

5.1 The Terms of Trade

In one of his most resounding statements, the former American Ambassador with the United Nations, Mr Moynihan, said that the rich countries do not consume more than the poor because they appropriate part of what the poor produce, but because they themselves produce more than the poor.

I like this approach. They consume more because they produce more. Do they? This is precisely the point. If they do, that is if, year after year and in the entire period, the rich nations produce as much as they consume (the word 'consume' being taken in its broad sense, that is, ^{covering} both final unproductive and intermediate productive consumption), then all profound dissertations about the economics of imperialism, neo-colonialist exploitation, and so forth, become empty words. It is clear that if a country confines itself to consuming only what it produces, it can by no means enrich itself at the expense of another country.

Right! But how does Mr Moynihan know that rich countries actually do confine themselves to that? What a country consumes (C) is what it produces (P) plus what it imports (M) minus what it exports (X):

$$C = P + (M - X)$$

To say that $C=P$, we must first make sure that the expression in brackets is nil, in other words that $M=X$. But M and X being two heterogeneous collections of commodities, they cannot be related to one another but by means of prices. This is why, in the last analysis, everything depends on prices and as soon as prevailing prices are questioned, all grounds for statements like that of Mr Moynihan break down. At the existing prices American aggregate imports are, in the long-run, roughly equal to American exports. At another set of prices, the former could well be worth many times the latter.

This is also why prices and the terms of trade constitute today the most crucial question in the North-South argument. For the only vehicle for a unilateral transfer of wealth from one country to another is a trade-balance differential, whether formal (that is, entered into the accounts as a non-equivalence of the total imports and exports in current prices) *a informal (that is)* // concealed in the composition of the prices themselves, as a difference in the valuation of their respective elements). Since, however, on the whole and in the long-run, exports from the Third World towards developed countries, evaluated at the prevailing world prices, do not practically exceed imports, evaluated on the same basis, only the second possibility holds, and the only mechanism for transferring wealth unilaterally that remains is the distortion of prices themselves.

This is sufficiently illustrated with the oil crisis. No other single event, since last world war - the Chinese revolution not excepted - has shaken the OECD countries so violently as the oil price rise did. It suffices, on the other hand, to notice the dramatic suspense which paralyses periodically the financial centres and the Stock Exchange in all industrial countries during OPEC deliberations about the possibility of a further 5 or 10% rise, to be convinced that this is something more than a momentary and casual issue. Its importance consists not only in the direct effects of a higher import bill for oil on the balance of payments, considerable as these are, but also the indirect ones on the level of employment.¹

To confine ourselves, however, to the observable fact of the additional nominal charge of the oil bill, this amounts to approximately US\$70 billion yearly. As a guide mark for the importance of this amount, let us recall that total profits, whether repatriated or not, of the aggregate centre-owned direct investment in all counties of the periphery put together, amounted in 1975 to no more than US\$8 billion.

5.2 The Question of 'Equivalence' and the neo-Classical Doctrine

In the neo-Classical framework which forms the background of the Moynihan statement, the problem we speak of simply does not exist. The prices of final goods, simultaneously with those of factors, are ultimately determined by the relation between the preferences of the individuals and the technical conditions of the production, the latter including the fixed stock of factors and their respective marginal efficiencies. There is, therefore, no such thing as an intrinsic 'norm' in relation to which the exchange could be described as equal or unequal and exploitation through fully competitive terms of trade is an unintelligible proposition. One sells cheaper or dearer according to the whims of reciprocal demands, that cannot be helped, and one gets poorer or richer to the extent one sells cheaper or dearer. The dividing line in value theories passes here. For Ricardo and Marx it is because A is equal to 2B that people tend to exchange one A against 2B, ~~the only ratio with a given technology and a given distribution.~~ For the neo-Classicists, on the contrary, the equation $A=2B$ means nothing but the mere fact that people do exchange one A against two B.

Let us abstract from any other objection to the neo-Classical theory and accept its own assumptions, namely all factor prices moving according to their relative scarcities without limit and as freely as the prices of final goods. *Let us further admit that within such a framework it will be the prices of final goods that determine the earnings of their producers* and not the other way round. But the theory collapses and neo-Classicism makes no longer sense at all, as soon as we acknowledge the simple fact that at least one factor, which moreover happens to be the most important of all, that is labour power, is not and has never been dealt with on something which could by any standard be described as a 'market'. In fact, what we call 'labour market' is a mental construction. Except, perhaps, for a very short transition period immediately after the establishment of the capitalist system. The complex code of rules and norms of the feudal system before, the trade-union action after, left little room for such a market. Paradoxically, as long as the labourer himself was not free, there did exist a real labour market in the form of the slave market.

It seems to have been so far the only one deserving the name of market. As soon as the worker became 'free', the labour power ceased to be a 'freely' traded commodity. Under the circumstances, the only possible solution is to take the wage either for a direct distribution variable, reflecting each time and in each country the equilibrium point between antagonistic social forces, or, if really necessary, for the price of a commodity but of a sui generis one, that is, one intrinsically doomed to being dealt with constantly under uncompetitive conditions.

After all, nobody, whether liberal or Marxist, would deny the possibility for a monopoly, or for a political interference whatsoever, for example a tax, to have distorting effects on the system. Well! The Emmanuel theory of Unequal Exchange is based on nothing else than the 'irrational' effects of a political wage.

