban centres, the technology employed may still have to be fairly capital-intensive to compete internationally in an effective manner, in which case these centres will also become little islands much the way that mineral centres have been. [102] Even within these moreover, the wages of local labour cannot be very high - or even as high as in mineral centres - since that would negate the justification for foreign capital's presence there in any case. (ii) If the rest of the economy is not affected, political disturbances and revolutionary unrest are bound to increase. These or even the fear of these are likely to keep foreign investment of this kind limited. This may be the tragedy of metropolitan capital. Having shunned these countries throughout the last hundred years, it has created a situation so explosive that even if it wishes to enter these countries now, it dare not. The masses are increasingly demanding more radical change.

Prospects for Development: Summary and Conclusions - Let us pull together the threads of the argument. The capitalist mode of production was set upon its feet through a process of primary accumulation which by expropriating petty-producers simultaneously achieved two objectives: (i) Two groups were created - those few in whose hands the means of production and subsistence were accumulated and the large mass of producers who now had nothing to sell but their labour-power, and (ii) a market was provided for the products of the new mode within which these two groups "came face to face and into contact". Once on its feet, though capitalist production relied to a greater extent on internal appropriation of surplus value for accumulation and production for the internal market, primary accumulation in one sense continued side by side: petty producers were expropriated continuously. Indeed smaller capitalists began to be expropriated as well, leading to a centralisation of capital. While primary accumulation destroyed the pre-capitalist modes in the colonies and semi-colonies, the development of capitalism which resulted was geographically unevenly distributed owing to the existence of "external economies" in the broad sense, i.e. the fact that capital where it takes root draws capital to it. Thus development at one pole - the metropolis - was accompanied by under-development at another - the periphery - the latter characterised by integration into world trade as primary producers, and by the existence of a "relative surplus population" which had to survive as best it could. This entire process of development-underdevelopment at an international level took place through the medium of a colonial or comprador state. The slow evolution of the present institutions and the population growth did not precede this "development of underdevelopment" but followed in the wake of it.

This pattern was challenged by liberation movements in "peripheral" countries, in many of which the national bourgeoisie emerged as the dominant force. In its efforts to start an indigenous capitalist development this bourgeoisie faced certain unique problems - (i) it had no colonies left to acquire (ii) simultaneously having been colonised it inherited a far poorer country and population growth was constantly making matters worse, (iii) it arrived also at a time when the world capitalist system was being politically challenged, so that it was afraid of pressure from below and (iv) finally with all this, its own failings made it incapable for the task. Having grown up in the shadow of the metropolis it tried to emulate its metropolitan counterpart in several ways, not least in the pattern of consumption.

Its problems were such as to require bold and unorthodox measures, It could for example have used the vast mass of unutilised labour for capital formation if it could overhaul the rural institutions but its political instict was to ally itself with the landlords and after some patchy land reforms settle down to the business of promoting a sort of rural capitalism from above. Since the surplus value generated within the tiny capitalist sector was inadequate, primary accumulation had to supplement it and took the form of drastic squeeze on the consumption of the masses, e.g. the poor peasantry and the landless labourers. In addition where the resulting development was concentrated in a certain region, the old metropolis-periphery relationship was reproduced within the country.

However with the rising consumption of the bourgeoisie and the landlords even this primary accumulation was insufficient and capital had to be borrowed from the metropolitan centres. In any case for political reasons the bourgeoisie had to re-ally itself with the metropolitan bourgeoisie soon after independence though at a higher level. Besides the continued dependence on borrowing sapped the foundations of the bourgeoisie's programme of independent national development. It was under pressure to dismantle the system of restrictions on trade and foreign capital which had developed since independence and in several cases succumbed to the pressure at least partially.

But such a more "liberal" economic regime is no more likely to bring all-round development than the earlier restrictive one. The new regime represents a tendency towards the re-establishment in a more complex form of the nineteenth century pattern of free trade and free capital movements which was responsible for generating under-development in the first place. Indeed the so-called "liberalisation" is a part of the process of centralisation of capital at an international level - the swallowing of small capitals growing behind tariff-barriers and other restrictions by the large ones. This "liberalisation" will once again leave the growth of underdeveloped countries to the vagaries of international capital. At best, even assuming that this capital is in fact moving geographically out of the metropolis, it would make a segment of the underdeveloped country a lateral extension of the metropolis. The technology apart from minor modifications would roughly be the same as in the metropolis Hence even sustained growth in this segment would leave the problems of labour utilisation and poverty untouched, problems which are becoming more serious because not only the population growth but also the labour displacement consequent upon the growth of rural capitalism.

Hence the current debate among academic economists about the pros and cons of "liberalisation" centres around the relative roles of national and metropolitan capital. The real question however is the extent to which capitalism itself is adequate. We have argued that capitalist growth in either form will have little impact on the social problems facing underdeveloped countries. The set of institutions required for solving these problems can be created only under a different mode.

NOTES

1. Prabhat Patnaik, Clare College, Cambridge.

2. G. Myrdal, Asian Drama, Appendix 2.

3. Kingsley Davis, "Social and Demographic Aspects of Economic Development in India", in S. Kuznets ed. Economic Growth: Brazil, India, Japan, 1958

4. M. Mukherjee, "A Preliminary Study of the Growth of National Income in India 1857-1957", in V.K.R.V. Rao & K. Okhawa ed. Asian Studies in Income and Wealth, London 1965.

5. S.J. Patel, Agricultural Labour in Modern India and Pakistan.

6. The concept was elaborated in K. Marx, Wage, Labour and Capital, and later in the Preface to a Contribution to the Critique of Political Economy. For a simple introduction to the concept, see Oskar Lange, Political Economy.

7. Recent research in Indian history shows that Marx's view of pre-British Indian society is not supported by the available evidence. For a brief survey of the pre-British society, see Irfan Habib, "Landed Property in pre-British India", Enquiry (New Delhi) Winter 1965. For a detailed study, Irfan Habib, The Agrarian System of Mughal India, Oxford 1965. See also the review of the book by T. Raychaudhuri in Enquiry Spring 1965. For Marx's writings on India, Marx and Engels, On Colonialism (Moscow) n.d. ; R.P. Dutt, India Today, London 1940, Ch. 1. If we call the Asian societies feudal according to our criteria in the text, needless to say, this feudalism differed considerably in its details from European feudalism.

8. For a discussion of external and internal factors and their interaction, see the Science & Society debate, 1950-1953, between M.H. Dobb, P.M. Sweezy, H. Takahashi, Christopher Hill and Rodney Hilton, on the Transition from Feudalism to Capitalism.

9. M.H. Dobb, Papers on Capitalism, Development and Planning, London 1967, Ch. 1; Habib, "Landed Property..."

10. Dobb, loc. cit.; Habib, "Agrarian Causes for the Downfall of the Mughal Empire", Enquiry.

11. See the Transition debate.

12. H. Takahashi in the Transition debate.

13. T. Raychaudhuri, "Towards a Reinterpretation of 19th Century Indian History", Indian Economic & Social Hist. Rev. (Delhi) March 1968.

14. P.A. Baran, Political Economy of Growth, London 1957, Ch. 5.

15. For a brief discussion of Latin American feudalism, C. Furtado, Economic Development of Latin America, Cambridge 1970, Ch. 2; on pre-colonial African society, a forthcoming book by B.Van Arkadie.

16. K. Marx, Capital, Vol.1. Part VIII (All references are to the Lawrence & Wishart edition).

17. Though as we shall see "primary" accumulation e.g. expropriation of pre-capitalist producers, proceeds side by side.

18. K. Marx, loc.cit.

19. This phrase - "relative surplus population" - is Marx's. For a discussion of its meaning, forms and indeed for much of the argument in this part of the text, see K. Marx, Capital, Vol. 1, chapter on the General Law of Capitalist Accumulation.

20. R.M. Solow, "A Contribution to the Theory of Economic Growth, Quarterly Journal of Economics, 1956.

21. In a different context, this was argued by M. Kalecki, "Some Observations on the Theory of Economic Growth", Economic Journal 1961.

22. J.A. Schumpeter, Theory of Economic Development, New York 1961; L.L. Pasinetti, "A New Model of Economic Growth", Econometric Approach to Planning. Pontifical Academy of Sciences.

23. Baran & Sweezy's discussion of the effects of market-structure on investment in new inventions, holds mutatis mutandis for the effects of market conditions, P.A. Baran, P.M. Sweezy, Monopoly Capital (MR press) 1966.

24. The introduction of automobiles, if we follow Baran & Sweezy, is such an example of a major innovation.

25. A fallacy of much Marxist thinking is to argue that export of capital alone is relevant in this context. I have argued against this in an unpublished paper, "External Markets and Capitalist Development", for the historical importance of external markets for goods in stimulating recovery, see E.J. Hobsvawn, Industry and Empire, London 1968.

26.

27. This immobility may be supplemented by other factors - e.g. trade union action in the capitalist region prohibiting immigration, the costs of acquiring certain skills which may be necessary for mobility etc.

28. This has certain implications for regional inequalities. Near the capitalist centre, adjoining regions will first be hit and then absorbed i.e. within that area initial divergence between regions is followed by some sort of convergence. But simultaneously the divergence between regions is followed by some sort of convergence. But simulataneously the divergence between that area and the rest increases. Where of course the boundary of that area is drawn depends on several factors. Many writers noticing this divergence - convergence between regions have postulated it as a general rule under capitalism. That however is only a small part of the picture. Far more important is the huge and growing divergence between that area and the rest, a result of the same process.

29. E. Mandel, Marxist Economic Theory, Vol. II Ch.13, p.444.

30. Quoted in P.A. Baran, op. cit, p.145.

31. Mandel, loc. cit.

32. Quoted in Mandel, loc. cit.

33. For a discussion of "unequal exchange", E. Mandel, New Left Review,25.

34. For a discussion of items of drain from colonial India and a review of the entire debate on the question, see Bipan Chandra, The Rise and Growth of Economic Nationalism in India, Delhi.

35. H.R. Ghoshal, "Industrial Production in Bengal in the early Nineteenth Century" in B.N. Ganguli ed. Readings in Indian Economic History.

36. Bipan Chandra, "A reinterpretation of Nineteenth Century Indian Economic History?" in Ind. Econ. & Soc. Hist. Rev. 1968.

37. Daniel & Alice Thorner, Land and Labour in India, London, 1962. Ch. 5.

38. C. Furtado, Economic Development of Latin America, Ch.4.

39. For a discussion of its political effects, see D. Dorowitz, From Yalta to Vietnam

40. India's industrialisation is discussed in A.K. Bagchi, Private Investment in India, 1900-1940, Cambridge, Forthcoming. For Latin America, C. Furtado, op.cit.

41. Furtado, op.cit. Ch. 10.

42. Furtado, op. cit., Ch. 11; Bagchi, op.cit., Ch.7.

43. Furtado, loc. cit., p. 91.

44. F. Lehman, "Supply of Locomotives - A case-study of Economic Imperialism". Indian Economic and Social Hist. Rev. October 1965.

45. A distinction must be made between two different situations i) where the state acts within a capitalist set up and ii) where there is no such set up involving domestic bourgeoisie at any rate and the state is almost as it were the capitalist. Both these have been referred to as State Capitalism, which is a source of confusion. The second case arises where in the past no articulate class-structure has emerged - in particular the development of the bourgeoisie has been limited. It can be argued here that the bureaucracy constitutes a sort of proto-bourgeoisie and that this case develops over time into the first case, especially since it is integrated into the imperialist system. For a discussion in the context of Africa, reference may be made to T. Szentes, Political Economy of Underdevelopment. In our discussion below we look mainly at the first case - what has been called State Monopoly Capitalism - though much of what is said has relevance for the second case as well.

46. For an interesting discussion of Africa, see Basil Davidson, "The African Prospect" in Socialist Register 1970.

47. According to Bettelheim's estimate, "non-industrial wage-earners" i.e. civil servants and professional groups accounted for 20 per cent of the non-agricultural working force in India in 1950-51 while the industrial working class was 12 per cent. "Small employers" and "independent workers" (doctors, lawyers, etc.) formed about 5.3 per cent while the rest - almost 60 per cent - consisted of the sub-proletariat (i.e. with virtually no means of production but not belonging to the wage earning class) and small shopkeepers and craftsmen etc. See C. Bettelheim, India Independent, London 1968, Ch.V.

48. Numerically the poor peasants and the landless labourers together formed the most significant part of the population. In Brazil, non-owning cultivators formed 62 per cent of the agricultural work-force in 1950 and if we include petty-owners we have a total of 81 per cent. Between them they owned only 3 per cent of the land. See A.G. Frank, Capitalism and Underdevelopment in Latin America (1971 paperback edition). For India and Pakistan in 1931, it has been estimated that those with little or no rights to land formed over 70 per cent of the total agricultural working population and petty proprietors another 9 per cent. Landless labourers were 37.8 per cent and tenants-at-will and share-croppers 24.3 per cent. See S.J. Patel, Essays in Economic Transition, London 1963, Ch.1.

In pre-revolutionary China approximately a half of the peasants might have owned their farms, but the distribution was extremely uneven with a large part of the population concentrated on dwarf-holdings. See R.H. Tawney, Land and Labour in China, London 1932, Ch.2.

49. The strength of this challenge itself was a reflection of several factors - (i) the general loosening of metropolitan ties after the Depression and (ii) the weakening of older metropolitan powers like Britain and the rise to prominence of the U.S.

50. The October Revolution under the Bolsheviks had to simultaneously carry out a dual revolution - a bourgeois revolution in the countryside which sought to abolish bourgeois property. See Isaac Deutscher, The Unfinished Revolution, London 1967. Ch.2.

51. In the literature "surplus labour" is often defined in a different way: It is said to exist if the withdrawal of labour through the market leaves output unaltered. For an elegant discussion, see A.K. Sen, "Peasants and Dualism", Journal of Political Economy, 1966 This is a "behaviouristic" definition which unlike our definition does not transcend the existing institutional setting.

52. This definition is slightly different from that used by Baran for his "potential economic surplus" e.g. he excludes essential consumption of capitalists and landlords. See Political Economy of Growth.

53. Govt. of India, Agricultural Labour Enquiry 1956. Underemployment is very difficult to estimate, yet an attempt has been made by S. Mehra, "Surplus Labour in India", Indian Economic Review 1966.

54. On land utilisation in Latin America, see Frank op.cit.

55. On the Indian Government's efforts to organise rural works programmes etc. under the Community Development scheme, see C. Bettelheim op.cit.

56. V.I. Lenin, The Agrarian Programme of Social Democracy. Collected Works, Vol. 13.

57. For India, G. Kotovsky, Agrarian Reforms in India, Delhi 1967, D. & A. Thorner, Land and Labour in India and D. Thorner "Capitalist Agriculture in India" (Paper read at Conference on S. Asia, Cambridge 1968). See also S.C. Gupta, "New Trends of Growth", Seminar (Delhi) 38 and Utsa Patnaik, "Development of Capitalist Farming in India" (mimeo). For Pakistan, Hamza Alavi, "Changes in the Agrarian Structure in Pakistan" (mimeo), and K.N. Raj, India Pakistan & China, Delhi 1967. For Iran, F. Khamsi, "Land Reforms in Iran", Monthly Review 1969-70

58. K.B. Griffin, "Financing Development Plans in Pakistan", Pakistan Development Review 1965, p.606.

59. Griffin, op.cit. p. 613.

60. S.R. Lewis, Pakistan: Industrialisation and Trade Policies.

61. For a discussion of India's savings performance, K.N. Raj, "Some Issues Concerning Investment and Savings in the Indian Economy", and A.K. Bagchi, "Long-term Constraints on India's Industrial Growth 1951-68", in E.A.G. Robinson and M. Kidron ed. Economic Development in South Asia, London, 1970.

62. N.H. Lef, "Marginal Savings Rate in the Development Process: the Experience of Brazil", Economic Journal, September 1968.

63. Quoted in K.B. Griffin, "Foreign Capital, Domestic Savings and Economic Development", Bulletin of Oxford University Institute of Economics and Statistics, May 1970. In some other cases e.g. Turkey the increase in savings- ratio shown by analysts could well be illusory, a result of the statistical assumptions, cf. Lef.op.cit.

64. On the relationship among metropolitan states and capitals, Bob Rowthorn, "Imperialism: Unity or Rivalry". New Left Review 69.

65. See for example an interesting report in the Indian context by the National Council of Applied Economic Research, Foreign Tehhnology and Investment, a Study of their Role in India's Industrialisation, New Delhi 1971.

66. The period after the Second World War has been characterised as a period of "super imperialism", cf. Rowthorn op,cit. Owing to the weakness of other metropolitan countries, the United States assumed the leadership and defended the interests not only of its own capital but to some extent of other metropolitan capitals as well. U.S. dominated agencies like the World Bank have sometimes intervened on behalf of other metropolitan capitals. A recent example is the World Bank's deferment of a £4.8m. loan to Tanzania at the request of the British government until a settlement was reach on the question of compensation for nationalised British capital in Tanzania. The Guardian, 31 Jan. 1972.

67. This insubordination may be ended in any one of a large number of ways - from a coup with the help of a part of the domestic bourgeoisie who also are terrified that the government may "go left", to the application of economic pressure through suspension of aid, trade, etc. which creates such acute economic problems in the short-run that the government loses some of its popularity especially with the middle-classes and backs down.

68. N.K. Chandra, "Western Imperialism and India Today", (mimeo).

69. S. Ishikawa, (Economic Development in Asian Perspective, Tokyo 1967) found that in a cross-country study, India and Pakistan were rather exceptional in having high values for both the proportion of total workers employed in "large" factories, i.e. with 500 or more workers and the share of agriculture in G.N.P.

70. This is true of a very large number of countries in Asia and Latin America. On this also, see G. Myrdal, Asian Drama.

