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Accumulation on a World Scale

A Critique of the Theory of Underdevelopment

Translated by Brian Pearce

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Introduction

One does not need to be an economist to know that our world is made up of "developed" countries and "underdeveloped" ones, that it is also made up of countries that style themselves "socialist" and of others that are "capitalist," and that all these countries are integrated, though to varying degrees, in a worldwide network of commercial, financial and other relations such that none of them can be thought of in isolation—that is, leaving these relations out of account—in the way that one can think of the Roman Empire and Imperial China, as they were unaware of each other.

Accumulation on a World Scale is concerned with analyzing all these relationships in their fundamental aspect. This problem, which is essential for understanding the world of today, is obviously a complex one; moreover, the field it covers is all the greater because the interpenetration between international relations and internal structures is often decisive in character; and it is only beginning to be given systematic attention. Though Marxist analysis necessarily includes in its program the development of the theory of this subject, little progress has been made since Lenin's *Imperialism,* while the basic theoretical equipment of present-day university economics (marginalism) prevents the question from even being raised. The consequence is that current analysis of "underdevelopment" is at an incredibly low level.

All these reasons both encouraged me to write this book and at the same time made me hesitate. Twelve years ago, when I chose this very subject for my doctoral thesis, I was bolder.[1] It seemed to me that in order to go more deeply into the subject it was necessary first of all to undertake a number of concrete analyses, with as much precision and data as possible, and I have devoted myself to this task since then.[2] I think matters are now ripe for a new advance in the theory of accumu-

lation on a world scale. This is why, although it may seem very ambitious on my part, I have resolved to jump into the water again and attempt a critical synthesis. I realize that this is only a stage along the road; I have tried to bring together my own personal work with some theoretical contributions by other people which seem to me to be of crucial importance for the task in hand.[3] My dearest wish is that this book may give rise to criticism, the elementary condition of further progress.

The book is also addressed to students of economics. It bears the marks of the course of lectures from which it originated. This is why I thought it absolutely necessary to provide a critique of the economic theory that students are taught, including an internal critique—for this theory seems to me to have, strictly speaking, no point at all except as a way of evading problems. This becomes very apparent when we tackle the problems of "underdevelopment"; but we must then carry our analysis through to the end, to see just how this theory is beside the point and why it cannot frame the right questions. Though this critique may at some moments seem tedious, it is nevertheless essential for students who have been brought up on marginalism. It is also essential for my investigation, if only because it is by grasping why a certain theory is incapable of dealing with a given question that one manages to formulate more correctly the real problems involved, and to work out the scientific concepts needed. We shall see some examples of this truth.

Though the current theory of underdevelopment is not worth much, a considerable mass of factual documentation is now available and ought not to be overlooked, even if it has in the main been put together in a very disorderly way, sometimes without any awareness of what was being looked for.[4] Scientific theory is, after all, not theory that merely takes account of facts, but theory that proceeds from facts in order to integrate them into a coherent system. Here, too, we are constantly amazed to observe the extent to which facts are ignored by current university theory, isolated in its ivory tower.

The Scope of the Analysis

Accumulation—expanded reproduction—is an essential inner law of the capitalist mode of production, and doubtless also of the socialist mode of production, but it is not an inner law of the functioning of precapitalist modes of production. Now, the world capitalist system

cannot be reduced, even in abstraction, to the capitalist mode of production, and still less can it be analyzed as a mere juxtaposition of countries or sectors governed by the capitalist mode of production with others governed by precapitalist modes of production (the "dualism" thesis). Apart from a few "ethnographical reserves," such as that of the Orinoco Indians, all contemporary societies are integrated into a world system. Not a single concrete socioeconomic formation of our time can be understood except as a part of this world system.

Relations between the formations of the "developed" or advanced world (the center), and those of the "underdeveloped" world (the periphery) are affected by transfers of value, and these constitute the essence of the problem of accumulation on a world scale. Whenever the capitalist mode of production enters into relations with precapitalist modes of production, and subjects these to itself, transfers of value take place from the precapitalist to the capitalist formations, as a result of the mechanisms of *primitive accumulation*. These mechanisms do not belong only to the prehistory of capitalism; they are contemporary as well. It is these forms of primitive accumulation, modified but persistent, to the advantage of the center, that form the domain of the theory of accumulation on a world scale.

It is, indeed, necessarily a question of theory. The empirical-positivist approach that is content to describe the facts and try to measure the ebb and flow of value is incapable of grasping more than appearances. It cannot reveal the "hidden transfers" and the essence of the laws of accumulation on a world scale. This theoretical analysis is far from having been accomplished. (We shall see a striking instance of this with the blunderings of the "theory" of international trade.) What must be the fundamental concepts making possible the construction of this theory? This is the question I am asking. It will be seen that this theory cannot be an "economistic" one, because economism does not allow us to go beyond analyzing the apparent mechanisms of the functioning of the capitalist mode of production, and so does not enable us to examine the relations between formations of different kinds which are integrated in the same world system, and to frame the right questions. In order to see this it will be best to start from the current theory of underdevelopment, precisely so as to appreciate its impotence.

Before proceeding, however, we must certainly clarify one last point regarding the scope of our study. The center and the periphery of the capitalist world are not the only partners involved. The formations of the "Communist world" (Russia, Eastern Europe, China, North Korea, Vietnam, Cuba) maintain relations among themselves and with the

capitalist world. I am not going to go into the problem of the nature of these formations.[5] Nevertheless, the external relations of this world with both the underdeveloped world and the advanced countries of the West are dependent upon the capitalist world market. On this plane we have no grounds for considering trade between Russia and Eastern Europe, on the one hand, and the rest of the world, on the other, as being different in practice from the trading activities of the advanced Western countries. There are not two world markets, one capitalist and the other socialist, but only one, the capitalist world market, in which Eastern Europe marginally participates. We shall see that Soviet theory about these relations coincides with Western theory. Nevertheless, the internal relations of the Soviet world (relations between Russia and Eastern Europe) are not dependent on the capitalist world market, for though the Soviet formations are not fully socialist, they are not truly capitalist (being either "definitive" forms of a new type or else transitional formations—in either case, distinctive in character), and so the internal relations of the Soviet system have their own laws. I am not going to examine these laws here. In other words, I consider that Russia and Eastern Europe do not, or do not yet, form part of the world capitalist *system,* although in their relations with the advanced Western countries and the underdeveloped world they form an integral part of the world capitalist *market.* Furthermore, international relations are not to be reduced to relations between the advanced West and the "Third World," for the internal relations of the Western world occupy an essential place in these relations, and one that is quantitatively much more important. I shall make a point of *not* discussing these internal relations within the "center," even though they form an important element in accumulation on a world scale, especially as regards the commercial exchanges and the movement of capital between the North American center and the other advanced centers (Western Europe and Japan). I shall have to refer to them, however, if only to show that the *nature* of these relations differs from that of relations between the center and the periphery.

In other words, the main scope of my analysis embraces relations between the center (North America, Western Europe, Japan, Australia, New Zealand, and South Africa, on the one hand; Russia and Eastern Europe, on the other) and the periphery ("the three continents").

The Conceptual Equipment of Current Economic Theory

The only possible science is the science of society, for social reality is one: it is never "economic" or "political" or "ideological," etc., even though social reality can be approached, up to a certain point, from a particular angle—that of any one of the traditional university disciplines (economics, sociology, political science). But this particularized approach can remain scientific only if it is aware of its limits and prepares the ground for universal social science. However, since 1870, triumphant marginalism has set itself the task of working out an economic science that is "pure," or, more precisely, independent of all the other social sciences. This "pure" economic science must necessarily be ahistorical, since the laws it seeks to discover have to be true whatever the economic and social system may be. Abandoning the universal outlook introduced by Marxism, breaking down the bridges that the latter had laid between the various branches of social science in its attempt to explain history, neoclassical economics was led to become, first and foremost, an algebra of logical deductions from a certain number of axioms based on a sketchy psychology of "eternal man."

The conceptual equipment of this "pure" economic theory is situated at a level of abstraction that makes it useless for analyzing the working of the mechanisms—even the economic mechanisms—of any society whatsoever. The fundamental concepts (especially subjective value) are worked out on the basis of a set of axioms regarding the behavior of Robinson Crusoe on his island: man (in individual isolation) face to face with nature, economics becoming the "science" of man's relations with things (wants and scarcity). Well, Crusoe will never form a society, and men's relations among themselves when they are producing and distributing wealth—the real domain of the economic mechanisms of society—are evaded by marginalism from the very outset. On this basis, marginalism defines concepts that are metaphysical, absolute, ahistorical, such as Saving, Investment, Capital (as a thing), etc., which are supposed to exist outside of any structure, that is, whatever society's mode of production may be.[6]

When they come down from the remote heaven where they originate to the earthly reality of an actual society, these concepts are adapted as well as possible by means of vulgarly empirical methods that enable phenomena to be interrelated at the level of immediate appearances: saving depends on income, investment on the expectations of entrepreneurs (on the amount of optimism in their natures!), and so on.

Moreover, since Crusoe's axioms are by very definition the algebra of the absolute rationality of economic behavior, and this behavior is extended from Crusoe to all "economic agents," it is found, needless to say, that the system represents pure rationality.[7] Everything is for the best in the best of worlds: a phenomenon is rational merely because it exists. The entire theoretical construction of marginalism is erected upon this monstrous tautology, and is therefore nothing but an ideology, without anything scientific about it—*the ideology of universal harmonies.* It can be shown that each of the "pieces" of this "economic science" is itself based on question-begging derived from this original tautology. This is so with the quantity theory of money, the theory of comparative advantages in international trade, the theory of conjuncture, of equilibrium in the balance of payments, and so on. We shall see that in the case of the underdeveloped economies, the internal weakness of all these theories appears in a yet more flagrant way, since they do not even account for obvious facts and thus are quite simply false. The study of underdevelopment accordingly helps us to appreciate still better the impotence of the marginalist concepts, exposing the origin of their falsity, because in order to carry out this analysis we are obliged to reintegrate a structure.

Now, marginalism, by virtue of its approach, is without the concept of structure. Current university economics talks of structures, in the plural (technical, demographic, intra-enterprise, institutional, and so on), as empirical facts that are without any interconnections, and without any connection with "theory," which remains "general."[8] It thus forbids itself from the outset to raise the question of the *dynamic of systems* (the transformation of structures), which it even excludes from its field of study, calling it a matter for historians.[9] It also forbids itself to raise the real question about underdevelopment, namely, how it began historically.

There is something even more serious. Preoccupation with the ideology of universal harmonies compels "economic science" to put on the garb of a "theory of general equilibrium," which is necessarily static in the sense that progress and change are seen as originating outside the system. The internal dynamic—accumulation—which is of the very essence of the capitalist system, has to disappear. This is why marginalism carries out the feat of banishing profit from its schema. Profit is no longer even the "income of a factor": it vanishes because it is no longer anything but the "difference between any income as it actually is and what it would be in the theoretical position of general equilibrium of the economic system as a whole."[10] All incomes—wages, rent, interest—

thus contain "a little profit." It is clear that the assumption of a "static capitalism" on which this entire construction is based is not just factually unreal: it can lead nowhere but to a false theory, since it begins by eliminating the essential phenomenon.

Reintegrating the concept of profit on capital into economic theory implies abandoning the marginalist notion of the "productivity of the factors," since it requires that the concepts of "saving," "investment," "capital," and "profit" be given their historical dimension—that the profound links connecting these concepts in the capitalist mode of production be grasped; that we stop confusing these concepts in the capitalist system with other concepts that belong to other modes of production; that we understand, for example, that the saving (or "hoarding") of precapitalist societies is not the saving (or "hoarding") of the capitalist mode of production.[11] If these concepts are, in the capitalist mode of production, profoundly interlinked, then determining equilibrium by supply and demand, which is meaningless if the curves of supply and demand are not independent of each other, is no longer possible. We have to go beyond appearances, to analyze the origin, the generation, of the surplus from which profit is derived.

We then need a theory of value. And this can only be objective—that is, social—in character, not based on subjective tautology. The last stage of the degradation of economic science will be reached when men completely cease to understand the essential need for a "theory of value,"[12] which, vanishing to give place to "empirical observation" of appearances ("prices depend on supply, demand, income, time, etc.," or, in other words, on everything), leaves theory as meaning what can be summed up in the simple phrase, so shallow in its impotent absurdity: "Everything exists in everything else."

The Current Theory of Underdevelopment

If marginalist economic theory is worthless as a special discipline of social science, it is not to be wondered at that attempts to work out a "theory of underdevelopment" within the framework of marginalism have proved particularly poverty-stricken.

The starting point is, to begin with, the choice of a concept of underdevelopment that leads nowhere: the assimilation of underdevelopment to poverty in general. Then follows a long and incredibly platitudinous description of the various manifestations of poverty (partial indices: health, illiteracy, nutrition, death rate, etc.; or a synthetic

index: average income per head), undertaken so as to fill the analytical void with commonplaces.[13] What is worse is that this definition leads straight-away to an essential error: the underdeveloped countries are seen as being like the "developed" ones at an earlier stage of their development. In other words, the essential fact is left out, namely, that the underdeveloped countries form part of a world system, that the history of their integration into this system forged their special structure—which thenceforth has nothing in common with what prevailed before their integration into the modern world.

It is now our good luck that this theory of underdevelopment and development has been formulated in a systematic, clear, and concise way by W. W. Rostow.[14] As is well known, he has given us a universal theory of the five stages through which all societies either have passed or will have to pass: (1) the stage of traditional society, (2) that of the preconditions for development, (3) that of "take-off," (4) that of maturity, and finally (5) that of mass consumption. Each of these stages is defined rigidly, universally, and in "economistic" terms (by the "level of saving"). The total absurdity of this systematization has been demonstrated.[15] "It is impossible . . . to find in the world of today any country or society which has the characteristics of Rostow's first, the traditional stage. This is not surprising, since the construction of Rostow's stages takes account neither of the history of the new underdeveloped countries nor of their crucial relations with the new developed ones over several centuries past. . . . This long relationship . . . did not affect only the export enclave in the under-developed countries, as the almost universally accepted and just as empirically and theoretically erroneous 'dual' society or economy thesis has it. On the contrary, this historical relationship transformed the entire social fabric of the peoples whose countries are now under-developed. . . ."

Eclecticism is the inevitable price paid for this false theorizing. In order to explain why countries have been "frozen" at the first stage, by accomplishing the feat of not mentioning their integration into the world capitalist system, it is necessary to resort to "exogenous" explanations. The demographic explanation, in neo-Malthusian terms, is the one most used at present. It does not stand up to either analysis or facts. Its concepts remain hazy (when "natural wealth" is mentioned, does this mean that which is already being exploited, or the country's potential) and its basic axioms ("the law of diminishing returns") are erroneous. It ignores many facts of history, such as that, between 1870 and 1910, Great Britain and Germany developed despite a very marked growth of population (58 percent in forty years), whereas India re-

mained underdeveloped in the same period, although its population increased by only 19 percent! It ignores the fact that though there are underdeveloped zones that are apparently overpopulated (if they are obliged to remain agricultural), there are also many others that are underpopulated (even in relation to their agricultural potentialities alone); that Gabon, the demographic dynamism of which is very low (a population growth of around 0.5 percent per year), is no less underdeveloped than other countries where the rate of population growth is very high.[16] This does not mean that a real policy of development, centered in the countries concerned, would not have to take account of the demographic factor and that, under certain concrete conditions, a policy of reducing population growth would not have to be envisaged. What it does mean is that demography does not account for underdevelopment.

Explanations in terms of "vicious circles of poverty" evade the real problem in the same way.[17] Underdevelopment is said to result from insufficient "saving," which itself results from the low level of income (poverty, and so underdevelopment). It is beyond comprehension how what are now advanced societies ever managed to break through these "vicious circles." In order, moreover, to give full scope to these "vicious circles," recourse is had to an extremely feeble theory that contradicts even what is essentially correct in the "law of outlets," namely, that investment, under certain conditions, creates its own outlet *ex-post*, even if it never has one *ex-ante*. To establish the thesis of "vicious circles" it is further necessary to make an assumption which is contrary to the facts, namely, that the surplus in the underdeveloped countries is, if not nonexistent, then at most very slight.

Baran has shown that what is typical of the underdeveloped countries is not lack of surplus but a distinctive way of using surplus: unproductive, wasteful, exported.[18] I have calculated what this means for Egypt: between 1939 and 1953, the surplus accounted for one-third of the country's national income, but 38 percent of this surplus was devoted to luxury consumption by the possessing classes, 34 percent to investment in real estate, 15 percent to liquid (gold and currency) and semi-liquid (state bonds) investment, and only 14 percent to really productive forms of investment (undistributed profits, self-financing of family enterprises, public subscriptions to stocks and shares).[19]

Whenever we examine the real situation—the consistency, form, and utilization of the surplus in the underdeveloped countries—we find ourselves confronted with the real problems: the forms taken by the surplus and the ways it is used depend on the nature of the economic and

social formations in the countries of the periphery, and the mechanisms whereby they are integrated into the world capitalist system. A step backward is made when the "theory" of underdevelopment renounces economic analysis in order to lose itself in sociological eclecticism, bringing in the "religious factor," etc., without integrating any of these "factors" into a total theory of society.[20]

From Social Science to the Art of Management

The economic "science" taught in the universities has thus died of impotence, as a social science, through rejecting the objective theory of value. It has left behind, however, an art of management. Empirical observation of the "correlations" between phenomena makes it possible to work out a whole battery of techniques of action which are more or less effective. Insofar as the allegedly "eternal" concepts of marginalist science are indeed immediately deduced from observation of the capitalist mode of production, they do enable development of an art of economic management, even though this art is far from perfect, since it is based on positive observation alone, without any theory, at either the microeconomic level (art of managing an enterprise) or the macroeconomic level (art of national economic policy). The structural changes in the capitalist mode of production that followed from the formation of monopolies, along with the state intervention that these changes evoked, made this art of management necessary. The very nature of the problematic of this art—the maximizing of certain economic magnitudes (profit, or product) under given constraints (in particular those of "scarcity of resources") at a given moment and within a given system (in this case, the capitalist mode of production, as is usually not mentioned)—forbids us to see in this set of "techniques" an alternative to social science, for every art is derived from a science, either explicit or implicit, and here the underlying science is that of marginalism.[21] It is only the ideologizing of economics—economism (the origins of which we shall see later)—that enables people to make a science out of what cannot be one.

It is this muddled ambiguity about the nature of economic science—a social science, or an art of management—that is at the origin of that cacophony that the present-day teaching of economics inthe university amounts to. What is taught is, on the one hand, a body of definitions which lie at a level of abstraction that renders them practically useless,

together with theorems deduced from the axiom of Robinson Crusoe's behavior, and, on the other, a set of empirical techniques that, with good reason, do not refer to this body of "theory."

Between the economic theory and the economic policy there is no bridge: on the one hand an esoteric "science" that by explaining everything explains nothing, and on the other a series of recipes. The inclusion of mathematics does not automatically solve the problem. It is not that I am against this use of mathematics; quite the contrary. On the plane at which theory is worked out, mathematics must be used, at least where appearances are involved. Mathematics helps us to avoid hazy reasoning in which the writer gives different meanings to the same concept, as his argument dictates. But a system of false concepts remains a system of false concepts, even if a body of theorems be deduced from it in rigorous fashion (that is, avoiding the vague concepts characteristic of a "literary" tradition of intellectual mediocrity), and the reduction of the system to equations does not in itself endow it with any scientific quality. Economics is then merely an esoteric and useless, even if rigorous, *jeu d'esprit.*

The theory of general economic equilibrium is the finest example of a situation of this sort. In this equilibrium, profit vanishes—which proves that the theory's system of concepts, being unable to account for an essential fact, is not a scientific one. Mathematics is also needed for the working out of the "recipes" for management technique. Scientific analysis of facts, even at the level of appearances, demands methods of measurement and choice that make it possible to eliminate what is secondary from the hodgepodge of immediate manifestations, so as to keep only what is essential: the theory of mathematical statistics alone provides these methods. But here, too, choice of the assumptions to be tested proceeds from an underlying theoretical analysis, implicit or explicit (and obviously it is better that it be explicit). The resounding failure of the "Harvard barometer" furnishes the best proof that empirical observation, even if rigorously carried out, takes one nowhere if there is no theory. The working out of models—necessarily mathematical in form—making it possible to predict and to act is derived from the same methodology and is subject to the same limits.

The crisis in the teaching of economics largely reflects this ambiguity. Students ask: what is the use of this "theory," since no reference is made to it when working out the art of management? And also, complementarily: what value has this art of management?

To resort to suppression of the teaching of theory in order to evade

the question, or to indulge in a cult of mathematics for its own sake, is merely to dodge the problem, not to solve it. If, nevertheless, this line of procedure seems to be possible, it is because the art of management in question is based on concepts that are not at all what they are claimed to be (the concepts of an ahistorical economic science), but empirical concepts obtained by superficial observation of the mechanisms of the capitalist mode of production. The art in question thus does not appear as either wholly useless or wholly absurd. This is true in the West, at any rate. In the underdeveloped countries, however, this art cannot be other than patently useless and absurd, since the system of concepts on which it is based does not correspond even to the apparent mechanisms. The crisis in the teaching of economics—here, inevitably, a caricature—cannot but be felt the more intensely.

What is true of economic science in general is even more true of that part of it which deals with development and underdevelopment. The art of development—the politics of development—is made to precede the science that alone can account for development and underdevelopment as facts of history. The point is that development economics is a very recent chapter in economics, since, at least down to the First World War, economic theory was not at all troubled with analyzing systems and structures. Under these conditions, economics was obviously unaware of the very existence of systems that were not merely developed unevenly from the quantitative standpoint, but also qualitatively different, though this was an obvious characteristic both of historical evolution and of the juxtaposition in the world at that time of dominating, advanced metropolitan countries and the dominated colonial world that was to be called underdeveloped only much later. Analysis of systems being then excluded from economic science, it was left to historiography, which, suffering as it was from the same atrophy as economics, was content to deal solely with successions of events, or was at least equally relieved of the duty to explain the general movement of social transformations. Reflection on the problems that today make up the sphere of the economics and sociology of development was then regarded as being outside the scope of possible scientific investigation, and relegated to "philosophers of history" and essayists. However intelligent and profound the vision of some of these may have been, no commencement of systematization justifies us in speaking of any science of economic and social development at this stage. As for economic science, it confined itself, at best, to taking note of the distance separating its "theoretical" model from "impure" reality, a distance

that was greater or less as between different systems, being especially marked where underdeveloped economies were concerned.

Some reactions occurred on the edge of economic science, aimed at stressing the need for better knowledge of structures and institutions. But they remained almost exclusively descriptive in tendency, and mainly directed toward study of the special institutions and structures of the advanced countries rather than those of the underdeveloped parts of the world. The political and military emergence of Japan at the beginning of the twentieth century, the Russian Revolution of 1917, Mustafa Kemal's revolution in Turkey in 1919, the birth of nationalist movements in Asia and in the Arab world, the revolution and civil war in China from 1924 onward, had no effect on economic science between the world wars. The victory of the Chinese Revolution in 1949, the reinforcement and generalization of the national movement in the "three continents" (Asia, Africa, Latin America), and the political emergence of the new nations of the Third World—all these things had to take place before there began to be formed the new field of scientific study concerned with the phenomenon of development, conceived either in its social totality or under its various aspects, particularly the economic aspect.

Development economics, a recent chapter of economics, the birth of which can be located between 1945 and 1960, was thus formed under the pressure of facts and urgent needs. It sought from the start to serve governments that claimed to be engaged in the practical work of development. But the new "economics of development" was bound to suffer from the same shortcomings as economics in general. Too often it seeks to be an art of development without being a fully worked-out science of development; and so emerges as a too narrowly pragmatic art. It is nevertheless better placed than the other sections of economic science for appreciating the inadequacy of the theoretical bases of its prescriptions.

Until the Second World War, people were content to assume that laissez-faire was certain to develop the colonies just as it had developed the industrialized metropolitan countries—that there was no other path open. The theory of comparative advantages and of international specialization constituted the theoretical basis (which had become a dogma) for this philosophy of laissez-faire on the international scale. The acceptance of this dogma—abandonment of which entails questioning all the theoretical foundations of neomarginalism—is so complete that even today the predominant trend in writing on the economics of

development (works that aim at raising general theoretical problems as well as those that restrict themselves to concrete applications) has not yet re-examined it.[22]

But this way of looking at the matter ultimately reduces development economics to something insignificant: awareness of the specific historical fact of underdevelopment contributes nothing new to economic theory, scientific analysis of it is ruled out a priori because international specialization is regarded as natural and desirable, to the advantage of all partners in exchange, whatever their level of development, just as is, correlatively, the investment of foreign capital in the less developed countries. The theory of development economics is therefore merely a strict application of the general principles of marginalist economics to the specific conditions of the underdeveloped world. It is not a contribution that enriches general economic theory. Nevertheless, under the pressure of facts—meaning the failure of "development policies" that did not challenge international integration —what began as criticism of the art of development led to an approach to a theory of underdevelopment and development. This theory implied a break, explicit or implicit, with the dogmas of general marginalist theory.

This is why the true birth of the economics of development must be situated at the moment when a break is made with this set of dogmas, a break more or less openly proclaimed as a general calling-in-question of the bases of economic theory.[23] The Marxist school had never accepted the theory of international specialization, but had counterposed to it, from 1914 onward, in the persons of Lenin, Rosa Luxemburg, and Bukharin, the theory of imperialism; it now busied itself in integrating the specific phenomena of the underdeveloped world into an overall analysis of world capitalism, on the economic plane and on the planes of sociology and political science, which it had always refused to isolate from each other.

Thus the new economics of development which is beginning to take shape is becoming a source of enrichment of general economic theory, and even of the social sciences as a whole. Like general economic science, "development economics" necessarily includes two distinct sections: one, concerned with fundamental analysis, which, starting from observation of historical reality, aims to build a theory of underdevelopment and development; and another, concerned with application, directed toward changing the structures, an art of economic management, of development, which is derived from the theory of development.

Accumulation on a World Scale

Let us begin with the immediate "appearances" of things: the "structural" features by which "underdevelopment" is revealed. These are (1) unevenness of productivity as between sectors, (2) disarticulation of the economic system, and (3) domination from outside—three features that are clearly not "traditional" in character.

The heterogeneity of structures belonging to different economic epochs is manifested through great unevenness in productivity between one sector and another (in the sense of production per capita). The most extreme form of the "dualism" thesis reduces this heterogeneity to the juxtaposition without interpenetration of two groups of systems; one, called "traditional" or "precapitalist," being anterior to the colonization and integration of the underdeveloped world into the capitalist world market of commodities and capital, and the other, called "modern" or "capitalist," being a product of this integration. This is already a simplification which fails to take account of the fact that, more often than not, the "traditional" sector is itself integrated into the world market (thus, the African peasant produces, within the framework of a "traditional" structure, goods that are destined for export). Uneven levels of productivity are widespread and common, and even in the advanced countries progress never occurs evenly but is always focused in the new industries. Nevertheless, in the advanced countries there are powerful economic forces that tend to diffuse the benefits of progress throughout the economy—through price adjustments, the tendency for wages to level out between one sector and another, and the tendency to equalization of the rate of profit. These forces operate in such a way that the center of gravity of the economy tends to shift toward the most progressive sectors. In consequence, the unevenness shown in the distribution of production per head is always comparatively slight: ratios of 1 to 2, or of 1 to 3, between the sectors most widely separated, are the most extreme observed, and the mass of the working population is concentrated in the sectors grouped around the average, between index 80 and index 120. In the underdeveloped countries, however, ratios of 1 to 4, or even of 1 to 10 or more, are very commonly observed. The distribution, as between sectors, of the working population and of production, instead of being more or less parallel, is extremely divergent. Thus, in most of the Third World, the rural population makes up between two-thirds and four-fifths of the total, depending on the region or country, whereas agricultural production rarely exceeds two-fifths of the gross internal product. The forces

that operate in the advanced countries to spread progress evenly either do not operate here or else operate very poorly.

This lack of communication between the different sectors of the underdeveloped economy is due to the disarticulation of the economy in question. An advanced economy forms a coherent whole, made up of sectors that carry out substantial exchanges between themselves, what may be called "interindustrial" or "intersectoral" exchanges. Thus, these sectors appear complementary, solid with each other, so to speak: the extractive and power industries provide the basic industries with their chief raw materials, and these industries support, through the capital goods and semi-finished goods that they produce, light industries and modernized ("industrialized") agriculture, which, in their turn, provide the ultimate consumer goods. An underdeveloped economy, however, is made up of sectors that carry out only marginal exchanges among themselves, their exchanges being made essentially with the outside world. Some of these sectors are made up of a few large-scale enterprises—often foreign, and dependent on great international businesses—the governing centers of which are outside the underdeveloped economy. The different kinds of mineral wealth exploited by these great concerns—metals, oil, etc.—are not destined to supply domestic industries on the spot, but are exported in order to supply complex industrial groups in the advanced countries. In the more developed of the underdeveloped countries there are sometimes groups of light industries, either foreign-owned or native-owned. Due, however, to the lack of basic industries, these industries producing consumer goods are extremely dependent on the outside world, which provides the equipment and semi-finished goods they need. They therefore have no "integrating" effect, and, being concerned directly with ultimate consumption, carry out only minor exchanges among themselves. The same applies to the sectors of the tertiary part of the economy—transport, trade, financial services—which are grafted upon the foreign economy. Agriculture itself is sometimes made up of juxtaposed sectors—one, closed in on itself, living by self-subsistence, the other providing "plantation products" for export. But this picture of a simple juxtaposition of "traditional" and "modern" agricultural sectors is far from always squaring with reality. Very often it is in fact the same farmers who produce both subsistence goods and products for export. True, in most cases subsistence goods are intended only marginally for local commercialized consumption, the bulk being consumed by those who produce them. In other words, the commercialization of the rural economy occurs principally on the basis of foreign demand (for ex-

ports) and only to a subordinate extent on the basis of the demand of the towns, that is, on local demand. Furthermore, this agriculture, even where it is commercialized, is not much modernized and consumes few industrial products (fertilizers, machinery, etc.).

The disarticulation of the economy prevents the development of any one sector from having a mobilizing effect upon the rest. Any such effect is transferred abroad, to the supplying countries: the sectors of the underdeveloped economy appear as extensions of the dominating advanced economy. In turn, this disarticulation and its corollary, the unevenness in productivity, are reflected in the distribution of the gross internal product and of investments, which is very different from that which is typical of the advanced countries.

External dependence is at once the origin and the result of this situation. It appears first of all on the plane of external trade. The trade of the underdeveloped countries, whether taken individually or jointly, presents this distinctive feature, that not only are the exports of these countries largely made up of (mineral and agricultural) primary products, and their imports of manufactured goods, but also, and above all, this trade is carried on essentially with the advanced countries, whereas the trade of the advanced countries is essentially carried on among themselves. Thus, in our own day, 80 percent of the trade of the advanced countries (the total volume of which makes up 80 percent of world trade) represents exchanges between these countries themselves, and the remaining 20 percent their exchanges with the underdeveloped countries, whereas hardly 20 percent of the trade of the underdeveloped countries is accounted for by exchanges within the Third World. Thus, taken as a whole, the Third World is very much more dependent on its exchanges with the advanced countries than the latter are dependent on theirs with the Third World. This does not mean that the advanced countries can "do without" the underdeveloped ones, any more than that the system could survive a cessation of exchanges within the group of advanced countries. The "Cartier" thesis is meaningless, for the raw materials that the periphery supplies to the center are essential to the latter.[24]

Commercial dependence is aggravated by increasingly severe financial dependence. The fundamental cause of this is that investments of foreign capital in the underdeveloped countries automatically engender a flow of profit transfers in the opposite direction. With an average rate of return on capital of 20 to 25 percent, the flow of profits back to the advanced countries soon exceeds the influx of capital investments, and, when a certain level of "opening-up" has been passed, the external

balance of payments is reversed. This reversal, which is highly characteristic of the historical evolution of the underdeveloped countries, reflects the transition from the phase when the territory is being "opened up" to capital to that in which "exploitation at cruising speed" is the rule. The absence of any mobilizing effects of foreign investment in an underdeveloped country prevents this investment from playing that role of catalyst of the accumulation process which can be played by foreign investment in countries with a capitalist structure. (Examples of the latter are European investment in North America, Russia and Japan in the nineteenth century, American investment in Western Europe today.)

Given the conditions of foreign investment in an underdeveloped country, equilibrium in the balance of payments demands a very rapid growth of exports, not merely quicker than the growth of the gross internal product but even quicker than that of imports. Now, there are many forces tending to accelerate the growth of imports in underdeveloped countries, the chief of these being (1) urbanization accompanied by insufficient growth of local production of subsistence goods, so that increasing imports of primary food products (wheat, rice, etc.) are necessitated; (2) a too rapid growth of administrative expenditure, out of proportion with the possibilities of the local economy, and mainly due to the fact of integration in the international world of today, with the obligations that follow from this; (3) transformation of the structures of income distribution and Europeanization of the ways of life and consumption of the privileged social strata ("demonstration effects"); and (4) inadequacy of industrial development and imbalance in the structure of industry (excessive predominance of consumer-goods industries), which necessitate importing capital goods and intermediate goods. The combined working of all these forces makes the underdeveloped countries dependent on foreign aid, which tends to become "current"—that is, to be such as to enable these countries merely to overcome their worst crises, without solving the fundamental problem presented by their increasing structural imbalance. This phenomenon of dependence is typical of the period since the end of the Second World War.

As economic growth proceeds, none of these features by which the structure of the periphery is distinguished lessens; on the contrary, each increases. Whereas at the center, growth *is* development—that is, it has an integrating effect—in the periphery growth *is not* development, for its effect is to disarticulate. Strictly speaking, growth in the periphery,

based on integration into the world market, is *development of underdevelopment.*

We can therefore see the superficiality and scientific inaccuracy of identifying "underdevelopment" with a low level of production per capita. The most common approach to underdevelopment in present-day writing, particularly in the voluminous publications of the United Nations, classifies countries in categories like this: the least developed countries, where income per capita is less than $100 (India, countries of the African interior); underdeveloped countries, where income per capita ranges from $100-$300 (North Africa, Middle East, coastal countries of Black Africa, poor countries in Latin America, Southeast Asia); developing countries, where income per capita ranges between $300 and $500 (rich countries in Latin America, oil states); "poor" developed countries, where income per capita ranges from $500-$1,000 (Southeastern Europe); and "industrial" developed countries where income per capita is over $1,000 (Western Europe, North America, Japan, Australia, New Zealand, South Africa). This is really meaningless, for what is there in common between present-day India and precolonial India, even if we assume that income per capita (and this could be measured) has not altered? Precolonial India was a coherent society (or group of societies), with correspondence between its various structures (economic and other), and for this reason could be analyzed and understood on its own. Modern India, however, is incomprehensible apart from its external relations. Again, how can we avoid seeing the questions that arise when we consider that Kuwait's income per capita ($3,290) is greater than that of the United States ($3,020), that Venezuela's ($780) is higher than those of Rumania ($710) and Japan ($660), or that Portugal's ($340) is barely higher than those of a number of African countries (e.g., Ghana, $230)?[25] The Gabon of today, where production per capita is about the same as that of France in 1900, is not the France of 1900, even on a reduced scale, for its distinctive structures are qualitatively those of the periphery, not those of a "central" country that has lagged behind in development.

In order to answer these questions, university theory puts forward the thesis of "dualism."[26] But although this has given rise to works of research that have, at best, made possible a less schematic description of underdevelopment, it is derived from an analysis that is basically mistaken. There is, in fact, not a juxtaposition of two societies, for the underdeveloped economy is a piece of a single machine, the capitalist world economy. It occupies a particular place in this worldwide system,

and fulfills definite functions in it. We must therefore first of all explain the historical origin of this system and understand how it works.

It is on the basis of this history that a theory of the international division of labor can be constructed that will enable us to understand how underdevelopment originated, and the place of the underdeveloped countries in this mechanism of capitalist accumulation on a world scale. The theory of underdevelopment and development can only be the theory of the accumulation of capital on a world scale. Confusion between independent precapitalist economies and societies, characterized by their overall coherence, and economies and societies integrated into the dominant capitalist world through the historical fact of colonial subjection, by which capitalism was brought in from outside, is what lies behind the mistaken ideas of the theory of underdevelopment. My point of view leads me to look in a different direction—to analyze that single process which is at once a process of development at the center and a process of underdevelopment (or rather, using André Gunder Frank's expression, "development of underdevelopment") in the periphery. This obliges me to define the content of a number of concepts—growth, development (and, therefore, growth without development), the opening-up or modernization of which the Third World of today is the object—and to analyze the specific role played by the Third World in the mechanism of the system on the world scale.

For a Theory of the Social Formations of Capitalism

Undoubtedly, the fundamental concepts produced by Marxist analysis constitute the necessary equipment needed for a theory of accumulation on a world scale. This, however, is all that can be said, for the theory itself has not yet been created. The transformation of the system at the center has been analyzed, by Lenin in the first instance, focusing this analysis upon the essential matter of the formation of monopolies, but not examining the formations in the periphery. Lenin's analysis was continued and brought up to date for our own age by Baran and Sweezy; but they did not study the transformations in the periphery in connection with those at the center, either. Everything in this field still remains to be done, although some elements of the analysis are starting to become better known. Criticism of university economics has been very useful, for it is through such criticism that these elements have emerged, as in the matter of unequal exchange.[27] This

encourages us to persevere in the same direction, to appreciate everything that the criticism of present-day economics can contribute to enriching our thought. After all, Marx's own *Capital* assumed just this form—Marx worked out his own concepts by way of a critique of Ricardo.

I think it will be best if I do not start by setting out all these concepts, that the better way will be to bring them forward as the problems arise. I shall, however, have to define the concept of the world system, with center and periphery, particularly in connection with the question of how the periphery differs in formation from the centers at an earlier stage of their history. It will then be necessary to understand that the concept of *formation* must be carefully distinguished from that of *mode of production,* particularly when asking why, at the center, the capitalist mode of production tends to become the only one (the formation tending to merge ideally with the mode of production), whereas in the periphery this does not occur.

The theory of accumulation on a world scale (it will then be seen), which is the theory of relations between center and periphery, can only be a *general* theory. By this I mean that it cannot confine itself to the narrow framework of the capitalist mode of production, but must extend to the wider setting of the theory of capitalist formations. Accordingly, this theory cannot be an economic theory in the strict sense, that is, an economistic theory. For economism—the reduction of social reality to economic reality—is closely associated with the capitalist mode of production. It is because the market dominates the producers as an objective force, external to society, that there are "economic laws." This is, moreover, why economic science emerged with the development of capitalism. Even here, however, economism is transcended as soon as one becomes aware of its origin, that is, with the emergence of the concept of mode of production.

In moving on to another level, that of formations, as is required by the analysis of our problem, we have to leave economism behind. If we find it difficult to do this, that is because economism is an ideology. On this point I agree with Poulantzas's analysis: the economic "instance" which is dominant in the system of pre-monopoly capitalism is accompanied by the political character of the ideological "instance"; the shift of the dominant "instance" to politics under monopoly capitalism is accompanied by a parallel shift of the ideological "instance" to economics, which becomes an ideology ("the technocratic ideology").[28] It is because the theory of social formations has failed to take account of this shift that it has fallen behind so badly.

Here, then, in the problem of accumulation on a world scale, where relations between different formations are concerned, politics is dominant, and this is why we have to look at these relations as bound up with the analysis of primitive accumulation, and not with that of expanded reproduction.