Now, when in addition to the exogeneous determination of the national wage, we assume an international equalization of the rate of profit, all equilibrium relative prices consistent with the technical conditions of production become perfectly determined without any reference to the demand.

In other words, as long as the capital was immobile, the terms of trade were freely floating within the limits of the Ricardian limbo of comparative costs. In terms of the standard notation for the neo-Ricardian or Sraffa system set out in Section 3.3 and 4.2, for the k commodity k country case, this is expressed by the k-1 degrees of freedom (2k-1 unknowns, that is the r_i 's plus the p_i/p_j 's, for k equations), in

$$\sum_{j=1}^k (a_{ij}p_j + a_iw_i)(1+r_i) = p_i, \quad i=1,2,\dots,k \quad (5.1)$$

(where countries are referred to by number rather than A,B,C... as before)

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the ~~in~~ terms of trade, p_i/p_j , become predetermined ($k-1$ times p_i/p_j plus one r , that is, k unknowns for k equations) by the discriminating (immobile) element, w_i , contained in the costs and there are no more limbos.

In the real world, the most important discriminating factor is the wage and this is why the main theorem of the Emmanuel Unequal Exchange theory is formulated in terms of wage variations. Theoretically, however, it could as well be formulated in terms of any factor varying exogeneously along national lines, for example, rent or indirect taxes.

National wages (or national rents or national anything) combined with an international rate of profit form the fundamental condition of the phenomenon. As internationalization of the rate of profit prevented national disparities of the wages from being passed on to national profits, those disparities had to be passed on to the prices. The causality is reversed. It is no longer the prices of the goods that determine the earnings of their producers but the other way round. One is not poor because one is selling cheap, one is selling cheap because one is poor.²

5.3 An Equal Exchange Standard

It follows from the above that demanding to get oil at 20 cents per barrel or coffee at 50 cents per pound, simply amounts to demanding to take profit of the underdevelopment of the suppliers. The latter cannot be expected to be satisfied with a market price whose only norm is their own poverty.

But does such a thing as a normal price, in relation to which we could measure the inequality of the exchange, exist? It does. It is the price, or, better, the ratio of exchange, which ensures that all factors entering the production on both sides are remunerated at

the same rates; or, what amounts to the same, the price which would automatically emerge if beside the commodity market there existed a factor market as fluid as the former.

In the light of this definition, we can see that what oil producers did during the last crisis was merely raising one exogeneously priced national factor, namely taxes and royalties, to make good the weakness of other exogeneously priced national factors, namely wages and rents.

But, let us imagine that following some unexpected event in the Middle East, instead of government action on taxes and royalties, it were wages that, all of a sudden, had increased as tremendously as to reach American levels; that, as a result, workers had got into the habit of driving their private cars, of living in spacious houses, of schooling their children up to the age of eighteen or more; that in order to finance education, health and other social devices consistent with workers of that standard, the governments of the area had levied taxes as heavy as those levied in Belgium or in Sweden. Let us further imagine that, in the wake of all that, a rapid development had taken place along with an intense urbanization and a subsequent soaring of rents and land prices, up to the level of New York or Paris suburbs; then, as a result of all these transformations, that the real extraction cost of oil had risen from 20 cents to 10 dollars a barrel.

Everybody in that case would have found it natural that the selling price should be put up into line with the new cost price. Yet, this hypothetical case does not in the least differ from the present real one. In both of them, material conditions remained unchanged and the rise only reflected an increase of pre-allocated revenues - wages, taxes and rents in the imaginary case, royalties in the actual one - following facts and deeds which the consumer countries have nothing to do with. When American steel workers go on strike and obtain an increase of their pay, it is considered as quite normal that American export prices of steel should be adjusted accordingly. But when an Arab government increases royalties paid

by oil companies and obliges the latter to adjust their prices in the same manner, all decent people cry 'shame'. However, in both cases, the rise is the result of an institutional action.

Now, that a country could, just like that, maximize its share in world's output by unilateral action within its domestic institutions may seem pretty absurd. The absurdity however does not lie in our reflection but in the object itself. We must bear in mind that in the capitalist system all functions are reversed. In some way, in this system, it is not the stomach that expands to cater for the amount eaten but, paradoxical though it may seem, the available food that increases to fill up the expanded stomach.

5.4 The World's Cleavage

The main deadlock factor of underdeveloped countries today is their own poverty. First, because this renders them exploitable on the level of the terms of trade. Second, because it bars any possibility of accelerated development by means of external finance. We dealt with the first mechanism above - we will tackle the second one now, the problem of a lack of markets in peripheral countries.

Contrary to a conventional view, capital is not attracted by low costs but by high sales. It is not gravitating downwards like a liquid in communicating vessels, but it is being siphoned up towards active markets and high levels of consumption.

Starting from what I call the mutation of the late 19th century, a tremendous enlargement of their own domestic markets provided the industrialized countries with all necessary opportunities within their borders. In a way, these countries are nowadays rich enough to be able to absorb all their own available surplus and even part of the one created in the periphery. On the other hand, not only are underdeveloped countries too poor to offer attractive investment prospects to this same capital, but they are even so poor as to dispatch to Switzerland part of their own tiny national surplus, as paradoxical as this may seem.

