THE DYNAMICS OF UNEQUAL-EXCHANGE/UNEVEN-DEVELOPMENT

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The real issue of North-South antagonism

In the presence of the dramatic gap between the levels of development attained in different groups of nations to-day, the question has finally arisen as to whether the historical factors determining these levels are internal or external.

Roughly speaking, the production of wealth is an increasing function of the quantity of tools and of grey matter "assisting" the "hands" in the labour process. Now, all of us come into the world naked and illiterate. And all of us have to pass through some "stone age". How does it happen then that within one same single world some of us find ourselves one day with a revenue of 6,000 dollars and the others with one of 100, some with a life expectation of 70 years, the others one of 50, some with one doctor for 500 people, others with one for fifty thousand?

To explain such a cleavage we can hardly imagine more than three retrospective scenarii: (a) what Boulding called a "differential cultural history", (b) the cumulative effects of the disparities in the geo-climatic environment, (c) certain "rules of the game" in the international order, apt to differentiate the world into a North and a South, reproducing and perpetuating one another.

The first hypothesis is not necessarily racialist. After all, ant-like behaviour has nothing intrinsically heroic in it and the cicada-like, nothing contemptible, on the plane of basic human virtues. The only snag is that the "developed" man of average virtue of to-day does not confine himself to enjoying what his extraordinarily farsighted forbears have piled up - which could by some special moral standard be acceptable - but he (further) keeps enriching himself by drawing out of the current world output of to-day ten, fifteen or twenty times more than

his "under-developed" counterpart, of the same average virtue, whereas neither of them can put in the melting-pot of world production of to-day more than a certain number of hours of his time. Such a consequence of the "original sin" is unacceptable by any standard. (1)

Within the framework of the second hypothesis, things are clearer. However bad geologically the regions under question might be, somebody had to live and work in them, since their produce proved necessary for humanity. It is therefore humanity in its entirety that should have taken charge of the bond represented by this qualitative disparity of our planet. To the extent that it hasn't, peoples of the privileged regions have enriched themselves at the expense of those of the underprivileged ones.

Last, if the origin of the differential development is neither racial nor natural but just institutional, it becomes all the more obvious that a unilateral transfer of wealth from the under-developed to the developed must have taken place. This leads us directly to the issue of the terms of trade as the core of the North-South argument. For the only conceivable material vehicle for such a transfer between countries is a trade-balance differential, be it formal (that is, entered into the accounts as a non-equivalence of the volumes in terms of current prices), or informal (that is concealed in the composition of the prices themselves as a non-equivalence of their elements).

However, contrary to what was happening with Britain's partners during the 19th c. and up to the first world war (which was precisely what was making Britain a rentier-country), in the contemporary period, exports from the Third World towards

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(1) If German people of to-day are generally considered to be guiltless of their fathers' murdering of six million human beings, it is hardly possible to consider the African people of to-day as being responsible for their great-grandfathers somewhat neglecting accumulation, assuming that it is indeed an immoderate past prodigality that lies at the origin of their present under-development, which is hardly perceptible in this continent's history.

developed countries, evaluated at the prevailing world prices, do not practically exceed imports, evaluated on the same basis. It follows that only the second possibility holds, and the only mechanism for transferring wealth unilaterally that remains is the distortion of prices themselves. (2)

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

In the neo-Classical framework, the problem we are speaking 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 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. On the other hand, exploitation through fully competitive terms of trade is an unintelligible proposition. One sells cheaply or dearly according to the whims of reciprocal demands, that cannot be escaped from, and one gets poorer or richer to the extent that one sells cheaply or dearly. The dividing line in value theories passes here. For Ricardo and Marx it is because A is ex ante equal to 2B that people tend to exchange one A against 2B. For the neo-Classics on the contrary, the equation A=2B means nothing but the ex-post fact that people do exchange one A against two B.

Let us abstract from any other objection to the neo-Classical theory and accept for a moment that the inner logic linking its premises to its conclusions is flawless. If all factor prices varied according to their relative scarcities, without limit

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(2) This is sufficiently illustrated with the oil crisis. No other single event, since the 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 Exchanges 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.

and as freely as the prices of final goods,

it would be the prices of final goods that would determine the earnings of their producers and not the other way round. (Granted.) 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 so far to have been 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 theory of Unequal Exchange is based on nothing else than the 'irrational' effects of a political wage.