The phenomenon of underdevelopment is thus merely the result of the persistence of phenomena of the order of primitive accumulation for the benefit of the center, and our problem consists of studying the successive forms of these phenomena in relation to the transformations taking place at the center. Primitive accumulation is not something that belongs only to the prehistory of capital, it is something permanent, contemporary. This implies, therefore, that the false concepts of "underdevelopment," "Third World," and so forth ought to be swept away and replaced by the concept of *capitalist formations on the periphery*.[29]

World Dimension of the Class Struggle

The recent controversy between Charles Bettelheim and Arghiri Emmanuel regarding unequal exchange has made a frontal attack on the great problem of our time.[30] If the relations between the center of the system and its periphery are relations of domination, unequal relations, expressed in a transfer of value from the periphery to the center, should not the world system be analyzed in terms of bourgeois nations and proletarian nations, to employ the expressions that have become current? If this transfer of value from the periphery to the center makes possible a larger improvement in the reward of labor at the center than could have been obtained without it, ought not the proletariat at the center to ally itself with its own bourgeoisie to maintain the world status quo? If this transfer reduces, in the periphery, not merely the reward of labor but also the profit margin of local capital, is this not a reason for national solidarity between the bourgeoisie and the proletariat in their struggle for national economic liberation.

Emmanuel's book does not claim that this is so. Emmanuel restricts himself to (1) stating that the relations between center and periphery are unequal and (2) concluding from this that the fact of unequal exchange obliges us to think again about the problem of class struggle. The first of these propositions seems to me to have been proved, while the second is clearly true but insufficient. There are no grounds for reproaching Emmanuel for not dealing with this question, since it turns

up only as a conclusion resulting from the question with which he deals in his book. But it is impermissible to stop at this point, for one then allows the suggestion to emerge (as is unfortunately the case with Emmanuel's article in *Le Monde*) that the contradiction between bourgeoisie and proletariat has been replaced by one between rich and poor nations.

Charles Bettelheim rejects this substitution, for it is true that the higher level of rewards for labor at the center is due *not mainly* to the exploitation of the periphery but to the more advanced level of development at the center. Nevertheless, the unequal relations do intensify this inequality of rewards for labor *with the same productivity.* This fundamental point is denied by Bettelheim, who even claims that the rate of exploitation is higher in the advanced capitalist countries, which is quite untrue. It is forgotten (and, unfortunately, Emmanuel does not make enough of this fact) that exports from the periphery do not arise from "traditional" sectors in which productivity is low: three-quarters of them come from ultramodern sectors where productivity is high (oil, mineral products, the produce of modern capitalist plantations belonging to United Fruit, Unilever, Firestone, etc.). In these decisive sectors, where productivity is equal to that at the center, the reward of labor is lower than at the center (even if it is relatively better than in the "traditional" sectors), precisely because capital here benefits from the distinctive conditions of the "labor market" in the formations characteristic of capitalism as it exists in the periphery. Higher rates of surplus value, equal productivity, and equalization of the rate of profit on a world scale determine a transfer of value from periphery to center (a "hidden" transfer that is additional to the "visible" transfer of the profits of foreign capital), the mechanism of which has been revealed by Emmanuel. This transfer is of marginal significance for the center (contrary to the excessively sweeping statement made in Emmanuel's article, though not in his book), *but it is not so at all for the periphery.*

Bettelheim's argument stays within a "classical" framework, which is to say a "pre-Leninist" one. By this I mean that he analyzes the class struggle on the national plane only—in other words, he discusses the question as though the world system were merely a juxtaposition of national capitalist systems and as though, correlatively, international problems made up a different sphere—without, of course, denying that there is interaction between the two spheres. The dispute cannot be transcended unless we think of the class struggle as taking place not within separate national frameworks but in the context of the world system.

The essential contradiction that defines the capitalist mode of production is that which counterposes the relations of production, based on private ownership of the essential means of production (which become capital) and therefore cramped and cramping, and the productive forces, which, as they develop, express the necessarily social character of the organization of production. Monopolies bring this contradiction to a still higher level, for they express this necessarily social character even more directly than did the petty family enterprises of the nineteenth century: the socialization of ownership of the means of production has matured. This objective maturity is expressed in the increasing recourse had by the monopolies to state intervention, the purpose of which is to coordinate and sustain their operation. Thus, the "national" economic policy of the state of the monopolies becomes a reality that takes over from laissez-faire, which was possible only so long as this essential contradiction was not yet sufficiently ripe—that is, so long as the spontaneous market mechanisms alone enabled accumulation to progress (by way of cyclical fluctuations), which meant that the capitalist mode of production was historically progressive.

Recourse to the state has not, however, exorcised the contradictions. The state is the state of the monopolies, and the monopolies are subject to the essential laws of the capitalist mode of production: the search for maximum profit through competition, in the broad sense. The rationality of the system thus remains capitalist rationality. The essential contradiction between the productive forces and the relations of production is expressed on the social plane by the contradiction which counterposes the two fundamentally antagonistic classes of the system: the bourgeoisie and the proletariat.

So long as we stay within the context of argument of the capitalist mode of production, things are very simple. However, capitalism has become a world system, and not just a juxtaposition of "national capitalisms." The social contradictions characteristic of capitalism are thus on a world scale, that is, the contradiction is not between the bourgeoisie and the proletariat of each country considered in isolation, but between the world bourgeoisie and the world proletariat. This world bourgeoisie and this world proletariat exist in a context not of the capitalist mode of production but of the system of capitalist formations—which, as will be shown, means the formations at the center and the formations in the periphery. The problem is thus: who are the world bourgeoisie, and who are the world proletariat?

As regards the world bourgeoisie there is no difficulty—they are mainly the bourgeoisie at the center, along with the bourgeoisie,

formed in its wake, in the periphery. The leading nucleus, the essential driving force, is at the "center of centers," in the monopolies of the United States. As for the bourgeoisie of the periphery, it has been formed in the context of a world market created, moved, led, and dominated by the center, as will be seen, and this is why the "peripheral" bourgeoisie is always dependent. But the forms it assumes are varied because they proceed from the transformation of the precapitalist formations from which this bourgeoisie has emerged as a result of the integration of these formations into the world system. It is essentially either an agrarian (latifundia owners or rich peasants) and trading bourgeoisie or a bureaucratic one (also based on integration into the world system). It may be clothed in precapitalist appearances (feudal or otherwise), but these are only appearances, for its essential function is governed by the context of the world capitalist system.

And where is the world proletariat? How is it structured? For Marx there was no doubt about it: in his day the essential nucleus of the proletariat was at the center. At that stage of the development of capitalism it was impossible to grasp the full significance of what was only later to become the colonial problem. Marx, as we shall see, even feared that the socialist revolution in Europe might come into conflict with the rising forces of capitalism in Asia. As the socialist revolution did not occur at the center at that time, and capitalism continued to develop, becoming monopolistic, the world conditions of the class struggle were modified. This is what Lenin expressed perfectly, in a line that in our day has become that of Maoism: "In the last analysis, the outcome of the struggle will be determined by the fact that Russia, India, China, etc., account for the overwhelming majority of the population of the globe" (*Better Fewer But Better,* 1923). This signified that the *central nucleus of the proletariat* was henceforth no longer at the center but in the periphery. Why this shift?

The essential increasing contradiction of the system is expressed, in fact, in the tendency of the rate of profit to decline. On a world scale, there is only one way to counter it: increase the rate of surplus value. The nature of the formations in the periphery makes it possible to increase this rate there much more than at the center. Consequently, in relative terms, the proletariat of the periphery suffers an increasing degree of exploitation as compared with the proletariat at the center.

Like the bourgeoisie in the periphery, the proletariat in the periphery takes a variety of forms. It is not made up solely or even mainly of the wage-workers in large-scale modern enterprises. Also forming part of it are the masses of peasants who are integrated into world exchanges

and who on that account pay, like the working class of the towns, the price of the unequal exchange that is reflected in the difference between rates of surplus value at the center and in the periphery. Although various forms of social organization (often "precapitalist" in aspect) form the framework in which these peasant masses exist, they are ultimately proletarianized through their integration into the world market. There are also the increasing masses of urban unemployed that are implied by the structure of the periphery, as a condition of the higher rate of surplus value. It is these masses of our present-day world who "have nothing to lose but their chains." We also clearly have "incomplete" forms of proletarianization in the periphery.

The revolt of these masses, the main revolt, entails in turn a necessary aggravation of the conditions of exploitation at the center, which is the only way by which capitalism can retort to the narrowing of its area of operation. This is how the dispute between Bettelheim and Emmanuel must be transcended. The former's thesis—that the proletariat at the center is still the principal nucleus of the world proletariat—is not Leninist: it denies the worldwide nature of the system. The thesis of the contrast between proletarian nations and bourgeois nations also denies the worldwide nature of the system, the repercussions that the revolt of the periphery must have on conditions at the center, and lets it be assumed that the bourgeoisie of the periphery, being also "exploited" (the term is inaccurate, since this bourgeoisie is merely restricted in its development), can oppose the bourgeoisie of the center. The violence of the main revolt, which is taking place in the periphery, means precisely the opposite of this, for the bourgeoisie of the periphery is compelled to "take out" of its own proletariat, so far as possible, the pillage from which it itself is suffering.

Moreover, the idea that the proletariat at the center is a privileged group, and thus necessarily in alliance with its own bourgeoisie in exploiting the Third World, is only a simplification of the real position. True, with equal productivity, the proletariat at the center averages higher rewards than the workers in the periphery. But in order to fight against the law of the tendency for the rate of profit to fall at the center, capital imports labor from the periphery, which it pays at a lower rate (and assigns the least attractive kinds of work) and which it also uses to bring down wages in the metropolitan labor market. This importing of labor has assumed considerable dimensions: in Western Europe and in North America the increase in immigration from the periphery has increased annually since 1960 by a percentage ranging from 0.7 percent to 1.9 percent, depending on the countries and the

years—in other words, at levels that are, on the average, much higher than the rates of growth of the national labor force; this contribution of labor power of immigrant origin also constitutes a hidden transfer of value from the periphery to the center, since the periphery has borne the cost of education and training this labor power.

Analagous to this process is the mobilization of the internal colonial reserves, as with the proletarianizing of blacks in the United States, who have become the majority of the proletariat in a number of large industrial towns. The extreme form of this system is to be observed in the racialist states: South Africa, Rhodesia, Israel. Thus, the world system is increasingly mixing up together the masses it exploits, rendering the need for internationalism greater than ever. At the same time, of course, it makes use of this mixing process to stir up for its own advantage racialist and jingo moods among the white workers. In its development at the center itself, moreover, capital is both unifying and differentiating all the time. The mechanisms of centralization for the benefit of the dominant capital also apply as between the different regions of the center: the development of capitalism is everywhere a development of regional inequalities. Thus, each developed country has created its own underdeveloped country within its own borders: the southern half of Italy is the most striking example, but one can also point to the west and south of France, and other cases. The revival of regionalist movements in our time can be understood only against this background. It follows that, even if the concept of "labor aristocracy" in Lenin's sense (as a very narrow stratum) has been transcended by the appearance of more complex differentiations, the concept of "aristocratic nations," to which Emmanuel unhappily refers in his article, is one that conceals these complex differentiations.

The Conditions of Development of the Periphery

We must therefore contrast the policy of development, which must be centered in the country concerned, with that of "opening up," of necessarily limited "growth without development." On the limited plane of the definition of purely economic objectives of development and of techniques for working out development policy, the practical experience of the last twenty years has made possible decisive progress, even if only progress due to criticism of policies implemented and of their results.

The art of economic development—of development policy—based on

the theory of underdevelopment and development operates, like every art, at a concrete level. The object of the art of development is to guide economic choices in a concrete situation—that of a given underdeveloped country with a structure and history, in the prospective setting of a systematic structural transformation, namely, the willed construction of a homogeneous national economy, with its center and driving force in the country itself. This art belongs therefore in the context of a struggle for national economic liberation. Development policy must have as its purpose the abolition of the three characteristics of underdevelopment listed earlier.

The first consideration is to direct the choice of development so as to create a homogeneous national economy. This mainly means organizing the progressive transference of the working population from the low-productivity sectors to those with high productivity, and in particular from agriculture, especially subsistence agriculture, to modern industry, together with improvement of productivity in the sectors where production per head is low. This shifting of the economy's center of gravity obviously challenges the foundations of the international specialization on which the unequal economic relations of the world of today are based, and which manifest themselves, by way of the current system of prices and profitabilities, in both international and intersectoral inequalities of productivity. As for improving the productivity of traditional agriculture, this implies organizing far-reaching technical changes, which are difficult because they challenge the social structures, ways of life, and cultures that are bound up with these primitive techniques. "Economic anthropology"—itself a young discipline—provides the scientific basis needed for this operation, enabling the history of the advance in agricultural technique to be raised to the level of abstraction required of every general theory.[31]

Next, in this context, development choices have to be guided so as to ensure for the new economy the overall cohesion missing from underdeveloped economies by deliberately creating, around correctly chosen poles of development, integrated industrial groups made up of complementary activities.[32] Structured in this way—"autocentric," or "introverted," in contrast to the underdeveloped economy which faces outward (is "extroverted")—the new economy will form an organic whole, the different parts of which will have become interdependent, so that the flow of innovations and progress of all kinds can spread throughout. Development policy consists in working out the appropriate choices, given the specific conditions of a particular country. In this sphere, different themes have given rise to an abundant literature

about the types of successive equilibria, depending on the stages of general development, between agricultural development, that of light industry producing consumer goods, and that of basic industries (power, iron and steel, engineering, chemical).[33]

Finally, the new economy has to be provided with its own independent dynamism, freeing it from the dependence of the underdeveloped economy on the dominant economy which has brought it from outside the impulse that it lacked. This requires not only a radical transformation in the structure of foreign trade, as a corollary of the conscious choices mentioned above, in such a way as to challenge the existing forms of international specialization (and doubtless also some complementary changes, especially in currency structures), but also a policy of redistribution of income and of financing that is appropriate to the needs, which will be considerable, of a hastened rate of development. The widespread theory of "stages of growth" offers no important progress in this domain, because it seeks to ignore these conditions of preliminary structural change. Here too, perhaps more than elsewhere, development policy means policy in general: wage policy, price-regulation policy (especially on relations between agricultural and industrial prices), and policy on self-financing, the purpose of which is to ensure the adjustment of local saving to the needs of development finance—all these constitute elements of development policy. The themes of the respective role and place of local financing, private and public, and of the external contribution, also provide material for a great deal of work, together with the more specialized themes of fiscal policy.

Being voluntaristic in character, development policy draws upon new techniques of economic planning in order to work out the series of choices involved. Historically, these techniques were first evolved in the very special context of Soviet experience, and later in that, no less special, of the advanced industrial countries of Western Europe after the Second World War, notably in France, Holland, and Norway. Extending their application to the Third World necessitates adaptations regarding which agreement is far from having been achieved, either in the theory or the practice of these planning services.

The operation of development planning necessarily involves three complementary logical stages: (1) the definition of an overall development strategy, (2) the working out of sectoral objectives coherent with this overall strategy, and (3) the choice of projects at the elementary microeconomic level, and the definition of specific policies (on wages, taxation, financing, prices, etc.) coherent with the sectoral objectives.

The first operation has as its aim defining the nature and scope of the principal difficulties of the structural transformations to be effected, the pace and ordering of these changes, and the stages they are to pass through under the concrete conditions of a given country. These difficulties may be more or less severe, and may arise in very different ways. The chief bottleneck will sometimes be the external balance (shortage of exporting capacity or of outlets for traditional exports, excessive burden of profit transfers, etc.), sometimes public finance (difficulties of an "austerity" policy), sometimes the narrowness of markets (making it hard to establish basic industries), sometimes the structure of income distribution (problems of agrarian reform) or of prices, etc. Working out a development strategy makes it possible to determine the economic significance (the cost) of the policy choices made. The solutions proposed—usually in the form of alternatives—enable the consequences of different choices of policy to be measured, especially as regards greater or less recourse to outside aid and the different social options available (greater or less equality in the distribution of income, etc.). Working out an overall model thus helps the policy-making authority to remain coherent.

The coherence of the model, which is its chief virtue, is the result of complex operations carried out on several planes: the "physical" plane (observance of the equation between resources—production and imports—and uses—consumption, exports, and investment), the income-distribution plane (observance of the equation between income distributed and spent, between budget resources and public expenditure, between receipts from abroad and expenditures abroad, etc.), and the financing plane (observance of the equation between investment needs and the resources of local saving, public and private, reinforced by the contribution from outside). These complex operations depend mainly on planning techniques, within the context of the national account, and also on the use of mathematical macroeconomic models. The time span fixed for these plans is usually the average period (three to seven years) taken for most investments to reach maturation, but sometimes a longer-term prospect of ten to twenty years is taken.

The working-out of sectoral objectives provides a check on the total coherence of the overall model and above all enables its degree of realism to be evaluated. The choice of what are called "primary" objectives, immediately reflecting the overall strategy, governs in a fairly rigid way that of the "derived" objectives. There are complementarities to be observed which are all the more rigid because the overall strategy has imposed ceilings on imports, contributions from abroad, invest-

ments, taxation, and so on. Intelligence in the art of development then consists in choosing primary and derived objectives which are not merely coherent but also effective (in the sense that they define a stage in the constituting of an autocentered, structured economy) and realistic (that is, taking account of different constraints: natural resources, external relations, possibilities of the political and social system). Care to minimize costs within a given time-framework helps one to choose between the different possible alternatives.

Analysis and appreciation of the projects, together with working out special policies, from the third logical stage of the art of development. It is at this final stage that concrete objects are defined at the elementary microeconomic levels at which the decisions of economic life are taken, that is, generally speaking, at enterprise level. Only the centrally planned economies have, however, claimed (at one time) to come down as far as this level where all enterprises are concerned.[34] Elsewhere planners have been satisfied to work out and analyze the principal projects merely as regards size and strategic key positions. In relation to the other sectors—agriculture, trade, services, small industries, etc.—dispersed among thousands of enterprises, mostly family-run, planning has been restricted to working out special policies aimed at guiding decisions, themselves left to free enterprise, in directions conforming to the plan's objectives: policies for encouraging investment, taxation and credit policies, etc., together with the necessary contingency controls (on employment, wages, prices, etc.). It is then obviously important to make sure that these projects, when added together, fit into the framework created by objectives defined by the previous operations. As a rule this is found not to be so, and a revision of the overall and sectoral objectives becomes necessary: working over the schemes this way and that, through successive approximations it becomes possible to arrive at a proper degree of coherence. It is this last series of operations, together with the practical measures intended to ensure the effective implementation of the plan (which have to be taken at this elementary level of decision-making) that indicate how serious development planning really is.

Analysis of the projects obviously has for its first concern the provision of elements that can be added up: investments required, volume of production, wages paid out and profits realized for each project or group of projects. It is then that different technical alternatives are sometimes put forward, marked by a more or less intensive use of capital or labor. The theme of rationality in the choice of techniques has provided the material for a great many works, though in practice

the planner's margin of freedom is usually very slight. In this context, "reference prices" differing from actual market prices may be used.[35] However, agreement is far from having been reached between supporters of "light" techniques, which make use of labor on a grand scale when a country has large reserves of unemployed (as is the case with very many underdeveloped countries), and supporters of "heavy" techniques, with a higher rate of productivity.[36]

It should be added that a whole trend in development economics emphasizes strongly the analysis of projects, to which it practically reduces the planning process. This trend, dominant in liberal circles, especially in the United States and in the international organizations (particularly the International Monetary Fund and the International Bank for Reconstruction and Development), seeks the conditions of "economic optimum" in the laws of the market and of free enterprise. It reduces to practically nothing the specific character of development economics, refusing to ascribe fundamental importance to objectives of structural transformation. The rationality of choice that the optimum theory is able to offer is regarded as being the same in all circumstances, and the problem of underdevelopment and development is reduced to the mere problem of insufficient capital resources. The latter can be provided by the advanced countries, and international specialization is not questioned. Here too, though, agreement is far from unanimous, not only on optimum conditions but also on the theory and significance of the assumed respect for the laws of the market. Finally, it has been questioned whether optimum can be defined on the economic plane alone, since "choices of civilization" are made at the level of a much wider social reality.

While there is now better command of the instruments of development policy, thanks to technocratic analysis of economic mechanisms, the practice of development policy is very remote from the theoretical model I have outlined, even though it comes close to it in a formal sense. The trouble is that a break with the world market is the primary condition for development.[37] Any development policy that accepts the framework of integration into this market must fail, for it can only be a matter of pious wishes for "needful external aid," etc.[38] The context in which this policy is expressed is at best only a caricature of the plan outlined, for control of the essential relationships is not held by the local "planner." In despair, the technocrat who is a victim of the economistic ideology then agrees to new capitulations, a retreat to "realism," which means, among other things, analyzing projects within the accepted framework of profitability on the scale dictated by the world

system. The failure of planning in the Third World—which cannot be denied, since the gap between it and the center is widening—is essentially due to this refusal to break with the world market. The "theories" of development formulated by Western liberal economists and by economists of the Russian school meet on this essential point—refusal to break with the world market.[39] In the case of the Russians, this evolution reflects the impact of internal changes leading to practice in external relations which is similar to that of the West.

Is a Socialist World Possible?

Saying that development of the periphery requires the setting up of autocentric national structures which break with the world market means expressing an undeniable contradiction. Capitalism has unified the world, in its own way, by imposing upon it the hierarchy of center and periphery. Socialism, which cannot exist unless it is superior to capitalism in every way, cannot be a juxtaposition of national socialisms. It must organize the world into a unified whole without inequality, and cannot be complete until it has attained this objective. However, the road that leads to this end passes by way of the self-assertion of those nations that are victims of the present set-up, and which cannot assemble the conditions for their prosperity and full participation in the modern world unless they first of all assert themselves as complete nations.

What the fully socialist world will be like, how the national entities (if they survive) will be linked together in world unity, it is too soon for us to say or even guess at, and to try to answer these questions is to fall into utopianism. All that can be said is that certain principles can be laid down. Socialism cannot be based on the market, either on the internal scale or on the world scale. It cannot be a "capitalism without capitalists," to use Engels's expression; the evolution of Eastern Europe in that direction reflects the transitional nature of the system there—transitional, no doubt, toward a bureaucratic state capitalism. The international (or interregional) division of labor cannot be based on the market which inevitably accentuates inequalities. The forms taken by the international division of labor will for the first time really depend on the distribution of natural wealth in different parts of the world and on the mobility of people (that is, on the extent to which the national entity has survived or has withered away). Until nations have completely withered away, specialization will have to be based on the strict-

est equality. For example, as regards Africa, with its immense resources in minerals and sources of power, and its scanty population, its "natural" vocation in this setting is to specialize not in agricultural production, as it is now made to do, but in large-scale modern industry: aluminum (which is at present processed in Canada!), special steel (which, utilizing cobalt, chromium, etc., of which Africa possesses huge reserves, must increasingly replace ordinary steel), timber and timber-using industries, chemicals (using this continent's tremendous hydro-electrical resources), etc.

Breaking with the world market certainly makes no sense except in the context of an extensive territory. The social structures that were forged by an "opening-up" process centered on the external market form, as we shall see, the objective basis of the micronationalisms of the Third World of today. Challenging these structures is thus a condition for development.

Analysis of what may be the actual forms in which the transition (or transitions) of the periphery toward liberation will take place—one of the conditions for world socialism—is likewise a utopian occupation. History will show us how matters have to proceed in this matter as well. But we can say that the transformation of the rural world, for example, cannot be based either on maintenance of the precapitalist tradition, itself already greatly damaged by the very development of capitalism, or on a mere "freeing of individual energies," since the capitalist road to which this "freeing" leads is limited, peripheral, dependent—it is the actual road of the limited capitalist development of today. New forms of transition will therefore have to be conceived in connection with the evolution of internal and external relations.

Plan of the Work and Summary of Conclusions

The purpose of this book is to deal as systematically as possible with all the problems of the relations between center and periphery, that is, with the origin and development of underdevelopment.

The first two chapters deal with what seems to me to be the essence of the problem: the laws of unequal specialization as between the center and the periphery. Chapter 1 discusses the stages and forms of international specialization. I endeavor to define the concept of unequal exchange, basing myself both on criticism of the theory of international exchange and on the history of specialization (successive forms

of specialization, depending on the requirements of accumulation at the center at each of the stages of its development, influence of international flows of capital on the direction taken by this specialization at the monopoly stage). I believe I have succeeded in showing that there was a close link between unequal exchange and the formation of monopolies at the center, that consequently pre-monopoly forms of the international division of labor belong to a problematic different from that of imperialism; that nevertheless both of these different stages of international specialization depend upon mechanisms of primitive accumulation for the benefit of the center; that these mechanisms cannot be grasped only in a context of analysis confined to the capitalist mode of production, but have to be studied in a context expanded to include the relations between the capitalist formations (at the center and in the periphery); that consequently "specialization" within the center was different in nature from the specialization that counterposes the center as a whole to the periphery; and finally that this problematic necessarily rules out any sort of economism.

Chapter 2 deals with the formations of capitalism in the periphery. I show that while the capitalist mode of production tends to become the only one at the center, because it is based on the internal market, in the periphery the development of capitalism, being based on the external market (owing to the particular kind of specialization as between the center and the periphery), takes different directions. From the start, the transition of precapitalist formations integrated into the world system is a transition not to capitalism in general but to "peripheral" capitalism. The mechanisms of domination by the center (the satellite role assigned to the periphery, with distortions in favor of exporting activities and light industry, "hypertrophy" of the tertiary sector, etc., and consequent transfers of the multiplying mechanisms) make themselves felt through aggravation of the "structural" features of underdevelopment in proportion to increasing growth or, strictly speaking, the development of underdevelopment. In this way the fundamental concepts of center and periphery gradually emerge and enable us to get beyond current analysis, which is at best descriptive, displacing partial "economistic" analyses (by criticizing their theoretical basis: the theory of the "multiplier," the theory of profitability and "investment choice," etc.), and laying the foundations of a theory of the economic liberation of the nations of the Third World. This liberation, which must mean a break with the world market, inevitably challenges the social formations of the periphery, which, because they have arisen precisely out of the development of underdevelopment, result in "ob-

structions" that make inconceivable a gradual transition from the situation of a periphery motivated from outside to that of a new center which provides its own center and its own dynamic.

The next three chapters, which form the second part of the book, deal with what seems to me to be merely the domain of phenomena, of appearances, through which are revealed the essential forces that adjust the periphery to the needs of accumulation at the center. I have grouped all these phenomena into three sub-groups—monetary mechanisms, those of the conjuncture, and those of the external balance of payments.

Thus, chapter 3 deals with the functioning of money in the periphery, starting both from a criticism of monetary theory (quantitativism and neo-quantitativism) and from an analysis of the monetary systems in the periphery and the world monetary system. I think I have managed here to disperse what I shall call the "monetary illusions," meaning that set of ideas according to which the establishment of a national monetary system, accompanied by measures to control external relations, would enable a policy of development to be carried through *without* the need to challenge radically a country's integration into the world market.

Chapter 4 deals with the role of the periphery in the development of the world conjuncture. Here I try to show concretely how, through the ups and downs of the conjuncture, the periphery becomes adjusted to the center. Here too, in order to carry out this analysis, I have had to criticize the current monetary theory of the conjuncture, as well as the (even more superficial) theory of international "transmission," both of which ignore the essential dynamic of accumulation under the concrete conditions of international specialization.

Finally, chapter 5, dealing with the balance of payments, criticizes the ideology of universal harmonies which, by putting forward false theories of spontaneous adjustment, fulfills the task of concealing the problem: that of structural adjustment in conformity with the needs of accumulation at the center.

Chapter 1
Unequal International Specialization and the International Flow of Capital

The theory of international economic relations presents its problem badly, or rather, it presents a false problem. It proceeds from the assumption that the partners in international relations are "pure" capitalist economies. The context of reasoning does not differ, when analyzing international exchange in this way, from the context that is conceived when analyzing internal accumulation: in both cases the context is that of the *capitalist mode of production.* This assumption is meaningful where international exchange between "advanced countries" is being analyzed, but not where exchange between "advanced" and "underdeveloped" countries is concerned. Here we need to put ourselves in a different context of reasoning, namely, that of exchange relations between *socioeconomic formations* that differ.

What are these formations? That is the real problem. Anticipating my conclusions, I will describe them as *capitalism of the center* and *capitalism of the periphery.* The concrete socioeconomic formations of capitalism of the center bear this distinctive feature, that in them the capitalist mode of production is not merely *dominant* but, because its growth is based on expansion of the internal market, tends to become *exclusive.* These formations therefore draw closer and closer to the capitalist mode of production, the disintegration of precapitalist modes tending to become complete and to lead to their replacement by the capitalist mode, reconstituted on the basis of the scattered elements issuing from this break-up process. The concrete socioeconomic formation tends to become identical with the capitalist mode of production. This justifies Marx's analysis, and his assertion that this analysis, as set forth in *Capital,* is that of the system toward which the most advanced capitalist country of his time, Britain, was developing. The socioeconomic formations of the periphery, however, bear this distinctive

feature, that though the capitalist mode of production does indeed predominate, this domination does not lead to a tendency for it to become exclusive, because the spread of capitalism here is based on the external market. It follows that precapitalist modes of production are not destroyed but are transformed and subjected to that mode of production which predominates on a world scale as well as locally—the capitalist mode of production.

"Underdevelopment"—an inaccurate way of describing the socioeconomic formations of peripheral capitalism—thus refers to *formations* whose process of transition has been blocked.

Since *Capital* is the theory not of socioeconomic formations in general but of the *capitalist mode of production*—being, as its subtitle indicates, a critique of political economy—Marx does not provide us with a fully developed theory of accumulation on a world scale. This theory appears only in connection with *primitive accumulation*, considered as the *prehistory* of the capitalist mode of production. But this prehistory is not over and done with: it goes on, through the extension of capitalism on the world scale. Parallel with the mechanism of accumulation characteristic of the capitalist mode of production, namely, expanded reproduction, a mechanism of primitive accumulation continues to operate and to be characteristic of relations between the center and the periphery of the world capitalist system.

The theory of accumulation on a world scale is still to be worked out. Marx did not study the problem. If he had, he would not have written that British domination of India would revolutionize the mode of production there from top to bottom.[1] Lenin examined the problem, as that of imperialism, but in a limited context, namely, the new forms of accumulation on a world scale that appeared on the basis of the formation of monopolies in the capitalist center.[2] This continuing prehistory changes its form, the successive appearances that it assumes being successive modes of "international specialization" between center and periphery. Lenin perceived one moment in this process, that of the new specialization based on the export of capital to the colonies. Baran and Sweezy have carried Lenin's analysis further by studying the transformations of the system at the center and formulating the law of the tendency of the surplus to increase.[3] Frank and Emmanuel have done much to widen the scope of the debate and to define the real problem.[4] Frank has shown how, in Latin America, the prehistory of capitalism is being continued and is "blocking the development of capitalism," just as I have observed these phenomena of blocked transition in Africa. In his case as in mine, the context of analysis (though this is not always

made explicit) is that of the concrete socioeconomic formations of peripheral capitalism. Emmanuel has given us the first analysis of unequal exchange—of the mechanism of this accumulation on a world scale in one of its most general aspects. He has thus covered and advanced beyond the critique of the theory of international exchange that I put forward twelve years ago.[5]

A critique of the theory of international exchange, which is the necessary starting point for formulating the problem, inevitably leads us to go beyond its terms of reference. The following study will therefore begin with this critique, taking up my old formulation and completing it by adding Emmanuel's contribution. This will bring us to an analytical description of "appearances in the economic relations between center and periphery": the comparative dynamic of technical progress (that is, of accumulation and of productivity of labor) and of the value of labor power at the center and in the periphery (which accounts for unequal exchange), the forms assumed historically by this unequal international specialization, and the dynamic of the forces that lead the center to "conquer" the periphery ("the market question" and its historical forms). Analysis of these "appearances" leads us to the laws of accumulation on a world scale, and so to facing the real problem: the nature of the socioeconomic formations of peripheral capitalism, or, in other words, the laws of development of a capitalism based on the external market.

Before undertaking a critique of the current theory of international economic relations and sketching out the general lines of a theory of these relations, placing them in the general problematic of accumulation on a world scale (seen from the restricted angle of the problems of relations between the center and the periphery of the world capitalist system), it will be well to recall the essential facts and the significant developments relevant to this subject. Although both are extremely commonplace, it is nevertheless characteristic of current academic theory to proceed as though unaware of them, a method that leads "theory" to "specialize" in pseudo-problems, avoiding the real questions—which is essential, of course, if it is to fulfill its role as an apologetic ideology.

The development of the world capitalist system has passed through various stages. To each of these corresponds a different system of relations between center and periphery, fulfilling particular functions. From this historical standpoint we must distinguish between (1) the period when capitalism was being formed—the "prehistory" that comes

down to the Industrial Revolution of the eighteenth and nineteenth centuries, and which can be defined by the predominantly mercantile character of capitalism; (2) the period of the flowering of the capitalist mode of production at the center, marked by the Industrial Revolution, the essential domination of new industrial capital and the competitive form of the capitalist market—the "classical" period, in which the capitalist system was sufficiently formed for Marx to subject it to a rigorous fundamental analysis; and (3) the imperialist monopoly period (to employ Lenin's terms), beginning at the end of the nineteenth century.

Relations between the center in process of formation (Western Europe) and the new periphery that it formed in the mercantile period were vital for the genesis of capitalism. The commercial relations of this period were quantitatively and qualitatively a fundamental element in the capitalist system being formed. International trade between Western Europe on the one hand, and the New World and the trading stations of Africa and Asia on the other, formed at that time, quantitatively, the main element in world exchanges. The greater part of the internal exchanges taking place at the center redistributed products originating in the periphery: this was, for instance, the role played first by Italy (in particular, Venice) and the Hanse towns at the end of the Middle Ages, then by Spain and Portugal in the sixteenth century, and later, from the seventeenth century onward, by Holland and England. The center imported luxury consumer goods, products of agriculture (spices from the East, sugar from the Americas) and the crafts (silk and cotton textiles from the East). The center obtained these products through simple exchange, through plunder and through organizing production that was established for this purpose. Simple exchange with the East was always in jeopardy because Europe had not much to offer, apart from the precious metals it obtained from America. The permanent threat of a drain of bullion was so serious that all the economic teaching of the period was based on the need to oppose this tendency. The forms of production established in America provided the center with precious metals and certain luxury goods. After a period of plundering Amerindian treasuries, intensive mining enterprises were inaugurated and led to an extraordinary squandering of human resources—a condition for the "profitability" of their activity. At the same time, a slave-owning mode of production was introduced to facilitate production of sugar, indigo, etc., in America. The entire economy of the Americas revolved around these areas of development for the benefit of the center: the raising of livestock, for example, provided food for the mining and plantation areas. The "triangular trade" that began with the seeking of

slaves in Africa fulfilled this essential function: the accumulation of money capital in the ports of Europe as the result of selling products of the periphery to the ruling classes, who were then stimulated to transform themselves from feudalists into agrarian capitalists, thus speeding up the process of disintegration of the feudal mode of production.

With the Industrial Revolution, trade between the center and the periphery changes its function. This trade continues to be essential quantitatively, and to account for the major share of world trade, though it starts to decline from 1830–1850 onward. For Great Britain, down to the middle of the nineteenth century, trade with America and the East (India, the Ottoman Empire, and, later, China) was so dominant that the writers of the time consider only this type of trade when they endeavor to identify the mechanisms and work out a theory of overseas trade. For a long time after, Britain continued to serve as Europe's center for the redistribution of exotic products. The center (first Britain, then Continental Europe and North America, and then, much later, Japan) exported to the periphery manufactured goods (e.g., textiles) for current consumption. It imported mainly agricultural products coming either from the traditional agriculture of the East (e.g., tea) or—and especially—from the highly productive capitalist agriculture of the New World (e.g., wheat, meat and cotton). It was in this period that the international specialization between industrial and agricultural countries was decided. The center did not yet import mineral products from the periphery (production of which would require substantial investments and cheap means of transport), except the traditional precious metals. As new countries entered the industrial phase, their trade with Britain changed its character. At first they supplied agricultural products and received in return manufactured goods "Made in England," or exotic products that came in via Britain. Since, however, though they were industrializing themselves, their level of industrialization was uneven—and also because they were "endowed by nature" with mineral wealth that was known and exploitable, distributed in a particular way (coal and iron ore, for example)—relations of exchange of manufactured and mineral products for other manufactured and mineral products arose and developed between the countries of the center (e.g., France and Germany). Backward countries, such as Russia, remained exporters of agricultural products. Gradually, therefore, world trade became split into two groups of exchange with differing functions: exchange between the center and the periphery, and internal exchange within the center.

Up to this time there had been practically no export of capital. The

formation of monopolies was henceforth to make this possible, from the years 1870–1890 onward, on an unheard-of scale. Here too we must distinguish between foreign investments in the periphery and those destined for young countries of the "central" type (the United States and Canada, Russia and Austria-Hungary, Japan, Australia, South Africa). Neither in function nor in dynamic were these investments identical. The export of capital did not replace the export of goods: on the contrary, it stimulated it. It made possible changes in specialization by the periphery: today the periphery no longer exports only agricultural products—still less, only the products of traditional agriculture. The periphery has become an exporter of goods produced by modern capitalist enterprises with a very high productivity: oil and crude minerals make up more than 40 percent of the exports of the periphery, while goods resulting from initial processing of these materials (together with a few manufactured articles of importance chiefly for trade between peripheral countries at different levels of industrialization) account for more than 15 percent. Agricultural products—especially foodstuffs (two-thirds of the total), but also industrial raw materials, such as cotton, rubber, etc., which make up the remaining third—constitute at most 40 percent of the exports of the Third World of today, and are themselves no longer supplied by traditional agriculture: at least half of these products come from modern capitalist plantations, such as those of Unilever or United Fruit. Thus, three-quarters of the exports of the periphery come from highly productive modern sectors which are the expression of capitalist development in the periphery, to a large extent the direct result of investment of capital by the center. This new specialization in the periphery is asymmetrical, which is why the periphery does nearly 80 percent of its trade with the center, whereas the internal changes at the center have developed at an even faster pace, so that 80 percent of the foreign trade of the central countries is carried on among themselves. These internal exchanges within the center are of a different order: mainly, industrial products for industrial products.

We shall have to consider the motives, mechanisms, and functions of these exchanges, which differ from the center's exchanges with the periphery. We shall also have to consider present tendencies of the flow of capital (especially from the United States to Europe) and the development of public aid (from the advanced countries to the Third World), because the functions of these relations vary, depending on whether it is a matter of internal relations at the center or of relations between center and periphery.

Other facts, equally quite commonplace in character, need to be linked with the analysis of international economic relations. Without anticipating, I think it would be useful to keep in mind from the start (1) that exchange relations and capital flows between center and periphery have not reduced the gaps between levels of productivity and of consumption that are connected with them—on the contrary, these gaps are widening; (2) that the dynamic of progress over the past century has not been the same in agriculture as in industry—progress has been much faster in industry—and that there are "industrializing industries"[6] which are at higher levels than others; (3) that, though the terms of trade of the periphery did not worsen until about 1880, after that they all deteriorated, both as regards exports from traditional low-productivity agriculture and those produced by modern capitalist enterprises with high rates of productivity, in mining, oil and agriculture; and, finally (4) that the level of wages (in the capitalist sector, of course) is not the same in the periphery as at the center—and that this divergence significantly appeared following the transition of capitalism at the center from the competitive to the monopoly phase.