A reversal of dynamics took place by the end of the last century and led to the shaping of the world into a centre and a periphery reproducing and perpetuating one another. My contention is that this is quite a new situation that nobody was aware of or had foreseen before last war.

This may seem surprising, especially to Marxists, when remembering that it was precisely Lenin who elaborated the thesis of uneven development as an important element of his theory of Imperialism. What many people overlook, however, is that uneven development in Lenin's analysis was not at all the same thing as present unequal development. It was even its contrary. The former was converging, the latter is diverging.

Unevenness concerns rhythms, inequality, levels. Former unevenness was expressed in countries catching and overtaking each other. The order of precedence and comparative growths were constantly changing, but it was this very unevenness of rhythms that resulted in a long-run tendency of equalization of levels. There were no predetermined North and South, centre and periphery. In the present 'inequality', on the contrary and for the first time, a structural gap has polarized the world in such a way that the underdevelopment of backward countries becomes a function of the overdevelopment of the others and vice-versa.

To be sure, there has always been a threat of blockage, but before the reversal under question this was concerning the region of the too much; after that date, it is concerning the region of the too little. Formerly, the system was escaping collapse by developing India's and Brazil's. Presently, it is escaping collapse by blocking them. Centripetal forces have been substituted for the earlier centrifugal ones.

The nature of this earlier dynamics was reflected in the revolutionary literature of that time. Marx, for instance, did not hesitate to assert that

The country that is more developed industrially only shows, to ~~the less~~ developed, the image of its own future. (Marx (1974, Volume I, p.19))

Lenin could argue in his Imperialism The Highest Stage of Capitalism that the effect of capital exports was to accelerate the development of countries to which they were directed and slow down the development of those from which they came. (Lenin (1968, p.214; Chapter 4: The Export of Capital))

An age-old historical reality substantiated this view. Nutritive substances used to overflow the summit and fertilize the slopes. A sort of local glut forced them downhill, having the double effect of decongesting the advanced area and stirring up the backward. The economic countryside of the world was continually evened out.

As Rosa Luxembourg recalled (Luxembourg (1963, Chapter XXX, p.419-420)), the excess capital of the cities of Northern Italy, in the XVIth and XVIIth centuries went out to finance the development of Holland. Already by the XVIIth century and in the beginning of the XVIIIth, Dutch capital contributed to England's take-off. In the XVIIIth and XIXth century, the English capital, in turn, was going to develop North America and Oceania. ~~These were effects of development without any tendency to the equalisation of the rate of profit.~~ We can add by the same token that when, by the beginning of the XIXth century, England had completed the first phase of its industrial revolution, continental Europe had scarcely started hers. Continental Europe did not become for all that the periphery of England. It became England itself. The traditional view of things, both academic and Marxist, that saw in the differences in degrees of development only a time-lag does not seem to contradict the reality of a certain historical period.

At this point, two major questions arise. The first: what was it, during the earlier phase in the career of the capitalist system, that caused the country ahead to get so quickly out of breath and pour its excess capital and technology onto those behind it? The second: why,

starting from a certain moment, apparently around the end of the XIXth century, did this classic model cease reflecting reality? A

These questions constitute a prerequisite of any progress in the discussion. It appears precisely that it is for lack of a definite solution of them that a certain confusion characterizes present day debates on the exploitation of one nation by another and on imperialism.

The capitalism of the industrial countries, which, at the end of the last century seemed to the theoreticians of the Second International as moribund (and even 'putrefied' to some of them), had been able to turn green again and after the Second World War go half a century without major crises. Even in 1975-77, the years of a supposed serious crisis, average unemployment of the OECD countries did not exceed significantly that of the boom years in the XIXth century. On the other hand, there is no common measure between this unemployment and that of the true, devastating crises which, in the XIXth and the beginning of the XXth centuries had been recurring nearly every ten years. During the same period, that is after the Second World War, the average growth rate of these central countries was unprecedented in the entire history of capitalism - namely three times as high as that of Great Britain during the one hundred years preceding the First World War. these are the stubborn ~~these are the stubborn~~ historical facts with which one must reconcile any theory of imperialism, better, any theory of capital accumulation on a world scale.

5.4.1 The Innate Tendency of the System to a Deadlock

In order to answer the first question above, we must recall the basic contradiction of the capitalist mode of production. This is the system par excellence where everything is dominated by and depends on the market. Nothing can be put in motion, nothing can be decided in the production sphere upstream unless there is green lights for it in the market area downstream. In all other systems, the problem number one is to produce; in the capitalist system the

problem number one is to sell.

However - this is its deadly contradiction - the decision-makers in it are doomed to doing everything in their power to restrain, to kill the market. This is because in all other systems the remunerations of direct producers is just a revenue and nothing else. In the wage-earning system, besides being a revenue for the employees, this is a cost for the employers, who, however, happen to be the only decision-makers.

In order to maximize their profits, the latter have to curtail their costs, therefore to keep wages low. But, on the other hand, there is no profit without sale, and as wages are none-the-less revenues at the same time, their reduction or their stagnation, on the contrary, minimizes sales and profits.³

To be sure, consumer goods are not the exclusive object of profitable sales. Means of production could be as well. However, it so happens that in the capitalist system the sales of means of production cannot precisely be a substitute for the sales of consumer goods because they are, on the contrary, an increasing function of them.