71. V.N. Dandekar and N. Rath, Poverty in India, Bombay 1971.

72. This underlies much of the argument of I.M.D. Little, M. Fg. Scott and T. Scitovsky, Trade Policies and Industrialisation, OECD. For a discussion on India, B.I. Cohen, "India's Export Problem", Quarterly Journal of Economics, 1964. It is by no means clear of course that if all underdeveloped countries had attempted export promotion, each would have still come out "better" from it.

73. This underlies the "negative value added" discussion, see I.M.D.Little, T.Scitovsky and M.Fg. Scott, Industry and Trade in Some Developing Countries, (OECD), London 1970. The computed value added usually relates to an ex ante situation and in any case as a criterion of efficiency does not take dynamic factors into account.

74. This may appear startling to many and it apparently contradicts several OECD studies. For example J. Bhagwati and P. Desai (India: Planning for Industrialisation, London 1970), have used a Chenery-type break up of industries into raw materials and intermediates, consumer goods and investments and studied import substitution in each. Their conclusions point to the fact that import substitution was successful from 1957 onwards, i.e. after trade restrictions had been imposed in a severe way. But this framework is inadequate for looking at a country's overall dependence on imports. For India, V.V. Desai ("Pursuit of Industrial Self-sufficiency: A critique of the First Three Plans", Economic and Political Weekly, May 1971) has made an alternative and in our view more appropriate division between (i) basic stage goods (ii) intermediate stage goods and (iii) final stage goods. The share of each in total value added for industry remained roughly constant between 1951 and 1964 which suggests that import substitution was usually confined to the finishing stages. See also N.K. Chandra, op.cit.

75. Of course the Bihar famine was insignificant in its scale compared to the terrible famines in pre-independence India where on each occasion millions died of starvation.

76. See the papers by Suparb Yossundara and Yune Huntrakoon (Thailand) and A.A. Castro (philippines) in T. Morgan and N. Spoelstra ed. Economic Interdependence in South East Asia, London 1969. Also K.N. Raj, India Pakistan and China.

77. Such cases of switch of actual (and not merely potential) demand from home produced goods to imports occurred for example after India's trade liberalisation.

78. For a discussion of I.M.F. stabilisation policies, Harry Magdoff, The Age of Imperialism, New York 1969. Such policies not only retard growth, increase unemployment etc. but also confer great benefits on metropolitan capital. The deflationary policy of the Brazilian government after 1964, by restricting finance to domestic entrepreneurs place them at a relative disadvantage to foreign capital which had access to outside funds. As a result several industries where joint-

ownership had prevailed before, were taken over by foreign capital. E. Galeano, "De-nationalisation of Brazillian Industry", Monthly Review, 1969-70.

79. This comes out from several field reports. See for example W. Ladejinsky, "Green Revolution in the Punjab", Economic and Political Weekly, (Review of Agriculture), June 1968. While rents were going up, he estimates that not more than 10 per cent of small farmers were utilising the new methods.

80. See the report in the Hindustan Times Overseas Weekly.

81. M.H. Billings and A. Singh, "Employment Effects of Farm Mechanisation", Economic and Political Weekly, (Review of Agriculture), December 1969.

82. M.H. Billings and A. Singh, "Mechnaisation and Rural Employment", Economic and Political Weekly, June 27 1970.

83. It is interesting in this context to note the following remark of Marx: "As soon as capitalist production takes possession of agriculture and in proportion to the extent to which it does so, the demand for an agricultural labouring population falls absolutely while the accumulation of capital employed in agriculture advances, without this repulsion being as in non-agricultural industries compensated by a greater attration". Capital, Vol. 1. (Lawrence & Wishart) Ch. XXV. p.642.

84. Carlos F.D. Alejandro, "Direct Foreign Investment in Latin America" in C.P. Kindleberger ed. The International Corporation, MIT 1970.

85. Alejandro, loc. cit.

86. K.M. Kurian, Impact of Foreign Capital on the Indian Economy, Delhi 1966. pp. 70 and 71. See also M. Kidron, Foreign Investments in India, London 1965.

87. Foreign business investment (in the narrower sense of loans, share capital and control over reserves flowing from share ownership) in India's private sector increased from 2646m. rupees in 1948 to 6669m. in 1961. Within this investments in petroleum rose from 223 to 1486 while those in manufacturing rose from 707 to 2892. See Government of India, Company News and Notes (Delhi), Jan,16,1969.

88. The Financial Times, London.

89. N.K. Chandra, "Western Imperialism...."

90. Reserve Bank of India, Foreign Collaboration in Indian Industry, Survey Report, Bombay 1968.

91. H. Magdoff, The Age of Imperialism, P.198.

92. S. Kumarasundaram, "Foreign Collaboration and Indian Balance of Payments" in R.K. Hazari ed. Foreign Collaboration, Bombay 1968.

93. M. Tanzer, International Oil Companies and the Underdeveloped Countries

94. Quoted in P.M. Sweezy, "Obstacles to Economic Development" in C.H. Feinstein ed. Socialism, Capitalism and Economic Growth, Cambridge 1967.

95. Sweezy, loc. cit.

96. For a clear discussion of this question, P.A. Baran, The Political Economy of Growth.

97. This argument is even more important for small countries. A discussion of the case of Cyprus is contained in Monthly Review.

98. This is the conclusion of R.E. Rowthorn and S. Hymer, "Multinational Corporations and International Oligopoly: the Non-American Challenge" in C.P. Kindleberger, ed. The International Corporation.

99. This tariff-jumping has been recognised to be quite important for both India, (Kidron op.cit) and Latin America (Alejandro in the Kindleberger volume).

100. Of the collaboration agreements studied by the Reserve Bank Survey mentioned above for India, export restriction clauses were included in 44 per cent of the total number of agreements involving subsidiaries. The figures for minority participation and pure technical collaboration agreements were 57 per cent and 40 per cent respectively. For the importance of export restriction for Latin America, Harry Magdoff, The Age of Imperialism and Celso Furtado, Economic Development of Latin America.

101. N.K. Chandra, "Western Imperialism". This locational shift is also predicted by some of the "product cycle" analysts. See for example, Raymond Vernon, "International Investment and International Trade in the Product Cycle", Quarterly Journal of Economics 1966.

102. For one thing research is usually centralised so that only minor adaptions can be made to the local conditions. Of course it can be argued that only those goods which require rather more labour will be produced in underdeveloped countries since the cost reduction on account of low wages is then large enough to make the location worthwhile. On the other hand however, the commodity must be fairly standardised and hence is likely to be rather more capital intensive. On balance though the precise answer is indeterminate there is little doubt that whatever it is it still will be so capital-intensive as to make little impact on the unemployment situation. Vernon himself thinks of the new situation as "paradoxical" - capital-intensive commodities being produced by underdeveloped countries.

NIXON'S "NEW" ECONOMIC POLICY

Paul Mattick (1)

Economic theory is one thing and economic policy something else. However, economic theory can always be adapted to changing circumstances. The practical economist need not be at a loss, or rather, since there are various economic theories, one can be replaced by another that fits the altered situation better. The changing economic scene in the United States and in the world at large was thus accompanied by a return to the depression theory, which had fallen into disregard during the long spell of apparent prosperity. The so-called macro-economics of social aggregates triumphed once more over the micro-economics of the market place. Nixon declared himself a Keynesian, ready to bring, at last, conscious order into the "self-regulating" market mechanism, which did not live up to its reputation. Aside from such obvious charlatans as Milton Friedman, however, the economic court jesters had known all along that the mixed economy was here to stay and could no longer function except through increasing government manipulation.

The whole apparent prosperity since 1950 was such only because the market demand was maintained and enlarged by the continuous growth of government-created "demand". This non-profitable part of total social production required monetary inflation in order to shift its expense from capital to the population at large. Nonetheless, even under these conditions, and due to the extraordinary increase in the productivity of labor, it proved possible to have the semblance of a real prosperity with rising profits, rising wages, and a rising government debt. Full employment, it was now said, implies inflation; one cannot have one without suffering the other. Why this should be was never made clear, because bourgeois economic theory does not differentiate between profitable and non-profitable production.

Confidence in this newly discovered mechanism of continuous prosperity by continuous inflation was slowly eroded by the process itself. Demand and production fell off despite increasing government budgets, occasioned by the war in Vietnam and the general expenses of imperialism. There arose a situation in which steady inflation was accompanied by growing unemployment, indicating that the profitability of capital was not such as to warrant its further rapid expansion. But full employment requires an accelerating profitable accumulation of capital. How to bring this about is the sole concern of all economic policy.

Profits, on which accumulation depends, are that part of total production which falls to the capitalists. The greater it is, relative to wages, the better the chances for a progressive capitalistic development. The expenses of non-profitable production, as exemplified by the larger part of government-induced demand, diminish the profits available to capital. To have a faster rate of capital expansion thus implies the reduction of wages relative to profits, as well as a reduction of government expenditures. This can be brought about by either deflationary or inflationary methods. Each has its shortcomings and its advantages, but the adoption of one or the other is seldom a question of choice.

Inflation, as determined by government monetary policy, implies that prices rise faster than wages, thus raising profits. Without this effect, it would be entirely senseless. Deflation implies the outright fall of wages relative to profits. Usually, deflation was not resorted to as a conscious policy, but was an expression of the business-cycle, which surprised the capitalists no less than it hurt the workers. To get out of a depression by inflationary means was the content of Keynesian theory. It was seen as a short-run measure leading to a new upturn of business activity and to the restoration of price stability.

The short-run measure became, however, long-run and therewith self-defeating. Although full employment was somehow kept up, it was so only by the perpetuation of the inflationary process and the steady enlargement of the non-profitable government sector of production _vis a vis_ the profitable private sector. Inflation has been "explained" as a vicious circle - wherein wages push up prices and prices, again, wages - due to the fact of full employment. By allowing unemployment to grow, this inflationary spiral was supposed to end.

Unemployment grew, however, not only because of some unemployment-producing cut-backs in government expenditures, but also for the more general reason of declining capital investments. It was the latter, far more than the quite limited ability on the part of the government to cut expenses, that accounts for the rise of unemployment which, at the end of 1971. exceeded, in official terms, six per cent of the working population. What had come about was not a mere maladjustment between supply and demand, whereby the latter drives prices up, but a real depression, such as the "new economics" had proclaimed was a thing of the past.

Despite all the "built-in stabilizers", the economists' "gamesmanship" and their "fine-tuning" of the economy, the inherent crisis-mechanism of capital production asserted itself and brought about a situation ending the "trade-in" of inflation for full employment by producing unemployment with inflation. The inability to handle this new situation at first found expression in the pre-Keynesian hope that things will settle themselves by letting them drift, that the presumed "equilibrium mechanism" of the market relations would lead, at some cost, to a new stability, harmonizing wages, profits, and prices. This was the "old Nixon" looking with favor upon the _laissez-faire_ fantasies of Milton Friedman.

Of course, to have both unemployment and inflation is a doubly effective way of raising profits relative to wages. Yet, too much employment and too much inflation are dangerous paths which may disrupt the social fabric nationally as well as internationally. It would be particularly perturbing to the Nixon Administration, finding itself shortly in an election contest. Thus the laissez-faire interlude was quickly discarded in favour of Keynesian policies far more radical than those envisioned by its originator. Friedman was, so to speak, displaced by Samuelson, who welcomed Nixon to "the club" but advised him that "Rhetoric cannot itself bring new jobs. This takes fiscal spending, bigger budget deficits," (2) - - and therefore more inflation. However, Samuelson does not really suggest full employment by way of more inflation, but only some reduction of unemployment by allowing for a reasonable rate of inflation; that is, he suggests continuation of the policy which has just failed.

The government economists tried to dramatize their new policies by giving them a sense of urgency. There was Phase One, designed as an emergency measure to freeze wages and prices so as to halt the inflationary trend. The Second Phase is to be of a more permanent nature, sprouting a systematic incomes policy by direct administrative measures, such as had once been the ideal of the late British Labour Government. Whereas Keynes had been content with monetary and fiscal means, Nixon adds to them measures which had hitherto been considered "socialistic" and therefore taboo. However, even though Nixon has been congratulated by the Labour Party's Mr. Wilson for finding the right solution to the capitalist dilemma, the program failed to disturb American capital.

Still, coming from Nixon, this program appears as astonishing as his scheduled trip to China. In Samuelson's view, it is a reversal on the order of Lenin's turnaround at the introduction of his New Economic Policy in 1921. In any case, it takes the wind out of the sales of the Democratic Party by annexing part of its demagoguery. Galbraith found himself plagiarized but could not very well denounce what he himself proposes. But, as the spokesman of the First National City Bank remarked, "You can lead an incomes policy to water, but you cannot make it drink." (3) The bourgeoisie is not worried, not because incomes policies have nowhere succeeded, but because, to the degree to which they have been successful, they have been a boon to the capitalists. Nixon knows, if not theoretically then certainly instinctively, that capital depends on profit and on increasing profits in order to thrive. Any incomes policy - whatever its specific character - must be subordinated to the profit requirements of capital accumulation.

The legal foundation of the incomes policy is the Economic Stabilization Act of 1970, which is to be extended into 1973. It authorizes the President to issue and enforce regulations over prices, wages and rent in order to control inflation. It may also come to include interests and dividends, but, thus far, according to Nixon, "this has not been necessary because of the continued success of the current program of voluntary restraint." (4) A whole bureaucratic apparatus has been established to determine what wages and what prices may rise, or remain the same, and to find some means to enforce these decisions. Taking the endeavor for a moment seriously, it is of course clear that it is far more difficult to control the myriad of prices than to control the relatively few wage-agreements, and that the control of the latter will be far more rigorous than the control of prices. But this is precisely the point; if one can stop wages from rising, one can slow down the rise of prices. Combined with a continuing increase in productivity, not reflected in price changes but in quantities of commodities produced and sold, wage and price stabilization is one way of raising the profitability of capital. To be sure, there exists also a Productivity Commission which, however, will concern itself not so much with wage increases based on productivity gains as "with the contributions of productivity to the economic stabilization program." (5) It is the latter, not productivity itself, which will be the touchstone for further wage increases.

If capital has nothing to fear from Nixon's innovation because "incomes policy has initially tended to divert income away from labor," (6) it has found the somewhat reluctant support of the trade unions, Asking, for appearances' sake, for a non-governmental body to regulate wages, they were thus rewarded and are now part of the machinery which tries to reduce the rate of inflation at the expense of labor. This did not, of course, prevent Mr. Meany from raising his yearly salary from 70,000 to 90,000 dollars despite the wage freeze. However, the unions' participation in the "anti-inflation" program is only logical, for their very existence and well-being depends on an expanding capitalism and thus upon the restoration of its necessary profitability. To work in this direction, has now been made easier, as it is no longer the industrial corporations which confront the unions but the government. It is assumed that the workers will be less inclined to go on strike against the government than against private enterprise.

The reduction of the rate of inflation by way of differential wage and price controls, while raising the profitability of capital, will not, by itself, suffice to bring about an economic climate generating enough optimistic expectations to assure Nixon's re-election. Production must be increased, and, at least for a time, unemployment must be reduced. This requires the improvement of the profitability of American capital at home and in international trade. The government's new budget policy is geared to this end. It is based on a larger deficit, caused mainly by revenue reductions due to tax cuts and accelerated depreciation allowances, which are supposed to stimulate private business. Instead of increasing government spending outright, Nixon attempts to enliven the economy through the expansion of private capital.

In this manner the deficit is expected to rise to $28 billion, exceeding that of 1971 by $5 billion. To make the deficit more appealing, the economists invented the concept of "full-employment budget", that is, a budget which under these imaginary conditions has set itself a ceiling with respect to deficit-financing. However, the government is not committed to honor its budget projections. If the stimulation of private business should not lead to the hoped-for upturn, new money can be injected into the economy to create an artificial upswing through direct government spending. And perhaps, though it is doubtful, the combination of both the tax presents to private business and greater government expenditures may do the trick of creating a temporary pseudo-prosperity impressive enough to keep Nixon in the White House.

This would mean, of course, that the general trend of economic expansion by way of government deficit-financing, which implies the erosion of private capital and of the market economy, had reasserted itself despite Nixon's avowed determination to call a halt to it. It should be clear by now, however, that it is far too risky to allow the old business-cycle to run its course, for it would involve depressions of such severity as to put the system itself in question. On the other hand, always to give in to the trend is no solution either, but only a slower road towards eventual destruction. The bourgeoisie has neither theory nor practice to deal with this situation. All it can do is to vacillate between inflation and deflation, between more or less government intervention, in an awkward reaction to changing conditions beyond its control.

At this time, and under the guise of "anti-inflation", it is once more government intervention and inflation which has been elected yo arrest the business decline in the empty hope that "stimulation" will lead to real performances. But deficit-financing is only a form of deferred taxation, and unless there should be a world-wide capital expansion of hitherto-unkown proportions, or unless the public debt is being repudiated and capital, to that amount, expropriated, the current deficits will only increase taxation at some future date. In any case, it is not by monetary and fiscal means, nor by legislation, that capitalism can reach a rate of expansion guaranteeing full employment and general satisfaction, but only through the actual production of enough surplus-value, or profits, which would allow for the further capitalization of the already existing mass of capital. Government policies are not so many ways to lead to such a state of affairs, but an expression of the actually existing difficulties in the way of a progressive capital accumulation.

Nixon's desperate attempt to reverse a disappointing business trend was not, and could not be, restricted to the United States. In violation of existing internal agreements, he surprised the world last year with the suspension of the dollar's gold convertibility and an - albeit shortlived - ten per cent import surcharge, in order to overcome a persistent payments deficit and to force a realignment of exchange rates that would improve America's competitive position in international trade. With this, the monetary system, as established in 1944 in Bretton Woods, came to an end and - at this writing - no new one has yet been devised to take its place.

International competition operates economically, politically and militarily. Among its various economic means are not only those provided by productivity differentials but also government measures, such as tariff regulations and the use of money as an instrument of competition. To bring some order and constancy into international transactions, international agreements are made. Prior to Bretton Woods, the impenetrable monetary jungle was to be overcome through the establishment of the dollar standard with a fixed relationship to gold. The value of other major currencies was determined by fixed parities to the dollar. The dollar was a reserve asset and as such convertible into its gold equivalent. With the exception of America, all countries had been impoverished by the war. There was a great demand for dollars and the so-called "dollar gap" hampered the restoration of international trade for many years. But in time this changed again, and, where there had not been enough dollars, there are now too many.