A theory of international relations must embrace all these facts and developments. The current theory of comparative advantages does not enable us to do this at all: on the contrary, the scientific elements present in Ricardo have been lost in the neoclassical pseudo-theory. This pseudo-theory allows itself to make whatever assumptions it likes (assumptions that conflict with the facts) and thus to become a mere *jeu d'esprit* that refuses to take account of the facts; and this degeneration, due to its function as an apologetic ideology of universal harmonies, is closely linked with the subjective theory of value. There is no worked-out Marxist theory of international economic relations but only (1) some pointers given *en passant* in *Capital;* (2) a fundamental analysis of relations in the imperialist period, made by Lenin and carried further by Baran and Sweezy; and (3) elements of a task of construction still to be completed, on aspects of which work has been done by some contemporary Marxists, notably Emmanuel and Palloix.

THE THEORY OF INTERNATIONAL EXCHANGE

The Classical (Ricardian) Theory

The "classical" theory of international economic relations is basically a theory of international trade in commodities.[7] It claims that it is to the interest of each of the partners in an exchange to specialize, because this will raise the level of total income, in terms of use values, in both countries. This theory belongs to a definite context, that of the capitalist mode of production, as we shall see in the assumptions it makes about wages.

For the British classical economists, labor is the source of all value. Interest, profit, and rent are, for them, not irreducible quantities but only different forms of what Marx was to reveal as "surplus value"—that is, the share of the value of the products of labor which does not return to the workers but goes to the owners of the land and of real, or money, capital. This is why Ricardo sees the exchange of two equal amounts of labor crystallized in two products with differing use values for the partners to the exchange. However, whereas in the sphere of internal exchange the law of value implies equivalence of the exchange values of two commodities containing the same quantity of labor, in the sphere of external exchange the commodities exchanged contain unequal quantities of labor, reflecting uneven levels of productivity.[8]

To take Ricardo's well-known example, Portugal has more advantages than England for the production of both wine (in which 80 hours of labor suffice to produce a unit of this commodity, as against 120 in England) and cloth (in which 90 hours of labor produce in Portugal what 100 hours produce in England). But it has comparatively more advantages for producing wine than for producing cloth, since:

$$\frac{90}{100} > \frac{80}{120}$$

It is therefore to Portugal's interest to specialize in the first of these two lines of production and get its cloth from England, even though producing this cloth at home would cost Portugal less than England in absolute terms. The assertion that imports can be advantageous in terms of use values even if the product imported could be made locally more cheaply forms the main contribution made by Ricardo, as compared with Adam Smith.[9]

We must not make this theory say more than it does say. All it

enables us to state is that *at a given moment,* the distribution of levels of productivity being what it is, it is to the interest of the two countries to effect an exchange, even though this be unequal. Let us take Ricardo's example again, inverting the terms so as to bring it closer to reality:

Table 1
Quantities of Labor Contained in a Unit Product

In England	In Portugal	Relative advantage held by England over Portugal
one of cloth = 80 hours	120 hours	1.50
one of wine = 90 hours	100 hours	1.11
Internal exchange ratio one of cloth = 0.89 of wine	= 1.20 of wine	

The international rate of exchange, necessarily situated between the two internal ratios, may prove to be, for example, one of wine for one of cloth.

Let us suppose that Portugal agrees to specialize in wine, and obtains its cloth from England. If the total available labor power in Portugal amounts to 1,000 hours and the consumption of wine remains fixed at 5 units, then Portugal will devote 500 hours' labor to producing wine for its own consumption. It will thus have 500 hours which it can employ either to produce its own cloth (500:120 = 4.2 units) or to produce 5 extra units of wine with which to obtain 5 units of cloth, gaining 0.8 of a unit of cloth through the exchange. But, although it has gained in use values, it will have put in 500 hours in order to obtain 5 units of cloth which England has produced in 400 hours. Its own Portuguese one hour of labor is exchanged for 0.8 of an English hour: an unequal exchange. The inequality of the exchange, in terms of exchange value, reflects the lower productivity of labor in Portugal.

This is why, if the inequality in productivity of labor is not natural but historical, the comparative advantage is modified when the backward economy makes progress. If Portugal is able, by modernizing, to attain the productivity of England in all fields—to produce cloth in 80 hours and wine in 90—it is worth its while to modernize. For then it will produce its 5 units of wine in 450 hours and will dispose of 550

hours with which to produce 6.9 units of cloth (550:80). No further exchange will occur, since costs are identical in both countries, but Portugal will have gained, in comparison with the previous situation, 6.9 - 5 = 1.9 of a unit of cloth.

If Portugal now agrees to specialize in wine, and devotes all its efforts to catching up with England in this field, what will it gain? Henceforth it must devote 450 hours to producing 5 units of wine for its own consumption (5 x 90); it has 550 hours at its disposal, with which it will produce 6.1 units of wine (550:90) that will enable it to acquire 6.1 units of cloth. For the internal exchange-ratio in England has not altered (1 of cloth = 0.89 of wine), and in Portugal it has continued to be higher than unity (1 of theoretical cloth—that is, if this were produced using the country's highest technique—is exchanged for 1.34 of wine, instead of 1.20), so that the terms of trade, unit for unit, remain unchanged. The choice is not as good for Portugal because the potential progress in the cloth industry (reduction of cost from 120 to 80 hours) is greater than in the production of wine (from 100 to 90 hours).

It is thus more to the country's interest to develop those branches of production in which the greatest progress is possible, and to subject its choices, where foreign trade is concerned, to the priority requirements of this kind of development. The trading options thus decided on will have to be modified at each phase of development. This is certainly an aggressive conception of international relations, but it corresponds both to history and to the present situation, and will not cease to do so until, in place of a world system of nations, we have a fully integrated socialist world.

Reality is obviously more complicated than Ricardo's schema of two products exchanged between two countries under exceptional conditions (absence of transport costs, and production with constant costs). The introduction of these three realities into the schema complicates its presentation without, however, altering its essential content. In the case of production with decreasing (or increasing) costs, account would need to be taken of the fact that the relative advantage is modified by the degree of international specialization. Defenders of the latter have never denied that if increased production of an article for which a country is relatively at a disadvantage should result in so great a fall in the cost of this article that it becomes an article for which the country is relatively at an advantage, then it is to that country's interest to protect this "infant industry," at least for the time being.[10] The same applies to transport costs that modify a relative advantage.[11] As for the assump-

tion of several commodities and several countries, this has been introduced subsequently without any effect on the general frame of argument.[12]

The underlying assumption: the question of prices and money wages.[13] The real difficulty the theory of comparative advantages comes up against is due to the fact that those enterprises which engage in trade with the outside world become directly aware, not of the relative cost of goods, but of their prices.

Ricardo saw this difficulty and overcame it. At the beginning he assumes that hourly wages, expressed in terms of gold, are the same in both countries. Under these conditions, the price of Portuguese wine is lower than the price of English wine. The prices are in fact proportional to the quantities of labor devoted to the production of the goods. It is not possible to say that the price of a given commodity is proportional to the volume of the direct wages that it contains, for a part of the labor included in the product takes the form of capital (labor congealed in a product). But it *is* possible to say that the general price level is proportionate to the money wage.[14] This being the same in both countries, prices are the same in both if real costs are the same. The English therefore buy their wine from Portugal. The unemployment that results from this, in English production, makes possible a reduction in wages and therefore in prices, to the point at which cloth is less dear than in Portugal. In the latter, the increasing production of wine raises the level of wages and prices, including the price of cloth.

Ricardo actually describes in his schema the mechanism of perfect international integration, that is to say, the mechanism by which the prices of the same commodities, at first different between one country and another, eventually become the same. He shows how, through the channel of exchange, a uniform price for the same commodity is ultimately established in all the world's markets.

This proof might seem to be vitiated from the start by the assumption of an identical nominal wage in both countries, but the assumption is quite logical: at an earlier stage of his argument, Ricardo laid down the mechanism by which the two countries were integrated in a single gold market. Let us assume that in country A the currency unit, the franc, equivalent to one gram of gold, costs one hour to produce, whereas in country B the currency unit, the pound, likewise equivalent to a gram of gold, costs two hours of labor. For all commodities, the costs of production in terms of labor are the same in both countries. There is therefore no real reason (that is, a reason based on a compara-

tive advantage) why exchange should take place. Nevertheless, a flow of exchange does begin, because gold is itself a commodity that can be produced more cheaply in A. Gold-producers in A buy their goods in B. In A, therefore, production of gold continues, and production of commodities increases in B. Wages and prices fall in A and rise in B. Production of gold then stops being profitable in B. In the final equilibrium the situation is: A, which supplies both countries with gold, produces more gold but fewer commodities, while B's production of commodities has increased, though it no longer produces any gold. Prices have become identical in the two countries.

Since prices are the same in both countries, and real wages should be the same (being equal to "subsistence"), it is perfectly logical to suppose that nominal wages are the same. It is at a subsequent stage of his argument that Ricardo introduces a second reason for exchange: differences between real costs and so (because wages are the same) between prices. Between the beginning and the end of this process, real wages have not altered in the two countries, because nominal wages and prices have moved in the same direction. This presumes that the wage-earners are the only consumers in the country. If it is sought to distinguish between subsistence goods and luxury goods, a second complication will be brought into the schema: wages and prices will no longer be proportionate, but they will nevertheless continue to move in the same direction.

This mechanism explains how the advantage derived from exchange with another country comes in the end to the capitalists of the two countries concerned, their mass of profit increasing, in terms of use values. Exchange ultimately modifies the structure in a direction favorable to profit, and speeds up the process of capital accumulation in both the partner countries. Ricardo's theory is thus bound up with the basic assumption that real wages are identical (and equal to "subsistence"). The advantage of specialization is that the value of labor power can be lowered in the two countries involved, and therefore the rate of surplus value—and on that basis the rate of profit—can be raised. This assumption makes sense only because Ricardo argues in the context of two "pure" capitalist systems in relation to each other. He is quite unaware of this, because he cannot distinguish between a mode of production and a social formation, and because he sees in the capitalist mode of production an eternal type, that of pure rationality.

From Science to the Ideology of Universal Harmonies

The determination of exchange conditions. In Ricardo's example there was quite a margin of indeterminacy within which the exchange ratio could be fixed. This margin shrinks when we bring in *several* countries and *several* products, but it does not vanish.

In the assumption of the exchange of two products by two countries, the exchange ratio may be such that only one of the two countries derives an advantage from specialization—the other one gaining nothing, but losing nothing either—or else such that both countries benefit. In the case of the exchange of several products between two countries, the two partners must absolutely gain something by it, the greatest gain being obtained by the country that pays for all its imports by the smallest amount of exports.[15]

Whatever the exact position of the exchange ratio in the margin of indeterminacy, in the case in which several products are exchanged Ricardo's successors have established the following two propositions: (1) in a case where there is disproportion between the economic stature of two partners (as measured by their national incomes), the lesser of them derives the bigger advantage; and (2) in a case where there is disproportion between the relative importance of two products being exchanged (as measured by the place of each of these products in its producer's national income), the bigger advantage is gained by the country that supplies the more important commodity.

Final elimination of indeterminacy requires that relative demands be brought into Ricardo's schema. The terms of trade might well be placed between the two limits of the margin of indeterminacy by bringing in the relative strength of the partners: the results obtained would be diametrically opposite to those described above. In case of disproportionate stature of the partners, the terms of trade would be favorable to the stronger of the two, and in cases of disproportionate importance of the two products exchanged, the terms of trade would favor the partner supplying the less important commodity. The two sets of results do not contradict but rather complement one another. By bringing in first the stature of the partners and the number and importance of the goods exchanged, we narrow the area of indeterminacy. We then find the situation of the terms of trade within this narrowed space by bringing in relative demands.

Historically, the elimination of indeterminacy was not effected in this way. It was John Stuart Mill who, by applying the quantity theory

of money, brought in the element of reciprocal demands.[16] Let us place the terms of exchange anywhere within the margin of indeterminacy. At these prices the balance of payments may, by pure chance, achieve equilibrium, or it may not. In the latter case, an international flow of gold will take place. All prices will rise in one country, including the prices of its exports, while in the other country prices will fall. The terms of trade will be modified in the direction needed to restore the equilibrium of the balance of payments. I reject this theory based on quantitativism (the theory of the "price effect"). It should be noted, moreover, that if two paper currencies are assumed to exist, the disequilibrium of the balance causes an alteration in the rate of exchange, the effects of which are similar to those of the "price effect." It may be that no equilibrium is achieved; in any case, it is not the price effect (or rate-of-exchange effect) that constitutes the essential force tending to restore equilibrium (without necessarily succeeding), but the alteration in the size of the reciprocal demands ("income effect").

Mill's proof actually contains a second assumption: that the equilibrium terms of trade are situated within the margin of indeterminacy. Let us suppose that instead they lie outside this margin. Given this assumption, the relative advantages are altered. In this case the terms of trade ultimately determine the number of products exchanged. The variety of exports may then be not the cause but the effect of the terms of trade, the latter being determined by forces external to the real conditions of production (which determine a priori the products to be exchanged and the extreme limits of their terms of trade), such as the forces that influence the balance of payments or the relative strengths of the partners in the exchange. Here again, quantitativism seems bound up with the subjective conception of value, since prices are henceforth determined by relative demands, independently of costs.

Even with this assumption the theory remains an optimistic one. If two partners of differing stature exchange several products, at the terms of trade as they actually are, the biggest advantages fall to the smaller partner, to the one who supplies fewer goods and the one who supplies goods that are relatively most important to its own economy.

The positive approach.[17] The labor theory of value was abandoned by political economists as a whole after 1870. The writers who thereafter studied the problem of international exchange refused to reduce all costs in different factors to cost in labor alone, and so to compare the levels of productivity of the partners in an exchange. They noted that market prices are not proportionate to the amounts of labor alone

included in a product. They declined to undertake a thorough analysis such as Marx had made in order to determine the laws of the transformation of labor value into prices. They claimed to begin analysis directly by observing what positive prices are. Relative advantage is thus to be measured by the ratio between costs in money. These costs depend on the relative rewards of the different factors and of the relative use made of them in terms of quantity.

This theory evokes the same comments as Ricardo's. It needs to be added, though, that it is based henceforth upon a vicious circle, and deprives the principle of comparative costs of its validity. The vicious circle on which Taussig bases his argument is due to the fact that the most profitable technique (the most efficient combination of factors) depends upon the relative rates at which these factors are rewarded. These rewards themselves vary according to the quantitative use made of the factors (their supply being assumed as given: the endowment with factors is assumed, which is itself untrue, since supply of the factors also depends on their prices), and so, in the end, upon the methods of production that are utilized. Such vicious circles are inevitable in all theories of general equilibrium. It results from this that the bearing the principle has is more restricted than in Ricardo's theory. In the classical theory the order of the movements of commodities was established. Here, every change in the movement of commodities alters the comparative advantages because it affects the relative prices of the factors. We are thus caught in a vicious circle: each nation should specialize in whatever it has the biggest advantage in, knowing that this is so because it possesses in plenty (and so relatively cheaply) a factor that is appropriate to this particular line of production.

Abandonment of the objective theory of value has thus already transformed the nature of the theory of comparative advantages. This abandonment causes the theory henceforth to bear an obviously apologetical-ideological character. "Advantage" no longer really possesses any meaning: it is not contained a priori in objective reality (comparative productivities). Empirical positivism is then obliged to call upon a series of false theories (quantitativism) or assumptions favorable to its arguments (no "perverse price effects"), or else on mistaken notions ("the factors of production—capital and labor—are given," whereas this expression is really meaningless: it is the social division of labor between Department I and Department II that is the content of these so-called "natural" endowments). Degeneration into apologetic ideology has continued with the modern formulation in subjectivist terms.

The approach in terms of substitution.[18] Although the labor theory of value was dropped quite soon, for a long time thereafter most neoclassical writers retained the theory of comparative advantages in the Ricardian form, without taking account of the fact that this theory postulated an objective conception of value. With Haberler, Lerner, and Leontief the theory finally came to assume its present form: the cost of one product is defined as equivalent to the renunciation of another product. The compromise of Bastable, Marshall, Edgeworth, and Taussig, which assumed that in each country the cost of each product was made up of wages, profits, interest, and rent, in stable proportions[19] (so that the problem of adding up the subjective utilities of different persons was avoided), was given up. I shall not recall here the details of the construction of the "collective indifference curves" obtained on the basis of the equivalence in utility of variable quantities of two goods. Nor shall I recall the details of the construction of the "production possibility curves" obtained on the basis of the technical possibilities of producing variable quantities of two goods with a constant stock of factors of production. In any event, the international exchange ratio was now situated between the two exchange ratios "in isolation" determined by the slopes of the tangents of the indifference curves at the points where these curves are themselves tangential to the production-possibility curves. In fact, at these points the rate of substitution of the products is the same for the consumer as for the producer. The necessary and sufficient condition of international exchange is then that the exchange ratios in isolation be different between one country and another.

Here too, as with the Ricardian approach, the margin of indeterminacy is eliminated by the intervention of reciprocal demands. Here too, adoption of the subjective conception of value leads, as in Taussig's case, to a vicious circle, since the commodities that are at an advantage are those for which the most plentiful factor is used, and the rewarding of the factors itself depends upon external exchanges. To this must be added the difficulties of looking at the matter subjectively. Collective indifference curves have been constructed on the basis of individual curves, by adding the utilities of different persons. In order to avoid difficulty it has been assumed that external trade does not change the distribution of income (which is not so), or it has been assumed that tastes like those of an individual have been attributed to a nation. Built on these foundations, the alleged "maximization of income" by exchange is extremely weak and its ideological character

obvious.[20] The theory of comparative advantages is no longer useful: by the mere fact of its existence, exchange is advantageous to everyone!

A Fundamental Contribution: Unequal Exchange

The hypothesis of a capitalist mode of production implies mobility of labor (equalization of wages between one branch of capitalist economy and another, and between one country and another) and of capital (equalization of the rate of profit). This hypothesis, while certainly abstract, is the frame within which both Ricardo and Marx reason—and quite properly, since their concern is to study the capitalist mode of production. Marx, who is clearly aware of the nature of his problematic, for this very reason does not study the question of international exchanges, since it has no special significance within this problematic. International trade is no different from internal trade—from interregional trade, for example. It is therefore only marginally that Marx makes a few observations on the possible consequences of imperfect mobility of labor or capital, while emphasizing the analogy between this "international" problem and the effects of a similar imperfection inside the nation.[21]

Ricardo does not have this firm grasp of his problematic—which is why he does deal with international trade, though ambiguously. As an empiricist, Ricardo notes the relative immobility of labor and capital. This "fact" is beyond question—as are the facts that no socioeconomic formation of capitalism at the center can be reduced to a pure capitalist mode of production, that the development of capitalism at the center is unevenly advanced in different countries, and that consequently the organic compositions, productivities of labor and values of labor power are not identical between one country and another. But Ricardo had no right to invoke at the same time, in the same argument, these "facts" which belong to the plane of concrete social formations, and the assumption that provides the framework of his thinking—namely, the capitalist mode of production in a pure state.

Nevertheless, this is what he does. This leads to a theory that—since it accepts that real wages are equal (being equivalent to "subsistence") in all countries—can base international exchange only upon the immobility of capital. It is one of the achievements of Emmanuel that he has revealed this aspect of Ricardo's theory:

> As regards mobility of the factors, Ricardo is interested only in its effect, namely, the equalisation of their rewards. This is why he speaks only of the equalisation of profits, the only equalisation that can be affected by immobility of the factors, particularly that of capital, since the equalisation of wages is always ensured from below, through the working of the demographic regulator, whether or not there is mobility of the labor force. The non-equalisation of profits is for Ricardo a necessary and sufficient condition for the working of the law of comparative costs, and this is an important point which does not appear to have been remarked upon until now.[22]

If capital is mobile and if we assume identical wages (equivalent to subsistence), exchange takes place only if productivities are different. This can only happen through one of two causes: (1) different "natural" potentialities (with the same amount of labor, capital, and land it is possible to produce more wine in Portugal than in England, owing to the climate), or (2) different organic compositions, reflecting unevenness in the development of capitalism. In that case, however, wages are not equal, because "there enters into the determination of the value of labour power an historical and moral element."[23] If the two factors, labor and capital, were perfectly mobile, there would be no trade.[24] Emmanuel is quite right to draw attention to the fact that specialization represents only a relative optimum: "The absolute optimum would be, not for Portugal to specialise in wine and England in cloth, but for the English to move to Portugal with their capital, in order to produce both wine and cloth."[25]

One can observe two forms of international exchange in which the products are not exchanged at their value. In the first case, wages are equal (rates of surplus value are equal), but, because the organic compositions are different, the prices of production—which are implied by the equalization of the rate of profit—are such that the hour of total labor (direct and indirect) of the more advanced country (characterized by a higher organic composition) obtains more products on the international market than the hour of total labor of the less developed one. The following example illustrates this case:

Table 2

	c Constant capital	v Variable capital	m Surplus value	V Value	p Profit	p Price of production
A	10	10	10	30	8	28
B	16	7	7	30	9	32

A = the less advanced country (c/v = 1)
B = the more advanced country (c/v = 2.3)
Rate of surplus value = 100 percent
Average rate of profit = 17/43 = 40 percent

Emmanuel is quite right when he says that in this case, although exchange does not ensure the same quantity of products for an hour of total labor, it is nevertheless not unequal because "unequal" exchanges of this order are a feature of internal relations within the nation, prices of production being "an element that is immanent in the competitive system."[26]

It remains true that in this case exchange is unequal, all the same, and that this inequality reflects the inequality in productivity. It is important to note that the two equations here, which describe the conditions of production of one and the same product with different techniques—advanced in B, backward in A—are equations in terms of value: in hours of labor of A and B respectively, considered in isolation. In terms of use values, the quantity of the product cannot be the same in A and B; for the level of the productive forces is higher in B. With 30 hours of total labor (direct and indirect), equipped as this is in B, we get, for instance, 90 units of the product, whereas with the same number of hours of total labor equipped as it is in A, we get only, say, 60 units. If A and B are integrated in the same world market, the product can have only one price: the price of the more advanced country. In other words, 30 hours of A's labor are not worth 30 hours of B's: they are worth 30 x 60/90 = 20 hours. Additionally, if the product enters into working-class consumption and has only one price (10 francs the unit), 30 hours of labor in B earn 90 x 10 = 900 francs, or 30 francs an hour, whereas in A these 30 hours are paid for at the rate of 20 francs an hour. If real wages are to be the same in A and B although their productivity differs, the rate of surplus value will have to be lower in A so as to make up for the lower productivity. The appor-

tionment between variable capital and surplus value, instead of being equivalent to 10/10, must be equivalent to 15/5 (10 x 90/60).

On this plane, the criticisms of Emmanuel made by Bettelheim seem to be fully justified. Exchange *is* unequal in this case: (1) mainly because the productivities are unequal (this inequality being linked with different organic compositions) and (2) only secondarily because the different organic compositions determine, through the working of the equalization of the rate of profit, prices of production that differ from values in isolation. It must also be said that the problem is made still more complex by the rates of surplus value that are necessarily different in A and B (in order to ensure an equivalent real reward of labor in A and B). The prices-of-production equation will then be:

Table 3

	c	v	m	V	p	P
A	10	15	5	30	6	31
B	16	7	7	30	6	29

A = less advanced country (c/v = 0.7)
B = more advanced country (c/v = 2.3)
Rate of surplus value A = 33 percent
Rate of surplus value B = 100 percent
Average rate of profit 12:48 = 25 percent

Nevertheless, prices on the single world market will not be proportionate to these theoretical prices of production. The prices of the product in A will be divided by 90/60, the ratio between the productivities, and will thus be 21, as against 29 for B.

This is not Emmanuel's argument, however, since the author of *Unequal Exchange* himself rejects this case. Yet it is at this point that Bettelheim's arguments are aimed. We thus get a "dialogue of the deaf." Actually, Emmanuel's argument is based on a different case, in which the organic compositions of the products exchanged are similar. In this case, production techniques at the same level of development are assumed (same organic composition), and at the beginning of the argument, equal wages are also assumed (same rate of surplus value). Exchange is strictly equal.

For example, if the coefficient of capital is on the order of 3.5, the rate of surplus value 100 percent, and the rate of profit 15 percent (in

relation to the capital installed), there will be similar production formulas in A and B (described below in B). Let us suppose that for some reason wages are unequal—that is, the rates of surplus value differ—while the production techniques and productivities remain the same—for instance, that wages in A are only one-fifth what they are in B, with the same productivity. We then have the following formulas:

Table 4

	C Capital installed	c Constant capital employed	v Variable capital	m Surplus value	V Value	p Profit	P Price of production
A	70	10	2	18	30	14	26
B	70	10	10	10	30	14	34

The increased rate of surplus value in A raises the average rate of profit of the entity A + B from 14 to 20 percent. The country with a low wage level (A) receives in international exchange, for a total quantity of labor (direct and indirect) of the same productivity, less than its partner (B) receives for the same quantity (exactly 76 percent). Emmanuel properly describes this kind of exchange, *and this kind alone,* as really unequal exchange, as he shows that the difference in rates of profit between one country and another that would have to be allowed in order to make up for the inverse difference in wages would need to be very great.[27] In the previous example, for exchange to be equal with wages, in A only one-fifth of wages in B, the rate of profit in A would have to be 26 percent, as against 14 percent in B.

What Emmanuel unfortunately does not say—and what constitutes the strong argument in support of his view—is that this second case actually corresponds to the essential situation as it exists in reality. The exports of the Third World are not in the main agricultural products from backward sectors with low productivity. Out of an overall total of exports from the underdeveloped countries of $35 billion (in 1966), the ultramodern capitalist sector (oil, mining and primary processing of minerals, modern plantations—like those of United Fruit in Central America or Unilever in Africa and Malaya, etc.) provides at least three-quarters, or $26 billion. For these products the comparative formulas of A and B are fully significant. If these products were pro-

vided by the advanced countries, with the same techniques—and so the same productivity—the average rate of profit being around 15 percent on capital installed, and the capital employed representing one-seventh of this (replaced after five to ten years, seven being the average), the rate of surplus value 100 percent (which therefore corresponds to a capital coefficient of the order of 3.5)—their value would be $34 billion. The transfer of value from the periphery to the center under this heading alone is considerable, since it would amount to $8 billion, at a realistic estimate.

As regards the other exports of the Third World, provided by the "backward" sectors with low productivity (agricultural produce provided by the traditional peasantries), are matters less clear? Here the differences in the reward of labor—one cannot speak of wages in this context—are accompanied by a lower productivity. How much lower? It is all the harder to say, because the products are not usually comparable: tea, coffee, cocoa, etc., are produced only in the periphery. It can be suggested, however, that rewards are proportionately much lower in the periphery than are productivities. An African peasant obtains, for example, in return for 100 days of very hard work every year, a supply of imported manufactures whose value amounts to barely 20 days of simple labor of a European skilled worker. If this peasant produced with modern European techniques (and we know, concretely, what this means, from the modernization projects drawn up by agronomists), he would work 300 days a year and obtain a product six times larger in quantity: his productivity per hour would at best be doubled. The exchange is thus very unequal in this case: the value of these products, if the reward of labor were proportionate to its productivity, would not be of the order of $9 billion (which is what it is), but 2.5 times as much, that is, around $23 billion, and the transfer of value from the periphery to the center would be about $14 billion. It is not surprising that this transfer is here proportionately much greater than that which arises from the products of modern industry: in the latter case the content of imported capital goods is much greater, whereas this is negligible where the products of traditional agriculture are concerned, in which direct labor represents almost the whole of the value of the product.

Altogether, then, if exports from the periphery amount to about $35 billion, their value, if the rewards of labor were equivalent to what they are at the center, *with equal productivity,* would be about $57 billion. The hidden transfers of value from the periphery to the center, due to the mechanisms of unequal exchange, are of the order of $22

billion—twice the amount of the "aid," both public and private, received by the periphery. In this connection it is certainly not exaggerated to talk of "the plundering of the Third World."

The imports that the advanced countries of the West receive from the Third World represent, it is true, only 2 or 3 percent of their gross internal product, which was about $1,200 billion in 1966. But these exports from the underdeveloped countries represent 20 percent of *their* product—about $150 billion. The hidden transfer of value due to unequal exchange is thus around 15 percent of this product; this is far from negligible in relative terms, and is alone sufficient to account for the blocking of the growth of the periphery and the increasing gap between it and the center. The contribution that this transfer constitutes is not negligible, either, seen from the standpoint of the center which benefits from it, since it comes to be about 1.5 percent of the center's product. This is not the main thing, however, from the standpoint of the center: what matters is that this transfer is vital for the giant firms that are its direct beneficiaries.

What, then, are the "reasons, whatever they may be," why it is possible for wages to be unequal, though productivity is equal? The answer to this question inevitably brings in the nature of the socio-economic formations of central and of peripheral capitalism, which here confront each other. We shall return to this vital question.

The Limits of Economism

An economic theory serves only to analyze appearances, that is, to study the mechanisms whereby the capitalist mode of production functions. By unveiling the essence of the capitalist mode of production, Marx transcended economistic "science," subjecting it to a fundamental critique, and showed what must be the foundations of the only possible science, that of history.

It is because they remained economists, and therefore alienated in their way of thinking, that Smith and Ricardo sought to work out an economic theory of international exchange. In order to do this they had to assume the existence of a pure capitalist mode of production for both partners in an exchange. Let us, however, do homage to the historical intelligence they showed, and which their successors were to lack. Smith saw the function of external trade that corresponds to the beginnings of capitalism—the generation of a surplus restricted by the narrowness of the internal agricultural market—just as Ricardo saw its

function for his time—the generation of a surplus hindered by the diminishing returns of agriculture. It is to Palloix that we are indebted for our ability to see clearly in this field.[28] Marx, as Palloix points out, synthesized Smith and Ricardo. If he went no further in this field, this was not because he did not see the problem but because he *did* see it. Since the theory of relations between different social formations cannot be an economistic one, international relations that belong precisely within this context cannot give rise to an "economic theory." What Marx says about these relations is in accordance with the questions of his time. Transfer of surplus from the periphery to the center was not at that time very substantial: the periphery in those days exported products of a traditional agriculture with a productivity too low for the surplus to amount to much. It is not the same today, however, when 75 percent of the exports from the periphery come from modern capitalist enterprises.

The neoclassical form of the economistic theory of exchange, based on the subjective theory of value, represents, here as elsewhere, a step backward in comparison with Ricardian economism. It can no longer be anything but tautological, since it has lost sight of the production relations. As Palloix shows (following Maurice Byé), it makes exchange relations result "solely from the chart of consumer indifference"—which is absurd.[29] Byé has always emphasized that Ricardo's comparative costs are based on unequal productivity between one country and another, whereas for the neoclassical economists they result from the form taken by "indifference curves." He has shown how this reversal ruined the theory by preventing it from linking the "short-term advantage" of specialization with the "long-term advantage." Just as Nogaro has exposed the vicious circle and impotence of quantitativism, Byé has exposed the futility of the neoclassical theory of comparative costs. He went no further than this, though, for he too was trying to construct an economic theory of international relations.

And this is why the modern theory of international trade relations can at best juxtapose, without integrating, various analyses of mechanisms: the functioning of the large interterritorial unit, the multipliers of external trade, etc. At the extreme, with the Heckscher-Ohlin theorem, we arrive at absurdity: the assumption of the same techniques (and so of the same level of development) is made, in contradiction with that of "differing endowment with factors." A false problem is thus presented, and conclusions are drawn from it that are contrary to historical fact (exchanges reducing the gap and bringing closer together the rewards of the factors), in order eventually to suggest, with

Eckhaus, a political line that reinforces the domination of the center over the periphery. The theoretician has no right to indulge in such vagaries, for his "science" then becomes an abstract game based on absurd assumptions which he sets up arbitrarily.

The real question is to discover the actual functions of international trade, as it has been and as it is, and to see how these functions have been fulfilled. It is not certain that Marxists have always seen what the problem is: for example, according to Bukharin,

> Corresponding to the movement of labour-power as one of the poles of capitalist relations is the movement of capital as another pole. As in the former case the movement is regulated by *the law of equalisation of the wage scale,* so in the latter case there takes place an international equalisation of the rates of profit.[30]

Bukharin bases his concept of a world economy on this twofold extension on a world scale of the two fundamental laws of the capitalist mode of production. He does not see that the world capitalist system is not homogeneous, that it cannot be assimilated to the capitalist mode of production. Lenin's eulogistic preface to the book forbids us to suppose that this is just a "simplification" of Bukharin's own. As soon, however, as one sees everything as taking place on this plane of the capitalist mode of production, one loses sight of unequal exchange.

It was Rosa Luxemburg's great merit to have seen that relations between the center and the periphery depend on the mechanisms of primitive accumulation, because what is involved is not the economic mechanisms characteristic of the internal functioning of the capitalist mode of production, but relations between this mode of production and formations that differ from it. Preobrazhensky wrote in the same spirit about these exchanges, saying that they are "the exchange of a smaller quantity of labour by one system of economy or one country for a larger quantity of labour furnished by another system of economy or another country."[31] When that happens, unequal exchange is possible.

The dominant economistic theory, inspired by the Soviet Union, marks a step backward, as Palloix has clearly realized. He sets out the history of the debate about "international values." Goncol, Pavel, and Horovitz claim that "the value of the products supplied by the underdeveloped countries is determined by that of the advanced countries, sector by sector throughout production, and this value is practically zero, because the advanced countries would be able to produce for nothing a product that specialisation has nevertheless assigned for

production to the under-developed countries."[32] This argument will not stand up, for 75 percent of the exports from the periphery come from modern enterprises with high productivity, and the rest—mainly exotic agricultural products—simply cannot be produced in the advanced countries. It is understandable that it is a Rumanian economist, Rachmuth, who has come out against this view, as Palloix has shown—even though he unfortunately invokes another economistic theory, namely Ricardo's. International exchange, based on comparative costs, he says, intensifies unevenness of development if "the advanced country specialises in activities that are susceptible to the biggest possible increase in productivity, whereas the less developed country is confined to specialising in the sectors in which increases of productivity are very limited."[33] This is only partly true, since the specialized production of the periphery involves modern products to a considerable degree. Once again, the economistic theory of comparative advantages does not answer the question: why are the underdeveloped countries restricted to this kind of specialization? In other words, what are the functions of international exchange?

The economistic theory of comparative advantages, even in its scientific Ricardian version, has only a very restricted validity: it describes exchange conditions at a given moment, but it does not allow at all for preference for some specialization based on comparative productivity at a given moment of development, that is, for improvements in productivity. It is not false, within this restricted context, but it is impotent, for it cannot account for the two essential facts that characterize the development of world trade in the capitalist system: (1) the more rapid development of trade between advanced countries which are similar in structure, and in which, therefore, the distribution of comparative productivities is similar—a development more rapid than that of trade between advanced countries and underdeveloped ones, in which the distribution of comparative productivities is nevertheless more diverse; and (2) the successive and varying forms assumed by the specialization of the periphery, and especially its present forms, by which the periphery supplies raw materials that are mostly produced by modern capitalist enterprises with high productivity.

To explain these two phenomena it is necessary to take account of (1) the theory of capitalism's inherent tendency to expand markets and (2) the theory of the domination of the periphery by the center.

Analysis of exchanges between advanced countries and underdeveloped ones leads to the observation that exchange is unequal as soon as labor of the same productivity is rewarded at a lower rate in the

periphery, as is the case today. This *fact* cannot be explained without bringing in the policy (economic policy, and policy in general) followed by the capital that dominates in the periphery, as regards organization of the surplus of labor power. How capital organizes proletarianization in the periphery, how the specializations that it imposes there give rise to a permanent and growing surplus of labor power in relation to demand—these are the real problems that have to be solved if the fact in question is to be accounted for. Some studies have been made, from this angle, of this essential problem of the policy pursued by the capital dominating the periphery. One of the most elaborate and convincing of these is that devoted by Arrighi to the history of the development of the labor market in Rhodesia.[34] On the basis of this history, Arrighi subjects to fundamental criticism the theory of W. A. Lewis on the dynamic of the supply of and demand for labor in the underdeveloped economies.[35] Lewis postulates a potential surplus of labor power in the "traditional" sector ("concealed unemployment")—productivity being low in that sector—a surplus that is progressively reduced as the "modern" high-productivity sector develops. It is this surplus that makes it possible to reward labor at such a low rate in the modern sector, which has an unlimited supply of labor power at its disposal. Arrighi shows that, in fact, the opposite occurred in Rhodesia: the superabundance of labor power in the modern sector is *increasing*—being greater in the 1950s and 1960s than it was in the early days of colonization, between 1896 and 1919—because this superabundance is *organized* by the economic policy of the state and of capital (especially through the "reservations" policy). It is thus not the "laws of the market" that explain the way wages have evolved in the periphery (which is the basis of unequal exchange) but quite simply the policies of primitive accumulation practiced there. A study of the policies of proletarianization carried out by capital in the periphery is thus essential in analyzing relations between the center and the periphery. This leads us outside the realm of "economics" in the economistic sense of the term, in order to reintegrate economic facts in their real sociopolitical setting. It forbids us to construct a "purely economic," and so "economistic," theory of the exchanges between the center and the periphery.

If this is so, then it becomes impossible to construct a doctrine of international exchange between planned socialist economies at different levels of development by basing this doctrine on comparative advantages. In connection with the dispute between the Rumanians and the Russians over the interstate complex on the lower Danube, Palloix points out that Rumania advocated an economic policy aimed at

subordinating external exchange to the priority requirements of internal development, and that this policy was sharply criticized by the Russians, who appealed to Ricardo's economistic theory. He shows the similarity between this dispute and that which exists between the advanced countries and the underdeveloped ones integrated in the same world capitalist system.[36]

This priority for internal development results from the existence of nations, which the economistic theory ignores. Though the capitalist system has united the world, it has done so on the basis of unevenly developed nations. The socialist system is a system of socialist nations, and will probably long continue so. It will be superior to the capitalist system only if it approves national policies that give priority to autocentric development, this being the condition for eliminating the impact that the fact that nations exist has upon the economy: the latter must continue to be "inter-national" until it becomes a truly "world" economy. Only when all nations have reached the same level of development will it be possible for a new doctrine of specialization to be worked out. Any attempt to construct this doctrine too soon, on economistic foundations, while the problem of the inequality of nations is still with us, can only serve to justify practices similar to those followed by the "central" capitalist countries in their relations with the periphery. And any attempt to construct it on other foundations can only be utopian, the essential conditions that would make possible specialization that is *not* unequal being absent as yet.

THE FORMS OF INTERNATIONAL SPECIALIZATION AND THE TERMS OF TRADE

Does the theory of comparative advantages stand up to the test of facts? Stated in this empirical fashion, the question is unhappily formulated. As always, it is impossible to "measure" statistically the advantage (or disadvantage) that the underdeveloped countries derive from international exchange, whether one looks at the matter from the angle of labor value or from that of utility value. If we confine ourselves to an empirical comparison between the costs of production of the products exchanged, we come up against difficulties of another order. Statistics tell us the cost of production of a commodity that was actually produced, but they do not tell us what its production in a

given locality *would* cost if there were no specialization or international exchange.

We can nevertheless start from "appearances": the "structural" features of world trade (size of the economies involved, degree of specialization of the external trade of the different countries, etc.); their historical development (the comparative evolution of terms of trade and technical progress over the last century); and the apparent results of specialization (consumption of manufactured goods and income per capita in the different countries). The theory of the historical forms of international specialization will then have to integrate these apparent facts, in other words, to explain them in the light of a theory of international exchange that is a theory of exchange relations between different social formations (here, the formations of capitalism at the center and in the periphery) and not a theory of exchange inside the capitalist mode of production.