To make it clear let us look at the Marxian scheme dividing the social production into two departments,

$$\begin{array}{l} \text{I} \quad c_1 + v_1 + m_1 = V_1 \\ \text{II} \quad c_2 + v_2 + m_2 = V_2 \end{array}$$

department I producing capital goods and department II producing consumer goods, c_1, c_2 being the 'constant capitals', (or the value of material inputs), m_1, m_2 the 'surplus-values' (or the 'unearned income') and V_1 , ~~and~~ V_2 the total values produced, ^{resp. in department I and II.} Assuming for simplification's sake that the aggregate unproductive consumption, v_2 ^(being nil) is equal to aggregate wages, $v_1 + v_2$, ~~so that with no~~ capitalist consumption, the overall rate of accumulation will be equal to $(m_1 + m_2) / (V_1 + V_2)$ and this, in turn, equal to the aggregate growth rate, $(\Delta V_1 + \Delta V_2) / (V_1 + V_2)$.

→ resp. in department I and II

Being nil

Now, if wages are stagnating, to have the expanded reproduction equilibrated, the specific growth rate of department II, $\Delta V_2/V_2$, must not exceed the growth rate of active population. Considering that this rate is smaller, and even considerably so, than that of accumulation, it follows that equilibrium demands that department I grows many times faster than department II.⁴

This assymetry does not appear in ~~the~~ Marx's schemas. ¹ illustrate but the theoretical case of extensive expanded reproduction, in which there is a unique rate for both departments as well as their respective elements, the following table is constructed:

Periods	Dept.	Constant Capital c	Variable Capital v	Surplus Value m	Total Value V
1st	I	5,417	+ 1,083	+ 1,083	= 7,583
	II	1,583	+ 316	+ 316	= 2,215
		7,000	+ 1,399	+ 1,399	= 9,798
2nd	I	5,869	+ 1,173	+ 1,173	= 8,215
	II	1,715	+ 342	+ 342	= 2,399
		7,584	+ 1,515	+ 1,515	= 10,614
3rd	I	6,358	+ 1,271	+ 1,271	= 8,900
	II	1,858	+ 371	+ 371	= 2,600
		8,216	+ 1,642	+ 1,642	= 11,500

Table 5.1

Handwritten notes:
~~rather than~~
~~or activity~~
~~rather than~~
~~also~~
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~~equilibrium~~
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Although in the above Marx makes capitalists accumulate only half of their surplus-value, the manpower ($v+s$) growth rate turns out to be as high as approximately $8\frac{1}{3}\%$, that is, equal to the general expansion rate of the system. Under these circumstances, the expanded reproduction looks like going on smoothly and harmoniously but the model is doubly unreal: first, as a demographic impossibility, second, because it ignores the rise of the organic composition of the capital and, therefore, the technical progress.⁵

If a realistic model of intensive expanded reproduction were put forward, then, within the framework of stagnating wages, the equilibrium would demand that in Department II there be but simple or nearly simple reproduction and that the whole or almost the whole expansion be concentrated in department I, in a sort of closed-circuit movement resulting, so to say, in producing more steel to produce more coal and producing more coal to produce more steel, as Tugan Baranovsky put it.

Marx gave no scheme of the intensive expanded reproduction and this is fairly surprising when we remember the importance he attached to the constant rising of the organic composition of capital. Assuming away the demographic growth, in order to get the extreme and clearest case of stagnating wages and no rise in the labour force, we can present the missing scheme as follows:

Period	Dept.	Constant	Variable	Surplus	Total
		Capital	Capital	Value	Value
		c	v	m	V
1st	I	4000	+ 1000	+ 1000	= 6000
	II	800	+ 200	+ 200	= 1200
		4800	+ 1200	+ 1200	= 7200
2nd	I	5144	+ 1028	+ 1028	= 7200
	II	856	+ 172	+ 172	= 1200
		6000	+ 1200	+ 1200	= 8400
3rd	I	6300	+ 1050	+ 1050	= 8400
	II	900	+ 150	+ 150	= 1200
		7200	+ 1200	+ 1200	= 9600
4th	I	7468	+ 1066	+ 1066	= 9600
	II	932	+ 134	+ 134	= 1200
		8400	+ 1200	+ 1200	= 10800

Table 5.2

The greatest part of the surplus-value realized in department II is transferred into department I along with part of the labour power. The output of department II is stagnating to keep in line with invariable wages and the totality of the growth is bestowed on department I.

In this scheme we chose the most favourable for the expanded reproduction case, that in which the organic composition in department II rises at the same rate as in department I. This implies that capitalists in department II are so sanguin in competing with each other that in spite of the stagnation of their sales they steadily adopt the more intense technique and so increase continually their own purchases from department I. (In other words, we assume that they accept to rise the productivity without increasing the production). This does not however save the system from the deadlock.

(capitalist personal consumption being nil)

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For these additional purchases of means of production in department II are constantly decreasing, 56,44,32... while the additional production of department I is constantly increasing 1144, 1156, 1168.... representing a recklessly increasing multiple of the former: 20, 26, 36... times. It is thus clear that whatever the multipliers, the multiplicand will soon become negligible and finally the expansion will have to rely practically on means of production being exchanged against one another within the department I.⁶

If the more realistic assumption of a total stagnation, both extensive and intensive of department II had been made, the latter simply reproducing its structure of the 1st period, $800c + 200v + 200m$, the expansion of department I would have been more completely introverted.