The reversal came about through the revival of the war-torn nations, but was largely fostered by American expenditures connected with the Korean war, the cold war in general, and finally the war in Indochina. There was a great amount of American capital investments in Europe, and though the American balance of trade remained favorable until 1971, it did not offset the outflow of dollars due to capital exports and government expenditures. With the balance of trade also turning unfavorable, and with no feasible way to halt the export of capital and to reduce the expense of imperialism, the consistently negative payments balance began to upset international economic relations by forcing American inflation upon other nations. But the increasing imbalance also implied that the growing quantity of dollars held by other nations made their convertibility into gold quite illusory, which was bound to bring about the dollar's devaluation in terms of gold, or the elimination of the gold-exchange mechanism.

Nixon did not, at first, devalue the dollar in terms of gold, nor did he choose to honor the gold-exchange agreement "down to the last bar of gold"; but he cut the dollar loose from gold altogether. Based on gold, the dollar appears as commodity-money, the symbol of a real asset, with a definite value, either in terms of production costs, or in such terms as modified by supply and demand. Within the national frame, money has since long ceased being commodity-money but by necessity remains nonetheless acceptable. If the world were one nation, with one government, this could conceivably be repeated on a world-wide scale. But this is a world of competitive capitalist nation states, all partaking, with more or less success, in the exploitation of the world's population. There arise imbalances in trade and payments relation, which may never average themselves out in the course of time, and therefore require a universally acceptable and relatively stable asset to realize temporary or permanent advantages. Without a gold backing, however, the dollar is just a claim on American resources which, if not immediately satisfied, may, in the course of further inflation, dwindle down to nothing. This also holds true for the dollar reserves of other nations.

The dollar inflation, while functioning as an instrument of American imperialism and American capitalist exports, also aided the rapid capital development of the European nations. Money goes where profits and interests are highest and they were higher in the expanding European economies than in the relatively stagnating United States. America's unfavorable payments balance was thus one aspect of the European prosperity, but it was also a reason for future difficulties, which, however, were largely ignored until they became acute. It was assumed, of course, that the flow of money would not remain one-sided, and that repatriation of profits from foreign investment would compensate for the further outflow of capital and restore the payments balance. But even though the last few years have witnessed a large flow of European capital to the United States, and though profits have been repatriated, the American payments balance has remained unfavorable.

Monetary depreciation, being world-wide and proceeding in Europe and Japan even more rapidly than in the United States, there was no way for America to gain trade advantages by inflationary means. At the same time productivity, by increasing in the extra-American capitalist nations, restored their competitive ability vis a vis the United States. American tariffs found their counterpart in the tariff policies of the European Economic Community. A situation arose where American imports began to exceed her exports. With all this, the monetary arrangements, as established in 1944 and at one time implying advantages to the United States, became disadvantages. To alter this situation, Nixon tries to force a new and more advantageous alignment of currency parities upon the reluctant competitor nations in order to improve the United States' world trade position.

Other nations were to raise the value of their currencies relative to the dollar, which simply means that, for them, imports become cheaper and exports dearer, thus changing the terms of trade in favor of the United States. That these nations found this more or less acceptable is shown in their recognizing that their own foreign trade is even more indispensable to the functioning of their economies than holds true for the United States, where foreign trade plays a relatively lesser part, considering the economy as a whole. If America could not sell, it would also lose the ability to buy, which, in view of its enormous share of the world economy, would be even more disastrous for other nations than for the United States. With this condition given, the stage was set for international bargaining for shares of the available profits. Nations will accept some losses in order to avoid greater ones. This objective advantage was utilized by Nixon to force other nations to partake in the attempted reduction of the payments deficit by providing America through political means what she could apparently no longer reach by way of economic competition. Yet, what is taking place here is simply a redivision, not an enlargement, of the existing profitable trade and the gain for one side implies a loss for the other.

At this writing, the problems stirred up by Nixon's "New Economic Policy" are far from being resolved. The so-called Group of 10, that is, the dominant capitalist nations, have agreed on a realignment of the par values of their currencies and on wider variations of exchange rates around the new parities. While newly fixed, there is a greater flexibility regarding alterations of exchange rates. The United States reduced the value of the dollar in terms of gold by a few percentages and lifted the 10 per cent import surcharge as her contribution to the international compromise. The new situation constitutes a devaluation of the dollar in terms of other currencies by about 12 per cent. The "gold window" remains closed for the time being, and there is talk of demonetizing gold altogether in favor of the imaginary "gold" backing of Special Drawing Rights (SDR's), which had been invented to minimize the gold losses of the United States and to gain time for straightening out imbalances in the payments system.

The agreement, however tenuous, needs to be justified in terms of economic theory, and because, at this stage of the game, America is obviously profiting from it, it is asserted that

> "historical experience contradicts the belief that variations in exchange rates and uncertainty in the exchange-markets are obstacles to foreign trade. Never have exchange rates of major currencies been more uncertain than in the period from 1967 to 1969, and ... yet, the growth of foreign trade surpassed all previous records in these very years ... No doubt, many traders lost business in these years, but their losses were more than offset by gains made by other traders. We hear always the complaints of the losers, while the cheers of the gainers remain inaudible." (7)

This Olympian attitude, looking beyond gains and losses to behold the progress of trade as a whole, will not impress the losers, nor prevent them from trying to reach the ranks of the inaudible. It means sharper competition, if not in monetary terms, then by more direct economic and political means, Contrary to appearances, the money aspect is actually the least important of the capitalist economy; it merely brings to light all the difficulties that underlie its market relations. There would be no monetary problems, or, for that matter, marketing problems of the kind presently experienced if the capitalist economy would function in the way it could be functioning effectively, that is, by an accelerating capital expansion. Although profits are realized by way of trade, they are not produced by it. The increase in trade, as noted by Machlup, may even imply an increase in production, and yet neither the one nor the other may be large enough or profitable enough to assure prosperous conditions with full employment. Obviously, the fact that one part of the capitalist world stagnates, while another still expands, indicates that the world economy as a whole is not accumulating fast enough to allow for a general capitalist prosperity, and for this reason causes all kinds of imbalances, including that of the payments system.

"The world monetary crisis," it has aptly been said, "is basically about what economic, military and political role the United States should play in the world and what part of this the other industrialized countries of the world should finance." (8) But it is more than that, for although the various Western nations may realize that their own destiny depends on the economic viability of the United States, they may not be able to make the concessions demanded of them. Even now it is insisted that America should end its balance-of-payments deficit through its own efforts, and not simply by the mechanical effects of devaluation, that is, that American capital exports should be curtailed rather than the trading surplusses of other nations. But the export of capital and mounting expenditures on the part of the American government are not policies that can be exchanged with others of a less detrimental nature, but are inescapable necessities of the capitalist system at its present state of over-accumulation relative to its profitability. Since the other industrialized countries are under the sway of the same imperatives, the possibilities for finding political solutions to the arising economic frictions between the various capitalist powers are quite limited. The current "solution" of the world monetary crisis can only be a make-shift arrangement, bound to fall apart as the economic crisis intensifies.

This crisis is of a world-wide nature, even though it grips some nations sooner than others and with varying severity. The slow-down of capital expansion is becoming an international phenomenon, implying falling profit rates and growing unemployment everywhere. Profits have been declining in Japan throughout 1971, and as regards Western Europe, according to the Organization of European Cooperation and Development, "a profit squeeze of unprecedented severity" may reduce capital expenditures below the 1970 level. With all this contradiction, the terms of trade turned even further against the less-developed countries and the expanding crisis embraces the world as a whole. Under these conditions, all countries, following the example of the United States, will be forced to safeguard their own specific needs before considering the over-all requirements of the capitalist world economy, even though it does constitute an interdependent entity. The same fiscal and monetary stimulations which prop up the American economy will serve to "stabilize" the economies of Japan and Western Europe, thus hastening the inflationary trend and disrupting international economic relations still further.

No real solution for either the domestic or the international crisis can be found by monetary or fiscal means. Although a crisis may be postponed in this fashion, it will be so only at the cost of even greater difficulties at a later time. However, one cannot stop inflation by way of inflation, which is the unavoidable result of governmental counter-cycled interventions in the economy. This being so, the desired payments equilibrium cannot be reached. Only in so far as Nixon's "new" economic policies succeeded in raising profits and depressing wages, and only to that degree, will the present crisis be alleviated. But that is a policy as old as capitalism itself.

NIXON'S "NEW" ECONOMIC POLICY

NOTES

1. Paul Mattick is

2. Paul Samuelson on Nixonomics, Metro, Boston, Dec.17,1971.
3. Monthly Economic Letter, Sept., 1971.
4. The President's Program for the Second Phase of Wage-Price Controls., Washington, D.C., Oct. 7, 1971.
5. Ibid.
6. Monthly Economic Letter, Sept., 1971.
7. Fritz Machlup in The New York Times, Dec. 26, 1971
8. G.H. Farnsworth, The New York Times, September 16, 1971.

A EUROPEAN AEROSPACE INDUSTRY?

Mary Kaldor (1)

The multinational aerospace firm is in its infancy. Over the last decade, we have seen the consolidation of aerospace industries domestically and the growth of international collaboration in the production and development of aircraft. But, up till now, the firms themselves have largely remained within their national boundaries and, because of their dependence on state spending and their role in the nation's military effort, they have been ideologically identified with national sovereignty. The purpose of this paper is to examine the current pressures for international mergers and their political implications for the growth of a West European entity.

The pressures for international mergers arise from two factors, the rapid pace of technical advance, which requires an ever-expanding capacity for production and development, and the limitations on European military spending. Rapid technical advance is powered by the competition between aircraft firms. It is a competition that at once reflects and reinforces the military competition between nations. The development of a new aircraft, that is faster, has a greater payload, or improved methods of tracking targets than its predecessor, can made all other aircraft of the same type obsolescent. In Europe, where the domestic markets are generally dominated by one or two firms, technical advance is necessary to ensure that the Government does not buy from abroad and that there is continued expansion in the export market.

Technological advance, in the aerospace industry, can be expressed in terms of product improvement. Each new aircraft is more complex than its predecessors and is consequently more expensive to develop and produce. For example, it cost $50,000 to build a fighter aircraft in WWII compared with around $2m. for the Viet-Nam War. Similarly, a medium military transport cost $100,000 to produce in WWII and $6,300,000 (2) during the Viet-Nam War.

This increase in costs could reflect either an increase in the capacity - plant, machinery and labour - needed to develop and produce an aircraft within some fixed period, or an increase in the time taken to develop and produce an aircraft. In fact, it refelcts the former since time is the crucial element in the race to capture the market. There is no point in developing and producing an aircraft that is obsolescent when it enters service with the armed forces or airlines. Thus, each new aircraft will require an expansion of the development and production capacity.

This expansion is largely financed by States. In Britain, during the years 1964-8, the aerospace industry's total income amounted to £2,865 million, of this £1,747 million came from the Government in the form of military procurement, research and development, and development assisrance for civil aircraft. (3) In France, total turnover of the aerospace industry in 1966 and 1967 amounted to Fr.11,724 million, of which the Government accounted for Fr.7,280 million. (4) But there are limits to the increase in State spending necessary to support the expansion of capacity. Social and economic factors come into play which limit both the total size of state spending and the share which can be devoted to military purposes. Governments, therefore, have played an active role in finding alternative ways to finance the expansion - encouraging exports and civil production - and in stemming the expansion by narrowing the range of products. The pressures for European mergers results from the attempt to narrow the range of products.

The narrowing of the range of products has occurred domestically through insistence that different branches of the armed services should use the same aircraft, and is now occurring internationally, through agreements that different nations should use the same weapons jointly produced and developed. The advantages to Governments of narrowing the range of weapons are twofold. It involves a saving in Research and Development expenditure; two weapons require more development capacity than one. And it can involve saving through extending the production runs for particular weapons. Thus Sweden has managed to maintain an advanced aerospace industry at much less cost than either Britain or France. The Swedish Air Force has three combat aircraft types, compared with 8 for Britain and 10 for France. All three air forces possess roughly the same numbers of combat aircraft, around 800. (5) Nevertheless, such savings do not reduce or maintain the level of development and production capacity, they merely slow the rate of expansion. Each new weapon is vastly more complex than its predecessor, and even if one weapon replaces three earlier weapons, it will involve an expansion of capacity. The TSR-2 bomber, had it not been cancelled, would have cost twenty times more to develop and ten times more to produce than the Canberra which it was intended to replace. (6)

The narrowing of the range of military projects requires industrial rationalisation. Each company, secure in the belief that the Government is committed to its viability, will prefer to bid for individual contracts rather than to undertake projects in cooperation with other firms. The risk that capacity will be lost through failure to distribute contracts fairly among different firms, has successively led European Governments to recognise the need for rationalisation. The number of European aerospace firms has been drastically reduced over the last ten years - a reduction which has only taken place under Government coercion or through promises of a juicier future.

The first major reorganisation of the British Aerospace industry occurred between 1957-60. During that period, the number of airframe companies were reduced from 17 to 7 (4 of which were very small) and the number of aeroengine companies from 7 to 3 (one of which remained small). The mergers and takeovers which brought about this reorganisation occurred at Government behest, with the sanction of new contracts behind them. Although the nature of the reorganisation was largely determined by the firms themselves, (7) the overall reorganisation was made necessary by the Government's declared policy on the future allocation of contracts. As Mr. Thorneycroft, then Minister of Aviation, stated in 1962:

> "In exchange for the formation of these groups, pledges were given to this industry. They were that, in future, orders should, save in exceptional circumstances, be concentrated on the groups themselves. Pledges were given that increased support should be given to civil projects. They were that we should seek to harmonise - and I think rightly - the military and civil requirement, and that we should back all this with a substantial programme of research." (8)

Sure enough, new orders were forthcoming when the integration was completed and the Government increased its research and development expenditure. The new orders were mostly transport aircraft for the RAF and the airlines and they were concentrated on the new aircraft groups. (9)

In recent years, the number of aerospace companies in Britain has been further reduced. Two of the smaller airframe companies, Beagle Aviation and Handley Page, have gone out of business, as a result of bankruptcy. Rolls Royce took over Bristol Siddeley Engines in 1966.

The same kind of process has occurred in France, West Germany and Italy. In the French nationalised sector, the process of rationalisation has gone fairly smoothly. Between 1954 and 1969, five airframe and missile companies have been reduced to one, Aerospatiale, while the State aeroengine company SNECMA has absorbed one of the two private aeroengine companies, Hispano-Suiza. In the private sector, less direct forms of Government intervention have proved necessary. Approval of an order for 100 Mirage F-1 aircraft was used as a lever to force serious negotiations between Dassault and Breguet. Further, the new company, Dassault-Breguet, has been granted exclusive rights to fixed wing military airframe contracts. In West Germany, over the last three years the number of aerospace companies has been reduced to three, while a recent merger in Italy, between Fiat and Finmeccania produced a new company Aeritalia.

Yet domestic mergers, by themselves, have not proved sufficient. To further narrow the range of projects, most European Governments have adopted the policy of international collaboration on major weapons systems, as well as on civil aircraft, such as Concorde and the A-300 airbus. International collaboration has long been an objective within NATO, for it has been regarded as a method of achieving the standardization of equipment between member nations. But, until the mid-sixties, attempts to develop standardization through common production largely floundered on the conflicting interests of European defence industries.

A number of major products were initiated during the 'fifties under the NATO "umbrella" but none of these can really be said to have advanced the cause of common procurement. Their major impetus, and their major consequence, was the development of defence industries among those European countries who lacked an independent capacity for the development and production of weapons. Where the projects conflicted with development of independent defence industries, notably in Britain and France, they were spurned.

The main projects of this period were two indigenous European projects, initiated by NATO itself - the G-91 light strike fighter and the Breguet Atlantique maritime reconnaissance patrol aircraft - and a series of American weapons jointly produced under licence in Europe - the F-104G Starfighter aircraft, and the Hawk, Bullpup and Sidewinder missiles. The first two projects were adopted as a result of NATO competitions. While most countries recognised the value of entering the competition and the advantages which would accrue if their designs were adopted, few countries were prepared to participate once the design had been chosen. In the case of the G-91, an Italian design, only Germany, which had no design capacity, was prepared to participate in programme and purchase aircraft once it had been adopted by NATO. The French, who had offered two alternative designs, refused to purchase any aircraft at all. Similarly, when the French design for Atlantique was adopted, Britain, whose A.V. Roe design had been rejected, opted out of the programme entirely. Indeed, despite participation in the production programme by the Dutch firm Fokker, the Belgium firms SABCA and Fairey, and the German firm Dornier, only 87 planes were eventually purchased; 40 by France, 20 by Germany, 9 by Holland and 18 by Italy.

The American projects were accepted by NATO but were largely an American initiative. They were the product of two factors. One was the American belief, especially after Sputnik, that the overall level of technology within the alliance must be raised. The other was the recognition that the development of European defence industries must not compromise the position of the American defence industry; an additional factor was American concern at the balance of payments deficit. Thus, American firms were actively encouraged to participate and benefit from this development. All the projects were ambitious in the sense that they all involved a large number of European countries, and they all succeeded in enlarging Europe's capacity to produce weapons. But all the projects were very costly - the European versions of the weapons were much more expensive in terms of unit costs than their American counterparts - and they left behind them a considerable resentment against American dominance in Europe. This was, of course, particularly true for Britain and France, who were producing independently designed weapons which could perform equivalent functions. They participated only in those projects where their capacity was limited; France participated in the Hawk surface to air missile project (Britain had its own Thunderbird) and Britain participated in the Bullpup air to surface project (France had its own AS-30). To this list of American projects should be added the joint development of the Sea Sparrow missile by the United States, Belgium, Denmark, Holland, Italy and Norway. This is a relatively recent project started in the mid-'sixties but it is similar to the earlier projects in its dominance by the United States, and its competition with other ship to air missiles produced in Britain and France. The American firm Raytheon is the prime contractor and the Governmental Management Agency is almost wholly American.