Structural Features of World Trade

Starting from what is most external, most obvious, we note first of all the striking (and growing) disproportion between the economies concerned. The advanced world (North America, Western Europe, the Soviet Union and East European countries, Japan, Oceania) contained in 1938 about 800 million people, as against 1.3 billion in the "three continents" (including China, which then numbered 400 million). It possessed 70 percent of the world's income, and the average ratio of income per capita was 1 to 4 (China included or excluded). Thirty years later this ratio is 1 to 6 (China being excluded, as no longer forming part of the world market), the proportion of the world's population living in the underdeveloped countries (China still excluded) having increased from 53 to 58 percent, their proportion of world production having fallen from 20 to 18 percent.[37]

Second, we note the greater specialization of the exports of the underdeveloped countries—a specialization in the export of certain "basic products," usually accompanied by a relative concentration of suppliers and customers.[38] We must, however, avoid falling into some common oversimplifications. In the first place, the underdeveloped countries have no monopoly of exports of basic products (that is, primary products, of agricultural and mineral origin); there are rich countries which export basic products (timber from Scandinavia, wool from Australia, etc.) and there are certain primary commodities pro-

duced mainly by advanced countries (wheat, for instance). We shall see that the way the prices of these products behave is different from that of the prices of the underdeveloped countries' exports. The identification of underdeveloped countries with countries that export basic products results from an oversimplification that leads to a theoretical error.[39] The distribution of the "level of specialization" within the group of underdeveloped countries is higher in proportion to the smallness of the country (Cuba as compared with India, for example) and to the height of its income per capita and its degree of integration into the world market (measured, for example, by the percentage that exports represent in its total production). This means, too, that the integration of these countries into the world market is expressed in specialization that increases as time goes by. This degree of integration into the world market can in turn be estimated and measured.[40] Crude observation, recording the ratio between exports and gross internal product, tells us little, for there is a very wide range in the two groups of countries: there are advanced countries which seem to be little integrated into the world market (the United States, the Soviet Union), and others that are highly integrated into it (Great Britain, Belgium), just as the spectrum of the underdeveloped countries extends from Yemen and Afghanistan (whose degree of integration, measured in this way, is even lower than that of the least integrated of the advanced countries) to Zambia and the West Indies (whose degree of integration is higher than that of the most integrated of the advanced countries).

Going beyond this first appearance, we find that the average propensity to import (in relation to the product) is higher for the underdeveloped countries as a whole if we relate this propensity not to their gross internal product but to the share of the latter that is marketed. Indicators of this "degree of commercialization" of the economy can be constructed, especially by observing the ratio between the circulation of money and the volume of production. It then becomes fairly clear that this greater (corrected) propensity to import reflects the commonplace fact that the commodity economy of the underdeveloped countries is largely turned toward the outside world (extraverted), whereas the economy of the advanced countries is autocentric.

These initial conclusions have been drawn from a comparison between the total external trade of each of these countries taken separately. What concerns us, however, is the trade between the advanced countries as a whole and the underdeveloped countries as a whole. Accordingly, the trade carried on by the advanced countries among themselves, like that carried on among the underdeveloped ones,

vanishes from the picture, leaving only the trade *between* advanced and underdeveloped countries. This consideration has extremely significant results: the relative importance of the products exchanged is much greater in the underdeveloped economies than it is, by comparison, in the advanced economies. This follows from the fact that the bulk of the trade of the advanced countries is carried on among these countries themselves. Whereas the advanced countries do about 80 percent of their trade among themselves and only 20 percent with the underdeveloped countries, the countries of the periphery do 80 percent of their trade with the advanced countries.[41]

At this point, the apparent disorder settles into a pattern. For the advanced countries we clearly observe a strong negative correlation between the country's economic stature and the ratio between exports and production. At the head of the list stand all the "little" countries (Scandinavia, the Netherlands, Eastern European countries, etc.), in the middle are the big powers of Western Europe, and at the end are the United States and the Soviet Union. This deserves to be kept in mind, since it reflects capitalism's inherent tendency to expand the market, which the theory of comparative advantages overlooks. For the underdeveloped countries this element of economic stature is largely concealed by the degree of development based on external demand. Taken as a whole, however, the underdeveloped countries appear as highly integrated into the world market.

The increase in exchanges between advanced countries being faster than that in exchanges between these countries and underdeveloped ones, the proportion of world trade represented by exchanges of manufactures for manufactures is increasing. Thus, the matrix of world exchanges evolved between 1950 and 1965 as shown in this table:

Table 5

Direction of Exports, 1950-65 (in $ billion current)[42]

Country of origin	Country of destination				Total	
	Underdeveloped countries		Advanced countries			
	1950	1965	1950	1965	1950	1965
Advanced countries	11	27	25	96	36	123
Underdeveloped countries	5	8	12	26	18	34
Total	18	34	36	123	54	156

The share represented by internal exchanges within the advanced world thus increased from 46 percent of world trade in 1950 to 62 percent in 1965. To this evolution there corresponds the growing share taken by exchanges of manufactured goods, which constituted, for the period 1960–1965, about 70 percent of the trade of the advanced countries and 54 percent of world trade. For 1966 the world distribution of trade was as follows (in billions of dollars):[43]

Table 6

	Exports, f.o.b.	Imports, c.i.f.	Balance
1. *Advanced countries*			
U.S.A.	30.3	27.3	+ 3.0
Europe	82.5	93.0	-10.5
Japan	9.2	8.8	+ 0.4
Canada, Australia, New Zealand, South Africa	14.7	16.4	- 1.7
Total	136.7	145.5	- 8.8
2. *Underdeveloped countries*			
Oil-producers	10.2	5.3	+ 4.9
Others	24.8	31.0	- 6.2
Total	35.0	36.3	- 1.3
(Latin America)	(10.7)	(9.5)	(+1.2)
(Middle East)	(6.8)	(5.4)	(+1.4)
(Africa)	(7.4)	(6.8)	(+0.6)
(Asia)	(8.1)	(11.6)	(-3.5)
3. *Communist countries*			
Eastern Europe, U.S.S.R., China, N. Korea, N. Vietnam, Cuba	5.7	6.6	- 0.9
	1.6	1.8	- 0.2
Total	7.3	8.4	- 1.1
Grand Total	181.4	192.0	-10.6

The share of the advanced capitalist countries accounts for 75 percent of world trade, that of the underdeveloped countries 19 percent, and that of the Communist world 4 percent. Now, the trade of the advanced countries mainly involves manufactured goods, as is shown by the following table:

Table 7
Structure of Exports,
Annual Average for 1960–1965 (in $ billion current)[44]

	Advanced countries		Underdeveloped countries	
	Amount	Percentage	Amount	Percentage
Foodstuffs, drink, tobacco	13.9	14.3	8.4	28.9
Agricultural and mineral raw materials	11.6	11.9	6.8	23.5
Oil products and mineral fuels	3.7	3.8	9.1	31.4
Manufactured goods	68.0	70.0	4.7	16.2
Total	97.1	100.0	29.0	100.0

Faced with this series of plain facts, we are forced to conclude that the theory of comparative costs is too simple and too general to account for reality in all its complexity.

The structure of the trade of the advanced countries and the tendency of trade between the advanced countries to increase more rapidly cannot be explained without referring to the inherent tendency of capitalism to expand markets. The specialization of the underdeveloped countries cannot be explained without referring to the theory of the functions of the periphery in the world capitalist system, since, in fact, the exports of the underdeveloped world are made up not mainly of agricultural products from the traditional agriculture of these countries, but of raw materials and agricultural products originating from modern, high-productivity sectors—mines, plantations, oil wells—whose productivity is comparable to that found in the advanced countries: a plain fact that the theory of comparative costs too often forgets to take into consideration.

Now, the theory of comparative advantages, when applied to some of these groups of facts relating to world trade, leads to conclusions of limitless optimism. The underdeveloped countries, which figure in world trade as the "little" partner which pays for all its imports with some products that occupy a bigger place in its economy, are the great beneficiaries of international specialization, from which they are said to derive even more benefit than the advanced countries!

Nevertheless, external trade does not make up for the inequality in consumption of manufactured goods. This inequality has increased with the increasing specialization of the world and its division into industrialized and nonindustrialized countries. Industrialization really does bring wealth: the level of consumption of manufactured goods depends on the level of local production of these goods.[45] The only apparent exception, offered by rich countries that are large importers of manufactured goods (the "White Dominions," Denmark, etc.), is not really an exception, because they not only have a substantial industrial production of their own but also obtain a considerable supplement of manufactured goods, thanks to their rich and specialized agriculture. It is clear that the underdeveloped countries cannot replace their nonexistent production of manufactured goods by increasing their imports. In order to consume, per capita, the equivalent of the world average, they would have to multiply their imports by 40, and therefore their exports by 40. Such a development is not possible; even if the agricultural and mineral countries could do this, the industrial countries would not want such an excess of products. For some underdeveloped countries the volume of imports of manufactured goods is approximately equal to that of the advanced countries. Here, too, however, consumption remains very low, because of the absence of *local* production of these goods, which in the advanced countries continues to be the main source of supply.

Evolution of the Terms of Trade

The classical theory of comparative advantages has to be looked at from a static standpoint: at a given moment, costs of production being what they are, it is to the interest of a country to specialize in the production for which it is relatively best placed. But this theory claims to prove more than that. It claims to show that specialization enables all countries to benefit from the technical progress realized elsewhere in the world.

Let us see what happens in relations between "industrial" and "agricultural" countries. Let us suppose that prices are fixed at the level of production costs, and that technical progress then takes place in the industrial countries. The production costs—and thus the prices—of manufactured goods fall relatively to the prices of agricultural products. The terms of trade improve for the agricultural countries. This is how these countries obtain larger and larger quantities of industrial goods,

while still supplying the same quantity of agricultural products: this is how they benefit from progress realized elsewhere.

The crude facts mentioned above (the marked correlation between consumption and production of industrial products) refute the ideological optimism of this theory. To interpret them we must examine the comparative evolution, during the last hundred years, of the terms of trade, on the one hand, and, on the other, progress in the exported production of the advanced and of the underdeveloped countries (this production not being necessarily identifiable with industrial production and agricultural or primary production).

The evolution of the net barter terms of trade over the last century is as follows:[46]

Table 8

	Ratio of prices of raw materials to prices of manufactures in world trade	Ratio of prices of imports to prices of exports for Great Britain
1876–1880	147	163
1881–1885	145	167
1926–1930	118	120
1931–1935	93	101

In 1939 the underdeveloped countries were able to purchase, with the same quantity of primary products, only 60 percent of the manufactured goods they had bought in 1870–1880. In gold terms, the value of the trade in basic products in 1936–1938 was 2.2 times as great as in 1876–1880, whereas that of manufactures was 2.3 times as great. Parallel with this, the volume of trade in basic products had quadrupled, while the corresponding figure for manufactures had multiplied by only 2.5 or 3. This shows the worsening in the terms of trade for the underdeveloped countries, since the gold price of their exports had fallen by 45 percent, while that of the exports of the industrial countries had fallen by only 21 percent.[47]

A fuller series of figures is available, those for Great Britain's terms of trade given by Imlah (with 1880 taken as 100):[48]

1801–1803:	245	1879–1886:	98
1803–1808:	225	1886–1894:	105
1843–1848:	118	1894–1905:	116
1848–1856:	110	1905–1913:	118

It is also established that the ratio between the index of industrial prices and that of agricultural prices fell steadily in the United States between 1850 and 1910. Here are the figures:[49]

1850:	1.41	1890:	1.01
1860:	1.08	1900:	1.00
1870:	0.94	1910:	0.81
1880:	1.07		

As regards the most recent period, this breaks down very clearly into two sub-periods. From the Second World War through the Korean War, the terms of trade actually improved for the underdeveloped countries. But the period of great prosperity that the contemporary advanced world entered upon after that time has been marked by a severe worsening of the terms of trade, which, depending on the particular products exported by the underdeveloped countries, has ranged from at least 5 to 15 percent, and possibly 8 to 25 percent.

Synthesizing the available information, Bairoch has put forward, for the period 1953–54 to 1962, marked by a continual decline in the price of raw materials, an estimate of the worsening of the terms of trade at about 10 percent for the underdeveloped countries as a whole, while from 1962 to 1967 these terms of trade did not, in his view, alter very much.[50] Jalée estimates this worsening at 19 percent for the Third World between 1954 and 1965.[51] The United Nations Conference on trade and development held at New Delhi in 1968 estimated that between 1961 and 1966 the worsening of the terms of trade meant a loss to the underdeveloped countries equivalent to 38.4 percent of all the public aid they had received.[52] Taking 1928 as 100, the import capacity per capita of the countries of Latin America, excluding Venezuela (matters being different for this country, a big oil-producer), was in 1955 down to 37 and in 1965 down to 32.[53] For the countries of UDEAC (the customs and economic union of ex-French Central Africa), the loss corresponding to the worsening in the terms of trade between 1955 and 1967 represented 174 billion G.F.A. francs, or 20 percent of the value of their current exports during that period.[54] Examples could be multiplied indefinitely.[55]

These results argue against the "dynamic" thesis of comparative advantages—unless technical progress has been more rapid in the

"primary" branches whose products are exported by the underdeveloped countries. In that case the theory could remain valid, and it would be the advanced countries that—thanks to international specialization—along with the primary-producing countries, have reaped the advantages of technical progress. In the opposite case—that is, with progress more rapid in the production exported by the advanced countries—it would need to be explained by what mechanism the countries specializing in primary production have been deprived of the benefits of specialization.

Two observations need to be made. First of all, the worsening with which we are concerned does not relate to basic products in general but to products exported by underdeveloped countries, for prices of basic products exported by advanced countries have not declined.[56] Secondly, this deterioration is not characteristic of the period before 1880. Imlah's series shows that the world as a whole did indeed benefit from the progress made by Britain between 1800 and 1880. It is only from that date onward that the movement whereby this industrial country's terms of trade were worsening has been reversed. This is an important point to be considered.

The preliminary question that must be answered, if we are to discover whether the evolution of the terms of trade outlined above is "normal" or not, is the following: has progress been more rapid in the branches whose products are exported by the advanced countries than in those whose products are exported by the underdeveloped countries?

How is economic progress to be measured? If the nominal rewards of the "factors" (including profit) had remained stable, it would suffice to compare prices at different periods. But this is not the case. The economists who have tackled this problem have therefore measured the net real production per worker in each branch at different periods. Is this method sound? It may well be that an industry that uses fewer workers uses more capital. But the means of production themselves have to be produced. Does the displacement of labor from ultimate to intermediate production ensure an overall gain?

To settle this point we need to consider the economy as a whole. For the economy as a whole, production per capita is the sole criterion of progress. Leaving external relations out, the real capital that is employed more intensively is created on the spot by the producers themselves. The increase in net production per capita, parallel with the more intensive use of capital per capita, simply means that by allocating the total population in a different way (assigning more manpower to the production of means of production and fewer to that of consumer

goods), a larger overall quantity of consumer goods is obtained. This is merely a translation of Böhm-Bawerk's proposition that by "lengthening the production process"—that is, by resorting to the "previous" (in reality, simultaneous) production of intermediate goods—ultimate production is increased. It can certainly be checked, if we look at the economy as a whole, whether the increase in ultimate production per capita has proceeded parallel with more and more intensive use of capital.

The first step, then, is to compare capital per capita with income per capita.[57]

Table 9

	Capital per capita (in arbitrary units)	Income per capita (in arbitrary units)
U.S.A.		
1880	678	1,247
1922–29 (average)	1,775	1,718
Great Britain		
1865	1,420	530
1928–35 (average)	5,350	1,230

The proposition seems proved, and this is supported by the following table of international comparisons:

Table 10

	Capital per capita (international units, 1913)	Income per capita (international units, 1913)
U.S.A.	5,160	1,191
Great Britain	3,590	966
Argentina	4,680	800
France	3,060	629
Hungary	1,110	220
Japan	460	128

The countries using capital most intensively are also those whose ultimate production per capita is greatest. This means only that accumulation of capital has proceeded more rapidly than increase in income.[58]

Examples could be multiplied and methods of observation and measurement refined, using, for example, the "capital-output ratio" so often encountered in writings on this subject, and the same conclusion would be reached: technical progress is (or, more precisely, has been until very recently) "capital-using."[59] This means that the relatively greater use of capital constitutes an additional expense that is less than the saving in direct labor. This conclusion ought not to occasion any surprise. The entrepreneur who has recourse to the more intensive use of capital does this *only* because the extra expense is more than made up for by the saving in wages. Conversely, if in some branch of production there has been an increase in production per capita, it is because more capital has been used. This reflects an intensification in the use of capital which is the condition of a degree of technical progress. This observation thus enables us to see net production per worker as a good index of progress, which makes it possible to approach with assurance the study of the comparative development of industry and agriculture in a country where rewards (wages and rates of profit) are more or less the same between one branch and another.

What do we learn from a comparison between the long-term progress in agriculture and industry respectively within a single economy? Here are some figures on the subject:[60]

Table 11
Income Per Capita in International Units

			Increase percent	Annual growth rate
U.S.A.	(1850)	(1935)		
agriculture	298	669	121	1.0
industry	737	1,683	127	1.0
Great Britain	(1867)	(1930)		
agriculture	581	827	42	0.6
industry	418	1,151	175	1.6
France	(1860–69)	(1930)		
agriculture	435	500	15	0.2
industry	468	1,373	193	1.8
Australia	(1886–87)	(1935–36)		
agriculture	678	1,408	107	1.5
industry	368	1,461	294	2.9

The classification in order of speed of progress is characteristic. Progress in all countries has been faster in industry—the most rapid progress in agriculture, in Australia, being about half the rate of industrial progress there. Even in the United States, where progress in agriculture has been remarkable, the faster pace of progress in industry has been very marked since 1935.

The generally faster advance of industry likewise emerges from the distribution of capital among the different branches of the economy:[61]

Table 12
Evolution of the Accumulation of Capital
(in international units per capita)

Income per capita	Agriculture	Other activities
1st group: about 500 Japan, 1913 Scandinavia, 1880	100	400
2nd group: 1,000–2,000 Great Britain, 1865 Italy, 1913	100–300	700–1,400
3rd group: 3,000 Great Britain, 1885 Germany, 1913 France, 1913	300–400	2,300–3,400
4th group: 4,000–5,000 United States, 1913	300–500	3,400–5,100

Accordingly, when we move from the first group to the fourth, we find that the capital invested in agriculture has multiplied from 3 to 5 times, while the capital invested in industry, trade, building and railways, taken together, has multiplied from 7 to 11 times. This shows once more that progress has been "capital-using," and that there has been a very close correlation between the intensity of use of capital and the level of productivity.

As regards the present period, the schema of technical progress seems to be undergoing profound change. Progress is no longer "capital-using":

Table 13
Evolution of the Ratio Between Capital and Production[62]

United States			Great Britain	
Years	Processing industries	Extraction industries	Years	National economy
1880	0.54	1.16	1875	3.51
1890	0.73	1.36	1895	3.72
1900	0.80	—	1909	3.80
1909	0.97	1.80	1914	3.40
1919	1.02	2.30	1928	3.53
1929	0.89	2.14	1938	2.68
1937	0.74	1.57	1953	2.55
1948	0.61	1.34		
1953	0.59	1.26		

The reversal of the century-old evolution of this ratio reflects the beginning of the scientific revolution and present-day technique. The latter, based on automation, is now causing the "residual factor" (science) to appear as the factor tending to become the essential one in technical progress, while the extensive factors (labor and capital) of the traditional production function contribute only a diminishing share.[63] This revolution affects, of course, only the great advanced countries: it began in the United States in the 1920s, in Britain in the 1930s, and it is now under way on the Continent. It explains, among other things, why in the underdeveloped countries, where an industrial accumulation of the "classical" type is still taking place, the capital-output ratio tends to get heavier, whereas in the advanced countries it is getting lighter; it is already often higher in some underdeveloped countries than in a number of advanced ones. We shall come upon this vital phenomenon again later: it indicates that the unequal international specialization of the future, now taking shape, will be very different from what we have known up to the present.

From all these observations of the century-long development of technical progress, can we deduce some indications regarding comparative progress in the export branches of the advanced and the underdeveloped countries? If, in the advanced countries, during the classical accumulation process, agriculture has progressed less rapidly than industry—in countries where mechanization *has* penetrated the countryside—it is obvious a fortiori that progress in the export industry

of the advanced economies has been greater than it has in the traditional export agriculture of the underdeveloped countries, where mechanization is still unknown. Proof of this is given by a growing divergence between production per capita in industry (always, necessarily, modern in character) and in agriculture, a divergence that is growing faster in the underdeveloped countries than in the advanced ones. We shall have occasion to examine more precisely the significance of this much-commented-on phenomenon, examples of which are plentiful.[64]

It remains true that the underdeveloped countries are not mainly exporters of agricultural products coming from their traditional agriculture. We must therefore compare the progress made (1) in the industries of the advanced countries that export to the underdeveloped countries, (2) in the extraction industries (oil and other minerals) that export from the underdeveloped countries, (3) in the modern plantation agriculture of these countries, and (4) in the traditional export agriculture of these countries. This can be done if we can compare the capital-output ratio for each of the four groups mentioned (since we cannot trace the evolution of the organic composition of capital). We must also take care to estimate in the same way the capital invested, on the one hand, and the product (value added: reward of labor and capital) on the other. As for capital, estimates in current values can be accepted as homogeneous, because capital goods are supplied almost exclusively by the advanced countries. As for the product, however, we must keep in mind that, with equal productivity, wages are lower in the underdeveloped countries, and that part of the profit realized in these countries is transferred to the center, by way of the underestimation of the prices of products through the worldwide equalization of the rate of profit.

All things being equal, homogeneous comparisons ought to reduce the estimates of the capital-output ratios in the underdeveloped countries. By how much? If, with equal productivity, real wages in the underdeveloped countries are only one-third of what they are in the advanced ones, then in order for the average rate of profit before equalization to be 30 percent (as against 15 percent in the advanced countries), and for wages to represent 30 percent of the value added, the capital-output ratios of the underdeveloped countries must be divided by 2 so as to be comparable with those of the advanced countries. Now, in the processing industries of the United States, which contribute a valid specimen of the exports of the advanced world, the capital-input ratio is of the order of 2—whereas it is less than 3 in

current estimates for the oil and mining industries of the underdeveloped countries, less than 1.5 for modern plantation agriculture, and practically nil for traditional agriculture; or, on the average (weighted by the relative importance of each of these groups of products in the exports of the underdeveloped world), of the order of 1.8, in current terms, for the export sectors of the periphery, and, in comparable terms, less than 1. We are therefore fully justified in concluding that progress in the export activities of the advanced countries has in general been faster than in those of the underdeveloped ones.

According to the theory of comparative advantages, the terms of trade should therefore have improved for the exporters of the underdeveloped countries, thus enabling these countries to profit by the quicker progress achieved in the advanced industrial countries which supply them with manufactured goods. Yet this has not happened. While some of the mining activities of the underdeveloped countries, for example, may have experienced a very rapid rate of technical progress, nothing justifies our supposing that this progress has been more rapid than for industry as a whole in the advanced countries. Yet here too the terms of trade have worsened. On the other hand, no worsening of the terms of trade is to be observed where several similar lines of production are concerned in the advanced countries.[65]

The Worsening of the Terms of Trade

Analyzing demand. According to the subjectivist view of value, price is determined by demand, and by demand alone, regardless of any evolution in the cost of production. Some present-day economists attempt to explain on this subjectivist basis the mechanism of the worsening of the terms of trade for the underdeveloped countries. They claim to establish theoretically, and to show in reality, that the demand—and therefore the price—of "primary" products has undergone a systematic decline. The reason for this is said to be that human progress makes possible the satisfaction first of vital (food) wants, and then of other wants, the demand for which therefore grows more rapidly. It should be noted that this theory is the opposite of that theory of "diminishing returns" by which the evolution of the terms of trade was said to be favorable to agricultural products because of the increasing imbalance between human wants and limited resources.

Some economists have given their subjectivist arguments a still more subtle form. Answering Bauer and Yamey, Triantis alleges that eco-

nomic development always entails a relative expansion of the "tertiary" sector, because development is expressed in intensified inequality of income, and the demand associated with the tertiary sector (education, leisure, etc.) increases with inequality.[66] The development of the underdeveloped countries would mean that the increase in the world's income was going, proportionately, more to these countries than to those that had previously become developed, advanced countries. On the average the world's demand for luxury goods would suffer a relative decline. This relative decline would cause the terms of trade to become unfavorable for countries producing luxury goods—that is, the advanced countries. Conversely, the worsening of the terms of trade for basic products is said to result from the increasingly uneven development of the world, a course of development in which the backwardness of the more backward countries is aggravated. Triantis adds that such development of the underdeveloped countries that has occurred, although at a less rapid pace than that of the advanced countries, increases the inequality of distribution inside them, so that the propensity to spend on luxuries is growing faster in these countries than the propensity to spend on articles of prime necessity, and this contributes to reducing the demand of food products as compared with other goods, thus rendering the terms of trade more and more unfavorable to the poor countries.

A superficial look at the facts might seem to support this thesis. When world income increases, the exports of industrial countries increase more than those of agricultural countries. Similarly, when demand increases in the same proportions in the agricultural countries and in the advanced ones, the imports of the former increase much more than those of the latter.[67] This is said to be due to the fact that the extra demand is directed toward industrial goods more than toward foodstuffs. The underdeveloped countries, which produce very few industrial goods, are obliged to seek these elsewhere.

This whole way of looking at the problem lies open to severe criticism. The argument, which might be acceptable where foodstuffs are concerned, is certainly not acceptable in relation to the other primary products, raw materials for industry (minerals like copper, agricultural products like cotton or rubber, etc.), the demand for which is bound up with that for manufactures. Moreover, the income elasticities of these exports are very high. Yet the terms of trade have worsened for *all* the underdeveloped countries, whether they supply food products (tea, coffee, sugar, etc.) or raw materials for industry (rubber, cotton, minerals, etc.). Finally, if the theory were sound, its effects should have

been observable since the beginning of the nineteenth century. But this is not so: the terms of trade *improved* for the underdeveloped countries until 1880—from which some writers have sought to derive justification for the thesis of diminishing returns.

Hicks tried to explain the improvement of the terms of trade for the underdeveloped countries until 1880, and then the reversal of this situation, despite the evolution unfavorable to the demand for foodstuffs which should have continued through both periods. He pointed out that in the nineteenth century productivity increased in the British export industry, whereas in the twentieth century in the United States it has increased by substituting home-produced goods for imports. In short, over a century, the cost factor has acted in a direction opposite to the demand factor. But this is only a hypothesis that needs to be proved—and the increase in American imports of raw materials refutes it.

The crucial objection arises from the fact that in the whole of this analysis the law of supply and demand is made to overreach itself. This law certainly tells us that price falls when demand declines, if income remains the same. But this is not the case here, since the increase in demand for goods other than foodstuffs, caused by progress, proceeds parallel with an increase in income. Other theories of the same type, based on analysis of demand, have been put forward, notably by Nurkse, Singer, and Kindleberger; and Emmanuel has shown that none of them holds water.[68]

Analyzing the comparative evolution of wages. Raul Prebisch is probably the first economist to have taken his stand on different grounds, by analyzing the comparative evolution, over the century, of technical progress and of the rewards to factors.[69] He regards as correct the assumption that technical progress has been more rapid in the manufacturing industry of the advanced countries than in the primary production of the underdeveloped ones. This assumption constitutes, indeed, the essential condition for Prebisch's investigation. Were it not so, the problem would not arise, for the worsening of the terms of trade for the underdeveloped countries would then be normal, proceeding parallel with the comparative evolution of technical progress. Prebisch's analysis is based on the comparative evolution of prices in the advanced countries and in the underdeveloped ones.

The benefits of technical progress can find expression in two ways: either prices fall, money incomes remaining the same, or money incomes rise, prices remaining the same. If, in both types of country,

prices fall as a result of progress, then changes in the terms of trade merely reflect the uneven speed of this progress. The same is true if incomes in the two types of country rise with productivity. It is *not* the same if in one type of country progress brings about a fall in prices, while in the other it brings about a rise in income without any fall in prices. The brief schema set out below serves to represent what happens.

Initial situation:

Table 14

Price of basic products	Price of manufactured goods	Terms of trade for the underdeveloped countries
100	100	100

Let us suppose that the rate of progress achieved by industry comes to 50 percent, as against 20 percent in primary production. Assuming a normal course of development, we then get:

Table 15

Price of manufactured goods	Price of basic products	Terms of trade
50	80	160

Given my alternative assumption, however, we get:

Table 16

Price of manufactured goods	Price of basic products	Terms of trade
100	80	80

The terms of trade have worsened for the underdeveloped country, whereas they should have improved.

Prebisch claims that this is just what has happened in international trade relations. He explains it by the behavior of wages in the course of the cycle. In Europe, during each period of prosperity, wage-earners have obtained increases in wages, made possible by the increase in productivity. The inflexibility of the nominal wage has prevented these incomes from falling during phases of depression. In the primary-producing countries the constant surplus of labor supply has prevented these incomes from sharing in the general prosperity.

Prebisch's view, adopted by Emmanuel, explains the worsening in the terms of trade by the steady increase in the wage level in the advanced countries alone. It is not to be confused with the views of Singer and others, based on analysis of demand.[70] It matters little that Prebisch wrongly identifies the exports of the underdeveloped countries with exports of basic products. His argument would be equally valid if this idea were absent, for his explanation is based not on the nature of demand but on the evolution of wages.

If this explanation is accepted, ought we not to go further? What is, ultimately, the reason why the supply of labor is always excessive in the "primary-producing" (meaning the underdeveloped) countries? Prebisch tells us that it is technical progress that releases labor power from primary production. That is certainly true. But technical progress operates in exactly the same way in manufacturing industry.

It seems to me that it is enough to show the nature of the socio-economic formations of peripheral capitalism to see that this permanent surplus of labor supply is a commonplace phenomenon there. These formations are distinguished by the importance of their rural reserves in process of disintegration, which make the principal contribution to the labor market. In the formations of "central" capitalism, these reserves do not exist.[71]

This is the main thing. It still needs to be added, though, that in the advanced countries, although the supply of labor power was relatively less excessive than in the underdeveloped ones, progress was not reflected, down to about 1880, in stability of prices and increase of wages. Throughout the nineteenth century prices declined at the center of the world system.[72] Progress was thus reflected in Europe in falling prices for a whole century, contrary to Prebisch's thesis. What is more, in the world outside Europe a steady increase in prices took place all through the nineteenth century, which seems to go directly contrary to Prebisch's thesis. True, this steady price-rise ran parallel with a steady worsening in the rate of exchange. This worsening may have been caused

by reasons external to the price mechanism—by permanent disequilibrium of the balance of payments, for example. In this event, the deterioration of the rate of exchange would have been not the consequence but the *cause* of the rise in prices. To discover whether or not progress influenced prices, we must study the evolution of the price level as expressed in currency of constant value. In this case it might be possible to discover that in the nineteenth century progress was reflected in the underdeveloped countries too by a tendency for prices to fall. Unfortunately, there are no price indices for most of these countries for that period. The calculations I have made for India from 1861 onward, and for some other underdeveloped countries for more recent times, tend to show that the model of the underdeveloped countries is no different from that of nineteenth-century Europe: progress is reflected there by a fall in prices.[73]

These observations impel us to bring in a new factor which appeared about 1880–1890: the transformation of capitalism at the center, the appearance of monopolies. It was this monopolization that caused the economic system to resist the downward movement of prices. This is the reason why, all through the nineteenth century, technical progress was translated into a steady decline in prices, whereas after 1880–1890 we find a steady rise in prices, and an even faster rise in incomes (wages and profits together), as the reflection of progress. It was monopoly that made possible the rise in wages, competition being henceforth manifested otherwise than through reductions in prices. This is why the worsening in the terms of trade for the underdeveloped countries began with the rise of monopolies, imperialism and the "aristocracy of labor." This last phenomenon, which is due to the different evolution of wages, is not characteristic of all periods. During the first two-thirds of the nineteenth century, wages in Europe (including Britain) were still "poverty" wages, close to subsistence level. Prebisch, like Emmanuel, fails to see this profound and essential connection between the worsening of the terms of trade for the underdeveloped countries and the phenomenon of the aristocracy of labor which monopoly made possible from 1880 onward.

It is not necessary to bring in an analysis of the conjuncture, as Prebisch does. An analysis of the nature of the socioeconomic formations, however, always contributes something new to our understanding. In the formations of "central" capitalism the predominant income is capitalist profit, whereas in those of peripheral capitalism it is often the rent drawn by the landowners, the class that predominantly benefits from integration in the international market. In a capitalist

economy, profits constitute the elastic income that undoubtedly responds most to variations in the conjuncture. The exceptional profits realized in a period of prosperity are reinvested. The release of labor power due to technical progress is partially compensated for by the extra demand for labor power for the production of capital goods—but only partially, for it is clear that the entrepreneur is interested in making an innovation only if the saving in labor is greater than the additional expenditure of capital. In an agrarian economy integrated in the international market the situation is different. The rents of landowners, which rise in a period of prosperity, are not invested but are spent (to a very large extent on imported goods). Progress in agricultural productivity is not compensated, even partially, by an increasing demand for labor power for the making of capital goods. The latter, which are imported, are paid for by part of the additional exports they make possible. The excess supply of labor power is therefore relatively greater. Added to this fundamental cause of relative overpopulation are other causes closely connected with the nature of the system—notably the ruining of craftsmen by foreign industry, a catastrophe that is not made up for by the development of local industry, so that the system as a whole has to recover its balance by excluding a large proportion of the population from production.

The Historical Forms of International Specialization

International exchange did not begin with capitalism. On the contrary, it is as old as the world itself. International exchange is definable as the exchange of products between societies that are different, between societies characterized by different social formations. What *is* typical of precapitalist societies is the low intensity of internal exchange. Inside the village community, the lord's demesne or the Oriental empire, the circulation of certain goods is well organized (payment of dues, exchange of gifts on certain occasions, circulation of dotal property, etc.); but these are not commodity exchanges—the circulation of goods is an accompaniment of the execution of social obligations that are extraeconomic. Between village communities or "feudal" demesnes exchanges are also few: each unit is similar to its neighbor and exists in a state of autarky. But none (or hardly any) of these societies is unfamiliar with long-distance trade. The latter brings them exotic products which are in the full sense of the word unknown to the partners in exchange: the buyer does not know how to estimate their

cost of production. The Chinese porcelain that has been discovered in Central Africa, the ostrich feathers that found their way to Europe, the "spices" from the East—all are examples of the nature of this long-distance trade.

Paradoxically, it is for this type of trade that the subjective theory of value, which is nonsensical in relation to present-day exchange of the products of capitalist societies, does make some sense. The importance of this long-distance trade is far from negligible for anyone who wants to understand the nature of the social formations that engage in it. Entire societies, and by no means the least of these (the Phoenicians, or ancient Greece, for example), have been founded on this activity of bringing into mutual relation worlds that had been unknown to one another. In many societies with little social differentiation, disposing of only a small surplus, control of the products supplied by this long-distance trade is essential in the organization of the social formation. This is certainly the case with a number of societies in Black Africa, as has been shown with keen insight by Catherine Coquery.[74] It is also true of whole regions of the Arab-Islamic world of the Middle Ages, especially in North Africa,[75] and perhaps of some other societies, such as those of barbarian Scandinavia or the steppes of Tatar Russia and Asia. This long-distance trade was often associated with raids, for slaves were then an important article of exchange. But there was no international specialization, strictly speaking, and in this sense the long-distance trade of early ages, though vital for our understanding of the social formations involved, remained marginal, for it did not enter as an essential factor into the modes of production that were partners in exchange.

International exchange alters its character when capitalism becomes a worldwide system. For the first time in history one can really speak of international specialization, that is, of the exchange of products the value of which, in the Marxist sense, is known. Now, the conquest of the world by the capitalist center has passed through stages each of which has its own distinctive features to which correspond forms of international specialization between center and periphery that are also distinctive.

The prehistory of capitalism, the age of mercantile capital which runs from the great discoveries (the sixteenth century) to the Industrial Revolution (in the eighteenth and nineteenth centuries), assigned specific functions to the periphery—which then meant mainly America and Africa, and later on, British-ruled India. Capitalism in its finished (industrial) form could come to flower only with an exceptional (for-

tuitous?) meeting of the separate elements of the capitalist mode of production. One of these was a concentration of movable wealth; the other was proletarianization. While the second element appeared as a result of the internal disintegration of the feudal mode of production in Europe, it was international exchange between the capitalist center in process of formation, on the one hand, and its periphery, with the independent social formations that were brought into contact with this center, on the other, together with the plundering of the periphery, that played an essential part in creating the movable wealth needed for transition to the next stage. America provided, through brutal pillage, treasuries of gold and silver. Long-distance trade continued at this stage, but with a gradual change of character. First, it enabled the merchants of the Atlantic ports—Dutch, English, and French—to become rich. Then, for the benefit of this trade, plantations were developed in America, and these necessitated the slave trade, whose role in capitalist development was vital.[76] Here we are clearly dealing with forms of primitive accumulation.

That forms of primitive accumulation were continued subsequently, in the new forms of international specialization, seems so far from obvious that I think it necessary to emphasize the point strongly.

Between the Industrial Revolution and the complete conquest of the world (in 1880-1900), a century elapsed that was in the nature of a pause: the old forms (slave trade, plundering of the New World) gradually faded away; the new forms (the *économie de traite*—i.e., ordinary trade with backward countries—and the exploitation of mineral wealth) took shape only slowly. We get the impression that Europe and the United States withdrew into themselves for a hundred years in order to accomplish the transition from the prehistoric forms of capitalism to its finished industrial form. The trade that continued during this period seems to have been "equal," products being exchanged at their value (or, more precisely, at their prices of production, in the Marxist sense); the rewards of labor at the center were very low, tending to be kept down to "subsistence" level; the terms of trade (of overseas products in return for British manufactures) evolved in the direction conforming to the rule of equal exchange. In my view, it was this "pause" that was responsible for Marx's lack of attention to our problem: he thought India would become a capitalist country like Britain, and so the colonial question eluded his thinking.

Imperialism, in Lenin's sense of the word, made its appearance as soon as the possibilities for capitalist development through the completion of the first Industrial Revolution in Europe and North America

had been exhausted. A fresh geographical extension of capitalism's domain then became necessary. The periphery as we know it today was then established, by way of colonial conquest. This conquest brought different social formations again into mutual contact, but in new forms, those of "central" capitalism and those of "peripheral" capitalism, in process of constitution. The mechanism of primitive accumulation, in contrast to normal expanded reproduction, is unequal exchange, that is, the exchange of products of unequal value (or, more precisely, whose prices of production are, in the Marxist sense, unequal). This means that from this time onward the reward will become unequal, and it does indeed become unequal. This new international specialization was to provide the basis for both the exchange of commodities ("basic products against manufactures," in a superficial description that is correct only as a first approximation) and the movement of capital (for exhaustion of the possibilities of the first Industrial Revolution coincides with the formation of monopolies, emphasized by Lenin, which made this export of capital possible). To Rosa Luxemburg belongs the credit of having pointed out these present-day mechanisms of primitive accumulation—in the strict sense, plundering of the Third World.