Such an autonomization of department I makes no problem for a centrally managed economy. During the first five-year plans, starting from 1928, in Soviet Union, not only were real wages not enhanced but they were probably repressed, and it is not in spite of but thanks to that setback of final consumption that the exceptionally high growth rates of the thirties were secured, and, but for political reasons, nothing would prevent this sort of self-sustained accumulation to continue for ever. The world stands there on its feet. The production of the tool precedes the production of the final good and investment creates its own market, instead of being subordinated to a pre-existing one.

The situation is set upside down when the investment decision pertains to independent producers. The world is then standing on its head. In itself, the independent growth of department I is not only possible but the only consistent with the material conditions of social production, since for a given level of employment the outputs of the two departments are inversely proportional to one another. For the actual decision-makers, however, this is impossible because they are unable to treat these magnitudes otherwise than as directly proportional, that is, they can only invest in an increasing function of final consumption.

As a result, capitalists are induced to always invest at the wrong time: to extend their investments at the precise moment when, on

account of consumption being expanded, the saved part of the output, that is, the very material means of investment get scarcer; to curtail their investments at the very moment when, following a decline in final consumption, the means of investment become superabundant.

In order to illustrate this point, I would like to refer to the example I have already presented in LE PROFIT ET LES CRISES (Emmanuel(1974)). Imagine a primitive tribe with a collective organisation and with fishing as the only activity. One day, the tribesmen become aware of the possibility to increase considerably their catch if they had some canoes. Consequently, they install a yard and take out some men from fishing, charging them with the building of canoes. Immediate result of this: reduction of consumption - increase of investment. After some time, they notice that they can no longer afford to reduce their consumption that much. Part of those who went in the yard go back into fishing. Reduction of investment - increase of consumption. And so on. Our tribe treats investment and consumption as two inversely proportional magnitudes. As they are indeed by nature. The equilibrium of its economy is indestructible.

They can lengthen the process. Dig the earth to get iron ore to transform it into steel, to fabricate saws and adzes, to..... finally produce bigger and better canoes.

Arrived at this last link of the chain, does the process end up at increasing final consumer goods? Not necessarily. Canoes, to be sure, can produce nothing but a consumer good. But, their use does not inevitably result in increasing the total quantity of fish in absolute terms. It could as well result in producing the same quantity with reduced labour power, enabling thus the tribe to avail itself of the discharged fishermen and employ them to start another long process upstream, for example making appropriate tools to make looms, to make cloth, to make sails, to..... finally replace canoes by sailing-boats. Tomorrow's consumption (instead of yesterday's as in the free-market system) constitutes the motive of today's investment.

The difference is that yesterday's consumption must have existed, while tomorrow's must only be decided. On the other hand, 'tomorrow' can be indefinitely being put off. The longer the 'waiting' and the stronger the saving, the greater the expected future affluence. How remote this future will be, this will only depend on the extent present generation accepts to sacrifice its well-being to the benefit of the next ones. This is a political decision; no economic constraint exists.

Suppose now that a group of foreign businessmen invade the tribe and transform everything into private undertaking. It is clear that no private entrepreneur will ever increase the building of fishing boats at the very moment the consumption of fish is falling off, or reduce it at the very moment the sale of fish is improving. Likewise, nobody will construct yards when the demand for boats is declining or stagnating; the same for tools used in the yards and so on.

As far as the determinations of the new decision-makers are concerned, investment is directly proportional to the consumption. All other things being equal, today's investment is adjusted to yesterday's sales and the system is thereby thrown out of balance. For it is materially impossible for investment and consumption to vary in a parallel direction, since they are the two components of a given total: the productive potential. ①

Contrary to the previous case where we went down from the production of the tool to the production of the final good, now we must climb up the ladder from the final good to its means of production and from there to the means of the means. To be sure, some circular input-output chains do exist. Steel, outlet for coal, coal mining, outlet for excavators, the latter, outlet for steel. But these concern but a small part of respective outputs. For the bulk of these, each means of production is at the same time depended on a vertical chain, the last ring of which has no other outlet but a consumer good. If the demand for this fails, the 'primum movens' for all chains, both vertical and circular, vanishes, since the latter are also fed by the former.

Since the very prerequisite for the perfect competition is that each individual operator be too small to count on the effects that his own operations could have on the market, nobody in this system can start producing something without a previous outlet for it. Since on the other hand no outlet can exist without purchasing power and all such power is generated by production alone, the deadlock is complete. All other things being equal, the free enterprise system can neither increase the wages nor keep them low. In both cases, accumulation is jeopardized. In the first case, for lack of investment power; in the second, for lack of investment will.

man can offer resistance for still city of imperialism has subjected some progress of investment power at capitalism has not reached and det. utige bette

In the short run this contradiction leads to the cyclical crises, and we have a good illustration of this today when several governments, reluctant to activate consumption for fear of favouring inflation, are desperately trying to prime the pump by a direct promotion of investment. Naturally, they fail. Attempting to enhance investment without increasing consumption had always been something like the squaring of the circle in the capitalist mode of production. It is clear that, whatever the financial incentives, tax remissions, low interest rates, and so on, you can never get a business man to invest when part of his actual productive potential lies already idle for lack of a sufficient level of consumption.