Despite the size of these projects, they accounted for only a small part of the total European expenditure on armaments. (10) But a major change was under way. By the early 'sixties it was beginning to be realized that if European countries, and more particularly Britain and France, were to compete with the United States in certain advanced industrial sectors, an enormous expansion of capacity was going to be necessary. And it was also realized, at any rate in certain circles, that neither country was going to be able to raise sufficient resources to finance this expansion of capacity, and that the military market was not sufficiently large to ensure that capacity, once expanded, would be fully utilized. The solution was a sharing of capacity and a sharing of markets through common procurement and production. Apart from the Franco-German Transall tactical transport and the Anglo-French Concorde, this solution was not adopted on a large scale until the mid-'sixties when a series of inter-governmental agreements were signed in Europe. These included a number of joint aero-engine projects, the Anglo-French Jaguar, the Anglo-French helicopters - Lynx, Puma and Gazelle - the A-300 Airbus, the VAK-191 STOL aircraft, the F-28 airliner, the Franco-German missiles - Hot, Milan, Kormoran and Roland, the Anglo-French missile Martel, and, somewhat later, the Anglo-German-Italian multirole combat aircraft (MRCA). It is estimated that in the period 1969-74 MRCA and Concorde alone will account for 34% of Europe's £6,000m. aerospace turnover. (11)

It is evident that these agreements were dictated by industrial need rather than strategic interest. First, they include a number of collaborative projects of a civil nature. Secondly, in perhaps the most advanced sector of the defence industry, the aero-engine sector, inter-company agreements preceded inter-Government agreements. Rolls Royce for example signed general co-operative agreements with the US company Allison in 1958 and with the German company MAN (now MTU) in 1960. Both these agreements led to joint aero-engine development projects, which were later sponsored by Governments. That the finance problem is more serious in the aero-engine sector is indicated by the fact that R & D expenditure on aero-engines is generally reckoned to be 300 times the unit price, while that on airframes is reckoned at only 30 times the unit price.

Thirdly, all of the new joint projects were initiated outside the NATO framework through bilateral or tripartite inter-Governmental agreement. In recognition of this trend, NATO has abandoned the old system of promulgating common requirements and instead has accepted that any project sponsored by two or more nations can be listed as a NATO requirement and recommended to other members of NATO. Indeed, the nations sponsoring the project need not both be members of NATO - thus Jaguar and the Anglo-French helicopters have now been accepted as NATO requirements. (12) NATO also recognized the important role of industry in collaborative projects when it established the NATO Industrial Advisory Group. This body met for the first time in October 1965 to explore how companies rather than Governments can initiate joint projects. (13)

Finally, it was the participation of Britain and France that ultimately wrought a change in the nature of European collaboration. For the other European countries, joint collaboration was seen as a means of establishing the capacity to produce advanced weapons. For Britain and France, joint collaboration was seen as a means of maintaining their independent capacity in the face of rising resource requirements. In the French case, joint collaboration was the inevitable consequence of the development of the force de frappe and the reduction in credits for conventional equipment. In the British case, joint collaboration was only seriously considered with the crisis that racked the aerospace industry after the cancellation of TSR-2 in 1965.

But it appears that there are bitter lessons still to be learned. For joint collaboration has by no means solved the problems it was aimed to solve, although it may have mitigated them. The cost of international programmes tends to be higher than purely national programmes. The extent of these costs is difficult to estimate since, except in the case of projects jointly produced under US licence (all of which required the creation of new facilities, and the training of new personnel), there are no equivalent national programmes with which to compare them. In 1964 Brigadier General Vandevanter stated that:

> "Experts almost universally agree that articles produced by international syndicates have cost more than they would have if produced under national auspices. As to just how much more, calculations and estimates run from 15 to 30 per cent, depending on the project." (14)

In 1969 an enthusiastic proponent of international collaboration, M. Henri Zeigler, President of Sud and one of the two Chairmen of the Concorde project, estimated that the additional costs of co-operation are 18 to 20 per cent, but that if different configurations are required, this figure can rise to 30 to 50 per cent. He estimated that Jaguar, (15) Atlantique and Transall cost 50% more to develop than they would have if developed on a purely national basis. (16)

Finally, yet another estimate was quoted in the report of the finance committee of the French National Assembly for 1971. This report contained severe criticism of the Jaguar whose unit cost has risen from an original Fr.5m (£374,000) to Fr.25.5m(£1.9m) for the strike version and Fr.23.3m (£1.75m) for the trainer version. The report quoted an article by General Lissarague in Forces Aériennes Francaises, in which he stated that:

> "It could be said that if N is the number of partners, the price of an aeroplane produced collaboratively is equal to the price of the same aircraft built in one country, multiplied by N (in reality it is sometimes more)". (17)

The increase in costs is partly due to the obvious problems of administration and transportation. But, more importantly, they are due to conflicts in national industrial interests. Those conflicts are reflected in the difficulties of achieving common specification and the equitable but often inefficient work-sharing arrangements. Disagreement over common specifications generally reflects differences in manufacturers' capacity, as illustrated in the controversy over the radar for the multi role combat aircraft. The British RAF wanted Ka band radar for mapping and X band for terrain following. The German Luftwaffe wanted Ku band radar for both functions - the difference being occasioned by RAF emphasis on identification and Luftwaffe emphasis on detection. Not surprisingly, the Ka band and X band radar has been developed exclusively by Elliot Automation and Ferranti Ltd. of the UK, while Ka band radar was offered by Texas Instruments and General Electric of the US, with generous provision for West German participation. In the end the Ku band radar was chosen, partly because it was cheaper and partly because Britain was already assuming design leadership of the airframe and engine, having secured an important victory in the adoption of the two-seat dual-engined version as against the single-seat single-engined version originally preferred by Italy and West Germany.

The experience has left the British aerospace industry somewhat disenchanted with international collaboration. In a recent report, the Society of British Aerospace Companies notes that one of the main disadvantages of collaboration "from Britain's point of view, is the surrender of technical expertise by the technologically more advanced partner". And it recommends that:

> "In negotiations over design leadership the equipment sector should receive consideration equal to that given to the airframes and engine sectors." (18)

The second factor accounting for the increase in costs is the work sharing arrangements. In almost all cases, two principles have been adopted. In the stage of development, national work shares have corresponded to the financial contribution of the respective national Governments. In the case of bilateral agreements, the financial contribution and consequently the work shares have generally been distributed equally. This has, on the whole, involved the construction of several prototypes simultaneously in each country and, consequently, a considerable amount of duplication. This is especially true where the participants are at unequal levels of technological knowhow requiring some kind of licensing arrangement from the more advanced to the less advanced partner.

At the stage of series production, national work shares have been distributed according to respective national orders with equal sharing of export orders. Although the duplication of component production has, in some cases,been avoided, each country has almost always had its own assembly line, reducing the benefits that accrue from long production runs. Thus, the report quoted above notes that:

> "the desire to achieve 'fair' shares of production on a national basis may well conflict with technical and economic efficiency." (19)

But this is not all. The increased costs do not alone reflect the expansion of capacity required to develop and produce an international project as compared with that required to produce a purely national project. It also depends on the time element. It can be assumed that the time taken to develop an international project is about the same as the time taken to develop a national project, and that, therefore, the costs of development are a fair reflection of the size of the necessary development capacity. Thus, for example, an increase in development costs of 30% over a purely national project will represent an expansion of development capacity of 30% over one national project or, which is more likely to be the case, a reduction in development capacity of 35% over two national projects.

But the expansion of production capacity is another matter. If the international project involves two assembly lines instead of one, were it a purely national project then the time taken to produce an international project is exactly half the time taken to produce a purely national project with the same production run. In other words, the substitution of one international programme for two national programmes will involve little or no reduction in the overall size of production capacity. Indeed, the extra costs of co-operation is likely to reflect an overall increase in production capacity, although this may be offset by the saving which results from quantity production of components, assuming that there is no duplication in component production. Compared with one national project with the same production run, production capacity will increase N fold where N is the number of partners in the international project. Thus, it can be concluded that international co-operation is likely to lead to some reduction in the growth of development capacity but little or no reduction in the growth of production capacity.

This conclusion is valid when viewed from an international perspective. In the national context, the effect of cooperation on the growth of capacity has been varied. Britain, for example, has entirely abandoned unilateral attempts to develop and produce major military or civil aircraft or space programmes. Moreover, international collaboration has replaced not one but several projects. The effect has been a considerable reduction in the growth of development capacity (almost to zero) and some reduction in the growth of production capacity. In contrast, Germany has never developed and produced independent advanced technology projects, and international collaboration has led to a substantial increase in both development and production capacity.

The consequences of international collaboration are viewed with concern in certain circles. Among the more advanced sectors of Europe's defence industry there is concern lest the equitable sharing arrangements will involve the loss of their comparative advantage, the transfer of development capacity from the more advanced to the less advanced partners. For governments, the phenomenal rise in the costs of individual projects has largely offset the advantages derived from sharing development costs. While the failure to reduce the growth of production capacity has compounded the pressure to increase domestic procurement and exports. It is widely being suggested that these difficulties might be overcome by the creation of international defence companies or consortia. These giant firms would bid for new contracts and apportion work according to their common interest in minimizing costs rather than to the national interest in maintaining or establishing certain types of capacity. This would lead to national specialisation, concentrating work in those areas which are most efficient, benefitting the more advanced sectors of the industry and, through the avoidance of duplication, enable a reduction in the growth of both development and production capacity.

It is noteworthy that the most enthusiastic proponents of these proposals are those firms which at present enjoy a comparative advantage and the Governments which are experiencing the most severe constraints on military expenditure. Thus, for example, on the Government side it has been Mr. Davies, the British Secretary for Trade and Industry, and Mr. Corfield, the British Minister for Aerospace, who have called for the formation of transnational European Companies in advanced technology sectors. And on the industry side, Rolls Royce and Dassault-Breguet have been among the leaders in taking steps to bring this about. Dassault-Breguet can be said to be the last European aircraft company independently developing a major combat aircraft and any consolidation of Europe's airframe industry is likely to be concentrated around this company. In June 1970, Dassault, together with the

Dutch-German firm VFW-Fokker (Europe's first and only multinational aerospace company), the Belgian firm SABCA which they jointly own, and the Italian firm Fiat, presented a memorandum to the European commission in which they stated that they intended to step up cooperation in view of the mounting competition from the US aerospace industry and they requested that the Commission take steps to integrate the aerospace industry on a community-wide basis. Rolls Royce is the giant of Europe's aero-engine companies. With one or two very minor exceptions, all aero-engine collaboration agreements have included Rolls Royce. It is clear that Rolls Royce would hold the pivotal position in the formation of a multinational aero-engine company. A plan for a joint aero-engine management company, to which all national projects would be referred and offered to other members on a collaborative basis before being initiated, has been proposed by Rolls Royce. The plan was discussed at a meeting in Munich on February 10, 1972, comprising representatives from aero-engine companies in Britain, West Germany, France, Italy and Sweden. The firms involved are said to be MTU, SNECMA, Fiat and Volvo,

Interest in these developments has not, however, been confined to the above companies. Panavia, the consortium of MBB, BAC and Fiat, established to administer the MRCA project, recently announced a plan to produce an advanced strike/trainer aircraft as a private venture. In announcing the plan, Allen Greenwood, Chairman of Panavia and Deputy Managing Director of BAC, made it quite clear that he regarded the plan as an important step towards European integration in aerospace:

> "In our view it is better for European industry to select its own partners and then jointly use their combined skills and facilities to provide competitive solutions for Europe's aerospace needs.
>
> In Panavia, we believe we now have such an association. It is a very strong one and it is backed by the resources of three of Europe's biggest aerospace companies which between them employ 65,000 people."

In a similar vein, Boelkow, Deputy Chairman of Panavia and head of MBB, stated:

> "We are moving towards fewer but stronger aerospace groups in Europe. These will be formed through the initiative of the leading aerospace companies and will have a truly European basis.
>
> The result of this trend should be increased efficiency, an improved competitive position in the world market and a much better ability to handle all programmes in Europe." (20)

These views are not universally accepted. Indeed, there are very powerful constraints against the continuation of this trend. For if it is to proceed any further it will require Government backing. First of all, not all sectors of industry are convinced that they will benefit; there remains a belief that Governments are committed to the survival of national companies. That belief will have to be eroded. Just as coercion was necessary to bring about domestic mergers, so Governments will have to indicate that the alternative to international mergers is the loss of contracts and ultimately bankruptcy. It is the smaller and less advanced companies that are likely to suffer.

Secondly, the integration of Europe's aerospace industry will also require the integration of Europe's procurement system. Governments will have to agree on common requirements. Clearly, the disagreements about specifications will be less once national industrial interests are subsumed under multinational companies, but they are unlikely to be removed entirely. Further, there will be difficulty in reaching agreement on financial contributions to development. The current principle of balancing contributions against work shares will no longer have any relevance. At the same time, contributions can hardly be balanced against future production orders since this would involve unnacceptably early commitments. And then there are a number of smaller items on which there will have to be some agreement; cost-accounting principles, insurance, compensation for exchange rate alterations, taxation, etc.

But a common European procurement system would have momentous political implications; implications which many would oppose. First, the process would lead, as noted above, to national specialisation but it would not be equal specialisation. The manufacture of airframes might be concentrated in France, and the manufacture of aero-engines and equipment in Britain. This would mean the sacrifice of national military self- sufficiency - something which has long been associated with national sovereignty.

Thirdly, a common European procurement system would have divisive effects on NATO. The object of the system would not be the same as that held by NATO during the 'fifties; a strengthening of Europe's defence against the Warsaw Pact; that is hardly necessary in the improved European atmosphere. Its object would be to improve Europe's competitive position vis a vis the United States, both in the European context and in selling aerospace equipment to the third world. Its object would be to break the "domination exercised by the USA in the provision of essential material." (21)

Finally, and perhaps most importantly, a common European procurement system could lead to the creation of a European "military-industrial complex" similar in scope and nature to that which holds sway in the United States. One can envisage such a complex with limited accountability to the public and enormous power to perpetuate an arms race with all its frightening consequences for the world as a whole.

But the picture is perhaps not as black as all that. For even if Governments go through with this momentous change, it will not solve the contradictions inherent in the defence industry. If technical progress continues to advance as its present rate, there may come a time when even an integrated Europe can not afford to finance the continued expansion of capacity. On present estimates the MRCA will cost £450 million to develop and £1,500 million to produce. The increase in cost on the airframe is said to be "normal" - whatever that might mean - but thedevelopment of the aero-engine is causing difficulty. Past experience suggests that one can expect the costs to rise threefold, at the least, making a total cost of £6,000 million, to be born in varying proportions by the British, West German and Italian Governments. This is nearly five times what the TSR-2 would have cost had it not been cancelled because, among other things, it was too expensive. It is questionable, even with an integrated industry, whether European Governments will be able to afford MRCA's successors. Social pressures against the expansion of defence budgets may force European Governments, in the long run, to dismantle the more advanced sectors of their defence industries.

And the same may be true in the United States. There is, of course, much further for the United States to go. Military spending is nearly four times greater than the total spending of the European NATO members and the integration of the American aerospace industry has hardly begun. Further, should the European industry collapse in the absence of disarmament, the continued growth of the American industry will be enhanced. There may come a time, if nothing is done to stop the process, when an American monopoly will serve the military requirements of all Western countries and most of the third world. The absence of inter-firm competition would slow down the rate of technical progress, but in so doing it would solve those contradictions in the aerospace industry which could lead to its collapse.

A EUROPEAN AEROSPACE INDUSTRY?

NOTES

1. Mary Kaldor is a Research Fellow at I.S.I.O., University of Sussex.

2. Official Price List of Aviation Statistics, Aviation Studies (International) Ltd., Wimbledon, England.

3. Productivity of the National Aircraft Effort, Report of a Committee appointed by the Minister of Technology and the Society of British Aerospace Companies under the Chairmanship of Mr. St. John'Elsub, HMSO, 1969.

4. L'Industrie Aeronautique et Spatiale, 1967-8, Rapport du Bureau, Union Syndicale des Industries Aeronautiques et Spatiales, Paris, 1968.

5. The US has roughly 30 types and the Soviet Union 25. Total numbers are well over ten times those for Britain, Sweden and France.

6. Report of the Committee of Inquiry into the Aircraft Industry (Plowden Report), 1964-5, Cnd. 2853.

7. The exception was the order for TSR-2, which brought about the amalgamation of Vickers and English Electric.

8. Hansard, Commons, 22 March, 1962.

9. For an excellent history of mergers, see K. Hartley, "The Mergers in the UK Aircraft Industry, 1957-60", Royal Aeronautical Society Journal, December, 1965.

10. In 1962 joint production agreements amounted to 3% of total NATO expenditure on armaments (WEU Document 250, December 1962). If US expenditure on weaponry is excluded, the share was probably around 10%.

11. Financial Times, 11 December, 1969.

12. Second Report from the Select Committee on Science and Technology (Defence Research), Session 1968-9.

13. NATO Press Service, 9 October, 1968.

14. Rand RM-4169, PR, November, 1964, Brigadier General E. Vandervanter Jnr., USAF, "Coordinated Weapons Production in NATO: A Study of Alliance Processes", p. 49.

15. The British Ministry of Defence estimated that the costs of developing Jaguar were only 15-20% higher than if Britain had produced the plane alone. Second Report of the Select Committee on Science and Technology, op.cit.

16. Aviation Week and Space Technology, June 2, 1969.

17. Quoted in Flight International, 12 November, 1970.

18. A Future Plan for Britain's Aerospace Industry, Society of British Aerospace Companies,Ltd., January 1972.

19. "A Future Plan for Britain's Aerospace Industry", op.cit.