The imperialist epoch falls into two periods: from 1880 to 1945, and since 1945. Down to World War II the colonial system imposed "classical" forms of the *économie de traite* ("tropical" agricultural products supplied by the peasants of these countries); European capital was invested in mining and in the "tertiary" sectors linked with this colonial development (banking and trade, railways and ports, the public debt, etc.); the advanced centers supplied manufactured consumer goods. That such a system had a particularly impoverishing effect on the periphery and was bound to lead to a primary type of "blocking" seems easy to prove.[77] Moreover, after an initial period that was brilliant but brief, between 1880 and 1914, capitalism was to experience one of its most stagnant periods (between the two world wars), with militarization and war appearing as the only solution.

After the Second World War a new period of dazzling growth began for capitalism at the center, based on the far-reaching modernization of Western Europe (the Common Market, etc.), which had lagged further behind the United States during the war. At the same time colonial subjection was shaken. Outside of Europe, more or less systematic establishment of groups of light industries was characteristic of this period: this was the policy of "taking the place of imports" (producing manufactured goods that had previously been imported). Here, too, everything continued to function within the framework of the world

market, only the forms of international specialization changing: henceforth the center supplies capital goods, which make possible this establishment of light industries. Here, too, a "blocking" of growth, which was ultimately based on exports of agricultural and mineral products from the periphery to the center, was inevitable.[78]

Is this period coming to an end? It would seem so. In the countries of the periphery the possibilities of "import-substitution" are being exhausted, and this finds expression in a marked slowing down of industrialization and growth.[79] In the Western countries of the center, the "deflationary" tensions of a semi-permanent character that are making their appearance, together with the "international liquidity crisis," would seem to indicate a pause.

The world capitalist system can certainly overcome this situation: there can be no catastrophic crisis that would by itself bring about the apocalyptic ending of the system. Capitalism is looking for a solution in two directions, which will probably determine the future forms of international specialization. The first of these directions is the integration of Eastern Europe into the internal exchange-network of the center—its modernization. Internal changes going on in this region make such integration possible, although the question of the form it is to take (under Russian control or through "independent" state policies, on the Yugoslav model) is giving rise to intense struggles. The second possible direction is the specializing of the Third World in "classical" industrial production (including that of capital goods), while the center reserves for itself the ultramodern branches of activity (automation, electronics, the conquest of space, atomic power). Our age is indeed an age of extraordinary scientific and technical revolution.[80] The latter renders out-of-date the "classical" forms of accumulation, distinguished by increase in the organic composition of capital. The "residual factor"—gray matter—is becoming the principal factor of growth. This means that the ultramodern industries are distinguished by an "organic composition of labor" that accords a much greater relative role to highly skilled labor.[81] The underdeveloped countries would then specialize in classical lines of production that require only, or mainly, unskilled labor, including such classical heavy-industrial lines as iron and steel, chemicals, etc.

These, then, are the different forms—past, present, and, perhaps, to come—of an unequal international specialization which always expresses a mechanism of primitive accumulation to the advantage of the center, keeping the periphery constantly in the same role, though in changing forms. It is this mechanism that, finding expression in an

increasing divergence in the rewards of labor, perpetuates and accentuates the underdevelopment of the periphery. At the same time, this "development of underdevelopment"[82] finds expression in aggravation of the internal contradictions characteristic of the peripheral formations: an increasing divergence between sectoral productivities within the economies of the periphery, a divergence that is vitally significant for an analysis of the social formations of underdevelopment.[83]

FOREIGN TRADE AND THE QUESTION OF MARKETS

The extraordinary expansion of external trade in the epoch of capitalism is certainly not to be explained by "comparative advantages"; nor can the appearance of large-scale export of capital after a certain stage of capitalist development had been reached. On the contrary: the theory of trade, based as it is on the assumption of the immobility of the factors, conflicts with the fact constituted by the international movement of capital. It is characteristic of the poverty of current economic science that the latter turns its back on this movement of capital, which it admits de facto but does not even try to explain, not wishing to discover whether this fact compromises the coherence of its theories. The place occupied by "comparative advantages" in a theory of international economic relations (embracing both trade in commodities and the flow of capital) ought certainly to be much more modest than at present, for "comparative advantages" are merely the outward appearance of things, the almost obvious result of positive comparison between prices.

This problem confronting the "theory"—how are these prices that we compare actually *determined*?—leads us to present the fundamental criticism, that is, to reveal that the "empirio-positivist" refusal to ask this question, and so to go beyond appearances, serves as a way of integrating the theory into the ideology of universal harmonies. Provided this question is not raised, exchange appears as necessarily advantageous to everyone concerned. The question has not been answered because it has not been asked. As soon as it *is* asked, we find ourselves outside the setting of the theory, for the significance of international trade cannot be grasped otherwise than in conjunction with that of the movement of technical progress, of the evolution of wages, etc.—in

other words, of the conditions of capitalism's spread from the center to the periphery, of the establishment of the socioeconomic formations of peripheral capitalism—without, in short, constructing a theory of accumulation on a world scale. *This* theory shows us that the movement is always centripetal, that the transfer of value is always effected from the periphery toward the center, that the system always functions in that direction and not, as appearances might lead one to believe, in the opposite direction.

A second series of questions remains to be put. If "comparative advantage" is only a secondary phenomenon, what is the essential phenomenon that explains the movement? This must be sought, of course, in what is the most essential aspect of the system. It is the contradiction between the capacity to produce and the capacity to consume, constantly arising and constantly being overcome—the essential law of capitalist accumulation—which accounts both for the inherent tendency for the extension of markets and for the international movement of capital.

The Inherent Tendency of Capitalism to Expand Markets

According to the theory of comparative advantages, the underlying reason for international trade is the international differences between the relative prices of goods. The theory of comparative advantages does not confine itself to stating that the commodities exchanged are those for which the relative prices are different between one country and another. It claims more than that: namely, that without these differences there would be no advantage in exchanging; that it is these differences—and these alone—that impel nations to change their products; that these differences are therefore not merely *necessary* conditions for exchange but also *sufficient*.

But it is precisely this way of seeing the basis of international trade that accounts for the theory's impotence. Exchange takes place for reasons that need to be sought in the internal dynamic of the countries concerned. It is when certain conditions have been fulfilled within this inner mechanism that exchange occurs. It then proceeds in accordance with the laws of comparative advantages, but the difference between prices could not, all by itself, have caused exchange to take place.

Let us accept for a moment the pure theory of comparative advantages. According to this theory, trade between two countries is the

greater in proportion as their structures are different: that is, to use the language of appearances, in proportion as the "relative scarcity of the factors" is unequal in these countries. "Labor" is the relatively most "plentiful" factor in an agricultural country, whereas "capital" is the relatively most "plentiful" factor in an industrial one. The agricultural country therefore probably enjoys a relative advantage in its particular kind of production, because this is "light," while the industrial country is at an advantage in *its* particular kind of production. If we leave out of account the potential movements of capital, we see that exchange proceeds until the relative rewards of the factors have been equalized. Let us now suppose that the industrial country continues with its increasing industrialization. "Capital" again becomes relatively more plentiful there. External trade develops until this new inequality is reabsorbed. External trade thus increases in absolute value. The ratio between external trade and national income changes for both countries; but whereas for the innovating country external trade and total income have *both* increased, for the passive country—although external trade has increased in absolute value (by the same amount as for the exchange-partner country, since we are assuming equilibrium of the balance of payments)—national income has remained more or less stable. If we now suppose that the less developed country develops in its turn, parallel with the advanced country, the inequality in the relative scarcity of the factors remains fairly stable and external trade increases (as does national income), for both countries alike. For both of them the ratio between external trade and national income has altered in the same way. Unequal alteration in the ratio between external trade and national income is therefore a symptom of uneven development. This seems to be in perfect conformity with reality, since in the evolution of relations between advanced and underdeveloped countries, taken as a whole, the ratio between external trade and national income does tend to rise more for the underdeveloped countries than for the advanced countries.

The following observation needs to be made regarding this schema that seems to correspond to reality: trade between the underdeveloped countries is very slight, both absolutely and relatively, even where the structures of the countries are different. Yet trade between advanced countries with similar structures is highly developed. This is why, when we stop lumping the advanced and underdeveloped countries together, we observe that the average propensity to import has increased faster in the former group than in the latter. This is what is reflected in the increase, as time goes by, in the exchange of manufactures for manu-

factures in world trade.[84] The increase in the advanced countries' total average propensity to import means only that these countries are more thoroughly integrated into the international market than the underdeveloped ones are—which is no matter for surprise. Expansion of the market is an absolute law of capitalist development. The market has grown from being local to being first national and then worldwide.

Some have concluded from this that industrialization of the underdeveloped countries would bring about an increase, both absolute and relative, in their imports. It is recalled that the development of Britain's "white" dominions, for example, proceeded parallel with a prodigious increase in their imports. One cannot, however, generalize so as to embrace the underdeveloped economies in the very special example offered by the way in which the socioeconomic formations characteristic of *those* countries developed. The formations of the underdeveloped world are different, having been shaped on the basis of expansion of the external market, not on that of the home market. Under these conditions a certain international division of labor has come about. Industrialization of the underdeveloped countries must henceforth proceed by way of *contraction* of their external trade, if the advanced economies reject the structural readjustment that would be implied by recasting the international division of labor.[85]

The underlying reason for the expansion of the absolute and relative sphere of international trade must be sought in the internal dynamic of capitalism, in its essential driving force, the search for profit, and in the mechanisms that this sets working in the attitude of a capitalist firm. Between two precapitalist societies with relatively different structures there is basically no exchange, because the driving force of societies of this kind is the direct satisfaction of wants, and not the search for profit. This satisfaction is obtained by producing at home; that is, in the village or on the great estate: the only things bought from outside are the very few desired goods which cannot be produced—as a rule, these are luxury products, spices and the like. The same reason that causes internal exchanges to be infrequent causes external exchanges to be infrequent: there is no seeking for profit, and no market. There may well be differences in relative real costs, but this does not mean that there is exchange. Trade in these societies is always long-distance trade that involves goods unknown at home, goods for which even the very terms are lacking for a comparison of costs of production. It is curious that the subjective theory of value *does* apply to this sphere of long-distance trade in precapitalist societies, that is, to the exchange of unfamiliar products.

Under a capitalist economy the market expands continuously, because the search for profit brings about competition, and this stimulates each firm to accumulate, to grow bigger, and, to this end, to seek at a greater distance for cheaper raw materials and opportunities to sell more goods. The same mechanism that expanded the local market and created the national market impels the firm to sell abroad. Let it not be said that a firm has no call to sell abroad so long as it has not conquered the entire national market, and that in order to conquer the national market it would be necessary that the "optimum size" should be such that a single enterprise would suffice to satisfy all the nation's wants. This marginalist view is not valid, because there is no "optimum size": a larger firm is always a stronger one, better able to compete. What, indeed, is the alleged "optimum size" related to? To the "enterprise" factor, the return on which is said to be at first an increasing and then a diminishing one. What we most likely have here is the desire of the neoclassicists to construct a symmetrical theory for all the factors. This, however, is merely artificial in the extreme, for "enterprise" here means "administration." Now, the single giant enterprise envisaged may well divide this administration into as many independent cells as are necessary in order that management may be optimum. The compartments into which this huge enterprise is divided will nevertheless possess a decisive advantage over smaller competitors of the optimum size, because they command common financial resources that enable them to compete victoriously. In reality, then, enterprises producing the same product spring up at many different points; at any given moment the market is shared among a number of firms, each competing with its neighbors and, at the same time, continuing to seek outlets abroad. Conquest of new outlets gives it new strength, enabling it to expand and thereby to compete more easily with its competitors at home.

Up to this point there has been no need to bring in comparative advantages. There is a tendency to buy and sell abroad because everywhere there are firms ready to sell abroad, because the advantages they derive from expansion are decisive. This inherent tendency of capitalism to expand markets is the underlying reason for the development of international trade. The theory of comparative advantages, however, cannot explain the existence and development of this phenomenon, since it cannot account for the almost complete absence of external trade (apart from long-distance trade involving unknown products) throughout history until the rise of capitalism.

This is where comparative advantages come in. The enterprises that first succeed in selling abroad are the ones that can best compete

with foreign producers of similar goods. It still has to be explained why the exporting country becomes in its turn an importer. This is not the place to expound the theory of this question.[86] It is enough to say that, in the history of economic theory, this problem, which arose very early, gave rise to an extraordinary development of the ideology of universal harmonies: economists tried to show how it was that, through mysterious "balancing" forces ("the price effect"), based upon a fundamentally mistaken theory (the quantity theory of money), exports give rise to imports. It is enough to tend toward a certain equilibrium, which, however, is far from ruling out asymmetry in the positions of two partners—equilibrium being achieved through adjustment of the structures of one partner to the requirements of the other. In this theory the real place occupied by comparative advantages is therefore that of a condition that, though necessary, is not sufficient.

We have thus explained the increasing importance of external trade in the national income by the inherent tendency of capitalism to expand markets. We have had no need to resort to natural advantage and increasing specialization. Where there is capitalism—that is, an essentially dynamic regime that is always looking for new outlets—there is active external trade, whether the structures be very different or very similar, for even in the latter case there are at any moment many products that are "specific" to certain countries, or that are regarded as such. These advantages are always changing, however, and the sphere of international exchanges is always growing: not because each country is specializing to a greater extent, but because capitalism is getting stronger and is spreading, and production is becoming more diversified —in other words, because each country is specializing *less and less.*

Here I am speaking, of course, about exchanges between advanced countries, that is, exchanges of manufactured goods for manufactured goods. If the partners in exchange are at the same general level of development, there are theoretically no comparative advantages, and no exchange is possible. Exchanges take place nevertheless; but they are changing in content all the time. If Germany can export Volkswagens to France and France cannot export Renaults to Germany but *can* export some other manufactured product, this is not because the relative rewards of the factors and their relative utilization are different as between these lines of production, but because the Volkswagen firm is technologically ahead of its competitor, Renault (this being in part connected with its greater size), or because it commands greater financial resources, etc. Should this superiority be canceled through reorganization of the competing firm, the current then runs the other way. If

the partners in exchange are *not* at the same level of development, as in the case of exchanges between the United States and Europe, it may be that the theory of comparative advantages can explain these exchanges, because America's superiority in productivity is distributed unevenly as between branches. It is also true that genuine "natural advantages" do exist, though in limited spheres (for climatic or geological reasons), and these explain why Italy exports citrus fruits to Norway and not vice versa, and why Ruhr coal is exchanged for Lorraine iron ore.

The problem we have been considering so far is different from that examined by Rosa Luxemburg. Expansion of markets, extending to the world scale, is in the very nature of capitalist development. It is not necessarily in order to solve a market problem—to realize surplus value—that this extension takes place. The theory of the capitalist mode of production tells us that the realization of surplus value does not necessitate extension of the market by disintegration of precapitalist societies: Marx and Lenin proved this. The only problem, where realization of surplus value is concerned, is a monetary one—that of the adequate expansion of credit.[87] Luxemburg raises a problem of a different order, because her problematic is different. She does not confine herself to the context of the capitalist mode of production (which is the context of *Capital*) but studies another real problem, namely, the extension of capitalism over the world—in other words, the problem of relations between formations (the disintegration of precapitalist societies). It is to Luxemburg's credit that she showed how, parallel with the process of expanded reproduction through deepening of the market inside the capitalist mode of production, a simultaneous process of primitive accumulation was going on. Thus, the standing contradiction between the capacity to produce and the capacity to consume, which reflects the essential contradiction of the capitalist mode of production, is constantly being overcome both by deepening the internal ("purely capitalist") market and by extending the market externally.

This contradiction, which is permanent and constantly being overcome, is also growing. It thus shows itself in an increasing surplus of capital, while at the same time control of this capital becomes more concentrated and the capitalist market becomes worldwide. The export of capital on a large scale is therefore quite natural when a certain stage of this development has been reached. If the theory of comparative advantages is assigned to its right place—a secondary one—and is recognized as what it really is—the theory of the apparent mechanisms of international exchange—and not as what it is not—the theory of the essential forces that explain the international extension of capitalism—

then the incompatibilities between the theory of international trade and that of the movement of capital, disparities that provide one of the richest sources of nourishment for that discussion of false problems which is typical of current university economics, will disappear.

The inherent tendency to expand the market and constitute an international market is not a new phenomenon, characteristic only of the imperialist phase of capitalism (in Lenin's sense of the expression). Indeed, it is because they have observed that formation of a world market, struggle for access to raw materials, and competition for colonial monopoly all date from well before the last quarter of the nineteenth century that some have seen fit to object fundamentally to Lenin's theory of imperialism. True, the tendency to form a world market appears from the very beginning of capitalism, even before the Industrial Revolution. In a very fine study of the world capitalist system, Oliver C. Cox applied himself to showing how, from the very start of the mercantilist period, international trade played an essential part in the development of capitalism; how the dynamic, forward-moving, representative firm has always been deeply integrated in the essential networks of world trade, from the sixteenth century onward; how today, despite the myth of self-sufficiency, world trade is of vital importance to the biggest American firms. The deduction drawn by Cox from this—that capitalism as a world system cannot be analyzed in terms of a purely capitalist mode of production in the setting of a closed system—constitutes another problem. On this issue, Cox is clearly with Luxemburg against Marx and Lenin.[88] I do not agree with him, because the argument that surplus value cannot be realized without an external, noncapitalist outlet is wrong: expanded reproduction is possible without noncapitalist milieux, the nonexistent outlet being created ex post facto by investment itself. And this is essential for understanding the tendency of the capitalist mode of production to become exclusive when it is based on the internal market.

This permanent, inherent tendency of capitalism to expand the market becomes transformed qualitatively in its forms of expression when concentration (another permanent, inherent tendency of capitalism) causes the system, at the center, to advance to the stage of monopoly. This is what Lenin appreciated very well, when he made monopoly the essential axis of his new analysis of capitalism. For the small enterprise typical of the nineteenth century was incapable of exporting capital, and the tendency to expand the market was thus manifested either in trade (export of goods) or in political intervention by the state (subjecting the periphery to the objective requirements of the center).

After about 1880 the monopolies were to act directly on their own behalf, and the tendency to expand the market was to find a new form of expression: the export of capital.

In the age of competitive capitalism, therefore, expansion of the market is effected in a setting of competition between the enterprises of the metropolitan countries in the markets of the outside world. "Central" capitalism nevertheless has some objective needs, which result from (1) the inadequacy of the market, which is essentially agricultural in the first stages, restricted by the pace and scope of the progress of productivity in agriculture; and (2) the requirements of maximizing the rate of profit, which imply seeking abroad for cheaper goods for popular consumption (especially bread grains), so that the cost of labor can be reduced, as well as for raw materials, making it possible to reduce the value of the constant capital employed. In a fundamental work, Christian Palloix throws new light on the link between these objective requirements and the stages in the formation of the theory of international trade, from Adam Smith to Karl Marx.[89] For Smith, coming at an early stage of capitalism,

> (1) the external market serves as an outlet for surplus commodities, needed because of the narrowness of the internal market, in which the division of labour is limited during the phase of industrialization; (2) the external market, by itself, makes it possible to extend the division of labour within the nation, where, so long as only the internal market was available, this division was restricted.

It was the relation between external trade and the generation of the surplus that concerned Ricardo, too. By his time, however,

> the industrial sector possessed a basis sufficiently large, contrary to Smith's expectations, to provide enlargements of the respective markets needed for absorption of the industrial surplus; J.-B. Say's law of markets, which Ricardo was to support, gives definition to this prospect; and so the internal agricultural market plays only a minor role in the consumption of industrial products . . . Though the agricultural sector no longer figures as the market for the absorption of the surplus, it nevertheless plays a part in restricting generation of surplus, in so far as . . . it threatens the very potentialities for this surplus to grow, through blocking profit's road to expansion by means of the law of diminishing returns, the cause of increasing wages . . . The role of external trade . . . is to take the place of the internal agricultural market in furnishing the subsistence goods needed for labour power.

Later:

> Marx carries out a synthesis of the theoretical contributions made by Adam Smith and David Ricardo, reconciling the "absorption" approach (stressing the export of manufactures) with the "generation of surplus" approach (stressing the import of primary products).

External trade, in this sense, is a way of checking the fall in the rate of profit:

> Since foreign trade partly cheapens the elements of constant capital and partly the necessities of life for which the variable capital is exchanged, it tends to raise the rate of profit by increasing the rate of surplus value and lowering the value of constant capital.[90]

These objective needs of "central" capitalism in the age of competition account for the economic policy followed by the states concerned in that period: colonial conquest and the opening of protected markets for the benefit of the metropolitan country; destruction of the crafts in the colonies, with recourse to political means for this purpose (the often-quoted example of India is most illuminating in this connection); encouragement of emigration and the opening up of land for producing wheat and meat in the west of North America and in South America; etc. These were "extra-economic" methods which, once again, need to be integrated in the explanation of how the system functions economically—something that the "economistic" attitude prevents being done.

In this period, the export of capital continues to be unknown as a means of expanding markets. This is why the dominant form it assumes, in the exceptional cases when it appears at all, is still the public debt, collected at the center by the most powerful finance houses (e.g., the loans made to the Khedive of Egypt). Quite different are the forms in which this inherent tendency to market expansion is expressed in the age of monopoly. Henceforth, the export of commodities is accompanied by that of capital, which, moreover, gives the former a fillip. International economic relations, both trade and the export of capital, continue to fulfill the same functions, so far as "central" capital is concerned, namely, to offset the tendency of the rate of profit to fall: (1) by enlarging markets and exploiting new regions where the rate of surplus value is higher than at the center, and (2) by reducing the cost of labor power and of constant capital. However,

analysis of these new conditions demands that we first analyze the inherent tendency of "central" capitalism to export capital.

The Inherent Tendency of Central Capitalism to Export Capital

Textbooks of political economy deal separately and consecutively with trade in commodities and international capital movements. What is wrong about their treatment of the two subjects is not this way of proceeding, which could be justified as a method of exposition for teaching purposes, but that they put forward, one after the other, two theories that are mutually contradictory.[91] It is said that the migration of capital from one country to another is due to unequal distribution of the factors of production, which results in unequal rewarding of capital (rates of interest that are unevenly distributed). Previously, however, the trade in commodities had been explained by this same inequality in distribution of the factors. And it had even been said that the effect of exchange was to level out the rewarding of unequally distributed factors.

Here let us again go back to Ricardo. We have already seen that the theory of comparative advantages, looked at from the standpoint of labor value, leads to the result that international exchange within the capitalist mode of production does not affect real wages but increases the volume of profit in both of the countries engaging in trade with one another. It increases *volume* of profit but does not necessarily level out the *rates* of profit in the two countries. Ricardo's theory leaves room for a possible additional theory of movements of capital toward countries where the rate of profit is higher.

The adoption of first a positivist and then a subjectivist view of value led to the abandonment of this simple thesis of Ricardo's. First it was thought (Taussig) that international trade, as a consequence of unequal relative rewards of the factors, would bring about absolute differences in these rewards. What Ricardo saw as true for profit alone, Taussig extended to wages and rent: exchange increases the productivity of all the factors, and therefore their real rewards, but without equalizing them. We at once perceive the link connecting this conception with that of value.

The debate was carried forward by Samuelson, Heckscher and Ohlin. Samuelson shows that exchange of commodities leads to absolute equalization of the rewards of factors. His argument is based on two

assumptions—that factor endowment is given once for all, and that for each product there is only one most efficient combination of factors. If the quantities of factors are the same in countries A and B, then their relative rewards are a priori the same. The same techniques are used to produce the same products, and no exchange between them is possible (the same techniques also being efficient in both). If, however, country A possesses more land than country B, their production of wheat, for which the most efficient technique demands more land, is at an advantage there, because the reward of this factor is lower. In B, which possesses more labor than A, textile production is at an advantage. Exchange accordingly takes place. In A, which produces more wheat (part of it being exported), workers are thrown out of work (textile goods being imported). The reward of land rises, while that of labor falls. An opposite movement takes place in B. Exchange goes on until rewards have been equalized in both countries.

The vicious circle is obvious. There is no technique that is, in itself, the most efficient. What is the most efficient combination depends on the rewards of the factors. The rewards of the factors depend on their relative utilization, and therefore on the choice of technique. This new element can then be introduced. In A, wheat and textile goods are produced by methods that are, respectively, land-using and labor-saving. The reward of land, equal to its marginal productivity, is high, whereas that of labor is low. In B these two commodities are produced by different methods. It may well be that the price of wheat in A is the same as in B, because in A more land is used (being cheaper) and less labor (being dearer). It may, nevertheless, prove that the price of wheat is lower in A if the greater use of land is balanced by the relatively still lower level of its reward. In this case A sells wheat to B, and A's agricultural production, developed at the expense of its textile industry, makes possible an increase in the price of land and a reduction in that of labor to the point at which, despite the different techniques in wheat production, prices are the same in both countries.

International trade operates in such a way that in both countries the price of each factor tends to become equal, though without complete equality ever being attainable. It would seem that there is room for a theory of capital movements to be grafted on to this theory of trade.

Let it be stressed that the whole of this discussion takes place within the context of the capitalist mode of production—that is, the problem of relations between the (different) capitalist formations of the center and the periphery is not raised. The tendency for rewards of the factors to become equal is then true so far as relations are concerned between

"pure" capitalist countries—which the formations at the center are indeed close to being. In relations between the center and the periphery, however, this tendency is *not* true for wages, because the social formations are not identical.

The difficulty that present-day theory comes up against, through overlooking this vital fact, is the following: if trade and the export of capital both constitute a means by which international inequalities are made up for, how is it that one of these two means has not supplanted the other? How is it that export of capital developed rapidly only at a certain stage? How is it that the development of the export of capital has never acted to reduce, even partly, the export of goods, but on the contrary has always stimulated the latter?

Six groups of significant facts have to be simultaneously integrated in the explanatory model.

First, export of capital from the oldest centers of capitalism became really substantial only after about 1880. Great Britain's capital exports increased from £100 million in 1825–30 to £210 million in 1854 and £1.3 billion in 1880, and then rose to £3.763 billion in 1913. In France the leap was abrupt: from Fr12–14 billion in 1870 to Fr45 billion in 1914. In Germany the increase went from DM5 billion in 1883 to DM22–25 billion in 1914, and for the United States from $500 million in 1896 to $1.5 billion in 1914, $18.583 billion in 1922 and $25.202 billion in 1933.[92]

Secondly, export of capital takes place mainly from the centers of old-established capitalism to new centers in process of being constituted, and only to a secondary extent to the underdeveloped countries. Thus, Russia and the "white" dominions of the British Empire were the principal outlets. In our own day the principal movement of capital export is from the United States to Europe, Canada, Australia and South Africa.

Thirdly, export of capital has not replaced export of goods, but has stimulated the latter, although the former movement has been the greater of the two. This phenomenon can be observed in world trade as a whole. The period 1880–1913, which saw the most rapid growth of world trade down to our own time (an increase of 14 percent per year, as against 3.3 percent in 1840–80, nearly nil for the period between the world wars, and about 7 percent since 1950), also saw the greatest increase in export of capital.[93] The periods of rapid growth in capital exports are also those of rapid growth in trade in goods.

Fourth, the dynamic of the "flow" of investment of foreign capital and the "ebb" of profits exported is very different in relations between

center and periphery from what it is in relations between an old-established center and a new center in process of formation. In the relations between center and periphery, the latter passes from the stage of "new borrower" (flow of capital imported exceeding ebb of income exported) to that of "old borrower" (ebb of profits going out exceeding flow of new capital coming in) and becomes "stabilized" at this stage. In the relations between the old center and a new center in process of formation, the line of development is different, with the new center becoming in its turn an exporter of capital (first "young lender," then "old lender").[94]

Fifth, whereas in the new centers in process of formation, wages tend to rise to the level of wages in the old centers from which the capital comes (sometimes, in fact, wages are higher from the start in these new centers), the gap between wages at the center and in the periphery (for equal productivity, with the same production techniques, and so on) tends to widen.

Sixth and last, the rate of profit in the periphery is higher than it is at the center. Some superficial evidence suggests that the rate of reward of capital is only slightly higher in the periphery. For instance, for the period 1880–1913 and the period between the wars, we find that the rate of reward paid to shareholders and debenture holders in Europe on their colonial and foreign holdings was barely one point higher (about 5 to 6 percent) than that paid on metropolitan holdings (between 4 and 5 percent).[95] The difference between the two rates represented merely a "risk premium." But there is an illusion here, for the reward received by shareholders is not the same as the *profit:* the quotation of shares of the stock exchange reduces the various rewards to a common level, separating the "stock-exchange value" from that of the net assets. If we look at the *gross returns* on U.S. investments, at home and in Latin America, we see very different rates: on the order of 15–22 percent in Latin America, as against 11–14 percent in the United States, for the period following the Second World War.[96]

In all these calculations the difficulty arises from the fact that it is often very hard to distinguish in a business transaction between the function of enterprise (rewarded by profit) and the function of lenders of liquid capital (rewarded by interest). Let us look, for example, at the government loans of the nineteenth century. Who is the entrepreneur here? The anonymous subscriber? Or the banker, that all-powerful middleman who deducts a commission that constitutes his profit? The latter, certainly. His profit does not seem comparable to that which constitutes the reward of the small saver. Take, for instance, the loans

granted by European groups (Früling Goschen, Oppenheim, Bischofsheim, the Anglo-Egyptian Bank and the Ottoman Bank) to the Khedive Ismail between 1862 and 1873. The nominal value of these loans amounted to approximately £68 million, the value collected by the Egyptian treasury to approximately £44 million.[97] The subscribers who actually furnished £68 million to the bankers certainly received in return only a nominal interest rate of 7 percent, the rate previously calculated by the writers whom Iversen quotes in his well-known work. What has *never* been calculated is the rate of profit obtained by the banks, that is, the ratio between the gross profit realized (here, approximately £25 million) and the capital the banks invested in this transaction. This rate would unquestionably appear to have been high. But this is plundering—primitive accumulation! The best way to solve the problem is to compare the average rate of profit for *all* the industries of the advanced countries with that for *all* those of the underdeveloped ones. This is the rate that is really significant. I have tried to make this calculation for the industries of Egypt and to compare the result with the rate of profit in U.S. industry. The result seems quite unambiguous: the rate of profit is clearly higher in the underdeveloped country.[98]

Marginalist analysis avoids, as always, coming to grips with the real problems: by attributing to the rate of interest the quality or mode of reward of capital, marginalist analysis leads, here as elsewhere, to a static pseudo-analysis that fits into the ideology of universal harmonies. Only three theories have really tried to answer the question: Ricardo's theory of diminishing returns; the post-Keynesian theory of maturity; and the Marxist theory of the tendency of the rate of profit to fall, and of imperialism and its prolongations.

The Second World War not only altered the relations of strength among the Great Powers, as the First World War had done, but also set up a new fundamental hierarchy, in which the United States henceforth played a part out of all proportion to that played by the other Great Powers of the West.[99] This is reflected in the absolute predominance acquired by the United States in the export of capital: the U.S. share in this activity increased from 6.3 percent in 1914 and 35.3 percent in 1930 to 59.1 percent in 1960, while that of Great Britain fell from 50.3 to 43.8 and then to 24.5, and that of the two other principal exporters of capital (Germany and France) from 39.5 to 11.0 and then to 5.8.[100] The advanced countries have now become by far the most important markets for U.S. capital: in 1966 Europe absorbed 40.3 percent, Canada 34.8, Australia, Japan and South Africa 7.2 percent, while the whole of the Third World absorbed only 17.7 percent. The distribution

of this capital between sectors is very different, depending on whether the country receiving it is advanced or underdeveloped. Of the total of direct U.S. investments in 1964, the percentage that went into mining was 8, into oil 32.4, into processing industries 38, and into public services, trade, and miscellaneous services 21.6. But the place occupied by processing industries is 54.3 percent in Europe, 44.8 in Canada and 54.1 in Australia and New Zealand, whereas it is only 24.3 percent in Latin America, 17.5 in Asia and 13.8 in Africa. Mining and oil, however, account for about 60 percent of the economy in the peripheral countries, and the tertiary sector takes up 20 percent. If we also allow for the fact that most of the American industries in Europe are autocentric (thus, U.S. capital controls 50 percent of the automobile industry in Great Britain, 40 percent of the oil industry in Germany, 40 percent of the electrical and electronic equipment industry in France, and nearly all the large-scale industries in Canada), whereas in the periphery a certain number of these industries are devoted to producing for the external market (processing of mineral products before they are exported), it can definitely be said that, as regards the periphery, American capital is in the main invested in the sphere of exporting activities (mining, oil wells, primary processing of minerals), to a lesser extent in tertiary activities connected with export, and only to a very limited extent in autocentric industry.[101] The same is true of the private investments of British and Continental capitalists.

Thus we see that recent changes in the structure of international capital movements, though essential for understanding the altered relations between the United States and Europe, have brought about no decisive change in the classical relations between center and periphery.

The ideology of universal harmonies: the rate of interest, saving, and investment. For the marginalists, interest is the reward of capital, which will therefore normally go wherever this reward is highest. The difficulty, however, arises from the fact that investment is decided on not by the saver but by the entrepreneur; and marginalism separates the two functions of enterprise and capital. What is it that determines the attitude of the entrepreneur? Profit. When the rate of profit is low, even if the rate of interest is high (indeed, even more so in this case), entrepreneurs do not expand their production. Capital is unable to find attractive outlets for investment, and remains liquid. When, however, the rate of profit is high, the entrepreneur wants to invest. He can pay a high rate of interest to the saver. Obviously there exists, in the marginalist view, a dual mechanism that adjusts interest to profit, and profit to

interest. When the rate of interest is high and that of profit is low, savers stop saving, because they are unable to invest their savings (and this is doubtless where the mistake lies). Effective demand receives a boost and the profitability of investment is reestablished through the increase in consumption.

But does not the neoclassical theory confuse motive for saving with motive for investment? Saving is the necessary utilization of income from capital, being the only way of ensuring a future income for its owners. If this saving is unable to find an opportunity for investment, then it is accumulated, and remains liquid while awaiting such an opportunity: it is never *consumed.* Keynes cleared up a misunderstanding on this point when he distinguished between motive for saving and motive for investment, and integrated "liquidity preference," that is, the will to save even without reward, in his general theory. Unfortunately, Keynes's analysis of these motives for saving remains bound up with the neoclassical conception according to which income is sought with a view to consumption. Now, while some incomes are wholly destined for consumption (wages, rents and the interest received by *rentiers*), or partly for consumption and partly for reserve-saving, others (profits) are essentially destined for saving with a view to investment, after deduction of a relatively stable share for consumption. If income of every kind were ultimately destined for consumption it would be hard to see why beneficiaries of very large incomes do not become satiated and give up any further striving for additional income. Yet they *do* continue to strive for additional income, and not out of "sordid avarice" but because if they do not—if they do not invest in their branch of production—they will be beaten by their competitors and will lose their *present* income.

From another angle, the neoclassical theory tells us that if investment is very profitable, the rate of interest soon rises, because savings are required by investors, and in order to obtain them they are willing to pay high interest, which in turn stimulates saving. But this theory is reasoning on a long-term basis, forgetting that in the short run it is *credits* that respond to interest. In the long run, saving does not seem to be determined by anything but the division of total income between wages and profits. This accounts for the stability of national rates of saving over a long period, despite the steady increase in income per capita.

The classical theory thus ascribes a symmetrical role to profit and interest in all these mechanisms. The two levels are either high together or low together. Keynes upset this symmetry by restoring investment to

its role as cause and driving force, thus joining hands with the English classical economists who declined to distinguish between the entrepreneur and the capitalist, because the saving that interested them was saving by the capitalist entrepreneur with a view to investment, and not the reserve-saving that is effected by all social classes. Interest was, then, a contractual reward paid to small savers unable to invest on their own account, so as to persuade them to lend their reserve funds. This interest was determined by the rate of profit, and played no active role. This is how Ricardo saw it, and his point of view was taken over by Marx, who saw in the saving of the capitalist epoch a form of saving different from that of previous ages. Instead of being mainly determined by the desire to satisfy future needs, or by the need to accumulate wealth in order to obtain political power, saving was now mainly determined by the lure of monetary gain. It has altered in meaning: whereas it used to be an invariable, it has become a variable determined by investment—not mechanically, in the sense that what is not invested is spent, but functionally, because people save in order to invest, but cannot always find an outlet for investment and then, willy-nilly, hoard their money.

Keynes did not take over the classical theory in this form. By including "liquidity preference" in general equilibrium, however, he reestablished the Marxist proposition that equivalence between saving and investment is realized ex post facto—though sometimes by way of crisis and contraction of the national income.

If Ricardo's followers refused to follow Say in his formalistic distinction between the entrepreneur and the capitalist, this was because for them capital was the "dominant factor." There was no artificial symmetry in the role of the three "factors": capital, labor and land. Landed property was a survival from feudalism; and labor, though the source of all value, was secondary, because the owner of capital can always find labor power waiting to be hired. Whoever owns no capital, however, is unable to invest, because "men lend only to the rich." Saving must first and foremost be effected by the investor himself: only to a subsidiary degree can he add to his own savings through an appeal to small savers.

Any theory of capital movements must therefore base itself on an analysis of the evolution of the rate of profit, since it is the rate of profit, and not interest, that governs investment. Moreover, while the neoclassical theory neglects to study profit, it also neglects to study the long-term evolution of interest, which would enable it to explain capital movements. When one is content to say that capital goes wherever its reward is highest, and it is highest wherever this factor is scarcest

(namely, in the underdeveloped countries), one remains on a superficial plane, for the level at which capital is rewarded is determined not by the supply of capital alone but by the ratio between supply of and demand for capital. Nurkse has shown that, by marginalist logic, owing to the "vicious circles of poverty," the reward of capital *ought not* to be higher in the underdeveloped countries. One can, of course, reproach Nurkse for the excessively sweeping nature of his statement: the reward of capital is not high in all sectors of the underdeveloped economy, but it may be high in some sectors, particularly in the internal spheres that either compete with crafts or are connected with the expenditure of the well-to-do classes (the "tertiary" sector). Even in these areas, however, it is not the rate of interest that is especially high; it is *profit*. Interest is very high precisely in those spheres of precapitalist rural economy that are of no "interest" to capital!

In the England of the early nineteenth century, where capitalism prevailed, the great classical writers were able to appreciate that the entrepreneur and the capitalist are one and the same person. In France, where capitalism existed only as an ideal model, the reality still being a social formation in which the peasantry and the state were of major importance, economists still cherished a theory that was not that of primitive accumulation. In the age of mercantile capitalism, indeed, the important figure was not the industrialist (who did not yet exist), but the merchant who was accumulating money capital—one of the factors necessary for the appearance of the capitalist mode of production. What did he do with this money, in an age when it was not yet possible to invest it in production? He lent it out: the capitalist was a lender, not a producer (entrepreneur). In rural and bureaucratic France, men saved in order to lend, not in order to invest. Say's theory reflects this backwardness of the French reality in comparison with the English. It is a theory that necessarily leads to the ideology of universal harmonies. For if the process of production is hidden and disappears from view, no further objective analysis is possible, and there can be no further reflection on the evolution of the objective conditions of production. All that remains is the tautological harmony of the equivalent satisfactions of lender and borrower, situated on the subjective plane of their "desire to save" or "desire to consume." This equilibrium has no history; it is static. It was such a convenient presentation of the matter that this way of looking at things simply had to be adopted, and the theory of general equilibrium—the generalization of the ideology of universal harmonies—ensured its victory. Keynes was to stay within this frame-

work laid down by Walras, which he merely made a little more complex, by adding an "equation," without rejecting its essential basis.