In the long run, in which alone we are interested here, this leads, quite early, to the formation of an excess capital looking for investment opportunities abroad, the marginalization of the majority of the population and deadlock.

sm. Settlercolonialism... konclusion punkt? how can further save them on overaccumulation of capital

This was the situation in the European industrialized countries in the middle and up to the seventies of the 19th century, and this is what warranted the conviction expressed by Marx and Engels in the Communist Manifesto, namely that the system had already exhausted the margin of development of the productive forces which it could contain and was ripe to be overthrown, in 1848!

However, this was not an over-optimistic statement. As paradoxical as it may seem, the revolution, in the industrial countries, was indeed nearly ripe, and the growth potentialities of the system nearly exhausted

↳ nobody can count on the outlets created by the purchasing power distributed by himself. It follows that/

in 1848, whereas this is far from being the case in 1978, in spite of the tremendous development of the productive forces that took place in these same countries between the two dates. And this answers our first query about the older dynamics. An inviolable law within the capitalist mode of production has always forbidden any country to expand beyond a certain threshold without before having increased its unproductive consumption, therefore its wages. The growth of department I cannot, within the market economy, go very far without a more or less parallel growth of department II.

Marx was right. Left to itself, a pure capitalist system is doomed to being saturated at a relatively low level of development. But the system has not been left to itself. The working classes in the centre took it out of the scrape, at least locally and temporarily.

5.4.2 The Mutation: The Development of Unequal Wages.

What Marx and Engels did not and could not foresee - and this answers our second question regarding the reversal of the dynamics - was the unexpected and prodigious rise, through the flaws and chinks of the bourgeois parliamentary democracy, of the working classes and their partial - I say partial - integration in the establishment that took place in the central countries near the end of the 19th century and resulted, for the first time in human history, in a definite take-off of the wage from the subsistence level.

This event, coupled with the keeping of the subsistence wage in all other countries on the one hand, and the tendential equalisation of the rate of profit on the international scale on the other, settled the argument between low wages entailing poor investment opportunities, and high wages determining unsatisfactory rates of profit, by making the wage differentials of the rich paid by the poor.

Central countries were able to increase their wages without curtailing their profits, simply because the former were national and the latter international. They still need the periphery, but not as an outlet as before the mutation under question, but as a complementary resource, not for discharging into it their excess surplus-value and so escape the

glut, but for draining it of some of its own.

They need to draw the periphery into the pool of surplus value in order to dilute the adverse effects of the rise of their wages and so be able to have this rise enlarge their domestic market without reducing too much the rate of profit and therefore the surplus which is available for accumulation; in other words, to have this increase of the unproductive consumption spur their investment will without curtailing their investment potential, in some way, take profit of both the high wages home and the low wages abroad, or, so to say, eat the cake and have it.

The achievement has consisted essentially in allowing the centre to accumulate in direct proportion to the personal consumption in spite of the fact that these two magnitudes are, in themselves, inversely proportional to one another. It consisted to get round the snag of the intensive expansion in real terms (c growing faster than $v+m$) by overlapping it with an extensive expansion in financial terms (c growing practically as fast as v).⁹

I think it would be useful to resort again to Marxian type schemes, however rough and over-simplified these are (especially when the matter is of a combination of 'reproduction' and 'transformation' as in the second one here below). As we only need to illustrate something which - I hope - is already clearly perceptible through the plain language analysis, these schemes, precisely on account of their unsophisticated character, seem to me the most suitable for that purpose.

First, the hypothetical case of a rise of the national wages without external contribution. The figures of the 1st period in our intensive-expansion scheme above must be rearranged to create the conditions for the subsequent rise of the wages.

Period	Dept.	Constant Capital c	Variable Capital v	Surplus Value m	Total Value V	Rate of profit
1st	I	3840	+ 960	+ 960	= 5760	20.00%
	II	960	+ 240	+ 240	= 1440	
		4800	+ 1200	+ 1200	= 7200	
2nd	I	4608	+ 1152	+ 768	= 6528	13.33%
	II	1152	+ 288	+ 192	= 1632	
		5760	+ 1440	+ 960	= 8160	
3rd	I	5222	+ 1306	+ 614	= 7142	9.41%
	II	1306	+ 326	+ 154	= 1786	
		6528	+ 1632	+ 768	= 8928	
4th	I	5713	+ 1429	+ 492	= 7634	6.88%
	II	1429	+ 357	+ 122	= 1908	
		7142	+ 1786	+ 614	= 9542	

Table 5.3

ugh intensive (in real terms),
the expanded

reproduction is ^(here) going on with all the smoothness characterizing the extensive one. The organic composition, c/v , equal to 4, is the same in both departments and unaltered through time, although the technical one, $\frac{c}{v+s}$, is constantly rising, reflecting technical progress. Both outputs grow at exactly the same rate and the demand for means of production by department II grows at the same rate as does the production of them in department I. Everything seems perfect on the supply-and-demand side. But what a downfall in the rate of profit! At that rhythm it will soon arrive in the neighbourhood of zero.