20. Panavia Aircraft GmbH, Munich, Press Release, September 9, 1970.

21. L'Industrie Aeronautique et Spatiale, 1967-8, op.cit., p. 28.

THE QUESTION OF UNEQUAL EXCHANGE.

A CRITIQUE OF POLITICAL ECONOMY.

Christian Palloix (1)

In the last ten years, French Marxist economists have started a vast debate on the different questions of international economy; in particular on that of the foreign market based on the realisation of the social product in general (or of surplus value in particular) as well as on the question of the inequality of exchange and of economic development, a particularly original point. In this respect, they have made a remarkable theoretical breakthrough concerning "unequal exchange", a question which has been almost totally ignored until now in world Marxist theory. (2) The debate is currently being pursued at the level of the theory of imperialism. (3) The pioneer of these works has been Henri Denis (4) who has, successively, attracted the attention of Arghiri Emmanuel (5), Charles Bettelheim (6), Serge Latouche (7) and myself (8) on these problems, not to mention Samir Amin and others.

However, we have neither the same approach nor the same view on the question of unequal exchange - limiting ourselves here to this point. This may be just as well, because each brings his little stone to a building which has remained at the level of Marx's law of international values, despite the fact that many Marxists discuss matters in terms of "equivalent exchange" at the international level.

It is thus important to answer a first objection: that it would be theoretically incorrect to argue in terms of non-equivalence at the level of international exchange. The authors of this objection can, on the one hand (9), appeal to Lenin himself, and on the other, point out that theoretically the circulation of goods and commodities, by definition, presents the values exchanged as being equivalent. But, in Marxist dialectics, one may very well have on the one side the equivalence of exchanges and on the other their non-equivalence; this depends first of all on the theoretical plane at which the discussion is taking place. Thus Karl Marx demonstrates how on the one hand, in circulation, the value of labour power is exchanged for that of the subsistence goods necessary for its maintenance and reproduction - equivalent for equivalent - and how on the other hand, in the process of production, the capitalist receives from labour-power a value superior to that which he gives back to it in the form of wages - non-equivalence (10). It is a bit the same on the international plane: the apparent equivalence of international exchange in fact conceals a profound non-equivalence.

It may seem at first sight, then, that "unequal exchange" is only a new conceptualisation of a phenomenon known as the "deterioration of the terms of trade"; in fact, this expression is precisely the mystified form of the inequality of exchange. First, the thesis of the deterioration of the terms of trade implicitly admits the possible realisation of an equivalence, an equilibrium value which is not obtained because of the specific conditions of world supply and demand; (11) on the contrary the concept of unequal exchange implies above all the non-equivalence of the values produced and exchanged when one takes into account differences in the level of the productive forces in different places. Secondly, the deterioration of the terms of trade, in reality, purely and simply points to a <u>shift</u> of non-equivalence in the sense of increased inequality, but <u>it does not measure the inequality</u>. Whereas the movement in the terms of trade is determined by conjunctural forces, unequal exchange is determined by the characteristics of the international relations of production.

It remains true, however, that if Marxists are right in referring to "unequal exchange" they are faced with different more or less contradictory solutions to such a question, as we know from the debate between Emmanuel and Bettelheim. This debate, which has considerable political relevance not only for anti-imperialist struggles, but also for the internal level of the class struggle, is neither accidental nor fortuitous. It expresses a break in Marxist theoretical production, under the influence of different currents or tendencies. Such an argument outlines two problems of political economy, which must first be totally clarified.

I. WHERE IS POLITICAL ECONOMY GOING?

For Marx, political economy was a bridging science, the bridging science of "society" (12) in its historic development. No artificial barrier separated the scientific components of science from those of society; Marx was not only an economist, but a philosopher, a historian, a sociologist, a political scientist...

Since we must notice that social science has fragmented into small, narrow and sterile fields (the sterility being explained by the narrowness), we must also emphasise that the field of political economy as defined by Marx (13) has been enormously narrowed down; this has happened to such an extent that it has lost any significant meaning, and the label "economism" describes the loss of substance that this scientific discipline has suffered. This tendency is intrinsic not only to liberal or technocratic economists, upholders of capitalism, but also affects Marxists themselves who either reject political economy - saying it is non-Marxist (14) - or who proclaim their economism, while taking care to limit themselves to that economism - which is then defined as the science of quantification restricted to the concrete - and to leave to the philosophers, sociologists or historians the task of building an all-embracing science in which economics would only have a secondary place. (15)

Let us leave aside, for the limited aim of our argument, the problem of the theoretical unity of social sciences, and concentrate on the development of political economy which we refuse to reduce to "economics", "economic analysis" or "econometrics".

Political economy is as entitled to the name of social science as sociology, political science, psychology, history are ... and we will start off with the definition of scientific given to us for this field by Lucien Seve:

> "A <u>definition</u> whereby one grasps with precision the very essence of one's object - and linked with this definition, the <u>satisfactory method</u> to study this object;
>
> "<u>basic concepts</u> whereby the principal elements are expressed, and <u>in particular the determining contradictions of this essence</u> - tools which allow one to look for the fundamental laws of development of the object under study with a likelihood of success, and thus lead, insofar as it depends on that

science, to mastering this object in theory and in practice, the aim of all scientific enterprise." (16)

Like Althusser, Lucien Sève separates very distinctly the essence (the concept) from the appearance, but unlike him, he intends turning the process of conceptualisation into a scientific method which allows him to master the level of appearance in theory and in practice, whereas Althusser remains indifferent to appearance as such; for him appearance lies outside the scientific field.

A division very neatly emerges between a stream which, starting from the essence, wants to return to the appearance to master it, in contrast with another which states the primacy of the essence, the absence of any correspondence between the essence and the appearance, and necessarily resorts to a structuralist method - be it recognised or not - to functionalism even, to develop the bases of a practice at the concrete level. On the basis of this division the economist is greatly tempted to leave the study of essence to the philosopher or the sociologist, and to give himself over entirely to economic phenomenology; the test of such a phenomenology would be the use of econometrics. (17)

Althusser's works have, in this respect, had a considerable influence, through an effect of attraction and repulsion, polarising the orientation of everybody's works, either towards the essence - as the orientation of Bettelheim's works testify - or towards the appearance - as in the cases of Henri Denis and Emmanuel.

It seems to me that this is going rather fast and ignoring the bases of Marxist political economy, in particular its method, the translation of essence into appearance. In contrast to those who, placing themselves at the level of the concrete, today think that the progress of economic analysis is measured by progress in quantification and the assimilation of maths, Karl Marx stated clearly that any progress in economic science rested primarily on an effort to conceptualise, a true support for knowledge. Karl Marx however, also tells us that conceptualisation remains sterile if it is incapable of finding the method which gives it a grip on the concrete. Full and complete Marxist theory resides neither in the essence - the theoretically abstract - nor in the appearance - phenomenology - but in the "theoretically concrete."

Thus, concerning the original scientific approach in terms of abstract theory via conceptualisation, Karl Marx writes:

> "It would seem to be the proper thing to start with the real and concrete elements, with the actual preconditions, e.g. to start in the sphere of economy with population, which forms the basis and the subject of the whole social process of production. Closer consideration shows, however, that this is wrong. Population is an abstraction if, for instance, one disregards the classes of which it is composed. These classes in turn remain empty terms if one does not know the factors on which they depend, e.g. wage-labour, capital and so on. These presuppose exchange, division of labour, prices, etc." (18)

But he refuses to deal merely in abstraction, since economic reality is a concrete reality, and concerning this he exposes Hegel's error - and in this respect it can be said that

Althusser is not exempt from Hegelianism, although he rejects a number of Marx's works as too Hegelian - namely that merely abstract knowledge is incapable of grasping reality.

> "Hegel accordingly conceived the illusory idea that the real world is the result of thinking which causes its own synthesis, its own deepening and its own movement."(19)

In truth, the problem is to reproduce the concrete, starting from abstract ideas to rise from the abstract to the concrete in order to master it:

> " ... the method of advancing from the abstract to the concrete is simply the way in which thinking assimilates the concrete and reproduces it as concrete thought." (20)

The scientific problem of political economy is clearly not only a process of abstraction, but a process of "translation" of the essence into appearance. Its field is that of the "theoretically concrete". To recognise the difficulty of the transition from essence to appearance is one thing, but in no way does it demonstrate the futility of such an effort.

Of course, a work such as the Grundrisse does not really lead to the mastery of the concrete as is expressed in the outline given. (21) It is only in Capital that the two theoretical levels of knowledge in political economy emerge with, on the one hand, the theoretically abstract - i.e. volumes I and II of Capital which deal with the processes of production and of circulation as such, the schemas of expanded reproduction of social capital being the abstract unity of these two spheres - and on the other hand, the theoretically concrete - i.e. volume III or "The process of Capitalist production as a whole", where the new formulations which allow the passage from the essence to the appearance are set out. (22)

What is the theoretical key to the passage from the essence to the appearance, from the theoretically abstract to the theoretically concrete? On what terrain is it located? It is that of historical materialism, the expression of the development of the contradictions of the capitalist mode of production, with, in particular, the law of the tendency of the rate of profit to fall, the law of unequal development, and the law of immiseration. These historical contradictions express the contradictions of the level of essence, i.e. between the relations of production and the level of the productive forces. They determine within the theoretically concrete, i.e. the total process, the fundamental contradiction between creation and realisation of the social product in general and of surplus value in particular (23) from which all concrete contradictions on specific points derive.

Indeed, the difficulty of translating essence into appearance (be it from exchange value to the prices of production, or from production-circulation to creation-realisation), resides essentially in the transition which takes place on the field of historical materialism, in the sense that the appearance grows as a historical product of the contradictions in the mode of production. Thus the schemes of expanded production of social capital, which express the process of production and the process of circulation as creation and circulation of values which are realised by definition - these schemes are an abstract theoretical expression necessary for posing the problem of creation-realisation in the face of the law of unequal development and of the tendency of the rate of profit to fall.

Let us adopt the following symbols:

M	:	money	with $M' > M$
C	:	commodities	
c	:	constant capital	with $c < c'$ or $c > c'$
v	:	variable capital	with $v < v'$ or $v > v'$
s	:	surplus value	
P	:	profit	with $s < P$ or $s > P$
p'	:	rate of profit	
w	:	Labour-value	with w' : international value
L	:	price of production	with L' : international price of production.

We obtain the following diagram (the all too obvious mechanistic approach of which will be forgiven):

	I Production process as such	II Circulation Process as such
1. Abstract theoretical knowledge (dialectical knowledge)	M–C–M' - production of s - reproduction of c and v	C–M–C - circulation of capital - circulation of surplus value

Dept. I $c_1 + v_1 + s_1 = w_1$

Dept. II $c_2 + v_2 + s_2 = \dfrac{w_2}{w}$

(Scheme for the expanded reproduction of surplus value)

2. Historical materialism

Law of unequal development
Law of the tendency of the rate of profit to fall.

3. Concrete theoretical knowledge (dialectical materialism)

Dept. I $c_1' + v_1' + p_1 = L_1$

Dept. II $c_2' + v_2' + p_2 = \dfrac{L_2}{L}$

(Process of realisation)

III. Process of Capitalist Production as a whole.

We notice immediately the fundamental problem posed by the prices of production, which are not for us separated from values, but call for reference to two essential components of economic theory to ensure their exact translation:

- a theory of distribution to determine v' and p;
- a theory of the valorisation and depreciation of capital to determine c'

However, as far as the theory of distribution is concerned, we must note that bourgeois as well as Marxist theory is encouraged to make it the privilege, the exclusive preserve, of historical or other sociology. This, to bring us back to our main argument, is made very clear in Emmanuel's research, where the wage is an independent variable - in relation to what? - which contains a moral and a historical element (24). All the political conclusions which he draws from the schemes of unequal exchange only hold because of the chronological - not the theoretical - split between value and prices of production, and from the autonomous character of the wage-level, which is explained by the fact that it is located at the level of appearance alone, on the plane of economic phenomenology. Similarly Piero Sraffa, whose admirable ambition is to develop the theory of prices of production as it was left to us by Marx, considers the wage to be a given, not subject to economic analysis (25). Emmanuel's and Piero Sraffa's works, in other respects so encouraging to the development of Marxist economic theory, are illustrative of this restriction of the economic field to considerations of appearance alone, located outside the contradictions which determine it. This definitely seems to us to be an impoverishment of political economy, a renunciation of an all-embracing theory of the evolution of society, which thereby eliminates any possibility of linking up with the other social sciences.

Following from this, the debate in which Charles Bettelheim opposes Arghiri Emmanuel on the significance of the rift between value (volumes I and II) and price of production (volume III) becomes much clearer. The price of production is not cut off from value, which according to Emmanuel refers to simple commodity production or to a mode of production in which all branches have the same organic composition of capital. The price of production is the re-determination of value in the concrete essence of the phenomenon, which means that in the final analysis it is <u>the re-determination within the contradictions of the capitalist mode of production.</u> Forgetting this determination, Emmanuel, who gives us a correct answer as to the mechanisms of unequal exchange, draws wrong conclusions because he is the prisoner of a concrete reality of which he no longer perceives the essence.

From there on, the main theoretical question that needs to be solved by political economy is the "passage" from value to the price of production in order to explain the inequality of exchange and unequal economic development on the world plane. The keys to this passage are to be found principally in the investigation of the contradictions in the C.M.P. in the dominant economies. Indeed, one of the things that Emmanuel's thesis - a work which is undoubtedly fundamental to a more thorough understanding of the question of unequal exchange - can be blamed for, is the fact that he takes the inequality of exchanges as an end in itself. But in fact, unequal exchange is merely a link between the growth requirements of some economies (requirements determined by the contradictions of the C.M.P.) and their effects on the development of others. To have some chance of relocating the writer's thesis in its specific international determinations, we must first solve the "transformation" of value into the price of production in a closed economy.

We must realise that political economy, when it is only abstract or only concrete, cuts itself off from the foundations of political practice, because it does not allow itself to locate the contradictions of the C.M.P. on the level of the class consciousness of the proletariat in the dominant industrialised countries as well as in the dominated countries.

II. FROM VALUE TO PRICE OF PRODUCTION IN A CLOSED ECONOMY, IN THE LIGHT OF THE CONTRADICTIONS OF THE C.M.P. OF THE DOMINANT ECONOMIES.

It is certain that real theoretical progress concerning the transformation of value into price of production has been limited. Indeed, with regard to the method of transforming w(c+v+s) into L(c'+v'+p), Karl Marx only achieved a partial transformation since L results solely from the transformation of surplus value into profit, while c and v are assumed not to be redetermined (26). On the other hand Piero Sraffa also operates a partial transformation which essentially effectsthe change of c into c', with the difference that this solution is unrelated to the development of the contradictions. A first step in the advancement of the theory would be attained if theoretical research succeeded in uniting the contributions of Marx and Sraffa. In the face on this deficiency our aim is merely to trace the transformation of surplus value into profit, to find its precise significance; this constitutes, we admit, a first limit on the developments that can be worked on later when we extend an unsatisfactory apparatus of analysis to the problems of the international economy.

1. The significance of the price of production in relation to the contradictions of the C.M.P.

Arghiri Emmanuel considers the price of production to be the form taken by value in a highly developed capitalist system. As we have already said, the labour theory of value according to that writer, refers to petty commodity production or to a capitalist system in which the same organic composition of capital exists in the different branches of industry, which could mean a similar rate of technical progress in the different branches of production. The writer discards such a solution, the price of production being divorced from value. Thus he writes with regard to value:

> "This first part of his theory (Marx's theory of value) can cover only three cases:
>
> 1) The case of simple (non-capitalist) commodity production in which each producer owns his own means of production, and these are inalienable;
>
> 2) The case of capitalist production at a low level of development where items of equipment ("capital goods") are non-existent or negligible ... so that what the entrepreneur advances is merely wages ...
>
> 3) The special case of developed capitalist production where the organic composition of the branch of industry under consideration is equal to the social average." (27)

But, we are told by Emmanuel, the obvious feature of a highly developed capitalist system is the difference in the organic composition from branch to branch of industry; in this framework the law of value does not apply and Marx substitutes the "price of production" for it. (28)

Indeed the character of the capitalist mode of production is such as to give the different branches of production different rates of accumulation from branch to branch at the level of the total process: the law of unequal development becomes a given element of this process. It is only through the law of unequal development of capitalist production - depending itself on the process of value -

that the price of production, which emphasises the inequality of development of the different branches of industry, manifests itself. Emmanuel's price of production appears to be a form in itself whereas it is the product of the contradictions of the C.M.P.; unequal exchange then ceases to be an end result, the scope which it is given by the writer, and becomes nothing more than a means of accentuating the gaps in development.

Because of the law of unequal development between branches of industry or between nations as a product of the development of the contradict ons of the C.M.P., if the exchange of commodities took place at the labour-values which give rise to those contradictions, any progress in one branch - i.e. an accumulation of the material means of production - would lead to a smaller rate of profit (29) for itself than for the backward branches. Such penalisation would *ipso facto* annihilate any progress in the C.M.P. In order for capitalist production to develop on the basis of dynamic branches, profits must be in proportion to the accumulation of capital, and not in inverse relation to it; in fact, a new distribution of the mass of surplus value must be realised in circulation.

Which is the factor, in the total process, which is sufficiently dominant to effect this distribution? It is capital, through its insertion in the socio-economic structure:

> "The whole difficulty arises from the fact that commodities are not exchanged simply as commodities but as products of capitals, which claim participation in the total amount of surplus-value, proportional to their magnitude, or equal if they are of equal magnitude. And this claim is to be satisfied by the total price for commodities produced by a given capital in a certain space of time." (30)

Consider two branches of production branch A - iron production - and branch B - agriculture. The historical reality of competitive capitalism is the law of unequal development between industry and agriculture, a contradictory law which follows from the effect, itself contradictory, of profit and of innovation, problems which we cannot develop here, except to recall that these contradictions directly lead us deep into the private appropriation of social production.

We have the following production scheme, in which A can be integrated in the sector of the means of production, and B in that of the means of consumption.