The Ricardian dynamic and diminishing returns. For the English classical economists the tendency of the advanced countries to export capital was a natural one. Concerned about the future of the regime, Ricardo believed he had discerned in the dynamic of capitalism a law of decline in the rate of profit that must bring capitalism to a "stationary state."

Ricardo's conception of the internal dynamic of capitalism had a dual basis: the doctrine of diminishing returns from land that was available only in finite quantity, and the Malthusian doctrine on population. Any improvement in the standard of living must lead to an increase in population. This more numerous population requires, once wages have returned to subsistence level, a total wage payment larger than before. The law of diminishing returns then shows us that the total amount paid in wages tends to absorb the whole of the product, after rent has been paid. The landlords are, accordingly, the only beneficiaries of progress. The share taken by profit declines both absolutely and relatively. A moment comes when the rate of profit is nil. All motive for investment has then gone, and the "stationary era" has begun.

This doctrine, as feeble as its two premises—one of which, the law of population, is a sociologically unacceptable schematization, while the other, the doctrine of diminishing returns, is the negation of all that technical progress which is the most obvious characteristic of historical development—nevertheless has this advantage over the neoclassical theory: it is a theory of the internal dynamic of growth.

The post-Keynesians and excessive saving in the "mature" economies. Harrod was the first post-Keynesian economist who tried to integrate Keynes's theory of money into a long-term dynamic. He described technical progress as "neutral" if it kept the ratio between national capital and national income stable, with a constant rate of interest. Under these conditions, progress did not alter distribution. This was why Harrod criticized Hicks and Pigou for bringing the elasticity of substitution of labor for capital into the definition of neutral progress.[102] This hypothesis of Harrod's involves the double assumption of a stable organic composition and an equally stable rate of surplus value. If progress were continuous, and still neutral, it would steadily increase the national income. In order for growth to be balanced, saving

would have to develop no faster than income; in other words, the marginal propensity to save would have to be stable. But this increases as income increases. For growth to remain balanced, therefore, the rate of interest would have to decrease all the time. Harrod adds that, all other things being equal, an increasing population requires increased saving. There is therefore a double reason why dynamic equilibrium requires continuous lowering of the rate of interest. But the latter cannot decrease and become negative, because it is at once real and monetary, and thus it cannot fall below the level required by "liquidity preference." Growth is then blocked: the state of "overdevelopment" has been reached, in which new investment is nil. Saving shuns such "overdeveloped" countries.

Harrod's dynamic thus has for its basis an assertion of the twofold relation between interest and saving and between population and saving. Does interest really influence saving? I have already stated my view on that subject: Keynes was right in denying this, in rejecting the neoclassical view. However, whereas for Keynes saving appears to be governed only by inequality in the division of total income, I see the matter very differently: saving is bound up with *the nature of the dominant income*. Under the capitalist mode of production, profit is functionally destined for saving with a view to investment (whether or not the latter be "possible"). It must be added that Harrod evaded, in his analysis of the conditions of balanced growth, the important question of the influence of "i" upon investment. If the rate of interest does actually fall, so that growth may be harmonized, will this fall not affect the choice of techniques? If so, it is the capital-output ratio that will be changed.

I believe that, in reality, the influence of interest is much weaker than marginalism suggests. But an author who appeals to Walras could not overlook in his model that which, in the marginalist theory, is regarded as crucial in this connection. Furthermore, in his analysis of the relations between population and saving, Harrod confines himself to stating that, if population increases, the proportion of income saved should increase, for future wants have become greater. In reality there is every reason to suppose that, if population increases, the proportion of income saved should increase, for future wants have become greater. In reality there is every reason to suppose that, if population increases, the extra supply of labor on the market will bring down the level of wages; though the need to save in order to ensure an unchanged standard of living for one's children will have increased, the capacity to save of the greater part of the population will have declined. Nevertheless,

Harrod's analysis leads to a correct conclusion on this point, for incomes other than wages—which, as we have seen, are destined for saving and investment—will increase by the same amount that wages have fallen, so that the rate of saving does indeed increase: not because wants are better satisfied, but because income is more unequally divided. The worst reproach that can be brought against Harrod is that he has confined himself to studying the conditions of harmonious growth (from a marginalist standpoint) on the assumption of neutral technical progress. But progress is, or at least has been for a century, capital-using. It is on the basis of this fact that the theory of growth must be constructed.

Joan Robinson has tried to complete Harrod's post-Keynesian analysis. Inspired by Marx's views, she has dropped Harrod's definition of neutral progress as that form of progress which keeps the capital-output ratio stable. She defines the neutrality of progress as stability of the organic composition of capital. The rest of her analysis does not differ fundamentally from Harrod's. Robinson studies the conditions of regular accumulation, given certain assumptions. These are: constancy of interest, neutrality of progress, stability of the division of net income between wages and profit (the last two assumptions taken together being equivalent to Marx's two assumptions: stability of the organic composition of capital and of the rate of surplus value, or to Harrod's definition of the neutrality of progress). Given these assumptions, accumulation can proceed regularly only if a constant fraction of net income is saved. It is thus for the same fundamental reason as Harrod gives, namely, the necessity of a stable and not a growing amount of saving (interest being constant), that saving tends to become excessive in the very advanced countries.[103]

Robinson's schema has only this advantage over Harrod's, that it makes possible independent study of the effects of a possible modification of the rate of surplus value. The division of income between wages and profit is bound up with the monopoly forces that operate in the economy, especially the monopoly force of ownership of capital in face of a working class deprived of any means of existence apart from its labor power. Robinson notes that reinforcement of this monopoly determines a division that is more favorable to profits, and thereby to saving. This is an additional reason why saving is excessive in the very advanced economies.

Thus, the post-Keynesians have claimed to rediscover the theory of "general crisis" of the state of "overdevelopment," of "mature" economies, of the "stationary" state. After a certain level of development has

been reached, possibilities of saving become greater than investment needs (governed by the volume of consumption). We have here a general theory of underconsumption. The possibilities of saving have increased because, on the one hand, average income is higher, and on the other, because the degree of inequality in the distribution of income has increased. This degree is measured by the coefficient a in Pareto's equation of distribution: $\log n = \log A - a \log X$, in which n represents the number of incomes at or above the level X. During the century 1830-1930 this coefficient a greatly increased in all the great industrial countries of the West.[104] The increase in the degree of this inequality arises from the destruction of the crafts, which deprived a considerable part of the population of income from enterprise (this being concentrated in the hands of the entrepreneurs, who were much less numerous than the craftsmen), and then from the subsequent concentration of enterprises. As for the need for new investment, it has remained stable, and even tends to decline, because the scientific and technical revolution is reflected in a fall in the capital-output ratio.[105] This is why, among other things, the beginnings of this revolution of our time (in the 1930s) were marked by the most violent economic crisis yet known.

It remains true that, for a whole century, progress has not been neutral but has been capital-using; a stable increase in consumption therefore required ever larger investments to make up for an ever larger amount of saving. If there has been a tendency for capital to be superabundant since that period, this is rather due to the fall in the rate of profit. (Did not Keynes deplore the tendency of the marginal efficiency of capital to fall?)

The Marxist analysis: the tendency of the rate of profit to fall. For Marx, technical progress is capital-using: it raises the organic composition of capital (the ratio of constant to variable capital). This is certainly true, at least as regards the entire epoch of accumulation, right down to the technical and scientific revolution of our own day. In the short run, it is true, increased production per capita can be obtained by capital-saving methods. The rationalization that consists in increasing production per capita by better utilization of both equipment and labor—that is, without fresh investment—is just such a method. Eventually, however, rationalization reaches its natural limits. All that can then be done is to resort to more modern techniques, using more machines ("lengthening the duration of the production process," as Böhm-Bawerk puts it).

This last-mentioned view has been sharply criticized by Knight, who has shown that this idea of the duration of production was meaningless and ought to be considered as "zero or infinity." In one sense he is quite right: an automobile is made of steel, yesterday's steel was made with the coal and iron ore of the day before yesterday, the coal was won with machines of steel from the previous period, and so on, right back to the beginning of society. This way of measuring the "time dimension of production" results from Böhm-Bawerk's attempt to establish the productivity of capital. Knight observes that, in order that the series of which the sum of the terms gives the duration of the production process, according to Böhm-Bawerk, may be finite and not infinite, the quantities must get smaller and smaller the further one goes back into the past; in other words, it is necessary to recognize the existence of an interest (the productivity of time), which is what one wants to establish. And Knight concludes that this productivity of time can be established only upon the psychological basis of the depreciation of the future.[106]

Rather than trying to measure this duration, it would be better to measure directly the capital-intensity of production. There are two formulas for doing this. The first takes the standpoint of distribution. It establishes the connection between investment, on the one hand, and all the distributed incomes that this entails, on the other. This is the coefficient of capital. The other formula looks at the matter from the angle of production. It establishes, among the expenditures that the entrepreneur has to lay out in order to obtain a certain production, the ratio between those devoted to buying raw materials and machinery and those devoted to buying labor power. This ratio is what Marx calls the organic composition of capital.

Measuring these two ratios does not produce the same result. In the first place, an independent change in the ratio between wages and profits modifies the ratio between expenditure on the purchase of raw materials and machinery and expenditure on the purchase of labor power, although the ratio between the capital invested in a branch and the proportion of the national income that this branch represents may have remained unchanged. The second reason is that "capital-output ratio" brings in the capital advanced by the entrepreneur, whereas "organic composition" measures the ratio between two fractions of the capital employed. Between these two quantities the velocity of turnover of capital intervenes.

While, therefore, one must not identify Marx's organic composition of capital with Harrod's capital-output ratio, it seems nevertheless that

technical progress, which makes possible greater overall production with the same amount of labor, direct and indirect, under conditions of unchanged natural resources, is reflected in an increase in both of the ratios under consideration. This is because, on the one hand, the velocity of turnover falls when the organic composition rises, while, on the other, the quotient of wages by profit (or the rate of surplus value) remains relatively stable. It is not by chance that the velocity of turnover of capital is bound up with its organic composition. This velocity is in fact connected with the ratio of fixed to circulating capital, and fixed capital forms part of constant capital. The heavier an industry, the higher this ratio and the slower the velocity of turnover—provided that the general credit conditions remain the same. Short-term credit, which enables the entrepreneur to employ more capital without an increase in the amount of capital actually advanced (covering expenditure on circulating capital by obtaining overdrafts and discounting bills), accelerates the velocity of turnover of capital. The rate of surplus value (the profit-wages quotient) seems fairly stable, at least in the long run. In the short run, profit is found to be more elastic than wages.[107]

This being the case, progress necessarily entails a falling rate of profit. This law—the tendency of the rate of profit to fall—has been criticized because the increase in organic composition that reflects the progress in productivity makes possible an increase in the rate of surplus value, the effect of which on the rate of profit is antagonistic to the alleged law.[108] Some Marxists have thought it necessary to show that the tendency is stronger than this countertendency, either because—the increase in productivity being greater in the industries producing means of subsistence, although the rate of surplus value increases—this increase is less than that in the organic composition, or because, on the contrary, this productivity rises to a greater extent in the other industries, in which case neither of the two ratios in question is affected.[109]

A law that states a tendency is not one that is "empirically wrong in the short run" but one that is "empirically right in the long run": something that is strictly meaningless. It is a law that bears within itself two contrary movements. This is indeed the case here: increase in organic composition and increase in rate of surplus value go hand in hand, because the very forces that engender the increase in organic composition (technical progress) work in favor of an increase in the rate of surplus value. In actual fact, technical progress continually induces a surplus of labor, "released" by this progress, and this surplus takes

effect on the labor market, facilitating an increase in the rate of surplus value.

The reason the rate of surplus value tends to stabilize in the advanced countries is to be found elsewhere. Here again we come upon the transformation that thenceforth makes increased wages possible. It is understandable, then, that toward the end of the nineteenth century the rate of profit falls rather sharply in the old centers. A search for new outlets becomes necessary, outlets where a better rate of profit can be secured: export of capital on a large scale makes its appearance. This outlet is found in the new centers in process of formation, where the most modern techniques can be employed on a larger scale; we are here in the classical situation of the advantage enjoyed by industry in new regions. In these places, despite high wages—sometimes, and even frequently, higher from the start than in the old centers—productivity is so much better that the rate of profit is improved to an equal degree.[110] But there are also the countries of the periphery, where, for the opposite reason—because the rate of surplus value is higher there, wages being lower for the same productivity—the rate of profit is better.

Equalization of the rate of profit tends to become effective on the world scale as integration of commodities and capital in the world market becomes more thorough. This is why the differences observed and measured between rates of profit in advanced and underdeveloped countries—though plain enough to see—are insufficient to compensate for the massive transfer of value from the periphery to the center which the differences in rates of surplus value makes possible, through the worsening of the terms of trade.[111]

There is no mystery about the fact that export of capital, far from replacing export of goods, actually stimulates it. Transfer of capital means a transfer of purchasing power that should stimulate an increase in demand, especially for imports. That the increased demand must result in increased imports is neither certain nor automatic, though it tends to work that way.[112] But it is also clear that the concrete link between export of capital and the resulting export of capital goods removes some of the mystery from this problem. Current economics wavers in this domain, as so often, between a mysteriously automatic adjustment (the "theory" of which is derived from the ideology of universal harmonies) and a pseudo-problem: if comparative advantage is accorded a position it does not deserve, as a "fundamental," then the movement of capital ought to *replace* the movement of goods rather than stimulate it.

Nor is there any mystery in the fact that the dynamic of this export of capital (inflow of capital and outflow of profits) is radically different in the periphery from what it is in the new centers in process of formation. If for current economics it remains mysterious why the periphery moves from the stage of young borrower to that of old borrower, whereas the new centers in process of formation move from being borrowers to being lenders, this is because this "theory" is ignorant of the concepts of center and periphery, knows nothing of the distinct concepts of socioeconomic formation and mode of production, reduces the different formations to the quantiative differences, and then likens the investment of U.S. capital in Europe to that of foreign capital in the Third World.[113]

The present age is distinguished by new tendencies. Monopoly does not imply merely a redistribution of profit to the advantage of the monopolies. Analysis of the conditions in which the contradiction between the capacity to produce and the capacity to consume—that permanent reflection of the basic contradiction of capitalism—finds expression in the present phase of the economy of "giant enterprises" has only recently been undertaken: realization of the potential superprofits of monopoly calls for an increase in the "surplus" (a wider concept than that of surplus value, including nonproductive incomes and state revenues).[114]

Carrying out this analysis, Baran and Sweezy examine the ways in which this increasing surplus is absorbed. The "effort to sell"—competition between monopolies being no longer effected through prices—constitutes the inner law of the system: the lavish outlay on "selling costs" that accompanies monopoly facilitates the realization of monopoly profit while at the same time it reduces the rate of this profit. Public expenditure, civil and military (which in the United States has increased from 7 percent of the internal product at the beginning of this century to 10 percent in 1929, 19 in 1939, 25 in 1957, and 29 in 1963), constitutes the other inherent tendency in the system of realization of profit. Thus, the surplus realized (all that can be measured)—surplus value, waste, and surplus absorbed by the state—increased from 47 percent of the product in 1929 to 56 percent in 1963. But the whole of the potential surplus cannot be realized: underutilization of production capacity is permanent, and the total of unemployed plus the labor employed in the growing war-industry sector forms a high, and undoubtedly increasing, proportion of the labor force. This chronic underemployment reduces the actual rate of profit of the monopolies, determines the forms and particular conditions of

technical progress, and ultimately requires the conquest of external markets that can provide a higher rate of profit. The examples given by Baran and Sweezy show the size of the superprofits of exported monopoly capital: "While two-thirds of Standard Oil of New Jersey's assets were located in North America, only one-third of its profits came from that region."[115] True, it results from this gap between rates of profit that, in the end, the centers of capitalism are huge *importers* of capital, for the backflow of profits is very much greater than the export of capital, as Baran and Sweezy rightly point out, and so the export of capital represents no solution to the problem of how to absorb the surplus, but, on the contrary, worsens the conditions for this. This does not, however, stop the export of capital from seeming to the giant firm, at its microeconomic level, to be the solution to the problem of what to do with surplus profit.

The scientific and technical revolution of our time worsens still further the basic contradiction of the system, for its main manifestation is to make investment more efficient, in other words, to reduce the capital-output ratio, and so to make even more superfluous the unconsumed portion of profit. It reinforces the inherent tendency for capital to be exported, and is doubtless the reason behind the recent flow of U.S. capital toward Europe.

The post-Keynesian "maturity" theory seeks to account for a real phenomenon: the difficulty of realizing surplus value in the age of monopoly. However, it goes in search of the causes where they cannot be found: in the monetary mechanism. Perhaps Baran's biggest contribution to economic science has been to establish how the tendency for the rate of profit to fall is overcome in the age of monopoly by new forms of absorption of the surplus (waste and public expenditure). To do this, Baran had to invent a new scientific concept, corresponding to the needs of the question—new, because it reflects a new problem, that of the aggravation of capitalism's basic contradiction in our time—the concept of surplus; as, with Sweezy, he also had to establish that in our time the *potential* surplus tends to be greater than the *actual* surplus.[116]

Like Baran and Sweezy, I maintain that neither foreign trade nor export of capital really offers a means of overcoming the difficulties of realizing surplus value, for trade is equally balanced for the central regions of capitalism taken as a whole, and export of capital gives rise to a return flow that tends to exceed it in volume.[117] This is why the "excess surplus" is absorbed in other ways, through economic waste and public expenditure. The economic laws of competition between monopolies lead, moreover, by themselves, to this necessary waste

(through the forms of "monopolistic competition": selling costs, etc.). The state also intervenes actively to absorb the excess surplus. Certain contemporary forms of international relations—external military expenditure and state "aid"—which make possible a deficit in the balance of payments also form one of the ways of absorbing the surplus.

External trade thus corresponds to the same requirements of the system as before, but with tenfold force. It makes possible a reduction in the cost of labor power, in particular through the importing of agricultural products from the periphery, purchased under conditions of unequal exchange. This unequal exchange is itself possible thanks to the mechanisms that enable monopoly capitalism to ensure a steady increase in wages at the center (mechanisms bound up with the forms of competition between monopolies), whereas the nature of the formations of the periphery makes it possible to keep the reward of labor low. External trade also enables the cost of raw materials to be reduced, thanks to the same mechanism of unequal exchange.

The "extra-economic" methods to which competitive capitalism had to have recourse have thus been replaced by "economic" methods: this is one of the sources of the ideologizing of economics, or "economism." At the same time, the possibility—thanks to the monopolies—of exporting capital multiplies the means of forcing upon the periphery the kinds of production that the center needs. The struggle for raw-material markets becomes a fact vital for analysis of the economic policies of the monopolies, and so of state policies in general. We now understand why the United States, which was a net exporter of mineral products down to 1920, has become a substantial importer of these products, to such a degree that these net imports amount to about 14 percent of their consumption (in 1961): 43 percent of their production of iron ore, 31 percent of oil, 18 of copper, 638 of bauxite and 130–140 percent of lead and zinc (in 1966).[118]

The export of capital, while not enabling the surplus to be absorbed (for the reason given above), serves to raise the rate of profit, since capital benefits from rates of surplus value higher than in its country of origin. But this vital transfer is largely concealed by the equalization of the rate of profit on the world scale, which constitutes the essence of unequal exchange.

It is important not to identify the function and mechanisms of trade and of capital export between countries of central capitalism, such as the United States and the European countries, with the function of these relations between central and peripheral countries, for neither the nature of the products exchanged, nor the direction taken by foreign

investment, nor the dynamic of the return flow of profits is the same. As regards commercial exchanges,[119] these mainly involve manufactured goods in the non-Communist advanced countries ($68 billion, annual average for 1960–65, out of total exports of $97.1 billion); whereas agricultural, mineral and oil products represent, respectively, $8.4, $6.8 and $9.1 billion, and manufactures only $4.7 billion, in the total exports of the underdeveloped countries. The tendency for exchanges among advanced countries to increase faster than exchanges between them and underdeveloped countries is characteristic of our time. Between 1950 and 1965, world trade grew from $53.5 to $156.3 billion (an annual growth rate of 7.4 percent), the growth rate of trade between the advanced countries being 9.4 percent, whereas that of exports from the underdeveloped to the advanced countries was 5.2 percent (4.2 if we exclude the oil producers).[120] Not only is the direction taken by foreign investments fundamentally different depending on whether the receiving countries are advanced or not; the dynamic of the return flow of profits is also different. Whereas the flow of U.S. dollars to Europe and Canada ($14.9 billion between 1950 and 1965) was greater than the return flow of profits ($11.4 billion), the return flow from the periphery ($25.6 billion) was greater than their inflow of exported capital ($9 billion).[121]

The uneven development between the United States and the other countries of the center (Europe and Japan), which was heightened during the Second World War, has made relations between the United States and Europe particularly important since 1945, and this, which underlies the prosperity of this period, has relegated relations with the periphery to a secondary role. Thereby, the world system at the center has undergone transformation: a fundamental hierarchy has been established between the United States and the other countries, whereas before this period the system had been marked by relative equilibrium among the powers.[122] Investment of U.S. capital in the other countries of the center does not fulfill the same function as that of investment of capital in the periphery. The search for raw materials is a secondary consideration: the essential factors are desire for access to the protection of licenses and preferential markets, and, above all, technological superiority, rather than the lower level of wages. It is true, however, that the lower wage-level in Europe does enable American firms there to realize higher profits, thanks to their superior technology. This motive, of secondary importance in the export of U.S. capital to Europe, can be vital in the export of this capital to develop industries to produce goods to replace imports in the periphery—contrary, it

would appear, to Magdoff's opinion.[123] The increasingly international character of technology that results from this constitutes, along with the scientific and technical revolution, the second special feature of our time.

It follows from this that external relations are essential to the center: not only relations between the center and the periphery but, more specifically, relations between the United States and the other countries of the center. I agree with Magdoff that it would be absolutely wrong to suppose that these relations are not important for the United States because exports of goods represent only 5 percent of that country's gross internal product, and exports of capital amount to only 10 percent of investments inside the U.S. What is marginal for a country may not be so for one vital firm.[124] While U.S. exports increased from $10 billion to $25 billion between 1950 and 1964, sales by American firms abroad increased from $44 billion to $143 billion. These firms' production represents the equivalent of a Third-World power: the total of exports and these sales amounts to two-fifths of U.S. material production of consumer goods. The increase of these sales multiplied by 3.7 in 14 years (between 1950 and 1964), as compared with a factor of only 2.3 for sales on the home market. Profits from these investments increased from $2.1 billion in 1950 to $7.8 billion in 1965, whereas the profits of companies operating at home grew only from $21.7 billion to $36.1 billion; and investments by branches of U.S. firms abroad multiplied by three, whereas those of the home-based firms multiplied by only 1.4, between 1956 and 1967.[125]

It is in close correlation with the thesis of absorption of the surplus by the state that some contemporary aspects of external relations need to be approached. State aid to foreign countries belongs in this category. Out of a total of $117 billion of U.S. state aid distributed between 1945 and 1967, the advanced countries (mainly in Europe) received $45.7 billion, almost all of it between 1945 and 1957 (the Marshall Plan), largely in the form of gifts ($33.4 billion); client states having military ties with the United States (Turkey, Greece, Iran, Formosa, the Philippines, South Vietnam) received $36.9 billion ($32 billion in gifts); and the other underdeveloped countries received $34.6 billion (of which only $14.4 billion was in gifts). This aid enabled 30 percent of American steel exports to be disposed of and accounted for 40 percent of the turnover of the merchant navy. Along with military purchases, exports, largely financed in this way so far as some products are concerned, represent between 20 and 90 percent of the production of certain branches.[126]

State aid to underdeveloped countries, which began after the Second World War, fulfills a variety of functions. Apart from its political significance, which cannot be overlooked by economists, this aid makes it possible to overcome the contradiction between the inflow of private investments and the outflow of profits—in other words, it serves the vital function of maintaining the status quo that imposes an unequal international specialization upon the periphery. The total net financial contributions of the advanced Western countries to the underdeveloped countries increased from $8.1 billion in 1960 to $11.3 billion in 1967 ($7 billion of this being contributed by governments), while the contributions from the Eastern countries came to about $0.4 billion. This represents approximately 1 percent of the national income of the advanced countries of the West. State financial aid represents about 50 percent of these contributions, technical assistance 12 percent (mainly in the sphere of education, especially in the French-speaking countries of Africa), private investment 25 percent, and export credits 10 percent. The proportion of state aid conveyed by loans has steadily increased at the expense of that of gifts, from 23 percent in 1961 to 41 percent in 1967. Aid in foodstuffs has increased from about 20 to about 25 percent. Participation by the United States in the total external contribution amounted to about 42 percent in 1967, that of France 10 percent, Germany 8.5, and Great Britain 6.5.

Despite claims to the contrary, the results of this "aid" are quite unremarkable. The annual rate of growth of the developing countries was only 5 percent between 1960 and 1967, or 2.4 percent per capita, which was less than that of the advanced countries. Food production per capita has been stagnant or has even declined, and the number of adult illiterates has remained constant, or has even increased, standing now at from 700–800 million persons. The gap separating the advanced world and the periphery has grown wider in every way. It is not the inadequacy of the effort that is responsible for this situation, but the direction given to "aid," and its essential function: maintaining the status quo. Although the "gift element" is important in state aid—the conditions of loans being better than those on the Western capital market—the external debt of the underdeveloped countries grew from $9.7 billion in 1956 to $41.5 billion in 1967 (while that of the advanced countries grew from $14.2 to $16.6 billion), and the service of this debt absorbs 10 percent of exports as against 3 percent in 1956. The direction taken by private investments (half of them in oil production), which corresponds to the needs of development at the center; the "super-prices" paid by the periphery (especially in the franc area,

and also the prices that form the counterpart of U.S. state aid for disposing of U.S. agricultural surpluses); the military and political character of an important part of state aid—all these facts have led Edward Mason to estimate that at best one-third of the West's contribution to the underdeveloped countries promotes development, or what I call growth without development.[127]

While external aid is intended not to develop the periphery but to maintain it in its underdeveloped condition, it does not reduce the excess surplus of the center, since it induces a return flow that greatly exceeds this, especially if we allow for adjustment to include the hidden transfer of value. Nevertheless, it serves an essential function for those branches of the economy and those big firms that are the real beneficiaries of this "aid."

The Functions of International Trade and of the Export of Capital

To recapitulate the foregoing conclusions, we must first say that the theory of comparative advantages is incapable of explaining the structure and dynamic of world trade, and that its relevance is very limited and quite secondary.

The main reason for the increase in world trade lies in capitalism's inherent tendency to extend the market. This tendency does not result from any need to absorb the surplus, either in the competitive or in the monopoly period. This is what Lenin says on the point: "Capitalism's need of a foreign market is by no means to be explained by the impossibility of realising the product on the home market, but by the circumstance that capitalism . . . inevitably leads to an unlimited growth of production . . ."[128]

At the start, to be sure, the development of capitalism may have been hindered by the narrowness of the agricultural market. Adam Smith drew attention to this point, as Palloix has reminded us, and Henri Denis and Paul Bairoch are right to emphasize the role played by external markets in the initial phase.[129]

The transformations that followed the appearance of monopolies did not create a new problem of surplus absorption, either. The export of capital is not motivated by this alleged need, but by the search for a higher rate of profit. Marx pointed this out when he wrote: "If capital is sent abroad, this is not done because it absolutely could not be

applied at home, but because it can be employed at a higher rate of profit in a foreign country."[130]

The law of the tendency of the rate of profit to fall remains the essential, and therefore permanent, expression of the basic contradiction of the system. It does not become "nonessential" in the age of monopoly, as Palloix asserts, in an interpretation of Baran's theory of surplus.[131] I think, on the contrary, that the appearance of a potential surplus is the way this downward tendency manifests itself. It is a surplus that has to be absorbed, and it is indeed absorbed, as Baran and Sweezy have shown, not by external trade or export of capital (which brings about a return flow of profits) but by internal modes of absorption, namely, by public expenditure and waste, and, to a lesser extent, by new forms of external relations: external military expenditure and state aid to underdeveloped countries.

The function of trade as a way of combating the tendency of the rate of profit to fall is therefore a permanent one, not confined to the competitive period of capitalism.[132] On the contrary, the monopolies, which make possible the export of capital, reinforce the effectiveness of this function. Here we see how right Lenin was to have organized his whole analysis around this central phenomenon, the appearance of monopolies. I think I have shown, in the same way, that it is from the appearance of monopolies at the center that unequal exchange between the center and the periphery has resulted. It is this rise of monopolies that has made possible an increasing divergence between wages at the center and in the periphery, for the same productivity, which in turn explains why exchange can be unequal even though the underdeveloped countries export products of modern high-productivity enterprises. The organization of an increasing surplus of labor in the periphery, as a result of primitive accumulation, is also essential to the understanding of this phenomenon of unequal exchange.

This is the general context in which the specific forms and functions of exchange between center and periphery need to be placed. It is the domination of the center over the periphery that explains the adjustment—through the changing forms of international specialization —of the periphery to the requirements of accumulation at the center. To a lesser extent, the development of capitalism in the periphery, by disintegrating precapitalist societies, facilitates and accelerates this accumulation at the center. Luxemburg was right to emphasize this fact, but she was wrong to present it as an absolute necessity for realization of the surplus.

The Monopolistic Nature of International Relations and the Place of Monopolies in World Trade

Current economic theory as taught in the universities pretends to be unaware of the vital facts and therefore allows itself to choose its assumptions "freely." This is why (with the exception, in France, of François Perroux) it declines to acknowledge the existence of the giant firms that occupy a decisive position in world trade as well as in the export of capital. At best, instead of studying the international strategies of the monopolies, it agrees to consider the *states* as monopolists. In this way it formulates some real problems, but also a lot of false ones, which result from its "forgetting" the "middleman" between the small competitive firm and the nation-state—namely, the monopoly.

Here we see the limits (which are ultimately narrow ones) of the current theory of international economic relations, conceived as oligopolistic relations between states. After having long been regarded as competitive, international relations are now increasingly interpreted in economic writing as monopolistic. Nevertheless, agreement is far from complete on the implications of this position. The most extreme proponents of this view would see in international relations not relations between firms in different countries, but relations between states; they then identify the behavior of these nations with that of oligopolists struggling against each other in a market. Others, with a more modest conception, put in the forefront the elements of monopoly which, independent of any state intervention or collective behavior, give international relations a noncompetitive character.

Nineteenth-century theory was fundamentally microeconomic. In dealing with international relations, as elsewhere, analysis refused to see anything but relations between individuals, as buyers and sellers. And yet the mercantilist experience refuted this view: until the belated triumph of free trade, international economic relations were strictly subordinate to the policies of governments. The history of the chartered companies that held a legal monopoly of trade between Europe and the rest of the world offers striking proof that the nineteenth-century view was a very restricted one. Tariff policy, too, reinforced monopoly: Britain itself was not always a free-trade country.

This is why there is a growing desire to see in international relations, looking beyond the individual dealing of one trader with another, relations between oligopolists.[133] There is competition between buyers or sellers belonging to the same country, but only within the limits laid down by the commercial and tariff policy of the collectivity concerned.

Between these collectivities the struggle takes a form similar to that which is studied by market analysts under the general heading of struggles between partners in an oligopoly.

When they reintegrate economic policy into the mechanisms of external trade, modern economists are merely continuing what was done by the classical writers of the first half of the nineteenth century, whose thinking was shamefully schematized later on. We find, for example, in John Stuart Mill a discussion of very interesting hypotheses regarding the effects of the introduction of a customs duty on the terms of trade.[134] Clearly, though the English classical economists looked at international relations in their microeconomic and competitive aspect, they did so only at the first stage. At the second stage they saw these relations as relations between groups. In other words, competition went on within conflicting "groups." This was a realistic conception that was very close to the reality of their age. At the same time, however, the classical writers defended free trade on the basis of a belief in "natural advantages." This is why the neoclassical schematization was possible: henceforth only relations between individuals were seen in international relations.

The resumption of trade wars after 1890, and the German policy, in the period between the world wars, of trying to tie up the whole of the foreign-trade of the southeast European countries with Germany in order to create a truly colonial type of complementarity, with these countries "specializing" in the provision of grain, meat and bauxite, brought back into favor studies of the oligopolistic behavior of states.[135]

Once again it was through an analysis of tariff policy that the oligopolistic way of looking at international relations was revived. The writers who have dealt with these problems accept the assumption behind the theory of comparative advantages.[136] They then note that when one country sets up tariff barriers, it should not be to the interest of other countries to follow its example. The newly established tariff is a fact modifying the distribution of relative prices in the country that has introduced it. The other countries will continue to achieve maximum satisfaction by practicing free trade with this country and accepting its internal price-system, allowing for the tariff charges, as a *donnée* —simply one of the facts that have to be taken into account. Yet we see that these other countries hasten, in fact, to imitate the innovator.

The theory of comparative advantages cannot account for the interest these countries have in establishing a protectionist system for themselves as well. There are two reasons why this interest exists: on

the one hand, the purpose of the tariff is monopoly, and this improves the terms of trade for the country concerned. Even from the standpoint of the theory of comparative advantages, there is substantial indeterminacy in the exchange ratio, and monopoly enables one of the partners in exchange to put itself in the position most favorable to itself within the zone of indeterminacy. There is also, however, another reason, which is more in the tradition of List. By protecting itself, the innovator country makes it possible for certain industries to become established within its borders, thereby providing itself with a future advantage. The other countries are then obliged to follow suit. The advocates of free trade counterattack by declaring that for a country to respond to such an act on the part of its partners in exchange by raising its own tariffs can only resuly from a misrepresentation of the facts. On the one hand, it is true that the country improves its terms of trade, but on the other hand, a distribution of resources is brought about that is no longer optimum. Taussig and Edgeworth claimed, strongly but without adducing any proof, that the disadvantage resulting from such an operation was greater than the advantage.[137] In reality this is a pseudo-problem, for the theory of the "optimum distribution of resources" is based on that of "factor endowment," and this is meaningless from a dynamic standpoint.

A whole tendency in present-day econometry has undertaken to measure the monopolistic character of international relations, by taking the states as the units in world trade. We have already seen that the underdeveloped countries usually get their supplies from one or two or three chief supplying countries. The simple facts that the number of these suppliers is less than the number of countries involved in relations between advanced countries, and that the underdeveloped countries do not automatically get their supplies from the supplier who could quote the lowest price (that is, the country which is absolutely the most efficient), provide proof of the monopolistic nature of the exchanges in question. In this way the "intensity" of the exports and imports of the advanced and of the underdeveloped countries has been measured and compared: the intensity of the exports by the advanced countries to the underdeveloped ones is greater than that of the exports of these same advanced countries to other countries of the same category.[138] Under these conditions, the two partners in exchange are not equal in strength. The rigidity of the demand of the underdeveloped countries for the products of the advanced ones is greater than that of the advanced countries for products of the underdeveloped countries.

Comparative analysis of elasticities provides interesting pointers on this problem of the nature of international relations and the degree of inequality of the forces involved.

The price elasticities of imports (quotient of the variation in the value of imports at constant prices by the variation in the relative price of imports, that is, the ratio of the price of imports to local prices) are usually low. But they seem to be higher in the case of highly developed countries (the case of the United States is typical). For the European countries that buy raw materials this elasticity is low, which means that raw materials are bought by them whatever the price. Where manufactured goods are concerned, however, it seems that price has a more marked effect on the purchases made by the advanced countries, and a less marked effect in the case of the underdeveloped ones.

The price elasticities of exports are also low (quotient of the variation in exports at constant prices by the variation in the relative price of exports, that is, the ratio of the price of a country's exports to that of the similar exports of other countries). They seem to be lower in the case of the underdeveloped countries, which would mean that these countries export regardless of price to a greater degree than applies elsewhere.

The price elasticity of the imports of underdeveloped countries is distinctly higher than that of the advanced countries (quotient of the variation in imports at constant prices by the variation in the national income). The underdeveloped countries thus need foreign imports to satisfy their growing demand to a greater extent than the advanced countries do. An increase in world income favors the exports of the advanced countries more than those of the underdeveloped ones. The underdeveloped countries are much more dependent on the advanced ones than vice versa.

More interesting still is what has been observed about elasticities of substitution between exports. The elasticities of substitution of all the exports of two countries show that each country has its own customers and its own particular production. International relations are not very competitive, either between two advanced countries of similar structure or between two agricultural countries. The elasticities of substitution between two homogeneous commodities (and the raw materials and agricultural products of the underdeveloped countries are easily reduced to homogeneity, whereas this is harder to effect with the manufactured products of the advanced countries) on the world market are already greater. As for the elasticity of substitution between two homo-

geneous products on one particular market, this is always high, and much more so for agricultural and mineral products.[139]

International relations, which do not seem to be very competitive, are monopolistic to different degrees. Competition among the products of the underdeveloped countries on the markets of the rich countries always seems stronger than that among manufactured goods on the markets of the underdeveloped countries. It will be observed that this competition is even less when political domination is superimposed on relations of economic domination. (This is why Britain was less afraid of Japanese competition in India than in China.) There is therefore considerable inequality of strength in the relations of bilateral monopoly between the underdeveloped countries and the advanced ones. If, then, international exchanges belong to the sphere of the theory of bilateral monopoly rather than to that of competition, we can conclude that a transfer of value must be taking place from the weaker country (the underdeveloped one) to the stronger of the two partners in exchange.

This inequality arises, in the first place, from the specialization of the underdeveloped countries' exports. The integration of the banking and currency systems that often accompanies underdevelopment helps to force the underdeveloped countries to purchase the goods they import from their principal customers. In the second place, there is the close tie between the export of capital and that of goods. A strong correlation exists between the export of capital from a country and its exports of goods. Analysis of this has been carried further by Iversen, who has examined the correlation between export of capital destined for a particular branch and export of goods connected with this same activity.[140] The conclusions are highly illuminating. Similarly, Feis quotes in his well-known work a number of examples of contracts for international loans that include clauses providing for purchase of capital goods in the country advancing the money. Present-day international aid has made this a general practice.

It is on this basis of the monopolistic character of international relations that the dominant tendency in contemporary economics approaches the long-term movement of the terms of trade. While this monopolistic character made itself felt after 1880 in a worsening of the terms of trade for the poorer countries, it may well have found expression earlier than that date, through an improvement in these terms that was inadequate given the progress made in the industrial countries as

compared with that made in the agricultural ones. The monopolistic character of international relations would in that case have merely been reinforced after 1880.[141]

Without denying that this view is better than partial analyses restricted to a narrow microeconomic terrain, nevertheless it is of secondary significance for the understanding of relations between advanced countries and underdeveloped ones. First, nations are depicted here as oligopolists of unequal strength, brought face to face with one another. While this is true, theoretically, for relations among independent countries, it is not true for relations between metropolitan and colonial countries. In this case, commercial and tariff legislation has served to reinforce the metropolitan country in its relations with third parties, rather than the colony in its relations with the metropolitan country. Besides, the oligopolistic conception of international relations presupposes economic independence on the part of buyers and sellers. It imagines the relations between a French buyer and a German seller, having different interests and each protected by the bargaining power of his own country. It does not, however, imagine what becomes of this bargaining—which in fact does not happen—when the buyer and the seller, though geographically distant from each other, are not economically distant. Yet the relations between advanced countries and underdeveloped ones, owing to the complementarity of their economies created by the mechanisms of specialization within the context of domination by the more advanced economy, which "adjusts" the structure of the colony to its own needs, belong to this type of relation.