Let us now allow the gain from Unequal Exchange with the periphery compensate for the increase of wages in the centre:

Period	Area	Dept.	Constant Capital		Variable Capital		Surplus Value	Total Value	Rate of profit	Prices of production
			c		v		m	V		
1st	Centre	I	3840	+	960	+	960	= 5760	20.00%	
		II	960	+	240	+	240	= 1440		
			4800	+	1200	+	1200	= 7200		
2nd	Centre	I	4608	+	1152	+	768	= 6528	19.75%	6898
		II	1152	+	288	+	192	= 1632		1724
		5760	+	1440	+	960	= 8160			
	Periphery		7800	+	1000	+	2200	= 11000		10538
			13560	+	2440	+	3160	= 19160		19160
3rd	Centre	I	5222	+	1306	+	614	= 7142	18.79%	7754
		II	1306	+	326	+	154	= 1786		1938
		6528	+	1632	+	768	= 8928			
	Periphery		7900	+	800	+	2400	= 11100		10336
			14428	+	2432	+	3168	= 20028		20028
4th	Centre	I	5713	+	1429	+	492	= 7634	18.33%	8452
		II	1429	+	357	+	122	= 1908		2114
		7142	+	1786	+	614	= 9542			
	Periphery		8000	+	600	+	2600	= 11200		10176
			15142	+	2386	+	3214	= 20742		20742

Table 5.4

The contradiction between good internal outlets and acceptable rate of profit is here solved. Thanks to the mass of surplus-value extracted in the periphery the fall of the general rate of profit has been considerably slowed down. In terms of labour value the wages in the periphery are declining but this only reflects the stability of the subsistence wage in the context of a slightly rising productivity following moderate investment and technical progress there. If the assumption of a demographic stagnation were relaxed and some overall manpower's growth allowed for, the conciliation of a practically stable rate of profit with the benefits of an extensive expansion in

$v_a = 5600$ throughout

value terms (stable organic composition) in the centre would be better illustrated.

5.5 The Consumer - Society: The Resolution of the Deadlock in the Centre

In fact, what is depicted above is the so-called consumer society, which as far as I know nobody cared to define so far, and which either means nothing or means precisely a situation which makes good profits consistent with flourishing markets. This performance is rooted back in a certain coupling of Taylorism with Fordism, that is of a mass production with a mass consumption, in other words, the creation by means of high wages of a purchase power capable to absorb as much as the robots were able to produce.

The emergence of this society was conditioned by the split of the world into a large periphery constituted by nations divided into classes producing and appropriating surplus-value, in concordance with the traditional pattern on the one hand, and a tiny centre constituted by nations made up by the appropriator classes alone, viz., capitalists and labour aristocracy, on the other hand. If 'centre' and 'periphery' are not empty words, they must designate parts of a world capitalist formation, and if the latter, in turn, has a meaning, its parts must be structurally linked to one another. Now, within a class structure like this, a structural link can be nothing else than a class relation and a class relation can only be implemented and reproduced by a transfer of surplus-value. Neither the relation nor the transfer could exist if all classes pertaining to the capitalist mode of production were symmetrically portioned out, that is, if the same classes, in similar proportions, existed in each country taken separately. The consumer society is a truncated society, a society without a proletariat, constituted by the receivers of surplus-value, namely capitalists, land-owners and wage-earning aristocracy. It could not exist without the billions of givers all around. My theory of Unequal Exchange only studies the mechanisms of the transfer of that surplus-value from where it is extracted to where it is appropriated and 'consumed'.

in the CMP

5.6 Concluding Remarks

Two final remarks emerge out of this analysis.

1. Although this type of affluent society is only made possible by the tribute levied, through inequality of the exchange, on the rest of the world, this tribute can obviously not constitute an additional accumulation fund, since it is being absorbed by the very cause that brings it in, namely the excess unproductive consumption of the workers of the receiving country. The way this tribute contributed to the over-development of the centre is an indirect one: enabling the centre to utilize its own accumulation fund and escape blockage by driving back the saturation point. ~~The same way~~, it acted as a catalyst.

In some

2. The second remark is that, outside these islets, the traditional mechanism deadlocking the system at a certain, relatively low, level of capital accumulation continues to work. It manifests itself essentially in the industrialization being propped up exclusively by the consumption of an élite, while the mass is marginalized. Contrary to a widespread opinion and especially to the teaching of some Latin-American scholars, there is not the least specificity in the situation. It suffices to recall the paramount place in the economic activity occupied erstwhile by such lines as spices, precious metals, Goldsmith's trade, cabinet making, tapestry and so on. The so-called theory of the two baskets could apply as well to England of the 19th century as to Brazil of 1978.¹⁰ In 1810, the third of the population in the U.K. lived on public charity, and as late as on the eve of the first world war, 15% of the active population in that country was constituted of domestic servants. If this is not marginalization, then I am unable to see what it is.

*Smth-
note 24
2 Myths...*

Development in Brazil is indeed blocked today. My contention is that far from being an aberration, this is what precisely constitutes the normality of the Brazilian case. On the contrary, the aberrant case, if any, is neither Brazil of 1978 nor England of 1848, (from which, on the other hand, the former does not essentially differ). The aberrant and therefore interesting case is the England/ of 1978, that is, capitalism

*↑
... as central countries*

outliving its congenital limits. It is the study of this case that can explain how it turned out that hundred and thirty years after the Manifesto and 60 years after the Bolshevik Revolution, no industrial country has followed the path or is likely to do in a foreseeable future.

Chapter 8 - Footnotes

1 In 1973, there were in the OECD area about 6 million unemployed and a more than proportionate idle equipment. The average value added per active person being by that time about US\$15.000 yearly, a simple multiplication would show that these countries had at their disposal a potential more than sufficient to meet the // bill without any impoverishment of their citizens.