Branches	c	v	s	p'	w
A	4 000	1 000	1 000	20%	6 000
B	1 500	750	750	33.8%	3 000
	5 500	1 750	1 750	24.13%	9 000

If the ststem obeyed the general law of value (w), no more accumulation would be possible in Branch A, since Capital would move.

towards B because of the higher rate of profit in this branch. The realisation price of the production of A mustbe achieved at the expense of the production of B, by a transformation of surplus-value into profit and of value into price of production. But branch A does not apply the sectoral profit rate of its branch, but at least the average rate of profit of the system, i.e. a rate of 24.1%

The scheme of realisation of production is thus different from the scheme of production and takes the form of the price of production:

Branches	c	v	p'	p= p'(c+v)	L
A	4 000	1 000	24.1%	1.207	6 207
B	1 500	750		543	2 793
	5 500	1 750		1 750	9 000

Branch A thus realises its product at a value which, on the one hand, ensures the equalization of the rates of profit, and on the other hand, implies the appropriation of 207 units of labour from Branch B, the backward branch.

But can one then say that price of production is independent of value? It does not seem so; it is here simply the product of the law of unequal development between agriculture and industry, i.e. the result of the contradictions occurring in the process of formation of value.

Moreover, consider that it is necessary to use the concept of surplus-value, i.e. value, to conceive of the inequality of exchange. If one eliminates the concept of surplus-value, one forbids oneself the possibility of seeing the transfer of 207 labour units from Branch B to Branch A. Let us thus not be surprised that liberal economists, who refuse to recognise the true nature of profit, do not understand what the inequality of exchange is. But it is surprising that Emmanuel does not recognise that the determination of the price of production is rooted in labour value, since he must use it to obtain the concept of unequal exchange.

2. From value as a process of allocation to price of production as reallocation of factors.

a) On the basis of the schemes of expanded reproduction of social capital, let us subsume the means of production under iron production and that of the means of consumption under agriculture, thus producing use-values in units of pig-iron (U.I.) and in agricultural units (U.A.)

Thus we have the following production scheme in labour units (u.l.):

Branches	c		v		s		w
Dept. I	4 000	+	1 000	+	1 000	=	6 000
Dept. II	1 500	+	750	+	750	=	3 000
							9 000

Behind this production of exchange values are concealed use-values (U.I. and U.A.) with 475 U.I. in Dept. I and 1 600 U.A. in Dept. II, determining a relation of exchange such that:

1 U.I. = 12.6 u.l.
1 U.A. = 1.8 u.l.
i.e. 1 U.F. = 7 U.A.

We see that, in the production phase, the determination of the socially necessary labour-time is the <u>root</u>, both of the allocation of factors to Dept. I and Dept. II, and of the determination of the technical relation which unites them: the organic composition of capital of 4 in Dept. I and 2 in Dept. II. This determination of the socially necessary labour-time <u>appears</u> to result from the process of production only as an after-effect, but this is due to the restriction created by the formal character of the argument.

In <u>reality</u> it <u>precedes</u> and is bound up with the process of production. The socially necessary labour-time is intrinsically linked with the coherence of the apparatus of production in the allocation of factors and their relation.

b) Value and allocation of factors of production.

To make the preceding proposition explicit, we can use a production possibility curve, expressing the output of pig-iron, and of agricultural products according to the allocation of factors between these activities. In order to simplify things, we reduce constant capital and the labour force to a single set of factors, disregarding their relation. We have 9,000 u.l. which are used respectively in a sector of increasing yield (iron production) and in a sector of decreasing yield (agriculture). These industries thus represent, one a dynamic activity, the other a regressive activity; we know that the dynamism of a sector depends on the scientific and technical research policies pursued in relation to that sector.

For example, in Dept. I and Dept. II the functions of production, expressed in numerical terms, are:

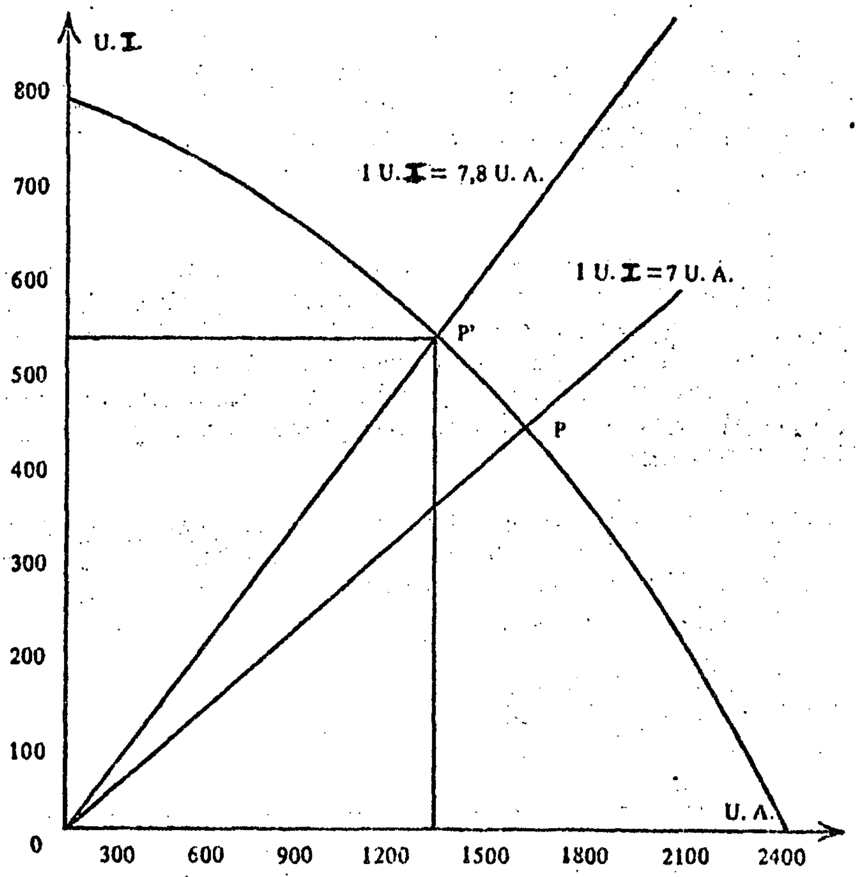
u.l.	1 000	2 000	2 000	4 000	5 000	6 000	7 000	8 000	9 000
U.I.	70	140	210	300	375	475	575	680	800
U.A.	800	1 300	1 600	1 900	2 050	2 200	2 300	2 350	2 400

We infer from this the different production choices according to the allocation of factors between Dept. I and Dept. II which allows us to draw the production possibility curve:

	1	2	3	4	5	6	7	8	9	10
U.I.	0	70	140	210	300	375	475	575	680	800
U.A.	2,400	2 350	2 300	2 200	2 050	1 900	1 600	1 300	800	0

Diagram I

Allocation of factors according to the relations of exchange between productive activities.



Point P is in fact determined, on the production possibility curve, by the relation of exchange which imposes itself on the productive system in such a way that 1 U.I. = 7 U.A. It is the pig-iron - wheat relation of exchange which dominates the allocation of factors of production between Dept. I and Dept. II, i.e. 6 000 u.l. in Dept. I (producing 475 U.I.) and 3 000 u.l. in Dept. II (producing 1 600 U.A.). Behind this relation of exchange is concealed the socially necessary labour-time, itself dependent on the dynamism of the sectors and on the requirements expressed, i.e. those basic internal elements which it is hardest to bring out into the open (profit policy, innovation policy). Finally, the expanded reproduction of social capital, as it emerges from the numerical scheme, merely ratifies a certain allocation of factors as a function of the socially necessary labour-time.

If we take point p' 575 U.I. and 1 300 U.A. as a result of a new relation of exchange such that 1 U.I. = 7.8 U.A. (1 U.I. = 12 u.l. and 1 U.A. = 1,54 u.l.) we obtain a new allocation of factors, modifying the scheme of expanded production in an even more favourable direction, i.e. 7 000 u.l. in Dept. I and 2 000 u.l. in Dept. II, which gives the following production scheme:

	c		v		s		w
(A) Dept. I	4 000	+	1 500	+	1 500	=	7 000
(B) Dept. II	1 000	+	500	+	500	=	2 000
							9 000

In reality the path of growth towards dynamic industries, if it is potentially outlined by the policy of profit and innovation, is effectively obtained by the price of production which plays the role of an amplifying mechanism in the transfer of production factors from B to A.

c) In this way, then, the scheme of expanded reproduction of social capital according to value goes with a scheme of realisation according to the price of production; one can thus state that the expanded reproduction of social capital in its concrete essence is carried out through the price of production; this is a different theoretical level from that of expanded reproduction given to us by Marx in its abstract of essence. (31)

The preceding scheme of production is thus realised in a new form; Dept. I levying 207 u.l. from Dept. II thanks to the price of production, which indicates the new relation of exchange between iron and the agricultural goods.

1 U.I. = 13.08 u.l.
1 U.A. = 1.75 u.l.
i.e. 1 U.F. = 7.5 U.A.

	c		v		s		L
Dept. I	4 000	+	1 000	+	1 207	=	6 207
Dept. II	1 500	+	750	+	543	=	2 793
							9 000

However, the continuous movement of reallocation of factors of production from Dept. II towards Dept. I can only continue as long as the consumption of the capitalist and of the labour force in Dept. I and Dept. II are covered. A first limitation, at a certain moment in the concrete process of expanded production, comes to halt this reallocation of factors and thus to block the process of accumulation.

The second limitation is that of the tendency of the rate of profit to fall, which is inherent in the internal process of accumulation.

Following from this, the concrete process of expanded production can only develop as long as it is possible to transfer onto the less developed countries the backward branches which, at a certain moment, are a brake on capitalist growth. This is the question of unequal exchange at the international level.

III FROM INTERNATIONAL VALUE TO THE PRICE OF PRODUCTION IN THE INTERNATIONAL SPHERE, UNDER THE CAPITALIST MODE OF PRODUCTION IN ITS COMPETITIVE PHASE.

We know that Marx has put forward two kinds of explanations for competitive capitalism, of the inequality of world exchange (32), with on the one hand the theory of international values, and on the other the theory of the rate of profit. Despite this, let us immediately observe that, in the process of production as such, the determination of international value obeys national principles (value) whereas the world price of production realises a form of value on the world plane; it is immediately necessary to remove the spatial reference from each theoretical level. In fact, international value is the expression of the process of production as such (33) whereas the world equalizing of the rate of profit based on differential rates of surplus-value (world price pf production) is located at the theoretical level of volume III. The theoretical problem then is to move from international value to the world price of production. To understand this new determination of international value in the world price of production, we must reverse the argument and start from the observable form of value - the price of production - to see how international value works in the determination of this cost.

However, we must not attempt to conceal a theoretical difficulty which is the cause of the total lack of communication between Bettelheim and Emmanuel. When one extends the schemes of price production from a closed economy to an open one, this implies that one shifts from national value (w) to international value (w') as the basis of the new determination of value in terms of international price of production. To compare labour-time between nations, we must accept a simple international labour-time to which concrete labour-times which are unequal from nation to nation can be reduced; one cannot compare what is not comparable, an hour of labour in the subsistence economy in Africa, Asia or Latin America with an hour of labour of a mettallurgy worker in Detroit. The schemes developed by Emmanuel implicitly accept this reduction to a simple international unit, sanctioning an average international social labour time. But how is this international social time determined?

Emmanuel's solution is, it seems, to pretend that, as a result of the opening of exchange, the only reality is not the national framework - thus the formation of a specifically national social labour time, with a national value specific to the development of the productive forces - but the international framework itself. National value does not exist. The only reality would be international value which would depend on the average development of the productive forces at the world level; this appears very clearly in the course of his polemic, where he ends up writing:

> "In the context of world economy, the value that counts in measuring necessary time, is social (world) value, and not the individual (national) value of the goods represented by wages ... I argue in terms of world economy because I am seeking the laws of the formation of international value and the possible transfers of wealth from one country to another that may be hidden in the structure of this value."(34)

Emmanuel's reasoning assumes the problem to be solved a priori; it is no longer a question of looking for the laws of formation of international value, which asserts itself as it is - and one may be surprised that he writes the opposite - but the question is then to move from international value to the international price of production.

It seems on the contrary, that the only truth is the existence of economic blocks, USA, Canada, Europe, Asia, Africa, Latin America, with one fundamental opposition, that between the dominant capitalist countries and the dominated capitalist countries. The formation of value is specific to each economic block on the basis of the disparities in the level of development of the productive forces and the relations of production. If one unit of concrete labour produces 1 U.A. in the dominant country and if one needs 2 units of concrete labour to obtain 1 U.A. in the dominated country, accepting the same scale of needs here and there, can one compare these labour-times and say that, in international exchange the dominant country "exploits" the dominated one? The exchange of 1 u.l. of the dominant country against 2 u.l. of the dominated country rests objectively on the inequality of development of the productive forces, it being understood that it is necessary to reduce 2 u.l. of one into 1 u.l. of world social labour: from then on, there would no longer be any inequality of exchanges, a strange result if one is not careful.

The inequality of exchange, clearly exposed by Marx as the exchange of a larger quantity of labour of the dominated country against a smaller quantity of labour of the dominant country, crystallised in the commodities produced and exchanged, demands the determination of an international value to which national values, which are not by themselves comparable, can be reduced. Otherwise one would have to accept the hypothesis of a homogeneous world economic space, characterised by the disappearance of nations and the absence of inequalities of development.

Whatever the case may be, we start with the ideal that an international value (w') has developed, to which different national values are reduced, in order to emphasise the inequality of exchanges in the world prices of production at the level of concrete reality. It will be necessary then to examine how international value ensures this inequality.

1. World price of production and unequal exchange.

Emmanuel distinguishes two forms of unequal exchange (35), so does Bettelheim (36): unequal exchange in the broad sense of the term - different organic composition of capital from nation to nation, at the same level of wages - and unequal exchange in the narrow or exact sense of the expression - a difference in wage levels. What opposes our two writers is the relative importance attributed to one or the other of these two meanings of unequal exchange.

For us, the one cannot be separated from the other, since unequal exchange in the narrow sense is merely the result of an evolution started by unequal exchange in the broad sense.

a) Unequal exchange in the broad sense: equal rates of surplus-value, unequal organic composition.

We know (37) that international exchange depends above all else on disparities in the levels of the productive forces; this gives a comparative advantage to each nation solely at the level of use-values, thus forcing the less developed nations to accept a specialisation which, on the surface, appears advantageous, but which, in the long run, determines their non-development. This gap in the development of productive forces affects essentially the dynamic activities, thus allowing us to oppose two systems of production as two nations - (i) (industrialised nation) and (j) (non-industrialised nation) - which are open to international exchange.

Before international exchange

- Nation (i) is represented by two departments of production, with a different organic composition in the different departments, and an identical rate of surplus-value defining equal wages, i.e. the characteristics put forward earlier:

	PRODUCTION				REALISATION		
	c constant capital	v variable capital	s surplus -value	w' price value	p' rate of profit	P realised profit	L' price of production
Dept. I	4 000	1 000	1 000	6 000	24.1%	1 207	6 207
Dept. II	1 500	750	750	3 000		543	2 793
	5 500	1 750	1 750	9 000		1 750	9 000

- Nation (j) disposes of 6 000 u.l. reduced to international u.l. Less developed than (i), we can say that (j) has an identical agricultural production function to that of the industrialised country, but that its function for iron production is less favourable, because it is less well endowed with means of production (artisan):

u.l.	1 000	2 000	3 000	4 000	5 000	6 000
U.I.	50	100	160	230	300	300
U.A.	800	1 300	1 600	1 900	2 050	2 200

We deduce the production possibility choice according to allocation of factors:

	1	2	3	4	5	6	7
U.I.	0	50	100	160	230	300	(300)
U.A.	2 200	2 050	1 900	1 600	1 300	800	0

The socially necessary labour-time determines for example, an exchange rate of 1 U.I. = 10 U.A., i.e. on allocation of factors of 3 000 u.l. in Dept. I and of 3 000 u.l. in Dept. II, lead to a scheme of expanded reproduction of social capital of the following type:

	c	v	s	w
Dept. I	1 500 +	750 +	750 =	3 000 (160 U.I.)
Dept. II	1 000 +	1 000 +	1 000 =	3 000 (1600 U.A.)

The total process of capitalist production of nation (j) is then:

	PRODUCTION				REALISATION		
	c	v	s	w	p'	p	L'
Dept. I	1 500	750	750	3 000	41.16%	927	3 177
Dept. II	1 000	1 000	1 000	3 000		823	2 823
	2 500	1 750	1 750	6 000			6 000

The apparent potential rate of exchanges between the products of (i) and (j) is: 1 hour of living labour of (i) is exchanged against 1 hour of living labour of (j), i.e. a rate of U.I./U.A. between 1 U.F./ 7 U.A. and 1 U.F./10 U.A., as is taught by neo-classical theory.

<u>After international exchange.</u>

Since (i) has the comparative advantage in iron production, and (j) in agricultural production, with international exchange we see an internal reallocation of factors of production towards iron production in (i) and agriculture in (j). Without questioning the precise determination of the factors nor the actual international mobility of capital, one obtains the following national aggregates:

	PRODUCTION				REALISATION		
Country	c	v	s	w'	p'	p	L'
(i)	5 500	1 750	1 750	9 000	30.43%	2 211	9 461
(j)	2 500	1 750	1 750	6 000		1 289	5 539
	8 000	3 500	3 500	15 000		3 500	15 000

Nation (i) appropriates 461 u.l. from nation (j). To realise the transfer of surplus value, one hour of living labour of (j) if presented as the equivalent of $\frac{86.82}{100}$ (38) hours of labour in (i). This process constitutes the first basis of the under-evaluation of the value of labour power in nation (j) converging towards inequality of wages as a long-term trend.