Now, when in addition to the exogenous 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, 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

$$\sum^{k} (a_{ij}p_j + a_i w_i)(1+r_i) = p_i ,$$

But when mobility of capital starts up and as a result, the only endogenous, residual factor price, the rate of profit, becomes unique throughout the system, ($r_i = r$), then

$$\sum^{k} (a_{ij}p_j + a_i w_i)(1+r) = p_i ,$$

the terms of trade, p_i/p_j, become perfectly determined (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 Unequal Exchange theory is formulated in terms of wage variations. Theoretically, however, it could just as well be formulated in terms of any factor varying exogenously 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 cheaply; one is selling cheaply

because one is poor. (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 advantage 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 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 to raise one exogenously priced national factor, namely taxes and royalties, to make good the weakness of other exogenously 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 was wages that, all of a sudden, had increased so 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

(3) 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-shop 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 of printers and, sometimes, dockers. Now, on the level of the

workers of that standard, the governments of the area 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 remain unchanged and the rise only reflects 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 quite normal that American export prices of steel should be adjusted accordingly. But when an Arab government increases the royalties paid

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...world economy, the whole production of industrial countries is a 'closed-shop' production.

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 *can*, just like that, maximize its share of the world's output by unilateral action within its domestic institutions may seem pretty absurd. The adsurdity 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.

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, namely, 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 *does* not gravitate downwards like a liquid in communicating vessels, but it is siphonned 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 that 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 that they are reduced 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 the contrary. The former was converging, the latter is diverging.

Uneveness concerns rhythms, inequality, levels. Former uneveness was expressed in countries catching and overtaking each other. The order of precedence and the comparative growths were constantly changing, but it was this very uneveness of rhythms that resulted in a long-run tendency of equalization of levels. There was 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 concerned the region of the too much; after that date, it concerns 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 (to) 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.

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 c., did this classic model cease reflecting reality?

The 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 1975-78, 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 - three times as high as that of Great Britain during the one hundred years preceding the First World War. These are the stubborn historical facts with which one must reconcile any theory of imperialism, nay, any theory of capital accumulation on a world scale.

The Innate Tendency of the System to 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 are 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, (and) this is its deadly contradiction, the decision-makers in it are doomed to doing everything in their power to restrain, (indeed) kill the market. This is because in all other systems the remunerations of direct producers are just a revenue and nothing else. In the wage-earning system, besides being a revenue for the employees, these are 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. (4)

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 can precisely (not) 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,

$$\text{I} \qquad c_1 + v_1 + m_1 = V_1$$

$$\text{II} \qquad c_2 + v_2 + m_2 = V_2$$

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 incomes') and V_1, V_2, the total values produced, resp. in department I and II. Assuming for simplification's sake that the aggregate unproductive consumption, V_2, is

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

equal to aggregate wages, v_1+v_2, capitalist consumption being nil, the overall rate of accumulation will be equal to

$$\frac{m_1 + m_2}{V_1 + V_2}$$

and this, in turn, equal to the aggregate growth rate,

$$\frac{\Delta v_1 + \Delta v_2}{V_1 + V_2}$$

Now, if wages are stagnating, to have the expanded reproduction equilibrated, the specific growth rate of depart.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 depart. I grows many times faster than department II. (5)

This assymetry does not appear in Marx's schemes. Those 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. Here is the most basic one:

Table 1

Periods	Dept.	Constant Capital c		Variable Capital v		Surplus Value m		Total Value V
1st	I	5417	+	1083	+	1083	=	7583
	II	1583	+	316	+	316	=	2215
		7000	+	1399	+	1399	=	9798
2nd	I	5869	+	1173	+	1173	=	8215
	II	1715	+	342	+	342	=	2399
		7584	+	1515	+	1515	=	10614
3rd	I	6358	+	1271	+	1271	=	8900
	II	1858	+	371	+	371	=	2600
		8216	+	1642	+	1642	=	11500

(5) Let us recall that the equilibrium condition in Marxian expanded reproduction is twofold:

$V_1t_1 = (c_1 + c_2)t_2$

$V_2t_1 = (v_1 + v_2)t_2 +$ (capitalist personal consumpt. in t_1)

where t_1, t_2 fefer to periods 1 and 2.

Although in the above Marx makes capitalists accumulate only half of their surplus-value, the manpower (v+m) growth rate turns out to be as high as approximately 8 1/3 %, that is to say 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. (6)

If a realistic model of intensive expanded reproduction was 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 speak, in producing more steel to produce more coal and producing more coal to produce more steel, as Tugan Baranovsky put it.

Marx provided 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, ourselves, present the missing

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(6) 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 one 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).

scheme as follows:

Table 2

Period	Dept.	Constant Capital c		Variable Capital v		Surplus Value m		Total Value 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

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 (capitalists' personal consumption being nil) and the totality of the growth is bestowed on department I.

In this scheme we chose the most favourable case for the expanded reproduction, the case 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 sanguine 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 raising the productivity without increasing the production). This does not however save the system from deadlock.