External analysis of bilateral monopolies or oligopolies remains naive. It can only shake off this naiveté by leaving the field of "games theory" and analyzing the social formations and the political relations between the different dominant classes in these social formations—the formations of dominant "central" capitalism and those of dominated "peripheral" capitalism. Furthermore, the worsening of the terms of trade cannot be revealed by analyzing exchange relations, which remain superficial, on the level of appearances. As we have seen, it is at the level of production relations that the mechanism of exploitation of the periphery by the center is to be found.

Accordingly, instead of confining oneself to describing the phenomenon of inequality by econometric measurement of its apparent manifestations (the elasticities), it is more fruitful to analyze the place held by monopolies in world trade.

Monopolies and the trade of the underdeveloped countries. Today the bulk of the important raw materials that are exported by the underdeveloped countries is controlled by monopolies, either through a few firms directly owning the sources of production (oil, minerals, Unilever and United Fruit plantation products, etc.); or through production which is "dispersed" in the producing countries (groundnuts, cotton, etc.) being concentrated in the hands of a few very powerful foreign importers, or of the local wholesale trade, which is usually highly concentrated. In any of these cases, a few monopolists dominate the relations between advanced countries and underdeveloped ones. This is the view held by most observers of "colonial" economy.[142]

Can it be said that, since the monopoly is usually bilateral, nothing allows us to say a priori which of the two parties gets the lion's share of profit? It could indeed be claimed that the oil of Arabia is produced by a powerful firm (Aramco), whereas the European consumers are dispersed and are in a weaker position, so that this monopoly ultimately enables a transfer of value to be effected from the advanced countries to Saudi Arabia. But ultimately it is these same monopolies that function in Europe and the United States on the one hand, and in the rest of the world on the other. Through the channel of investment banks and holdings, as through that of subsidiary companies and overlapping boards of directors, the two "parties" interpenetrate. For this reason, the transfer of value will not take place from the apparently weaker monopoly to the stronger one (as Edgeworth says), for this is a meaningless way of looking at the matter: it will take place quite differently, since the two monopolies are not independent of each other.

Robinson's realistic formulation will be remembered, according to which the mass of profit realized by a monopoly is to be considered proportional to the strength of this monopoly in relation to the wage-earners in its employment. This strength is undeniably greater in the underdeveloped countries, where the working class is less able to defend itself. Total profit will, all other things being equal, prove to be higher there than elsewhere. And where will this profit go? Will it stay in the country where it has arisen, and finance local development, or will it be "repatriated"? If the latter, it will not need to be repatriated officially, through export of profits. The process can be camouflaged by a policy of low prices that prevents the colonial branch of the monopoly from realizing all the profits it might, whereas the European or American parent-company realizes more substantial profits on the spot. This is why the fiscal policies or exchange-control regulations of the underdeveloped countries can prove helpless to prevent the transfer of

value.[143] The well-known failure of the policy of multiple exchange-rates, though a technically very clever device, may well be taken to justify this pessimism.[144]

Up to what point can the transfer of value be effected? A priori, there are no grounds for saying, since political considerations may affect the firm's attitude. Broadly, however, it can be said that this can be done up to the point at which the price of the product no longer covers more than the price of local productive services (wages and rents), paid at minimum rates, that is, rates that ensure mere subsistence for the wage-earners, plus that consumption of luxury goods which is considered to be the minimum if the local ruling classes are not to threaten to nationalize the foreign monopoly. Interest paid does not constitute the reward of local services, for the local market usually does not provide any capital for the foreign firm, which obtains this from bank loans supported by the deposits of small savers in Europe. Rent seems, therefore, to be the only local "productive service" apart from wages. The view taken by the ruling classes of these countries is understandable. Nationalization involves only risks. Besides the political difficulties it may engender, nationalization does not rescue the underdeveloped countries from the need to call on the help of foreign technicians and foreign capital, which may, through the necessary mediation of foreign banks, turn out to be very costly. The net profit derived by the ruling classes may prove to be very small: they appropriate the profits made, but they have to pay very high interest and perhaps higher wages. So long as the foreign firm pays them substantial rent, the alliance would thus seem advantageous to both parties. This rent may come directly to the landowners individually, or collectively through the local state in the form of "royalties" or "profit-sharing" arrangements.

This is no mere theoretical analysis. The history of political relations between the metropolitan countries and the underdeveloped ones is filled with "negotiations" of this sort. The impotence of nationalization is the theme, for example, of the celebrated "self-criticism" of the Société Générale de Belgique when the Katanga mines were nationalized.[145] So long as the underdeveloped country continues to be integrated in the world market, it remains helpless. At the level of "equilibrium," therefore, the possibilities of local accumulation are nil, because the whole of the surplus that could have been obtained from production is transferred, flowing into the pool of profits belonging to the monopoly. True, part of this surplus may come back to the country in the form of foreign capital. But this will happen only if there is a

prospect of further profits, and the impoverishment of the local outlet resulting from the initial transfer of value is not likely to favor this possibility.

There has been an attempt to ascribe to monopoly a more exhaustive role in the mechanism of the worsening of exchange conditions for the underdeveloped countries. A number of writers are convinced that monopoly is more frequent than it seems: that not only are the exports of underdeveloped countries controlled by a few big monopolies (either at the level of production or at that of purchase), but also that their imports, though made up of a wide variety of manufactured goods, are governed more by the mechanisms of monopoly than by those of competition. The phenomenon is explained by the imperfection of the market in the underdeveloped countries. Perfect competition requires many conditions; a large number of sellers, though a necessary condition, is not a sufficient condition. By approaching the question in this way it has been shown that the poor organization of distribution in the countries of the Third World gives rise to monopoly rents in most places. Here we see also the possibility of "monopolistic exploitation" of the native consumer. The absence of bank credit available to small traders strengthens this tendency.

All these theories are connected with Chamberlin's theory of monopolistic competition. They are related also to the studies that have been devoted to analyzing "economic space." The latter, which can be defined in a number of different ways, may be regarded, *inter alia,* as the geographical area in which equalization of the market is realized to the maximum degree.[146] From this viewpoint, the relative scarcity of money circuits in the underdeveloped countries, the difficulties of transport, and the difficulties that buyers experience in "freeing" themselves from the yoke of a local seller (who is sometimes also the local usurer), all contribute to breaking up the national market into many small localized markets, which are the "fields of force" of these local sellers. Within these zones the sellers enjoy a real monopoly—which, however, is always in jeopardy. This is why a situation prevails which is neither competition nor monopoly, but monopolistic competition. Without denying the interest that attaches to these studies, it must be said that they concern themselves with a level that is secondary compared with the previous one.

The theory of monopolistic competition, worked out by Chamberlin on the basis of advertising and the differentiation of products on the markets of the highly developed countries, was subsequently extended to the underdeveloped markets.[147] At the moment, however, when the

theory was generalized in this way, the facts were already, as so often happens, in advance of the theory. Indeed, this theory seems more appropriate to explaining the rents enjoyed by foreign sellers in the colonies in the age of competition than to the phenomena of our own time. Today, when powerful monopolies control the purchase of the basic products of the underdeveloped countries, just as in Europe and the United States they control the production of the manufacturing industries, some of whose products are sold in the Third World, the monopoly held by colonial trading concerns seems a secondary factor.

Finally, it is thought that international markets are markets where effects of domination are felt.[148] These effects, related to a tradition in commercial organization, to constraint, or to reasons of a more economic nature—the differences between national elasticities of supply or demand, the volume of the selling or buying markets, or the conjunctural position of these markets—enhance the sum of the price-elasticities of supply and demand on the market.

What makes this question important is that every factor of monopoly works in the same direction—in favor of the more advanced producers and against the underdeveloped countries. Monopoly makes possible the transfer of value from the poor countries to the dominant ones. It contributes to the stagnation of wages in the poor countries. The monopolies petrify this situation, giving rise to a series of vicious circles which are unfavorable to accumulation. These low wages prevent modern technique from becoming profitable, hinder the emergence of a skilled labor force, and hold back the creation of a local bourgeoisie.

The stress laid by university research on these aspects (which, after all, are only secondary) of the problem of exchange relations between advanced and underdeveloped countries is in danger—if what is essential is forgotten, namely, the relations of production and the social formations confronting one another—of leading economists into futile over-refinements. These lend themselves well to "calculation" and are the delight of "econometricians," but that does not confer scientific status upon them. The sin of economism, here as elsewhere, stops them from going beyond apparent phenomena and grasping what is essential: namely, that an analysis of the relations between the center and the periphery of the world capitalist system is bound up with an analysis of that primitive accumulation which is to be sought not only in the prehistory of capitalism but also in its current history.

Summary of Conclusions

1. The relations between "advanced countries" and "underdeveloped countries cannot be understood within the context of analysis of the capitalist mode of production. This question is actually a matter of relations between different social formations: more precisely, between those of the capitalist center and those of the periphery of the system. Analysis of these relations forms the essence of a study of accumulation on a world scale. It reveals the contemporary forms assumed by the mechanisms of primitive accumulation: unequal exchange, that is, the exchange of products of unequal value (or more precisely, with unequal prices of production, in the Marxist sense—the social formations of the center (since the appearance of monopolies) and of the periphery (where the precapitalist economy provides reserves of labor power) allowing of different rewards for labor with the same productivity. Restriction of analysis of these relations to the context of the capitalist mode of production involves a fundamental "economistic" error.

2. Ricardo's theory of comparative advantages, the basis of the "economistic" theory of international exchange, assumes the capitalist mode of production as its context. Ricardo's underlying assumption of the same wage-level prevailing throughout the world reflects his taking this restricted context for his analysis. Consequently, the problem of the terms of trade, which can alter only within a limited zone of indeterminacy, appears secondary, with exchange being always to the benefit of all the partners. With the abandonment of the labor theory of value, subjectivist economics falls, here as elsewhere, into apologetics and tautology: "exchange, since it exists, is beneficial."

3. A Marxist theory of exchange between the center and the periphery was not worked out by Marx, the special circumstances of the Industrial Revolution of the nineteenth century having led him into an erroneous conception of how the colonial phenomenon would develop. The theory of accumulation on a world scale assumes significance only when monopolies and imperialism come on the scene, with the changes that accompanied them (changes in the dynamic of expanded reproduction and in that of wages, phenomenon of the "labor aristocracy," etc.).

4. History shows that the countries of the periphery, having become "underdeveloped," have not profited by their integration in the world market, through the benefits of so-called international specialization. While around 1880 the evolution of the terms of trade seems to have

been normal, that is, parallel to that of the comparative advance in productivity, with the rewards of labor as low at the center as in the periphery, the increasing gap between these rewards was subsequently reflected in a worsening of the terms of trade: an increasing transfer of value from the periphery to the center. Attempts to hide this essential phenomenon by appealing to secondary ones, such as the behavior of "demand," are full of unacceptable contradictions.

5. International specialization has taken on a succession of varying forms. Those that belonged to the prehistory of capitalism (the plundering of hoards, the slave trade, and so on) were succeeded by the "classical" forms of colonial economy (trading-station economy and mining) and then its neoclassical forms (establishment of groups of light industries in the periphery, dependent on the heavy industries of the center). New forms of unequal international specialization, still only embryonic, are taking shape in the context of the technical and scientific revolution of today, with the center keeping for itself those activities that are based on highly skilled labor (atomic power, automation, electronics, space research).

6. The conquest and opening-up of the periphery in conformity with the requirements of the center are results of the inherent tendency of capitalism to expand markets and to export capital. These tendencies account for the "appearances"—the structures of world trade. Here, too, current theory, obsessed with apologetics, shows itself beset by contradictions (the theory of capital movements contrasting with that of the trade in commodities). Marxist theory can explain this historical movement only if it breaks out of its restricted analysis of the capitalist mode of production (the ambiguity of the dialogue between Lenin and Luxemburg on the question of external markets was due to this).

7. The "economistic" theory takes refuge in lavish analysis of phenomena. It stresses the "monopolistic" character of international relations, brings out interesting points about the place and role of the monopolies in these relations, but does not grasp the essential point—the mechanism of present-day primitive accumulation—because it fails to take up the problem of the nature of the social formations of the center and of the periphery of the world capitalist system.

8. Analysis of the contemporary mechanisms of primitive accumulation is essential for understanding the basis of the internal solidarities of "central" capitalist society (in particular, of the solidarity between proletariat and bourgeoisie which is at the origin of social democracy), and for understanding the nature of the internal contradictions of the peripheral formations (unevenness in productivity and in rewards, etc.).

9. Analysis of accumulation on a world scale shows that this accumulation always takes place to the advantage of the center: it is not the advanced countries that supply capital to the underdeveloped ones, but vice versa. This explains why the development of the latter countries is blocked—the "development of underdevelopment." From this it follows that development is possible for the countries of the periphery only if they break out of the world market.

Chapter 2
The Formations of Peripheral Capitalism
Part 1: The Transition to Peripheral Capitalism

PRECAPITALIST MODES OF PRODUCTION AND FORMATIONS

In this first section I shall examine the economic mechanisms characteristic of the transition from precapitalist formations to the formations of peripheral capitalism, reserving for the next section an examination of the mechanisms of development that are characteristic of peripheral capitalism. To a large extent, of course, these two orders of phenomena are intermingled chronologically, but from a logical and didactic point of view it is useful to distinguish between them.

Current economic theory concerns itself in a desultory way with problems of "the economy of transition," while conveniently leaving responsibility for this subject to the sociologists. The themes of these studies have such titles as "Problems of the Transition from a Subsistence Economy to a Market Economy" and "The Monetarization [or Commercialization] of Subsistence Economies." While the results of such work are not always devoid of interest, they nearly always suffer from the inadequacies of a "science" that isolates the "economic" field from that of "sociology."[1] The critique of political economy (the subtitle of *Capital*) effected by Marx put an end to fragmented "economic science" and began a new science, the only possible way of studying the formation and movement of societies.

The very terminology used in these studies reflects an approach that is doubly superficial and inadequate. In the first place, the problem is not one of transition from subsistence economies (that is. economies without commodity exchanges) to market economies (which would imply that what is meant is a simple commodity economy, or that all market economies are similar). It is a problem of transition from economic formations which are noncapitalist (but not necessarily noncommodity) economies to capitalist economic formations. The term

"capitalization," were it not so clumsy, would be more suitable than "commercialization" or "monetarization." In the second place, this transition is different from that which characterized the birth of capitalism in Europe, North America or Japan, that is, in the countries that have become completely capitalist—or, more precisely, those that constitute the *center* of the world capitalist system. What we have here is transition toward the creation of the *periphery* of this same system, and the problem is to understand why there is this difference between center and periphery, and what it consists of. It is this series of unacceptable simplifications, habitually made by current economic "science," that is responsible for the false concepts of "dualism," "underdevelopment," and the like, with which present-day writing on these matters is filled. The only scientific concept is that of transition from precapitalist social formations to the social formations of peripheral capitalism.

It is not my task in this work to analyze the mechanisms of transition to capitalism at the center. It is well, though, to recall that here, too, current political economy has proved itself incompetent, leaving to "historians" the task of clarifying the problems of transition from feudalism to capitalism. These historians, of course, find themselves obliged, in their turn, owing to the isolation from which their discipline also suffers, to collect elements of information without being able really to articulate them. On the other hand, the laying (by Marx) of the foundations of a genuine science of society has not yet been followed by the actual construction of this science. In this field, the degeneration of Marxism has led to a mechanistic theory of the "stages of civilization" (primitive communism, slave-owning society, feudalism, capitalism, socialism, communism) which is no more scientific than eclectic history. This "theory" confuses the mode of production with social formation and so fails to analyze the connections between the different instances (economic, political, ideological, etc.) that characterize the different modes of production, and the various ways in which they are combined in the social formations known to history. It sets up as dogma the ultimate determination of everything else by the economic factor, and gives the same content to this factor in all the different modes of production.[2] The theory of the transition from feudalism to capitalism, however—from the European feudal formations to central capitalism—which Marx did much to develop, contributes two sets of interesting results to the theory of the transition to peripheral capitalism.[3]

The first of these relates to the conditions necessary for the development of capitalism. Two conditions are essential: proletarianization, and the accumulation of money capital. Although accumulation of money capital occurred in all the commodity societies of the East, of antiquity, and of the Middle Ages, this accumulation never led to the development of capitalist relations because there was no mass of labor power free and available. The process of proletarianization—amounting mainly to the exclusion of part of the rural population from the village community—is accounted for, in Europe, by the disintegration of feudal relations. Because *both* of these conditions are essential, we cannot speak of "capitalism in antiquity" or "capitalism in the Eastern civilizations."

The second series of results relates to the dynamic of capitalist accumulation. The capitalist mode of production tends to become exclusive, that is, to destroy other modes of production. This feature, which is distinctive of the capitalist mode of production alone, operates where the latter is based on the creation and expansion of an internal market that is formed through the break-up of previously existing modes of production.

It is essential to recall these important conclusions before dealing with the theory of the transition to the formations of peripheral capitalism. The precapitalist formations that constitute the basis on which a series of new relations are formed which result in the formations of peripheral capitalism are structured combinations (of great variety) of a relatively limited number of modes of production: the modes of production of the primitive community (varying in the ways shown by Emmanuel Terray[4]); the slave-owning mode of production and the feudal mode of production (both of which are rather exceptional); the simple commodity mode of production (which is often found in combination with the other modes); and the tributary mode of production. Each of these, in its "pure state," possesses essential characteristics that are peculiar to it.

The modes of production of the primitive community are all marked by: (1) the organization of labor, partly on an individual basis (the "small family") and partly on a collective basis (the "large family," the "clan," the "village")—the essential means of production, the land, being collectively owned by the clan, and use of it allowed to all the members of the clan, but subject to precise rules (cultivation of plots of land assigned to households, etc.); (2) the absence of commodity exchanges; and, correlative with this, (3) distribution of the product within the

group in accordance with rules that are closely related to the kinship organization.

The slave-owning mode of production makes of the worker (the slave) the essential means of production. But the product of this slave labor can enter either into the circuit of noncommodity transfers peculiar to the given community (patriarchal slavery) or into commodity circuits (Greco-Roman slavery).

Under the feudal mode of production—in which the land is again the essential means of production—we find (1) organization of society into two classes, masters of the land (whose property is inalienable) and serf-tenants; (2) appropriation of the surplus by the masters of the land by virtue of law and not through commodity relations; and (3) absence of commodity exchanges within the "lordship," which forms the elementary nucleus of society. This mode of production does not follow naturally from the break-up of the slave-owning mode, as is alleged by a simplistic version of Marxism: on the contrary, it is probably the normal, direct (and most current) outcome of the development of primitive modes of production.

The "Asiatic" mode of production, which I call "tributary," is very close to the feudal mode of production.[5] It is characterized by the organization of society into two main classes: the peasantry, organized into communities, and the ruling class, which monopolizes the society's functions of political organization and levies a (noncommodity) tribute from the rural communities. Whereas, however, the feudal lord has *dominium eminens* of the land, under the tributary mode of production this is held by the village community. As a result of this difference, the feudal mode of production (which has existed in finished form only in Western and Central Europe and in Japan) is constantly threatened with disintegration if, for whatever reason, the feudal lord should rid himself of some of his tenants, "free" his serfs—in other words, proletarianize them. It is through this break-up, occurring under the impulse of population pressure and the effects of long-distance trade (with its corollary, the transformation of rent in kind into money rent), that the urban proletariat comes into being, which is one of the conditions for the rise of the capitalist mode of production. In contrast to this, the fundamental right of the peasant in a village community to use the land makes such a break-up impossible under the tribute-paying mode of production. The latter, when well-developed, nearly always tends to become feudal (this happened in China, India and Egypt): that is to say, the ruling class ousts the village communities from their exclusive

dominium éminens of the land (though the type of feudalism that ensues may present some secondary features that differentiate it from that of Europe or Japan).

The simple commodity mode of production is marked in its pure state by the equality of free petty-producers and the organization of commodity exchanges among them. No society has ever been based on the predominance of this mode of production, which remains purely ideal (what is involved is commodity relations within the society, not external ones). Frequently, however, especially in formations based on predominance of the slave-owning, tribute-paying or feudal mode of production, there was a sphere governed by simple commodity relations, especially the sphere of craft production, when this was sufficiently separated from agricultural production (as is the case in urbanized societies).

None of these modes of production has ever existed in the "pure state," the actual societies of history being formations that, on the one hand, combine these modes (e.g., village community, patriarchal slavery, and simple commodity relations among heads of households of neighboring communities) and, on the other, organize relations between the local community and other communities—relations that manifest themselves through long-distance trade. The latter obviously does not constitute a mode of production. But the extent to which it is developed gives a distinctive profile to each of the social formations, in the particular combinations that govern their relations with the mode or modes of production on which the given society is based.

Non-European precapitalist societies were not fundamentally different from those of Europe: they were social formations that combined the same elements as in Europe, although the combinations naturally differed from those found in feudal Europe. The infinite variety of these Asiatic and African formations has been crudely reduced to "the Asiatic mode of production." I should prefer to speak of "Oriental and African formations" marked by (1) the predominance of a communal or tribute-paying mode of production (more or less evolved toward a feudal mode of production); (2) the existence of simple commodity relations in limited spheres; and (3) the existence of long-distance trade relations. When the feudal mode of production is absent (or only embryonic), and simple commodity relations within the society are likewise absent, the formation—reduced to the combination of a communal or tribute-paying mode of production, at a low level of development, with long-distance trade relations—belongs to the "African" type.[6]

Aggression by the capitalist mode of production, from the outside, against these formations, constitutes the essence of the problem of their transition to formations of peripheral capitalism. My analysis of the mechanisms and results of this aggression from without will be set forth, for convenience of exposition, in accordance with a plan that organizes each part of the explanation around a particular set of mechanisms. I will distinguish between (1) the mechanisms of the constitution of simple monetary circuits where these did not exist in the precapitalist formation under attack (the beginning of commodity relations); (2) the mechanisms of the formation of a capitalism based on external trade (colonial trade); and (3) the mechanisms of the formation of a capitalism based on the investment of foreign capital. In actual history, of course, these mechanisms coexist and together determine the structure of a particular capitalist formation of the periphery.

The Beginning of Commodity Relations: The Transition from Subsistence Economy to Commodity Economy

The transformation of precapitalist economy into peripheral capitalist economy clearly presupposes the "monetarization," the "commercialization" of the subsistence economy. Clearly there is here no mechanism of "monetarization" that is not at the same time a mechanism of penetration by the capitalist mode of production. Nevertheless, for clarity of analysis, I will imagine the case of a noncommodity precapitalist economy.

There were actually some economies like this in tropical Africa. Their integration into the world market is expressed by the formation of an initial series of "primary" incomes in money. First, capitalist Europe buys the peasants' harvest—the first time this has happened. Along with this, the European entrepreneur who invests his capital pays a money wage to the new workers—again, this is the first time such a thing has occurred. Here is a second category of primary incomes, engendered by foreign investment. These primary incomes give rise to successive waves of money incomes of the kind called secondary. By measuring the ratio between secondary money-income and primary money-income, we get a multiplier that enables us to estimate the speed at which the transformation of a subsistence economy into a market economy is taking place.[7]

There are several channels by which the money circuits spread wider inside the subsistence economy: the primary money-incomes that are distributed create a local demand for agricultural produce, leading the local agricultural producers to engage in trade; the competition to which the European planters and the strongest local landowners subject the small peasants who have become commodity producers transforms the latter into agricultural workers and thus integrates them into the sphere of exchange, considerably restricting the sphere of production of foodstuffs for consumption by those who have produced them.

These strictly "economic" mechanisms are not always enough, because the traditional social structures obstruct the extension of commodity exchanges: the vitality of the village community, for example (the continuing right of all the villagers to use the land), renders ineffective the simple mechanisms of competition which played a determining role in the transition from feudalism to the central capitalist economy (in Europe).[8] This is why the political authority—in this case the colonial government—strives actively to encourage the "monetarization of the primitive economy." Here we observe means that amount to violence, pure and simple, and that are therefore methods of primitive accumulation. The obligation to pay taxes in cash is the most widespread and least violent of them. In the same context, however, we must not forget the "compulsory crops"—in tropical Africa the *champs du commandant* (compulsion to grow crops for export) of painful memory. In extreme cases the peasants are simply expropriated; the policy of creating inadequate "reservations," so that the African peasants are obliged to sell their labor power in the European mine, factory or plantation, is one way of doing this. It is a method that has played a decisive role in South Africa, Rhodesia, and Kenya.[9]

Whatever money income the peasant or the worker in the mine or on the plantation may acquire will have to be spent: in taxes, savings, imported goods, or "native" goods. The last-mentioned form of expenditure gives rise to secondary money-incomes. Little by little, in this way "native" agricultural markets come into being. Gradually a market is created that makes possible the establishment of light industries. One can then calculate the value of a "monetarization multiplier" by relating the total national income in money to the primary money-incomes. Here, for tropical Africa around 1950, is the value of this "multiplier":[10]

Table 17

	Income from sales of agricultural products	Income from agricultural exports by natives	Wages	Total money income	Primary money income	Multiplier
French Equatorial Africa	16	13	20	36	33	1.1
French West Africa	186	88	25	211	113	1.9
Belgian Congo	75	30	94	169	124	1.3
Gold Coast	170	102	22	192	124	1.5
Kenya	12	5	33	45	38	1.4
Nigeria	345	135	33	378	168	2.2
Uganda	51	43	11	62	54	1.1
Northern Rhodesia	1	—	20	21	20	1.05
Southern Rhodesia	6	--	22	28	22	1.2
Tanganyika	34	11	33	67	44	1.5

(Values in $ millions)

It should be noted that this is the multiplier that measures the rate of extension of the money circuits on the basis of both foreign investments and commercial exchanges. In fact, the multiplier takes into account both the primary money-income distributed as a result of commercial exchange with the outside world (income arising from agricultural exports) and that distributed as a result of the penetration of foreign capital (wages of the migrant labor actually employed for the most part in foreign-owned mines and plantations).

In the European model of transition to central capitalism, the adoption of new and more productive techniques made necessary the separation between the functions of cultivator and craftsman and thereby the extension of monetary exchanges. This mechanism took a long time to get going.[11] Here, however, the starting point lies somewhere else: in external exchange and penetration by foreign capital. The pace at

which the primitive economy is monetarized is fairly fast—or at least it could be, but for the "drain" constituted by imports. A large proportion of the primary money-income is spent on imports.[12] The European peasant of the nineteenth century was obliged, in order to make use of the money he received from the town worker, to address himself to a local industry which alone could provide him with what the craftsman used to sell him. Here, however, the peasant who wants to buy manufactures with his money income finds no local supplier of these goods. This is one of the reasons why the marginal propensity to import is very high in the underdeveloped countries: any increase in money income goes mainly to swell the demand for foreign goods. This drain due to imports is often aggravated by the fact that the profit arising from the commercialization of agriculture is monopolized by landlords, where these existed already, or where class differentiation has formed a substantial number of them. These landlords have kept the peasants' reward at its previous level, and so the surplus that makes up their ground-rent has increased. This surplus creates a demand for the importing of luxury manufactures.

Let us now look at the primary money-income distributed as a result of penetration by foreign capital. A considerable proportion of the expenditure by foreign enterprises takes place directly on the foreign market, in purchase of capital goods and exported profits. Only the wages paid locally call for our attention. Here, too, part of these wages will leave the country when the manufactured goods desired by the new workers are imported. But another part will go to increase the demand for local goods, especially foodstuffs, and this money will play a very active part in monetarizing the system.

Calculations have often been made with a view to gauging the amount of this drain. It is always substantial. For example, in the exploitation of bauxite in Guinea by the Fria complex, only 12 percent of total investment expenditure and barely 25 percent of the total value of aluminum exports remain in the country.[13] In the case of the exploitation of oil in the Algerian Sahara, the local expenditure arising from investment did not exceed 44 percent of the total investment expenditure (and to this it must be added that half of this local expenditure ultimately evaporated in imports). The proportion of local expenditure included in the value of current oil exports is even slighter, scarcely 22 percent.[14]

In the case of large-scale mining of oil wells, the main part of that fraction of the "primary money" expenditure that does remain on the spot is, for this reason, represented by the income annexed by the state

in the form of royalties or taxes, direct and indirect. While this "tapping" by the public authority (which tends to grow, if political relations of strength make this growth possible) undeniably has the effect of hastening the "monetarization" of the economy, its effect on accumulation is less clear. It all depends on how the government spends its money—productively or otherwise. The effect of this expenditure on the formation of capital therefore varies in accordance with its nature. If the government undertakes the responsibility of financing the infrastructure, then this, by making investments profitable, also favors the development of capitalism, even though indirectly. On the other hand, some unproductive administrative expenditure raises the level of total consumption and thus limits the volume of income available for accumulation. This, however, is a different group of phenomena, to be discussed later.

Monetarization is an absolutely indispensable preliminary condition for the appearance of the capitalist structure. Simple commodity economy, once engendered, will inevitably result in the ruin of some and the enrichment of others; in other words, in the formation of indigenous capital. This is an absolute law.

Does this mean that this capital, which is certain to be formed, will then be invested, and will transform the simple money-commodity structure into a capitalist structure? If this were so, then despite the different starting point the end would be the same as at the center. But this will not happen. First, because the indigenous capital thus formed will come up against the competition of foreign industries. This will lead it to seek investment in the sphere of production for export and in the tertiary sector (as a result of the particular behavior of demand, the structure of landownership not having been revolutionized but, on the contrary, reinforced by external exchange). Second, competition will direct these investments into light industry. In other words, the local capitalism that is going to take shape in this way will not compete with the dominant foreign capitalism but will be complementary to it. It is because he was not very closely concerned with these problems that Marx was able to state, in his all-too-brief writings on the subject, that colonial rule would probably establish a capitalist economy in India—meaning a "complete" capitalist economy. The absolute law of the transformation of simple commodity economy into capitalist economy, which is meaningless except in the context of analysis of the capitalist mode of production, is not the last word that needs to be said on the subject of the different social formations.

It is time to explain my views on this problem. Marx's writings on

non-European societies are not extensive: 435 pages is not much for Marx, especially considering that the bulk of this material consists of articles for the *New York Daily Tribune,* focusing on topical matters—the Sepoy mutiny in India and the Taip'ing rebellion in China, the opium trade, and the like—and often looked at from the standpoint of British domestic politics. Marx discusses only in a subordinate way the problems of Asiatic society and of the transformation of this society as a result of colonial subjection. Three types of problem are in fact touched upon by him.[15]

From time to time Marx discusses the nature of precolonial "Asiatic" society, notably in the famous passage in the *Grundrisse* where he formulates the concept of the Asiatic mode of production. He emphasizes the obstacle that the village community—in other words, the absence of private ownership of land—puts in the way of the development of capitalism. In these very brief passages he reveals brilliant intuition, especially when we recall the state of knowledge about non-European societies at that time.[16]

Discussing the transformation that colonial rule was bringing to these societies, especially in India, Marx, though pitiless in his treatment of colonial policy, claimed that colonial rule would lead the East in the direction of full capitalist development. True, he noted that colonial policy was opposed to this, forbidding the establishment of modern industry in the colonies after having destroyed the crafts.[17] But this did not prevent him from considering that no power would for long be able to hinder local development of capitalism *on the European model.* The article devoted to "The Future Results of British Rule in India" is extremely clear on this point: the plundering of India by the British aristocracy and merchant capital will be followed by industrialization carried out by the industrial bourgeoisie of the metropolitan country: the railways will give rise to autocentric industries.[18] Marx is, indeed, so certain of this that he fears lest a developed bourgeois East may become the essential force preventing victory of the socialist revolution in Europe:

> On the Continent the revolution is imminent and will immediately assume a socialist character. Is it not bound to be crushed in this little corner, considering that in a far greater territory the movement of bourgeois society is still in the ascendant?[19]

This "mistake" can be explained. Hardly had the period characterized by the policy of mercantile capitalism drawn to its close, in Marx's day, than capitalism was about to enter into its imperialist,

monopoly phase—which Marx did not know. The monopolies would prevent any local capitalism that might arise from competing with them: the development of capitalism in the periphery was to remain extroverted, that is, based on the external market, and would therefore not lead to a full flowering of the capitalist mode of production in the periphery. Situated as he was in this brief "trough" period, Marx perceived only those mechanisms of primitive accumulation for the benefit of the center that belonged to the mercantilist phase and were coming to an end, and which he therefore regarded as belonging to the "prehistory" of capital. (He himself states this, explaining that the chapter in *Capital* on primitive accumulation deals only with this.[20]) Consequently, for Marx, unequal exchange is reduced to these "prehistoric" forms: its later, present-day form is a consequence of the rise of monopoly, as has been shown.[21]

It remains true that Marx, possessed as he was of very great political acumen, glimpsed another possible outcome—that Eastern society, not "bourgeoisified" but proletarianized for the benefit of the center (proletariat included), would become the main revolutionary force. He says this (in accents that today sound very Maoist) when he speaks of "millions of workers who had to perish in the East Indies so as to procure for the million and a half workers employed in England in the same industry, three years' prosperity out of ten."[22]

But let us leave to the Marxologists (of whom I am not one) the task of merely reproducing "sacred" texts, and resume our analysis of the transition to peripheral capitalist economy.

In itself, the transition to commodity economy was a step forward, in the historical case of Europe, where it meant transition from feudalism to central capitalism. More precisely, this "monetarization" of Europe's economy resulted from an improvement in the productivity of labor in agriculture. It is not certain, however, that the same can be said of the colonial countries. In appearance, the "commercialization of agriculture" would seem to reflect a process of "enrichment," the proof of this enrichment being a new capacity to import. The manufactured goods thenceforth procured from abroad in exchange for agricultural exports had no equivalent in the primitive economy of former times, in the craft-made products that the peasants obtained in exchange for the foodstuffs they produced. The fact that the native peasants themselves reorient their production, imitating the large-scale planters from overseas, appears to show that production for export must have been more productive than the raising of foodstuffs. Thus, whereas the area covered by the big rubber plantations of Southeast Asia was multiplied

by 10 between 1909 and 1940, the area covered by small plantations, mostly native-owned, increased 57-fold.[23] Certainly, the native peasants may have been obliged to take this new path owing to a new need for money (to pay taxes, for instance), without the change being a profitable one for them. In reality, however, a comparison between prices of production shows that agricultural production for export often is indeed more profitable than the raising of foodstuffs for local consumption. This is the case, for instance, in Egypt, if we compare production per man and per hectare for traditional food crops, on the one hand, and, on the other, for export crops (in this case, cotton).[24]

When we look more closely at the matter, however, we usually observe that the increase in production per person is accompanied by an increase in the amount of labor contributed. This is very obvious in the case of agriculture in tropical Africa where in most cases—indeed, nearly always—export crops, especially in the forest zone, do not replace the traditional subsistence crops but are rather grown alongside them. There is then a transition from a civilization based on a certain annual contribution of labor to one based on a larger such contribution. This transition is frequently painful and difficult and is sometimes rejected outright by the people affected, so that "extra-economic" methods like compulsory cultivation have to be resorted to.[25]

This is clear in the case of Egypt, where the cultivation of cotton permits a more intensive use of labor. Per *feddan** of cotton, 41 adult-days and 87 child-days of labor are necessary; for wheat, 27 and 4; for maize, 25 and 10; for rice, 35 and 40.[26] The new direction taken by production thus permits a more intensive use of labor, which partly offsets the agrarian crisis, the mechanism of which will be analyzed later. Moreover, it is often the case—as here, with cotton—that export crops require the investment of capital in comparatively larger amounts, for which capital has to be paid. The more intense use of capital per hectare that is demanded as a result of the new direction taken by agriculture has favored concentration of ownership: only large-scale proprietors have been in a position to advance the capital needed for the replacement of food crops by export crops. This agrarian concentration has proved of very great importance: it has reinforced the mechanism enabling the large landowners to monopolize all the benefits of "commercialization." The example of Egypt is conclusive in this respect: a very high rate of ground rent is to be observed, which, moreover, has risen parallel with progress in the "commercialization" of

* One *feddan* = 0.42 hectare.

agriculture, increasing from 35 percent to 50 percent of the net product of agriculture between 1914 and 1950.[27] Large-scale ownership (where it existed already or was able most easily to establish itself) has favored the transition from subsistence agriculture to commodity agriculture and has also to a large extent monopolized the "benefits" thereof.[28]

The Formation of a Capitalism Based on Foreign Trade (Colonial Trade)[29]

Here my task is to examine the forms of aggression by the fully formed capitalist mode of production (the developed, or advanced, countries) against simple commodity economies, so as to separate this problem from that (which in practice is largely concomitant with it) of "commercialization," or the transition to simple commodity economy.

Whereas at the start of the development of European capitalism there was investment of indigenous capital, and the creation of manufactures that put on the market products that till then had been supplied by the crafts, we find that, at the start, in the economies that were to become underdeveloped there was penetration by products of *foreign* industry. Here we perceive a process of capitalist development that is very different from the other one. The ruined craftsmen are not absorbed by local industrial development. In the European schema, the new-type industry recruited its labor force from among the ruined craftsmen. In the colonial schema, overall demand was sharply reduced by the introduction of manufactured goods. The ruined craftsmen were doomed to unemployment. If they had been able to find work in the sphere of primary production for export in exchange for these imports, overall demand might have remained unaltered. But this did not happen, mainly because, the ruin of the craftsmen having deprived local agriculture of its traditional outlet, the peasants replaced the food crops that formerly they exchanged for the products of the local crafts for the industrial crops demanded by European trade. Exports could thus pay for the suddenly introduced imports without any additional production being required such as would necessitate re-employment of the craftsmen who had been made redundant.

The system thus recovered its balance by excluding the craftsmen from production. This is an absolutely crucial phenomenon, which underlies both the alleged "population problem" (which is always wrongly presented because it is presented in the abstract, that is, by ignoring this vital fact of the exclusion of craftsmen from production),

as well as a certain number of parasitical directions subsequently taken by economic activity.

At another stage, when industries producing goods to take the place of imports were set up in the countries of the periphery, these utilized modern techniques that were too capital-intensive to absorb the unemployment caused by the aggression of the capitalist mode of production.[30]

The "return to the land" of a large number of village craftsmen—though difficult to measure because the people generally involved were village craftsmen who already possessed a plot of land, and were now, having lost their craft, reduced to getting their livelihood from this alone—constitutes a real economic step backward. Besides this return to the land, the craftsmen also found a partial outlet in the "tertiary" sector. It must be remembered that precapitalist society is not radically transformed by the hierarchical relations thus established between itself and the capitalist world. The local dominant classes survive intact, especially in the countryside. Indeed, not only do they survive, they are often made wealthier by the new relations with the outside world. The big landowners are better able than anyone else to transform their estates into productive properties supplying the overseas market with the agricultural raw materials it seeks. The ruined craftsmen sometimes find jobs that depend on the expenditure of these rich classes. This is a tertiary sector of a special type.

We shall have occasion later on to study the causes of the abnormal development of the tertiary sector in general in the underdeveloped countries—in particular, the development of trade. What is involved here is the development of a certain type of tertiary employment made up of occupations that derive their income from that of the big landowners who are both rich and thriftless. Current economic theory nearly always attributes these phenomena of "parasitism" to alleged characteristics distinctive of precapitalist societies, which are briskly dismissed as irrational, whereas what is involved is a series of phenomena engendered by the aggression from without of the capitalist mode of production.