Emmanuel, however, sees in this process - unequal exchange in the broad sense - merely a form of the inequality of exchange inside the sphere of dominant economies, since wages are deemed to be equal, inequality being due only to the difference in organic composition of capital. Nevertheless, if one accepts that this difference of the organic composition of capital is the result of the law of unequal development, not only from one branch to the next, but from one nation to the next, one cannot consider this form of unequal exchange as merely characteristic of inequality within the dominant capitalist sphere. It becomes on the one hand the basis of inequality through differing levels of wages between industrialised and non-industrialised countries at the time of the building of the international division of labour in the 19th century, and on the other, today, a new form of unequal exchange to the extent that monopoly capitalism, launching into the scientific and technical revolution, throws back on to the non-industrialised countries the productive activities of the first industrial revolution, a new form which, as we will see later, is determined in a different way.

The problem that needs to be solved is, in the first case the mechanism leading to the increase of inequality by means of the differences in wages, or the under-evaluation of the value of labour-power in the non-industrialised countries.

b) Unequal exchange in the narrow or pure sense of the expression: unequal rates of surplus-value.

At the international level of exchanges between industrialised countries and non-industrialised countries, an increasing inequality of wages asserts itself; it is today running to 1 to 20 and even higher. Considering that the gap in development between Europe and the Maghreb for example, was much less marked in the middle of the 19th century than it is nowadays, and similarly the gap between Great Britain and India or Portugal, one can accept the fact that wages in the respective regions did not, at the start, give rise to noticeable differences: unequal exchange then resulted - other things being equal - more from the differences in organic composition of capital under the influence of the vertical international division of labour than from the disparity in wages.

Slowly, however, this last disparity increases and rapidly becomes dominant, even under competitive capitalism.

Thus, the preceding scheme is modified in such a way that the wage level of (j) is 5 times lower than that of (i). Let us moreover accept that the productive activity of (j) remains as productive as that of (i) (same production of value, transformed, given the underevaluation of labour-power, into a higher rate of surplus-value) at least in export activities.

	PRODUCTION				REALISATION		
Country	c	v	s	w'	p'	P	L'
(i)	5 500	1 750	1 750	9 000	50%	3 625	10 875
(j)	2 500	350	3 150	6 000		1 275	4 125
	8 000	2 100	4 900	15 000		4 900	15 000

Whereas exchange - at prices equivalent to values - states that one hour of living labour in (i) is equal to one hour of living labour in (j) with the price of production we have a new rate of exchange allowing for the transfer of 1875 u.l. from (j) to (i), i.e. one hour of living labour in (i) is made the equivalent of close to two hours of living labour in (j), <u>at a rate of equal productivity</u> in both countries

We find two phenomena at the root of the transfer, on the one hand inequality of wages, on the other a fairly high productivity in the export sector of (j), be it only to justify the sheer size of the surplus appropriated. We will have to come back to this last point since industrialised economies could not appropriate a surplus where it does not exist. (39)

As Emmanuel writes:

> "It thus becomes clear that inequality of wages as such ... is alone the cause of the inequality of exchanges." (40)

Where it is time, it seems to me, to separate ourselves from Emmanuel, is where he makes the wage itself into the explanatory variable of inequality. The wage would have to become the independent variable in the system:

> "When, however, wages vary at the rate of 1 to 20 or 1 to 30, and vary only in space, while possessing extreme rigidity in time (in which only a slow and linear trend is to be observed, with hardly any variation), we are indeed compelled to recognise that they probably vary in accordance with laws peculiar to themselves and that consequently, they really are the independent variable of the system." (41)

Such a view does indeed bring about a separation of the price of production from value, in the same way that it confuses the sphere of circulation - where inequality is realised - with the sphere of production which forms the basis for it. The analysis remains superficial, since what we must take into account are the mechanisms which lead to an underevaluation of the value of labour-power in the non-industrialised countries, an under-evaluation on which, in the sphere of circulation, the effective realisation of the inequality of exchange depends.

It is, to say the least, curious that Emmanuel should, having got to this point, draw the explosive conclusion that the labourers of the underdeveloped countries are more exploited than those of the developed countries, in the sense that the latter benefit from imperialist exploitation. The ultimate consequence is the absence of international solidarity between workers, the class struggle being henceforth between rich countries and poor countries. But, looking closely at the schemes of inequality of exchanges one simply notices that the transfer of surplus value takes place from the hands of the capitalists in (j) to the hands of the capitalists in (i); the appropriation of surplus-value - not to be confused with exploitation - is made by one capitalist class at the expense of another, and not by one working class from another. Without any transfer of surplus-value from (j) to (i), nothing would be changed in the rate of exploitation of the workers of (j), except that then the capitalists of the dominated nation would keep for themselves the surplus-value that they have extracted from their own workers.

In fact, the problem is that of the dependence of one bourgeois class on another, the first being relieved of the surplus which, were it not for imperialist nations, it could dispose of for the accumulation of capital. This explains the incapacity of the bourgeoisie in the underdeveloped countries to organise economic development and the political reactions of this social class; in Latin America, for example, it sometimes opposes American imperialism by nationalisations, thus aiming to recover for itself the surplus value which goes abroad. Besides, these attempts at recovery in no way demonstrate that the South American bourgeoisie could effectively accumulate the available surplus, since unequal exchange in itself does not explain the non-development of the productive forces; this is to be accounted for by the logic of profitability and by the incapacity of that bourgeoisie effectively to absorb any productive activity, especially the more dynamic, because of a basic gap in the level of development.

2. International value and under-evaluation of the value of labour-power.

The problem is to determine the international value (w') on the basis of the national values of nations $(i)(w_i)$ and $(j)(w_j)$

a) Marx's law of international values

This law, formulated by Karl Marx (42), and taken up by the economists of eastern Europe, can only be interpreted as a law of competitive capitalism since it postulates that comparisons of labour productivity - which determine specialisation - are possible; this means that specialisation between primary producing countries and countries producing manufactured objects are only at an elementary stage, a situation which is very remote from contemporary circumstances.

The thesis put forward by the writers who refer to it (43), expressed the idea that the value of the products supplied is inversely proportional to the productivity of labour of the national economy in the various activities. Taking into consideration the degree of inequality of the productive forces, the value of products offered by developed countries would necessarily be lower than that of products offered by the less developed countries in corresponding departments of production. The average international value of any product, being located between these two values, would thus allocate an excess value to the commodity of the developed country and a value less than its actual value to that of the less developed country.

On this line of analysis, Goncol writes:

> "The international value of the mass of commodities produced in the more developed country is greater than its national value. The national value of the mass of commodities produced in the less developed country is greater than their international value, From this it follows that the distribution of the surplus created by the division of labour on an international scale and realised via the international exchange of commodities is shifted in favour of the more advanced country; in other words, the capitalists from the more advanced country reap the fruits of the increase in their own productivity as well as those of the greater efforts produced by the backward countries." (44)

What this argument leaves out of consideration is that it requires that, on the one hand, the levels of productivity do not have a differential of 1 to 40 (limiting ourselves here to agriculture (45)) as they do nowadays, since in such a case average international value no longer has any meaning, and that, on the other hand, comparisons of productivity, before exchange should be possible. But the fact is, to take one example, today there exists no criterion to determine the value of heavy equipment produced by underdeveloped countries, since they do not even have the possibility technically of conceiving of such production.

We must thus observe that at present this law is no longer of much help to us in approaching theoretically the inequality of exchanges. It can only have meaning in the initial process of specialisation, i.e. at the stage of competitive capitalism.

b) From the law of international values to the under-evaluation of the value of labour power.

In order that the transferred surplus be of respectable size, we must accept that the production of the export sector of nation (j) is as advanced as that of (i) in corresponding sectors; the productivity of the plantation sector easily bears comparison with that of agriculture in capitalist economies. But in international value, its productivity is submerged in the average surrounding productivity, that of the subsistence sector. We can put forward, as a possible hypothesis, that the difference in productivity of 1 to 40 (45) between traditional agriculture and capitalist agriculture thereby establishes a difference of the same order in the wage levels.

In fact, the mistake made by Goncol, Pavel and Horovitz in their use of the law of international values is to confuse, as does

Emmanuel in an opposite way, the bases of unequal exchange in the sphere of production with its effective realisation in the sphere of circulation. To the extent to which an average international value potentially develops - which implies once again that comparisons in productivity are possible - it follows that it acts on the necessary underevaluation of value in country (j) and thus on the only source where one of the components of value can be reduced: the value of labour power, i.e. in the final analysis, the wage. <u>The international price of production ratifies this underevaluation and nothing more</u>.

We have in fact two stages: the first is the underevaluation of the value of the commodity exported by (j) due to the formation of an average international value, the second is the resulting effect of this underevaluation on that of the value of labour-power in (j).

On the other hand, we know that agricultural productivity in the subsistence sector in the non-industrialised countries is worsening in the long run, due to the hiatus in the agricultural social metabolism introduced by the penetration of capitalist values: we thus see that the productivity of the export sector will consequently grow parallel to an increasing inequality of wages, and in the end, to an increasing inequality in international exchange.

What is fundamentally different between w_j and w' is the value of labour (international value) and the exchange value of labour (national value) determined by the level of development of the national productive forces. Indeed the value of labour becomes, as we must admit, an international value in terms of the relative mobility of capital and of techniques, <u>insofar as the export sector of the less developed countries is concerned</u>: the value of labour in ore extraction in Mauritania or in the iron mines in Lorraine is identical; this is true for all the export activities in the underdeveloped countries. What remains as national value is the exchange value of the labour-power which is not determined by the average international conditions of maintenance and reproduction, but by the specifically national conditions of maintenance and reproduction.

To make our argument explicit, take the following scheme:

1. - international labour value $\boxed{v \quad s}$ $\longrightarrow$ international conditions of productivity

$\downarrow$

2. - national value of labour power $\boxed{v}$ $\longrightarrow$ national conditions of the cost of reproduction, of maintenance and of formation of labour power.

But in the less developed country, for the capitalist export sector, the exchange value of labour power is held to be zero, since it can <u>pass on</u> to the traditional sector (from which it <u>draws</u> the labour force it needs) the cost of reproduction and of training, as well as the cost of maintenance. The level of wages is not an independent variable, as Emmanuel maintains; the independence of the level cf wages is only that of the national value in relation to that of the international value.

In conclusion, unequal exchange in the C.M.P. at the competitive stage depends on a mechanism of determination - the international value of the commodities produced and exchanged - which leads to an underevaluation of the value of labour power, in other words the penetration of capitalist values, thanks to the application of the law of comparative costs, creates a hiatus in the social metabolism of the non-industrialised country, producing the erosion of agricultural productivity and thus justifying this underevaluation of labour power. In the sphere of world circulation an inequality of wages emerges, leading to the formation of a price of production, which transfers to the industrialised countries a greater or lesser part of tne surplus produced in the non-industrialised country.

The mobility of capital is certainly an indispensable element in the justification of this transfer, but this factor only plays a marginal role; its essential function is the justification of the transfer itself, intervening only more or less in the process of production of the less developed country, since specialisation starts off on the basis of existing situations.

On the contrary, in monopoly capitalism, side by side with inequality of wages, the export of capital becomes preeminent since it supports the implantation of highly productive activities - producing an increasing surplus - which, though they have been rejected by the C.M.P., amplify the <u>inequality</u> of exchanges

Unequal exchange has a specificity at each stage in the evolution of the C.M.P., in accordance with the function vested in external trade vis-a-vis the modes of production and of realisation of the economic surplus specific to each stage.

IV THE LAW OF UNEQUAL EXCHANGE UNDER MONOPOLY CAPITALISM.

What distinguishes the law of unequal exchange in monopoly capitalism from that in competitive capitalism is not the form it takes itself, but its new determination in the process of production, due to the specific contradictions of each stage.

The latest modification in the role played by export of capital in a qualitative aspect - and not a quantitative one - is the casting off of productive activities dating from the first industrial revolution which slow down monopoly growth. As these activities usually call for relatively low labour skill compared to that demanded by the activities of the scientific and technical revolution, the inequality of wages is increased by the inequality in the organic composition of labour. (47). Moreover, the mechanism for the determination of the price of production disregards the law of international values, at least in the simple form this takes as it appears in competitive capitalism, since the comparisons of productivity, when the gap becomes immeasurable, can no longer give rise to the emergence of an average international value; the underevaluation of the value of labour power appears to be directly due to the erosion solely of productivity in the subsistence economy of the non-industrialised countries.

One of the essential characteristics of international economic relations between industrialised and non-industrialised countries under monopoly capitalism is the "casting off" to the third world of productive activities dating from the first industrial revolution, e.g. the textile industry based on natural fibres, basic steel production, and certain food industries. In fact, very often, political considerations, linked to the security offered by a certain zone, come to reverse this movement which is then limited to certain enclaves known to be "safe". At the same time the present level of development of the productive forces in these regions does not allow a real spread of these productive activities. Industrialised capitalist economies then turn the problem round by transferring labour-power from the third world to the European or North-American capitalist sphere where these activities apparently remain located; but the nature of these industrial activities is already of a different order; this manifests itself in the inequality of wages - just as if these industries were economically elsewhere. The fact that these industries remain, in part, in the industrialised capitalist sphere could not mask the fact that everything happens as if they were the actual "specialisation" of the third world.

But the productive activities of the first industrial revolution, as Radovan Richta has so correctly emphasised, imply a specific combination of the productive factors with the relations of production, similar to a specific growth model, and especially for our purposes, a determined type of social relation, notably in the material conditions of labour power:

> "The process of industrialisation was based on a breakdown of labour into abstract elements, and eroded the traditional (artisan) qualifications of the worker. The simple and monotonous use of labour power in immense armies of specialised workers - who operate mechanisms which prescribe the economic rhythm - becomes the basis for mass industrial production. The nature of wage labour, in its real form, has deprived a great part of industrial labour of its human values; it has separated it from the intellectual potentialities of life, and has reduced the whole of human activity to a simple means of existence, in which man no longer lives, but merely works to survive."(48)

A fragmented labour, devoid of all creative faculties apart from its slavery vis-a-vis capital and the generation of surplus value or surplus, is inherent in the technical nature of the industrial revolution. This fragmented form of labour is opposed to that derived from the scientific and technical revolution which "eliminates the mass of semi- or unskilled labour from the workshops and offices" (48) and which by contrast shifts human activity towards the functions of higher technicians, engineers, scholars ...

It is clear that the productive activities of the industrial revolution involve a labour skill of a relatively simple order - even when it is "skilled" - by comparison with the more complex nature of the activities of the scientific and technical revolution of monopoly capitalism. The organic composition of labour (complex labour/simple labour) differs from place to place and thus amplifies the inequality of wages. In cases where the wage of a worker in the third world might tend to increase relatively and narrow the gap which separates him from a corresponding worker in the developed country - this is mere conjecture - the inequality in skill ensures the inevitable continuation of inequality in the level of the value of labour-power through the unequal reduction of complex labour into simple labour. Thus, in our preceding examples of the "realisation" of unequal exchange through the cost of production, it would be possible to accept that the value of the labour force is identical in both the industrialised capitalist country and in the non-industrialised capitalist country; whereas the inequality at the level of wages is due to the fact that country (i) only employs complex labour equivalent to n times the simple labour of country (j). This formal equivalence in circulation is merely the appearance of a nonequivalence, and of an unequal reduction of complex labour into simple labour.

To the extent to which here and there, productivity differs considerably depending on whether the nature of the productive activity relates to the industrial revolution or to the scientific and technical revolution, comparability in reducing simple and complex labour to a scale of equivalence collapses and is destroyed in its internal basis. The value of labour power in an activity of the industrial revolution becomes incomparable with that of the scientific and technical revolution. The monopolist mode of production determines - by a scientific procedure - the correct equivalence in the realisation of the value of nonequivalent labour, of another order, in another mode of production, this nonequivalence becomes worse, given gaps in productivity which are increasing in size.

This specific procedure is once again the maintenance and reproduction cost of the value of an engineer's or a researcher's labour-power (cost of formation and level of the cultural, leisure and consumption patterns) compared with the maintenance and reproduction cost of the value of the labour-power of an African, Asian or Latin American worker. This last value is practically counted as zero, primarily because of the low productivity of the subsistence sector which determines the costs of maintenance and reproduction of any labourer.

Further, the traditional sector, under attack from the modern sector, releases a labour-power for employment by the modern sector - whether in the geographic sphere of underdevelopment or in the sphere of monopoly capitalism - which costs practically nothing to bring into being, while its maintenance cost is relatively low. Simple labour is purely and simply underevaluated in relation to complex labour.

These few remarks on "unequal exchange" (50) do not pretend to exhaust the wealth of a phenomenon which, according to us, can only be grasped to the extent to which the determination of international exchange is, to its full depth, put in the context of the mode of production and of realisation of the surplus of dominant economies. Besides, unequal exchange in international economic relations does not, by itself, account - at the level of commodities and of capital - for the vastness of appropriation of surplus; we must add to it the migration of workers from underdeveloped countries towards the capitalist metropoles, which creates profits for the latter which are just as important as those acquired through international exchange in the strict sense of the word.

NOTES

1. Christian Palloix is at the Department of Law and Economics, Grenoble. This article, originally written in January, 1970, was intended as a report for the Centre d'Etudes et de Recherches Marxistes to open the debate on Unequal Exchange. Later the article was published, without alterations, in L'Homme et la Societe: Revue Internationale de Recherches et de Syntheses Sociologiques, No. 18, Oct.-Dec. 1970. We should, therefore, record (following Palloix' own statement to this effect) that the article can only be regarded as the provisional stage in a debate in the contemporary reappraisal of Marxist theory concerning international economic relations.

2. If André Gunder Frank (in Capitalism and Underdevelopment in Latin America, Monthly Review, New York, 1969) mentions unequal exchange, he never suggests a theoretical explanation for it. Amongst others, East European economists systematically refer to Marx's law of international value.

3. Cf. the Algiers Symposium (21-24 March 1969), and the Centre d'Etudes et de Recherches Marxistes, (C.E.R.M.) seminar of 6 December 1969.