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 multiplicators, 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. (7)

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 creates no problem for a centrally managed economy. During the first five-year plans, starting from 1928, in the 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 from continuing for ever. The world stood then on its feet. The production of the tool preceded the production of the final good and investment created 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 one with the material

(7) This sounds like the Luxemburgian objection to Marx's schemes. In fact, the deadlock here is of a quite different nature and occurs in the opposite direction: the realization problem is located in department I, while in Luxemburg's analysis the reproduction process entails an over-production in the output of department II and an underproduction in that of department I.

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. Imagine a primitive tribe with a collective organization and with fishing as the only activity. One day, the tribesmen become aware of the possibility of increasing considerably their catch if they had some canoes. Consequently, they install a yard and take 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 to 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.

Once arrived at this last link of the chain, does the process end up

by 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 just as well result in producing the same quantity with reduced labour power, thus enabling 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.

This makes all the difference. For yesterday's consumption must have existed, while tomorrow's must only be decided. On the other hand, 'tomorrow' can be indefinitely put off. Meanwhile, the accumulation is going on with neither blockage nor crisis. The longer the 'waiting' and the stronger the saving, the greater is the expected future affluence. How remote this future will be, will only depend on the extent that present generation accepts sacrificing 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. (8)

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. True, some circular input-output chains do exist. Steel as an outlet for coal, coal mining as an outlet for excavators, the latter as an outlet for steel. But these concern but a small part of respective outputs. For the bulk of them, each means of production is at the same time dependent 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 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 can count on the outlets being created by the purchasing power distributed by his own business. It follows that nobody in this system can start producing something without a previous outlet

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(8) How is it then that, despite this basic contradiction, the market-economy 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 production 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 to, 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 conjonctural 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 exists, in the tribe a reserve manpower and/or a reserve equipment, that can be mobilized and demobilized according to the circumstances.

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.

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 production potential lies already idle for lack of a sufficient level of consumption.(9)

In the long run, which is the only one we are interested in 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.

This was the situation in the European industrialized countries in the middle and up to the seventies of the 19th century, and

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(9) 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 do not maximize individual accumulation. Only the right, competitive investment does. That means that in some cases, the individual capitalist has more to lose 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 the contrary.

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 in 1848, whereas this is far from being the case in 1979, 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 first 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 got it out of the hole in spite of itself, at least locally and temporarily.

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 maintenance of the subsistence wage in all other countries on the one hand, and the tendential equalization 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 (for) 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 escaping 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 advantage of both the high wages (at) home and the low wages abroad, or, so to speak, 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 in getting 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). (10)

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 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 in 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

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(10) '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.

rise of the wages:

Table 3: Rising wages in a closed system (no trade gains). Intensive expanded reproduction.

Period	Dept.	Const. Capital c		Var. Capital v		Surplus Value m		Total Value V	Rate of profit r
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	

Though 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, $\frac{c}{v+m}$, 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 rythm it will soon arrive in the neighbourhood of zero.

Let us now allow the gain from Unequal Exchange with the periphery compensate

...ry compensate for the increase of wages in the centre:

Table 4. Rising wages in the centre with external gains. (Equalization of the rate of profit). Intensive expanded reproduction.

Period	Area	Dept.	Const. Capital c		Var. Capital v		Surplus Value m		Total Value V	Rate of Profit r	Prices of Production
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

The contradiction between good internal outlets and acceptable rates 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 subsist-

once wage in the context of a slightly rising productivity following moderate investment and technical progress there. If the assumption of a demographic stagnation (v+m = 5600 throughout) 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 value terms (stable organic composition) in the centre would be better illustrated.

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 has cared to define so far, and which either means nothing or else means precisely a situation in which [illegible] good profits become consistent with flourishing markets. This performance is rooted back in a certain coupling of Taylorism and Fordism, that is, of a mass production with a mass consumption, in other words, the creation by means of high wages of a purchasing power capable of absorbing 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 of nations divided into classes producing and appropriating surplus-value, in concordance with the traditional pattern on the one hand, and a tiny centre constituted of nations made up of 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 in the CMP 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 of the <u>receivers</u> of surplus-value, namely capitalists, landowners and wage-earning aristocracy. It could not exist without the billions of <u>givers</u> 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'.

<u>Concluding Remarks</u>

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. In some way, it acted as a catalyst.

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 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 formerly by such lines as spices, precious metals, the 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 1979. In 1810, a 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 marginalisation is.

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 1979 nor England of 1848 (from which, on the other hand, the former does not essentially differ). The aberrant and therefore interesting case is that of the various Englands of 1979, that is, capitalism outliving its congenital limits. It is the study of this case that can explain how it has turned out that a 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 so in a foreseeable future.