It so happened, however, that the oil producers, precisely on account of their underdevelopment, were unable to absorb the total counterpart of their produce in real values and had to accept bank paper of fictitious value for half of it, with, as a result, a US\$40 billion deficit in the aggregate trade balance of OECD countries. This outcome, which would have constituted a welcome gift for any planned economy, represented an extremely perilous situation for the market economies of the oil consumers. Then, those countries, in their antagonistic attempt to pass on to one another the largest possible part of the trade deficit, took emergency protectionist and deflationary measures ending at creating 11 million new unemployed instead of putting to work the 6 million existing ones.

At the 1973 value-added rate, this means, in terms of missed production, a loss of US\$165 billion, more than double the oil bill increase that this behaviour was scheduled to settle.

It is, therefore, this bill indeed that lies in the origin of the present crisis. What made, however, things turn out badly, was not its payment, but, on the contrary and as paradoxical as it may seem, its non-payment (partial), due to the suppliers being too poor to collect it.

2 The same effects can be observed within a national economy, for example with the closed-shop system. In this case, it is not the employers in the closed-shopped branch who pay the wage differentials but the workers of the other branches in the same nation. This is why in continental Europe, the trade-unions have never accepted unreservedly the few closed-shop cases which manifested themselves in the area, such as those

Chapter 5 Footnotes (continued)

of printers and, sometimes, dockers. Now, on the level of the world economy, the whole production of industrial countries is a 'closed-shop' production.

3 The point here is that there is a tendency to blockage independently of the validity of Say's Law. The fact that it does not hold, of course, aggravates the situation.

4 Let us recall that the equilibrium condition in Marxian expanded reproduction is twofold:

$$v_1^{t_1} = (c_1 + c_2)^{t_2} \quad (1)$$

$$v_2^{t_1} = (v_1 + v_2)^{t_2} + (\text{capitalist personal consumption in } t_1) \quad (2)$$

where t_1 , t_2 refer to periods 1 and 2.

5 To be sure the extravagance of the manpower growth rate is particularly conspicuous ⁽ⁱⁿ⁾ Marx's over-simplified schemes, because, in the absence of fixed capital, the increment in the national product is as large as the aggregate profit, or the latter minus the final consumption of the capitalists. But even if we allow for the existence of a fixed capital and we keep to the usual rough assessment of the GNP increment as equal to about the third of the newly formed capital, the resulting rate will still be considerably higher than that of the demographic growth. On the other hand, this is a directly established historical fact, since the per capita GNP growth rate is, in the long run, definitely positive (at least in the industrialized countries).

I thought that t_1, t_2 were usually written rather as subscripts than superscripts. Anyway, try to put condition (2) in a single line:

$$v_2 t_1 = (v_1 + v_2) t_2 + (\text{capitalist personal consumption in } t_1) \quad (2)$$

condition (1) will be ; $v_1 t_1 = (c_1 + c_2) t_2$

Chapter 5 - Footnotes (continued)

- 6 This sounds like the Luxembourgian objection to Marx's schemes. In fact, the deadlock here is of a quite different nature and occurs in the opposite direction: the realisation problem is located in department I, while in Luxembour's analysis the reproduction process entails an over-production in the output of department II and an underproduction in that of department I.
- 7 How is it then that, despite this basic contradiction the market-economy system is not blocked once and for all? This is because in that system the sum total of the two magnitudes, that is the production potential, is itself elastic and liable to short-run variations. In other words, the productive forces which are actually put to work are not equal to the production potential; they are only part of it and, as such, they can vary quantitatively prior^(ly) and independently of any modification of the total of the potential. It is these variations, this "cycle," between a PLUS and a MINUS in the under-employment of the potential that render possible a simultaneous variation in the same direction of the two components, and that secure, in a closed market-economy system, the conjunctural equilibrium on the very basis of a structural dis-equilibrium. The building of canoes and the production-consumption of fish can increase and decrease simultaneously albeit on one condition: that there exist with the tribe a reserve manpower and/or a reserve equipment, that can be modilized and demobilized according to the circumstances.
- 8 Some Marxists are unable to reconcile this state of things with the "accumulate, accumulate, that's the law and the prophets..." This is because they naively confuse ex-post collective accumulation with ex-ante individual investment. Collective accumulation is indeed maximized by investment, but all individual investments does not maximize individual accumulation. Only the right, competitive investment does. That means that

Chapter 5 - Footnotes (continued)

in some cases, the individual capitalist has more to loose by investing than by keeping his capital idle, if he foresees that the others will refrain from investing. In these cases, refraining from investing maximizes accumulation for him instead of minimizing it. Of course, since all capitalists generally do the same thing at the same time the net result on the social scale is not a maximization of accumulation but its contrary.

- 9 'Real terms' is referring to capital/labour, and 'financial terms' to capital/wages ratio. This distinction corresponds to the one made by Marx between 'technical organic composition' of capital, $c/v+m$, and 'economic organic composition', c/v .
- 10 The 'two baskets' represent the two strictly distinct consumption patterns, that of the 'elite' and that of the people at large. According to these authors, it is this distortion that blocks the dynamics of industrialization. See Furtado (1972a, 1972b), Ikmicoff (1974).