4. Henri Denis, Le rôle des debouches realables dans la croissance economique de l'Europe occidentale et des Etats Unis d'Amérique, Cahiers de l'I.S.E.A., série P.N.5, May 1961, N.113 pp 3-89.; L'Evolution seculaire des termes de l'échange entre l'Europe industrielle et les regions sous-développees. Un essai d'interprétation, Cahiers de l'I.S.E.A. série P.N.7, Dec. 1962, pp 1-16.

5. Arghiri Emmanuel, Unequal Exchange, New Left Books, London, 1972. On this point one should also take into account various articles by the same author published in Problemes de Planification, No. 2, 1962 and No. 7, 1966.

6. Charles Bettelheim, "Echange international et developpement regional", Problemes de planification No. 2, 1962 39p. Also Appendices I and III in A. Emmanuel, op. cit., pp 271 - 322 and pp. 342 - 356.

7. Serge Latouche, La paupérisation à l'echelle mondiale, thesis, Paris, 1966. L'echange inegal et la question des debouches unpublished document, Seminaire Aftalion, Paris 1968.

8. Christian Palloix, Problemes de la croissance en economie ouverte, Maspero, Paris,; Economie et socialisme: Documents, Etudes et Recherches No.1, 1969.

9. Cf. V.I. Lenin, "A Characterisation of Economic Romanticism", Collected Works, F.L.P.H., Moscow, 1960, Vol. 2, p. 162: "The romanticist says: the capitalists cannot consume surplus-value and therefore must dispose of it abroad. The question is: do the capitalists supply foreigners with products gratis,

9. (cont.)

or do they throw them into the sea? They sell them - hence, they receive an equivalent; they export certain kinds of products - hence, they import other kinds." (Our emphasis - C.P.)

10. Cf. Karl Marx, Fondements de la critique de l'economie politique Anthropos, Paris, Vol. 1, pp. 222-223 (Grundrisse).

11. Cf. analyses of the Singer-Prebisch variety.

12. Let us be cautious and remind the reader of what Marx meant by "society": "Society does not consist of individuals; it expresses the sum of connections and relationships in which individuals find themselves." Marx Grundrisse, (Ed. D. McLellan) Macmillan, London, 1971, p. 77.

13. In the Grundrisse as well as in Capital (Moscow, 1954-57-59), the field of political economy is situated in production, circulation, distribution, the realisation of social product, on the basis of the relations of production and the level of the productive forces.

14. This is the well known position of Althusser, in the interpretation he gives to Marxism and to political economy.

15. A Marxist like Henri Denis would not reject such a position.

16. Lucien Seve, Marxism et theorie de la personalite, Editions Sociales, Paris 1969, pp. 34-35.

17. Marxist economists like J. Bernard and H. Denis in France, Kantorovitch and Novozhilov in the U.S.S.R. reflect the evolution towards the econometrics school. Let us take note of the fact that their work - which undeniably is of Marxist interest - are well regarded by the empiricist school, they are necessarily brought to work on the level of that school.

18. Karl Marx, A Contribution to the Critique of Political Economy, Lawrence & Wishart, London 1971 (Section called: The method of political economy), p. 205.

19. Karl Marx, Ibid.,p. 206.

20. Karl Marx, Ibid., p. 206.

21. Karl Marx., Ibid., p. 214.

22. Karl Marx, Capital, Volume 3, p. 25.

23. Cf. our intervention to the seminar of 6 December 1969 at the C.E.R.M. on "Imperialism".

24. Cf. Emmanuel, "Unequal Exchange", Op. cit., p. 116 and foll.

25. Cf. Piero Sraffa, Production of Commodities by means of Commodities, Cambridge 1960.

26. In Capital, Karl Marx has emphasised the new and complete determination of all the components of the social product, see Vol. 3, p. 239.

27. Emmanuel, Op. cit., p. 20.

28. Emmanuel could profitably use Engels' sentence on the price of production: "In a word: the Marxian law of value holds generally, as far as economic laws are valid at all, for the whole period of simple commodity production, that is up to the time when the latter suffers a modification through the appearance of the capitalist form of production ... Thus the Marxian law of value has general economic validity for a period lasting from the beginning of exchange, ... down to the 15th century of the present era." Engels' Supplement to Vol 3 of Capital: Law of Value and Rate of Profit. Capital, Vol. 3, p. 876.

29. The rate of profit $p' = \frac{s}{c+v}$ As c increases, p' decreases.

30. Karl Marx, Capital, Vol. 3, p. 172.

31. Let us remember that Karl Marx has said that the schemes of extended reproduction are the unity of the process of production and the process of circulation, outside of the new determinations maintained by their very unity. They are, above all, an abstraction deprived of contradictions.

32. See Karl Marx, Capital, Vol. 3, pp. 232-235.

33. The theory of international value is in Vol. 1 of Capital.

34. A Emmanuel, Op. cit., pp. 382-383

35. Generally on this point, it is necessary to refer back to Emmanuel's fundamental thesis, Unequal Exchange, op.cit., pp. 52-95.

36. See C. Bettelheim, Echange international et developpement regional, op. cit.

37. See our work, Problèmes de la croissance en economie ouverte, op. cit.

38. To calculate the rate of exchange, it is necessary to distinguish production, circulation and realisation as in the following diagram:

	Production (v+s)	Circulation		Realisation (v+p)
(i)	3500	3039	461	3961
(j)	3500	3500		3039

i.e. 3039 u.l. of (i) are exchanged against 3500 u.l. of (j).

39. Colonisation is the mode of production and of mobilisation of the surplus in the precapitalist economies of the 19th Century. Capitalist economies make do with liberal exchange - e.g. Portugal, Spain, Japan, etc. - whenever mobilisation is acquired by the mere respect of the laws of trade.

40. A. Emmanuel, Op. cit., p. 61.

41. A. Emmanuel, Op. cit., p. 71.

42. Cf. Karl Marx, Capital, Vol, 1., pp 559-60.

43. Cf., for example, G. Goncol, "A propos de la théorie marxiste de la valeur", Etudes economiques, 95-96, 1956, pp. 74-90. M. Horovitz: "A propos de certaines particularites et de certaines limitations de la loi de la valeur dans le commerce exterieur socialiste", Etudes économiques, N. 112-113, 1958, pp 81-91. G. Kohlmey, "Role et développement du commerce exterieur dans les modes de production socialiste et capitaliste" Etudes économiques N. 145, 1963, pp. 19-68.

44. G. Goncol, Op. cit., p. 82.

45. Cf. Paul Bairoch, Diagnostic de l'evolution economique du tiers monde - 1900-1966. Gauthier-Villars, Paris, 1967.

46. Cf. Paul Bairoch, Op. cit.

47. Cf. A, Emmanuel, Op. cit., p. 137 ff.

48. Radoven Richta, "Revolution scientifique et technique et transformations sociales", L'Homme et la societe N. 3, March 1967, p. 90.

49. Idem., p. 91.

50. Let us add that these remarks in no way question a number of positive points in Emmanuel's thesis and we take the opportunity to recognise, in passing, its undeniable benefit to Marxist theory.

REVIEW: L'economie mondiale capitaliste, by Christian Palloix (Maspero, 1971, 2 vols.)

As the title suggests, this is a book that ranges far and wide. In essence, its aim is to provide a critical survey of Marxist analysis of the international or world economy, with sideswipes at classical and neoclassical writings. So much ground is covered that all that can be offered here is a synoptic review, which I hope will encourage others to study the work. The central theme can be noted at once: that

> "the capitalist world economy has become the ultimate reality, and as such enfolds all social formations within itself. It follows that the contradictions which develop, for example, at the periphery are only the reflexion on national bases of world capitalist contradictions, just as the development of contradictions at the centre is 'inscribed' on this world context at the same time as reflecting the latter's contradictions" (p.7-8).

The long introduction is aimed at carrying out a number of preliminary tasks. The first chapter defines and develops the methods and concepts to be used (mode of production, social formation, historically abstract/historically concrete, etc.), and is crucial for understanding what follows; whether or not one agrees with the substance of these definitions, they are admirably clear and are precisely employed throughout. Some key theses are outlined: for example, the dominance of advanced over underdeveloped countries is seen as involving a coherence in the social formations of the former, with relations of production dominating forces of production, and an incoherence in the latter, with the forces of production governed by the relations of production at a world level, and dominating the national relations of production and reinforcing a state of economic dependence. Further,

> "There isn't a capitalist mode of production at the centre, <u>and</u> imperialism articulating centre and periphery; there is a capitalist mode of production at a world level which requires imperialism to link up its different fragments, to ensure its functioning at the world level; this implies that imperialism is involved, at the level of concrete social relations, as much in the centre as the periphery" (p.31-2).

He goes on to outline his later discussion on the Marxist theory of imperialism, stressing the development of the concept of world economy by Luxemburg and Bukharin, as against the thesis of State Monopoly Capitalism, which he regards as an impoverished version of Lenin.

The following chapter discusses the nature of the contradictions in the capitalist mode of production. Brief passages on Marx' method and value theory, and a critique of marginalism, are followed by a discussion of the structural contradictions (forces/relations, transition between modes) and corresponding functional contradictions (creation/realization of social product and surplus value, disproportionalities, overaccumulation, crises). These imprint themselves on the level of world economy in terms of contradictions between <u>world</u> forces and relations of production, involving the international division of labour, the fragmentation of the world economy (necessary for its functioning under the dominance of the advanced countries) into 'zones of unequal development', and so on. But

> "..the difficulty lies precisely in understanding that the

reality and strengthening of the national aspect constitutes simply the obverse of the internationalizing aspect and its attendant contradictions." (p.94)

The chapter ends with a brief discussion of Samir Amin and Emmanuel on international primitive accumulation.

Chapter 3 outlines rather sketchily a critique of traditional bourgeois theory of international economic relations, from both the methodological and verification angles (this was the subject of an earlier book by Palloix). Chapter 4 is a preliminary outline of world production relations on the basis of the analysis so far, and seeks to outline first the articulation of social formations in the world economy - economic. political and ideological - and secondly the determination of world production relations as necessary to ensure the reproduction and consolidation of capitalist relations of production. The second is the harder task, but absolutely necessary in order to analyze the transition from value to production price at the world level, i.e. 'unequal exchange'. There follows substantially the essay on Emmanuel published in this issue of the Bulletin, to which is added a section on the new determination under the specific contradictions of monopoly capitalism, for example the 'casting off' of no longer progressive sectors onto the periphery.

Part II develops the analysis of the world economy for the competitive phase of capitalism, understood as the period from roughly the end of the 18th to the beginning of the 20th century. The central argument is that the function of the international relations of production is to negate the contradiction of creation/realization, in the sense of displacing it to the world level; this transforms the contradiction by preventing it from blocking capitalist development in the industrializing countries, while of course making more acute the basic structural (forces/relations) contradiction. In concrete terms, for the competitive phase, this function is expressed in the role of foreign markets in the creation and realization of the social product and of surplus value.

Chapter 1 outlines the classical debates: Smith, Ricardo, and the arguments between Sismondi and Malthus on the one hand, and Say and Ricardo on the other. For Smith trade allows the extension of the division of labour by transcending the narrowness of internal markets; for Ricardo, it firstly allows an increase in profits by reducing the prices of wage goods, and secondly an influx of factors of production into industry by destroying traditional agriculture. The 'realization' aspect could not arise for Ricardo, since domestically growth created its own markets, while in foreign trade exports were matched by imports, and he also could not see the problem of unequal exchange, since his analysis was located purely in circulation. Chapter 2 outlines the manner in which Marx incorporated but transcended the classical debates. Exports of manufactures play a role in realizing the surplus, imports of primary goods in creating it, so that foreign trade is the 'external negation' of the contradiction. The falling rate of profit is offset by reducing the value of canstant and variable capital and by reallocating factors of production. Exports of manufactures imply a lowering of production costs by enlarging the scale, and a transfer of surplus value from pre-capitalist formations (see below). Lenin's polemics against the populists and legal Marxists are then discussed from the same angle, the central point being that, for Lenin, external markets have nothing to do with realization in abstracto, but only via the internally contradictory nature of the capitalist mode of production. However, Palloix argues that Lenin incorrectly reserfed the term 'imperialist' for monopoly capitalism because he did not perceive the existence of unequal exchange in the competitive phase.

Chapter 3 discusses the role of foreign trade in the growth of the British economy in the 18th and 19th centuries by examining available statistical material. The last two chapters go on to analyze the 'law of comparative costs', the international division of labour, the international production process, unequal exchange and the redivision of surplus value. Palloix stresses that specialization results not from 'comparative costs', which simply describes the status quo at any point in time, but from an international division of labour moulded by the developing contradictions in the capitalist mode of production, and the off-loading of these contradictions by the dominant onto the dominated, leading to unequal development and 'underdevelopment'. Starting from another link in the chain, unequal development leads to a growing labour productivity gap and to different rates of surplus value; this surplus value is then creamed off by advanced-country capitalists through unequal exchange. Within the exploited countries, the exchange value of labour power is kept low because it is determined in the subsistence sector, but labour productivity in the capitalist sector approaches advanced country levels. The rate of surplus value is thus much higher. But since the rate of exploitation is not equalized internationally as it is nationally, the international equalization of the rate of profit, through international capital movements, transfers surplus value to the advanced countries. This inequality of exchange is based on the insertion of capitalist production relations into the dominated countires. A further important conclusion is that the 'law of international value' must rest on a tendential internationalization of capital, even if the latter, under competitive capitalism, only takes the primitive form of capital export.

Part III, occupying the entire second volume, discusses the world economy in the monopoly phase of capitalism. Chapter 1 states the basic task for Marxists in this field as the deepening and re-development of Lenin's theory of imperialism. Imperialism is to be seen as based on the expanded reproduction of capitalist production relations at a world level. Following Bukharin, the most apparent form of the contradictions in these international production relations is the conflict between national and international capital, given that the latter is a necessary part of the 'world economy'. Imperialism can be seen as the transition from capitalism to socialism, since it leads at the periphery to a complete structural inability of the incoherent production relations to dominate the forces of production; Palloix therefore discusses at this point the theory of transition. This includes a long reexamination of What is to be done?, and criticizes the 'state monopoly capitalism' thesis as implying incorrectly that a peaceful transition is possible. The following chapter aims to survey and clarify the Marxist theory of imperialism. He begins with the 'precursors', Bernstein, Otto Bauer and Hilferding; then goes on to Lenin, Luxemburg and Bukharin; and finally examines current tendencies, designated as 'frontist' (i.e. state monopoly capitalism), 'Trotskyist' (scantily dealt with however much one might disagree with Trotsky), and 'alternative Marxist-Leninist' (Baran & Sweezy, Amin, Frank and Palloix himself).

Palloix insiste that progress is blocked at present by inhibitions more ideological than theoretical, and that these must be cast off in reappraising the Marxist classics. There will be much in this chapter for readers of every tendency to disagree with. One major dimension of the argument is the national/international question, with 'ultra-Leninists' at the former pole, and 'ultra-Luxemburgists' at the latter.

Chapter 3 develops the author's own position. He would replace the term 'state monopoly capitalism' for the present period by the term 'world state monopoly capitalism', or to avoid confusion, 'international monopoly competition'. After a critical discussion of the S.M.C. thesis and of Baran and Sweezy's analysis of the tendency of the surplus to rise, there follows a long section on multinational firms (currently being translated). Here he discusses the structural evolution of the mode of production in terms of the firm/market relationship, and then the functioning of this structure in the new period of multinational firms, drawing on a wide range of recent empirical research. The key conclusion is that the nation-states of the centre reflect, in their actions, not only 'their' national bourgeoisies, but also the interests of all international finance-capital groupings, i.e. of all 'national' bourgeoisies. "It is a state monopoly capitalism, but of a world state, carried out on a national level"(p.159); and no 'democratic' state can control the operations of its multinational groups by itself. The state is thus caught acutely in the national/international capital contradiction - as indeed is the multinational firm itself, for it must preserve the fragmentation of the world economy while itself overcoming it in regulating its own operations.

The following chapter is entitled 'world relations of production under neo-imperialism', and explores the nature of the domination and dependence experienced by the periphery. Domination involves effecting an alteration from outside in the productive forces of the peripheral country; dependence involves a lack of internal structural coherence, replaced by a coherence with the advanced capitalist countries for the capitalist sector (a deformation reflected in class structure). This is evidenced by the increasing importance in the periphery's trade of flows between centre and periphery, by the structure of the international monetary system, by technological dependence and by labour migrations. A.G.Frank is discussed here among others. Finally, chapter 5 considers the effects of this in terms of the 'development of underdevelopment'. Palloix attacks the orthodox bourgeois 'dualist' view of a traditional sector 'holding back' a dynamic capitalist sector as purely descriptive, and discusses 'balanced' and 'unbalanced' growth theories as being effectively the same; both policies have failed to generate coherent development, and they remain simply an ideology of development so long as they fail to analyze what is happening as development under imperialist domination. Foreign trade plus agricultural specialization, and would-be autarchic import-substituting industrialization, have both failed for the most part in generating any 'development' at all; and 'open' industrialization in sectors cast off by the centre, though real, is dictated by the needs of the centre.

This is altogether a most interesting book. The major weaknesses apparent, namely in the analysis of monopoly capitalism at the centre and of underdevelopment at the periphery, must be seen, in terms of this study, as reflecting the inevitable impossibility of grasping such questions outside of the context of the world economy, as has been the case with so much Marxist work. If this position is accepted, it only underlines the enormous but vital task ahead of us.

Hugo Radice.

IMPERIALISM: A BIBLIOGRAPHY

George Lee

During the last two and a half years I have been writing a number of papers on the impact of imperialism and at the same time built up in a rather disorganised fashion a card index of references on the subject. Recently a number of requests for help have come up and so I threw together the following bibliography.

It should not be regarded as definitive. The majority of references included I have not yet read myself and so I am not sure that they are all worth looking at. But I've tried to err on the side of over-inclusion.

I would be very grateful if people would send me a list of omissions for this will enable me to put together a much more complete set of references in 1973.

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