The ruin of the old crafts and the very special nature of the craftsmen's re-employment in the underdeveloped countries cannot, unfortunately, be followed in detail, because we have no statistics showing the distribution of the population of these countries for the period 1800–1880, the period when commercial exchanges developed between the capitalist and precapitalist worlds. We do, however, have some statistics for the period 1880-1950. This was a period of local industriali-

zation based on foreign capital. The phenomena I want to bring out are partly hidden by the phenomena of industrial development. Nevertheless, the ruin of the craftsmen by foreign trade, and the special mode of re-employment of this social category, continued during this second period.

The history of the ruin of the craftsmen of India and Egypt has been written. It will be worthwhile to refer to it when studying how the underdevelopment of these two societies has come about.[31]

The increased "pressure on the land" that is often met within the Third World is also very largely a result of this mechanism of regression started by the onslaught of capitalism from outside. For there is in this increase in the number of peasants per hectare of land a symptom of serious regression in agricultural techniques. (A general forward movement in agriculture is expressed in more intensive use of capital per hectare and, consequently, employment of fewer men per hectare.) This increase in the agricultural population per hectare of cultivated land is quite general in the underdeveloped countries, whereas in the capitalist industrial countries the opposite phenomenon is to be observed. And in the latter we also see an increase in the consumption of capital per agricultural worker.[32]

Compare this line of development in the advanced countries with that of the area of land harvested per capita in Egypt: 0.90 *feddans* in 1882, 0.48 in 1947.[33] True, the percentage of agriculturists in the population declined during that period, but not sufficiently to offset the increasing overpopulation of the countryside. To ascribe this phenomenon to a demographic law peculiar to the underdeveloped countries is to forget that industrial development in Britain, in Continental Europe (except France), in the United States and in Japan was itself accompanied by an exceptionally marked growth of population.

In the capitalist economies the development of industry was reflected during a whole century in an increase in the percentage of the population engaged in industry. Only in the course of the twentieth century has this percentage been seen to decline, while that of the population engaged in tertiary occupations has grown faster. I shall have occasion later to offer an explanation of this latter phenomenon. In the United States, for example, the percentage of the active population employed in industry and building increased from 12 percent in 1820 to 31 percent in 1920, and did not start to decline until 1925–1930.[34] Nothing comparable to this occurred in the underdeveloped countries. In India, for example, the population occupied in secondary employments fell, between 1891 and 1931, from 15 to 10

percent, despite an increase in the index of production of manufactured goods from 53.5 to 174.8 (with 1913 as 100).[35] In other words, in the European model, capitalist industry employs more workers than it ruins craftsmen. It recruits from decaying agriculture and from the increase in population. In the colonial model, industry employs *fewer* workers than it ruins craftsmen. The effect of competition by overseas industry is obvious.

This is true even for a much more recent period (1920–1960), that is, a period when foreign competition had already had time to complete the ruin of the crafts, while industrial development on the basis of foreign capital was becoming markedly more rapid. In most of the underdeveloped countries, between 1920–1930 and 1950–1960 the percentage of the population in secondary occupations diminished, although the stage of industrialization that had been attained was only rather elementary, while the percentage engaged in the tertiary sector was increasing.[36]

The inadequacy of the urban market, together with the commercialization of agriculture, brought about distortions of a special type in the socioeconomic organization of the countryside. What happened in Egypt is particularly interesting in this connection. Between the end of the nineteenth century and the agrarian reform of 1952, the number of large landowners (possessing more than fifty *feddans*) remained practically unchanged (about twelve thousand) as did the area of land they held (about two million *feddans*), whereas the number of small landowners steadily increased (the average area of their holdings declining at the same rate). Now, it is a well-known fact that demographic growth is as strong in rich families as in poor ones, for though the birth rate is lower in the former, infant mortality is also lower. Furthermore, by Moslem law the possessions of a dead man are divided among all his children.

To account for this "anomaly" the following schema can be constructed: (1) the cultivated area in a given region is assumed to be, at a given moment, made up of four portions of equal size, divided between one big landowner who holds two portions and ten peasants who hold two portions among them; (2) during his lifetime, the big landowner buys a third portion from the peasants; (3) at his death, the three portions he owned are divided between two sons; (4) one of these sons decides to sell off his land and live in town: he sells one-third of his share (in other words, one half-portion) to his brother, and the remaining two-thirds (that is, one portion) to the peasants. At the end of a generation the situation stands thus: the single big landowner left

behind after the father's death possesses two portions, but the number of peasants has doubled (assuming the rate of increase of the peasant population to be the same as that of the big landowners). The outcome is exactly like that which the Egyptian statistics reveal.

This schema expresses two interesting aspects of a special kind of distortion peculiar to the evolution of the underdeveloped countryside.

In the first place, agrarian concentration is not always expressed in concentration of ownership, and this is true of Egypt. While, during his lifetime, our big landowner bought one portion of land from the peasants, after his death one of his sons sold it back to them. Agrarian concentration takes place through intensified methods of cultivation and a more commercial orientation of agricultural production (development of an economy based on cotton). The rise in the value of land (and the parallel rise in ground-rent) resulting from this intensified use of capital is reflected in the enrichment of the big landowners. It would, however, be going too far to say that agriculture has been completely revolutionized and has become a fully perfected capitalist agriculture. Feudal agriculture is characterized by the allocation of land belonging to the lord to serfs, who pay rent in kind. Capitalist agriculture is characterized by the exploitation of large tracts of land by a farmer (or by the big landowner himself), who extracts the resources of the soil by means of capital (machinery, fertilizers, etc.), and a labor force, to which he pays wages. In the Egyptian case we have a big landowner who leases his land in small lots to small farmers who pay him rent in money (in most instances). Capital is provided partly by the farmers and partly by the big landowner. We are thus in an intermediate situation, and this is quite natural, for capitalist economy could not arise all at once, and the only possible economic system was a transitional one. Little by little, the big landowners, using their increased rents, will save and invest and so become capitalist proprietors. But the "agrarian overpopulation" that results from the inadequacy of the urban market limits the modernization of agriculture, for it makes possible—with wages that are extremely low and are often reduced even further—the use of labor-intensive methods that perpetuate conditions of rural poverty. (On this point the reader is referred to Hassan Riad's book, which provides a rigorous analysis of this evolution of Egypt's agriculture.[37])

In the second place, the stability of the number and size of the large estates, in contrast to the increase in the number of the small landholdings, the average size of which diminishes—something that is often

wrongly identified with the concentration of rural property—actually expresses a quite different phenomenon: the transfer of wealth to the towns (and, along with this, the departure of a certain number of big landowners) at a rate which exceeds that of peasant emigration to the urban centers.

Let me try to estimate the pace of this transfer. The total number of Egypt's inhabitants increased from 9,700,000 in 1887 to 21,940,000 in 1953, that is, by 115 percent. The number of big landowners, which was 11,875 in 1896, should have increased proportionately to about 25,000. The share held by 12,000 out of these 25,000, which was 2,191,000 *feddans* in 1896, ought to have declined, in the absence of any transfer process, to about 1,000,000 *feddans*. In fact, the figure stood in 1953 at about 2,000,000 *feddans*. Thus, approximately 1,000,000 *feddans* must have been purchased during this period by 12,000 big landowners, or about 20,000 *feddans* per year.

This transfer of wealth from country to town, at a rate that is far from negligible and exceeds that of peasant emigration, signifies that the old mode of production has not been overthrown in the countryside, so that a very dense rural population can continue to live there. Why, then, does such a transfer of capital to the town take place? It is not so much in order to finance industrialization as to finance commercial operations arising from the commercialization of an agriculture henceforth integrated in the world market. Here we re-encounter the overdevelopment of the tertiary sector already referred to. This transfer of capital itself slows down the modernization of agriculture, without establishing modern industry in the towns.

The only possible outcome of this situation is a general increase in unemployment in the rural areas (owing to the steady increase in the population, which cannot find outlets in industry) and in the towns (where the displaced craftsmen are only partly re-employed, in trade and personal services, since there are no industries). An equilibrium of retrogression, marked by substantial and growing unemployment, both rural and urban, is thus the consequence of this mode of transition engendered by the aggression of capitalism from without.

This phenomenon of massive unemployment, which is due not to "demographic laws" but to the laws of development of peripheral capitalism, has been studied in several instances. In that of Egypt, for which the reader is referred to Hassan Riad's book, the percentage of rural unemployment, which was negligible down to 1914, increased to 15 percent in 1947 and 35 percent in 1960, while the percentage of the

occupied population in relation to the total urban population fell from 32 percent of adult males in 1914 to 22 percent in 1960—the same percentage found in the Ivory Coast.[38]

The ruin of the craftsmen and their re-employment to only a very limited extent, and the growing weight of the army of unemployed which this state of affairs reflects, have the effect of dragging down the level of wages. Normally, the demand for labor increases with accumulation, the workers being recruited from precapitalist society in decomposition. There is a certain equilibrium between the growth in the supply of labor and the growth in the demand for it. In the underdeveloped countries, however, where no accumulation takes place alongside the decomposition process, the disequilibrium between the supply of and the demand for labor gets worse and worse.

The ensuing decline in the reward of labor is not in itself an obstacle to industrialization. The real obstacle is the domination of foreign capital, the competition from imports. But this decline is what lies at the origin of an essential phenomenon: unequal exchange, that is, the increasing inequality between the values (or, more precisely, the prices of production, in the Marxist sense of the term) that are exchanged. This is, as we have seen, the chief mechanism of present-day primitive accumulation.

In current economic writing it has often been maintained that a low level of wages hinders the installation of an industry in a particular place. The narrowness of the internal market implied by this low wage-level is said to make investment not very profitable. Here we perceive the relevance of the doctrine of "vicious circles of poverty." However, it seems to me that this analysis is fundamentally mistaken. Capitalist development does not require a continuous rise in the standard of living. The home market is not solely or even mainly composed of demand for consumer goods. Production goods play a big part in it. Low wages mean higher profits, and so the possibility for the entrepreneurs to save and invest, that is, to create a market. In Europe industrialization was accomplished despite very low wages at the outset, and was even assisted by this situation. The same is true of Japan.

We see, then, that a low wage-level would not prevent investment of capital. Insofar as commercialization brings about the formation of local capital, the latter could well be invested locally. But the *competition from more powerful foreign industry* makes such investment unprofitable. This is the ultimate cause of the blocking of growth.

When this local capital *is* invested, the low wage-level influences the choice of technique, favoring intensive use of men rather than ma-

chines. Does this relatively greater use of men hasten accumulation, or slow it down? This depends on the stage of development of the economy under consideration. It is quite plain that in the overdeveloped economies, in which the tendency to (relative) underconsumption weighs heavily upon investment, which it renders not very profitable, the use of men instead of machines, by facilitating a relatively quicker development of ultimate consumption, is on the whole favorable to accumulation. In young economies, however, in which this tendency is not yet manifest, the labor-using character of technique is reflected in greater total consumption, that is, in a lower level of saving. The point is that, in the overdeveloped economies, accumulation comes up against a serious obstacle in the difficulty of realizing profits, that is, the difficulty of disposing of products. In this case, an increase in ultimate consumption starts "multiplier" phenomena working; that is, by restoring the profitability of investments, such an increase favors accumulation (the transformation of savings into investment). In the young economies it is not these difficulties that constitute the major obstacle hindering development. Here, all savings are invested. Consequently, everything that increases consumption reduces saving, and thereby investment, to the same extent. It must be said, though, that this is true only in a young capitalist economy (in which "saving" is "creative saving"), that is, in a situation in which industry is developing. Under peripheral capitalism the ruined craftsmen are not re-engaged, for there are no industries being created. A long period has to pass before this mass of cheap labor attracts foreign capital.

Accordingly, the immediate effect of the ruin of the craftsmen is to aggravate the agrarian crisis. The mass movement back to the land implies real economic retrogression. It has not helped to make agriculture more commercial. On the contrary, it has compelled the peasants to devote a larger proportion of their efforts to production for their own consumption, and so to sell less on the market. It is in this return to the land that we must seek the ultimate cause of the peculiar situation marked by a productivity of agricultural labor which is, if not negative, at least nil, and by what has been called "concealed unemployment."

True, some of the ruined craftsmen have not gone back to the land but have found employment in the towns, in a kind of tertiary sector. The question that then arises is whether this employment is similar, in its effects on accumulation, to the employment that the former craftsmen found in the new factories of Europe—whether this way of reemploying the labor force is reflected in an extension of the sphere of

capitalism, and what kind of capitalism is involved. The economists of national accounting would unhesitatingly equate the two phenomena, both of which they would describe as an enrichment of society, measurable in a larger national income. Smith, Ricardo and Marx would, however, unhesitatingly have drawn a fundamental distinction between the two phenomena. For the classical writers of the first half of the nineteenth century, society is made richer when more profit is realized in it, for profit is by nature saving and reinvestment, and thus ensures subsequent growth. The only serious yardstick of the enrichment of a capitalist society is the volume of "creative saving" that it derives from production. It is on this basis that Smith distinguishes productive expenditure (that which is exchanged for capital) from unproductive expenditure (that which is exchanged for income). The shrewd remark by the Scottish economist that a man makes himself richer by engaging workmen but poorer by engaging servants has, alas, been forgotten by the marginalists and the theorists of national accounting. The entrepreneur who uses his capital to hire labor derives a profit and then invests it, thus ensuring economic growth. The landowner who squanders the rents he receives on enlarging his domestic staff undoubtedly provides a livelihood for men who would otherwise be doomed to beggary, but in no way helps the subsequent growth, the true enrichment, of society.

Here too, of course, the same phenomenon may have opposite effects upon growth, depending on the level of development of the economy under consideration. In a mature economy suffering from excessive saving (that is, where investment is insufficiently profitable to attract savings), such unproductive expenditure, promoting consumption, facilitates the restoration of the profitability of investment and, consequently, the transformation of savings into investment (in other words, accumulation). In the young economies this same expenditure increases the proportion that is consumed, to the detriment of that which is saved, and not to the detriment of forced hoarding: it is unfavorable to accumulation.

The appearance of capitalist circuits on the basis of foreign trade is thus blocked from the beginning by foreign competition. This is not a case of "dualism," of the juxtaposition of two sectors, one capitalist and the other precapitalist. The latter phenomenon does indeed exist, but is hardly typical. In Mauritania, for instance, there exist side by side a mining industry and a feudal pastoral economy. But this exceptional case of juxtaposition without interpenetration is the result of

another mechanism: the investment of foreign capital in the sphere connected with external trade. We shall have occasion to examine this mechanism later on. In the case we are considering, commercial contact with the outside world has transformed the local economy, so that it is no longer altogether precapitalist—though it is not yet capitalist. It is a transitional type of economy. But this economy forms a whole which, though distinctive, is perfectly "integrated."

It is to this economy of a transitional and distinctive type that a foreign sector is to be juxtaposed, communicating with it only slightly, and this will happen because an inflow of foreign capital will soon be superimposed on the existing trading relationship.

The Formation of a Capitalism Based on the Investment of Foreign Capital

From about 1880 onward, overseas investment of European, and subsequently North American, capital assumes such dimensions that it becomes an essential aspect of economic relations between developed and underdeveloped countries. Lenin himself ascribes fundamental importance to the investment of foreign capital, and makes "imperialism" coincide with the epoch of export of capital by the big capitalist powers. We have seen the extent to which this reduction to essentials was well founded, in particular with regard to the aspect that interests us, where unequal exchange is closely bound up with the changes that followed on the development of monopolies.

Although the investment of capital does not take the place of trade, it is necessary to examine separately, for the sake of clear exposition, the mechanisms of the development of a capitalism in the periphery based upon investment of foreign capital, distinguishing them from those set in motion by simple commercial exchange. Let us define the case we are going to study.

Let us assume that there are two economies, one capitalist and the other precapitalist, which are brought into contact with each other, and that this contact finds expression in a movement of capital from the capitalist country into the noncapitalist one, without any movement of goods other than that induced by the transfer of capital. In other words, let us assume that the craft sector of our precapitalist economy is disintegrated not by foreign trade (competition from outside indus-

try) but by competition from industries set up locally by foreign capital. We shall see that, given this assumption, the resulting capitalist development would be full and complete in character.

Our assumption is obviously unrealistic. In reality, a century of commercial exchanges had already ruined the craftsmen of the precapitalist countries. Further, the first foreign capital was invested not in local production designed for the local market but in that which was directed toward the external market. Nevertheless, this assumption is of great interest for clarifying the argument. The contrast between the sharp contraction in total demand resulting from the exclusion of the craftsmen, given the assumption of a purely commercial contact, and the expansion of this demand, given the assumption of a contact confined to the transfer of capital, is significant from the theoretical standpoint.

While industries set up by foreign capital do indeed compete triumphantly with the local crafts, they nevertheless distribute income locally by employing labor which they recruit among these very same precapitalist groups they have disintegrated. True, the wages paid to the local labor force may amount to less than the income of the former craftsmen. It would then be possible to suppose that the local establishment of foreign enterprises leads to the same result as the import of manufactured goods, namely, that it blocks the mechanism generating capitalist circuits by lowering the level of demand. Furthermore, though the re-export of profits and the import of machinery to equip the enterprises set up by foreign capital create difficulties affecting the balance of payments, this need not be taken into account, since the balance of payments is assumed to be even.

Actually, this reasoning is faulty, for introduction into the working of the precapitalist economy of foreign manufactured goods, through the channel of imports, reduces the level of total demand because it throws part of the population out of production. If the craftsmen are inexorably forced out of production, this happens because the local economy is able to pay for imports of manufactured goods without increasing its volume of production: the peasants thereafter sell to foreigners what they previously sold to their fellow countrymen who were craftsmen. It is not the same in the case we are now considering, because equilibrium is restored by finding employment for the entire local population, since the craftsmen have become wage-workers. The model is thus similar to that of industrialization at the center. It differs on this essential point from the model of capitalist development on the basis of foreign trade.

Thus, although the total income distributed locally by the foreign

enterprise may be less than the income formerly received by the craftsmen (less by the amount of the profits exported), total demand *has* increased—on the one hand because the profits exported constitute a new demand which the foreigners at the receiving end use to buy additional imports for themselves from the underdeveloped country, and, on the other, because the new industrial production is greater than the former craft production, thanks to the use of machinery which increases productivity. These imports of machinery have to be paid for. This can be done through the import of capital. As for the re-export of profits, this is made possible by the development of agriculture in the direction of commercialization. Eventually, the whole operation results in an increase in total income, a faster increase in money income, a transfer of income from the former craftsmen to the new wage-workers and the foreign entrepreneurs, and (perhaps) an increase in the income of the landowners. The introduction of capitalism in the form of foreign enterprises established locally therefore does not cause any shrinking of the market, even though it may have impoverished a section of the population. The volume of monetary exchanges will therefore not be restricted by the creation of foreign enterprises, as it was in the case of the import of manufactured goods. Moreover, history has shown that in fifty years of the twentieth century, capitalism has been diffused in the underdeveloped countries around the import of foreign capital to a considerably greater extent than happened during the whole of the nineteenth century around colonial trade.

Two observations remain to be made about this model (which is hypothetical, as will be seen).

First of all, it may be asked why I was concerned to show that the influx of foreign capital did not reduce the total demand, but increased it. In the capitalist mode of production the entrepreneur is compelled, by the competition inherent in the system itself, to save and invest. Foreign capital is not exempt from this absolute necessity. Modernization and expansion are themselves phenomena of capitalist development. Therefore, even if the ruin of the craftsmen by these initial investments of capital had lowered the level of total demand, capitalist development would take place. In other words, the assumption made has enabled us to show that the model was absolutely identical with that of the development of capitalism at the center. The fact that the capital is foreign does not affect the process in any way—on condition, let me repeat, that this foreign capital has come in order to destroy the crafts *and* to create an industry the outlets for which will be within the country.

But that is where the whole problem lies. Because (and this is my second observation), if the model is only hypothetical, this is because the export of capital does *not* take the place of commercial exchange, but supplements it. The competition of imported goods continues. This competition obliges foreign capital to seek investment not in industries with outlets on the home market but in those working for external markets. The hypothetical model thus serves merely to eliminate a false problem, that of the nationality of the capital invested, and compels us to consider the real problem: the necessarily complementary (and not competing) character of the new industries established in the periphery.

The penetration by foreign capital speeds up the formation of native capital. The latter cannot find investment, for the general reason that commercial exchange still goes on, parallel with the penetration of foreign capital, and that local capital, weak because newly formed (and therefore small in amount) is incapable of competing with the advanced industry of the center. The foreign capital that flows in makes the crisis still more intense. Here, too, the young local capital cannot compete with the enterprises set up by this stronger foreign capital. This does not mean that local capital will remain inactive. As we shall see, it will move toward certain sectors that have been left to it. This orientation will in turn influence the pace of the subsequent accumulation of capital, and will determine the peripheral character of the capitalism that arises.

Already in this impossibility for local capital to find investment freely there is a factor rendering capitalist development chaotic (even if foreign capital annihilates the native crafts), introducing additional contradictions between the advanced industry of the center and the weaker industry of the periphery, between the stronger foreign capital and the weaker national capital which it engenders. Thus, in the real model, the influx of foreign capital takes place subsequent to the establishment of relations of commercial exchange. These relations had, on the one hand, already destroyed the crafts and, on the other, established a distinctive type of economy in which the pre-existing agrarian structure had sometimes been reinforced by the commercialization of agriculture. Given that situation, it was not possible for foreign capital to establish a local industry with an internal market. Foreign capital therefore went mainly into the sphere of producing for export. We will look later into the mechanism whereby a new equilibrium was established in the balance of payments.

Sometimes, owing to the reinforcement of the position of ground-rent, a large number of tertiary activities proved to be highly profitable.

These also attracted foreign capital. Into these two sectors some local capital might infiltrate and occupy the minor positions that the more powerful foreign capital left to it.

Although taking a direction different from that shown in the hypothetical model, the development resulting from an influx of foreign capital retains in common with it the character of being a development that is essentially alien. This is due to the need for foreign capital, wherever invested, to expand uninterruptedly. By virtue of its alien character, the capitalist sector in process of development will become increasingly external to the local economy, appearing more and more as a branch of the dominant external economy. Dualism in the crudest form, the juxtaposition of two independent sectors, may sometimes make its appearance.

Nevertheless, a steady accumulation of capital must take place, for the same fundamental reason already mentioned, namely that technical progress is an inherent necessity of the system. Total demand has been reduced through international trade, as we have seen. But the penetration of foreign capital increases this demand. Here, as elsewhere, investment creates its own outlet. However, though accumulation occurs, the rate of development is slower: first, owing to the loss of potentialities due to the commercial contact and the original reorientation of the craftsmen toward agriculture and the tertiary sector (this process, already in being when foreign capital begins to come in, offers substantial resistance to subsequent development); second, because of the particular direction taken by foreign investment, as will be seen later; finally, because foreign capital, being stronger, limits the possibilities for investing the newly formed native capital.

History confirms my analysis.[39] Whereas between 1820 and 1900 the rate of industrialization is much faster at the center, being practically nil in the periphery—where, indeed, as in India and Egypt, retrogressions are observable—from 1900 onward the periphery begins to become industrialized, thanks to the contribution made by foreign capital. For certain countries and periods the rate of industrialization in the periphery *exceeds* that of the center.

If we look at the period 1896–1937 we note, for example, that the industrial development of India proceeded faster than that of the advanced capitalist countries. Also, the percentage represented by India's manufacturing production in that of the world as a whole rose from 1.1 to 1.4, and this despite the prodigious industrial development that took place in the same period in Russia (which advanced from index 49.0 to index 774.3, 1913 being the "100" base year) and Japan (from 28 to

528.9 on the same basis). This industrial development was more rapid than the increase in population, and this was so to a greater degree in India than in the capitalist countries, apart from Japan—which shows that what was happening was genuine development, and not a mere increase in industrial production parallel to the increase in population.[40] We thus observe in the case of India a rate of development of industrial production of the order of 4 percent per year, on the average.

A similar average rate can be found for all the underdeveloped countries in the modern period. The growth rates of gross industrial production in the majority of underdeveloped countries between 1920 and 1960 range from 6 to 10 percent per year, and those of the net industrial product (value added, less depreciation) from 5 to 8 percent.[41] The fact, moreover, that the increase in net income was less rapid than that of the gross product shows that the development in question was capitalist (and not craft) in type, making increased use of mechanical driving power, the increase in the number of industrial establishments (defined as those that employ more than a certain number of workers or use a certain minimum of mechanical power), and the increase in the number of industrial workers—all increases both absolute and relative.

Let us note in passing that this increase in the industrial population in absolute figures, clearly exceeding the increase in total population, is not incompatible with stagnation or even decline in the percentage of the occupied population engaged in the secondary sector, which I mentioned earlier. The "secondary" population embraces both the workers in the capitalist sector and the craftsmen. The numbers of the latter declined more than those of the former increased. The growth of unemployment told in the same direction. Under these conditions it is not surprising that the index of manufacturing production rose in the underdeveloped countries in the same proportion as it increased for the industrial countries as a whole after 1900.[42] Between 1900 and 1940 the industrial growth rate of the Third World was slightly higher than that of the developed world, excluding Russia and Japan, which had higher growth rates. During the Second World War and down to 1950 it was the same, industrial growth being more vigorous only in the United States, which, of course, benefited during the war from conditions of exceptional prosperity. Since 1950 a marked slowing down in the industrialization of the Third World has been observed, with the forms of "blocking" characteristic of peripheral capitalism, and, on the other hand, an increased growth rate at the center, especially in Western

Europe, which, in the process of "catching up" with the United States, offers a fresh outlet for the further development of capitalism.

This industrial development undergone by the periphery in the modern period (the twentieth century) is therefore far from insignificant. It has taken place at roughly the same rate as that of the capitalist countries. It would be very interesting to compare these growth rates with those of the nineteenth century. Unfortunately, statistical data are almost nonexistent for the world outside Europe and North America. It seems, however, almost obvious that the rate of industrialization of the underdeveloped countries was less in the nineteenth century than it became in the twentieth. As for the center, the nineteenth-century growth rates seem to be in almost every case more vigorous (after a period of "take-off" marked by feeble growth rates) than those of the period 1913-1945.

It is on the basis of these figures that some economists have sought to set up the hypothesis of a logistic development of capitalism. In an initial period the rates of development are slow, but gradually increase. In a second period, that of full capitalist development (for Europe, the nineteenth century), these rates rapidly increase. In a third period the rates slacken off and become again rather slow: capitalist economy is "mature." This view, upheld by the Belgian economist Dupriez, seemed to be justified twenty years ago.[43] Similarly, as regards the Third World, the hypothesis was put up of an analogous development—also "logistic," but retarded. The underdeveloped economies were said to show a retardation of about three-quarters of a century as compared with the others. During the nineteenth century the rates of industrialization were extremely slow, but they gathered speed, to become fast in the twentieth century. Another special feature of the logistic growth of the economies of the Third World was said to be that it was much slower than that of the capitalist economies, since today their rates of development are barely higher than those of the mature economies. Industrial growth was taking place in the European economies at an average rate of around 6 percent per year, whereas it hardly exceeded 3 to 5 percent in the Third World.

This analysis is superficial and false in two ways. First, hardly had it been formulated than it was refuted by facts: from 1950 onward capitalism experienced, at the center, new and very high rates of growth. The analysis in mechanistic terms made by the doctrine of logistic growth is too superficial to take account of a complex reality. On the other hand, as regards the Third World countries, there is nothing in

common between their growth rates and those of the center. The "take-off" period in the Third World (during the nineteenth century) was not a period of slow growth of industrialization. On the contrary, it was often a period of retrogression. The subsequent period was much more chaotic in the periphery than at the center, being marked by brief bursts of very vigorous growth, shifting from country to country, followed by long periods of stagnation. The history of the periphery is not one of a more or less steady growth—whether logistic or exponential—but a history of "miracles that led nowhere" followed by "blocking" of progress, in which the distinctive contradiction of the development of peripheral capitalism is expressed. It is in these terms that I shall carry my analysis forward.

The Typology of Underdevelopment

The mechanism of the birth of capital in the precapitalist economies, when integrated into the world market of goods and capital, is an extremely complex one, more so than that of the birth of capitalism on the basis of simple commodity circuits with a closed national market. Reality is even more complicated than my three schemas, for there is interaction between the three effects I have analyzed separately. The point is that real precapitalist formations are neither wholly pre-monetary nor simple commodity economies of a homogeneous kind. On the one hand there is accelerated monetarization of the sector that is not yet commercialized; on the other, destruction of the crafts by foreign imports. It should be added that in the period of penetration by foreign capital a certain craft sector often managed to survive. To this extent, some foreign capital did contribute to completing the break-up of these crafts by establishing industries with a local outlet (particularly textiles) in accordance with the model I have described as purely hypothetical.

The final result of the working of these mechanisms varies infinitely from one country to another and often from region to region. This result actually depends on three factors:

1. The structure of the precapitalist formation at the moment of its integration into the world market. In Black Africa, primitive systems predominated that often had only marginal experience of the use of money. Elsewhere, a developed feudal regime prevailed. Everywhere there were traces of more or less ancient systems and elements of more advanced structures.

2. The economic forms of international contact. Some countries traded with Europe long before European capital began to flow into them: the cases of Latin America, the Middle East and India are illuminating in this respect (notably as regards the destruction of the crafts). Others were opened up to trade only in the mid-nineteenth century (China, Indonesia, etc.). Still others were integrated at the time when international transfers of capital were beginning, like the colonies in Black Africa that were conquered between 1880 and 1910.

3. The political forms that accompanied this integration, the role of which cannot be underestimated. Alongside the spontaneously operating economic mechanisms, the authorities acted so as to shape the local structure in the way they considered appropriate to their political views. It should not be forgotten that most of the underdeveloped economies of today were colonies in the nineteenth century. Latin America and China are the only exceptions, and they were not outside the field of European political action. In some places colonies of settlement were established (Algeria), in others workers were brought in from other colonies (Malaya), nearly everywhere migrations took place (Indians and Arabs to Black Africa, Chinese to Southeast Asia). Occasionally there was systematic dismantling of industries that had previously been set up by a state power anxious to industrialize its own country. This happened in Egypt between 1882 and 1890, when the efforts of half a century (from Mehemet Ali to Ismail Pasha) were annihilated.[44]

The diversity of the real models of underdevelopment produced by the combined action of these three factors has led many economists to deny the unity of the phenomenon of underdevelopment, to consider that there are only underdeveloped economies, but not underdevelopment, rather as doctors are readier to believe in the existence of sick persons than of sicknesses. The reality of the latter is nevertheless a fact. But the unity of the phenomenon of underdevelopment does not lie in the appearances shaped by the interaction of these different factors. It lies in the *peripheral* character that is common to all the countries of the Third World of today, in relation to the development of capitalism. This is why the exercise of constructing a typology of underdevelopment, while providing some interesting descriptive elements, remains superficial.

From the typological standpoint it is possible to distinguish clearly a few broad types of underdeveloped formations. In the Central American type the economy is highly monetarized, wholly directed toward the commercial production of a single agricultural product (sugar in the

West Indies, fruit on the mainland). In some countries of South America the economy is only slightly monetary, owing to the juxtaposition, without interpenetration, of a more or less closed agriculture[45] and a foreign capitalist activity confined to mining (copper, oil, etc.). Depending on the degree of development of the latter (very advanced in Venezuela and Chile), the local agricultural structure seems to sink to a greater or lesser extent into the background. In Africa the primitive indigenous agricultural economy has been more or less commercialized (in the two forms of plantations and petty commodity production by natives); sometimes there is also, juxtaposed with this structure, advanced mining activity (Zambia, Congo-Kinshasa). In the Arab and Asian world, an agricultural economy with a semi-feudal structure—pretty well commercialized in North Africa, Syria, Iraq and Turkey, very well commercialized in Egypt, and very little commercialized in Iran and the Arabian Peninsula—is juxtaposed with capitalist activity that is already advanced and many-sided (mining, processing industries) and which is half foreign and half national. A somewhat similar structure is found in Brazil and Chile. In Southern and Eastern Asia we find a model more or less common to the whole of this area (but different from Brazil and Chile), characterized by an agrarian structure of a markedly feudal type (so that the degree of commercialization is rather slight).

This great variety of types of underdevelopment has led some to deny the unity of the systems concerned, which is in my view a profound fact. It has induced economists to look for the criterion of underdevelopment elsewhere than in the mechanisms whereby it was constituted—particularly in the field of those symptoms of which poverty is undoubtedly the most widespread. I have formally rejected this view. This is why, instead of somewhat futile exercises in endless typological refinement, I prefer to proceed with an analysis of the contradictions of the development of peripheral capitalism—an analysis of the "development of underdevelopment."

Chapter 2
The Formations of Peripheral Capitalism
Part 2: The Development of Peripheral Capitalism
The Development of Underdevelopment

The capitalist mode of production possesses three means of checking the tendency of the rate of profit to fall, means that constitute the three profound tendencies of this mode's dynamic of accumulation. The first of these means, which Marx studies at length in *Capital,* is increasing the rate of surplus value, in other words, aggravating the conditions of capitalist exploitation at the center of the system—which implies only relative impoverishment, and not absolute, as a schematic and simplistic interpretation of Marx has alleged. The second means, which is of special interest to us here, is spreading the capitalist mode of production to new regions where the rate of surplus value is higher, and from which it is therefore possible to obtain a super-profit through unequal exchange—in other words, by methods belonging to the category of primitive accumulation and not to that of expanded reproduction in the true sense. The third means is developing various forms of waste: "selling costs," military expenditure, or "luxury" consumption, making it possible to spend profits that cannot be reinvested owing to the inadequacy of the rate of profit. This third means was only glimpsed by Marx, its large-scale development being a feature of our own time.

Only the second means, expansion of the sphere embraced by capitalism, falls within our purview. What needs to be grasped is that this extension is the work of "central" capital, which strives in this way to find a solution to its own problems. The extension of capitalism is thus intended to bring about a rise in the rate of profit of central capital—that is what it is *for.* It is because central capitalism holds the initiative in this extension that relations between center and periphery continue to be asymmetrical—indeed, this is why a periphery is formed.

The transition to peripheral capitalism reveals this asymmetry, re-

flecting the "central" source of the initiative. The process of development of peripheral capitalism goes forward within a framework of competition (in the broadest sense of the word) from the center, which is responsible for the distinctive structure assumed by the periphery, as something complementary and dominated. It is this competition that determines three types of distortion in the development of peripheral capitalism as compared with capitalism at the center: (1) a crucial distortion toward export activities, which absorb the major part of the capital arriving from the center; (2) a distortion toward tertiary activities, which arises from both the special contradictions of peripheral capitalism and the original structures of the peripheral formations; and (3) a distortion in the choice of branches of industry, toward light branches, and also, to a lesser degree, toward light techniques.

This threefold distortion reflects the asymmetrical way in which the periphery is integrated in the world market. It means, in economistic terms, the transfer from the periphery to the center of the multiplier mechanisms, which cause accumulation at the center to be a cumulative process. From this transfer results the conspicuous disarticulation of the underdeveloped economy, the dualism of this economy, etc.—the, in the end, the blocking of the economy's growth.

UNEQUAL INTERNATIONAL SPECIALIZATION AND THE DISTORTIONS OF DEVELOPMENT

Distortion Toward Export Activities[46]

The predominance of export activities in the investment of central capital in the periphery is not immediately obvious. True, if we look at, for example, direct private U.S. investments over the last two decades, we note that oil production and mining have absorbed considerably more than half of these investments. But it is also easy to find statistics pointing in the opposite direction. Only a third of British capital invested abroad is invested directly in export activities (mines and plantations); public services, railways, trade, and finance account together for a much larger fraction of this capital. In the case of France, the proportion of investments in tertiary activities is still greater. In the nineteenth century the bulk of foreign capital was invested in loans to governments, public services, trading concerns, railways, and banks,

with only a small fraction going to mines and plantations. During the most recent period the proportion of capital invested in manufacturing industries producing for the internal market has increased, but still remains relatively marginal (10 to 20 percent of the total).

If, however, we look at the matter less mechanically, considering what sectors (in general, tertiary ones, along with plantations and mines) have received the bulk of the capital from the center, we find that these are largely grafted onto the export economy, to which they form a necessary complement. This is the case with most of the means of transport (railways, harbors, etc.), trading concerns, and banks that have attracted foreign capital. What leaps to the eye is that industries catering to the *internal* market have not attracted so much capital: the proportion of foreign investment allocated to these sectors is around 15 percent of the total foreign investment in the underdeveloped world.

Foreign investment in capitalist countries of the central type presents a very different picture. And it is the young capitalist countries of the center, rather than the countries of the periphery, that have received the bulk of the capital exported from the established capitalist countries of the center. As far back as 1913, at the close of a period of about thirty years marked by a flow of substantial investments into colonies and semi-colonies, the share of the periphery (Asia, Africa, and Latin America) in foreign investment barely exceeded 40 percent of the capital invested abroad ($19 billion out of $44 billion) by the old central countries: Great Britain, France, and Germany. Canada, Australia, Russia, Austria-Hungary, and the United States had received more. The share of the young central-capitalist countries has increased since then, today exceeding 60 percent. The United States has advanced from being a borrower to being a lender, and Western Europe has received substantial quantities of capital from that source.[47] More than two-thirds of these investments have been directed toward manufacturing industries supplying the home market, in particular toward the most modern of these industries. The remainder have gone into tertiary activities which, unlike those of the underdeveloped countries, are not appendages to export activities but are linked with the internal market.

The distortion toward export activities where foreign investment in the periphery is concerned is thus beyond dispute. Nevertheless, we can distinguish between two types of peripheral capitalist countries from this standpoint. In some, especially the oil-producing and mining countries and some with a plantation economy, the mass of foreign investments goes directly into the export sectors, the rest going into tertiary

activities connected with these exports. In the other countries, where the principal export activity is indigenous agriculture, foreign capital hardly puts in an appearance at all, except in the accompanying tertiary sector. This distinction implies a great inequality in the degree of penetration of foreign capital into different underdeveloped countries. Where the export activity is directly undertaken by foreign capital, the volume of foreign capital invested is much greater than where this activity is carried on by native agriculturists. Thus, Cuba, before the nationalization of foreign capital (an example of plantation economy), and Congo-Kinshasa, Zambia, or Chile (examples of mining economy) received five to thirty times as much capital per capita than Brazil, Indonesia, Nigeria, India, or Egypt. The oil-producing countries (Venezuela, Libya, Kuwait, etc.) have received, in proportion, still more foreign capital.

Generally speaking, in the second type of peripheral country, a substantial amount of *local* capital has been invested in export activities. However, it is difficult to assess these investments, and their total is often underestimated or even "forgotten," because they frequently take the form of scattered investments in land improvement.[48] For instance, in Egypt, agriculture—the principal source of exports—absorbed 30 percent of the gross investment of the nation between 1882 and 1914, 12 percent betweeen 1914 and 1937, 14 percent between 1937 and 1947, 4 percent between 1947 and 1960, and a larger percentage since then, with the building of the Aswan High Dam. These investments, mainly (nearly 80 percent) financed by the state (the irrigation infrastructure), and to a lesser degree by local private savings, played a decisive role in the country's economic growth (at any rate down to the First World War, after which the establishment of light industries producing goods to replace imports became the main driving force). In 1882 agriculture absorbed 58 percent of the national capital, 48 percent in 1914; and even as much as 21 percent in 1960. Settlers' agriculture in French North Africa, which also produced for export, took a large, though decreasing, share of investment in those countries: from 50 to 20 percent in Algeria, between 1880 and 1955; from 45 to 22 percent in Tunisia (1910–1955); and from 26 to 13 percent in Morocco (1920–1955), these investments being financed by Europeans settled in North Africa. Even in tropical Africa, where investment in agricultural development has remained relatively modest compared with investment in the infrastructure, local capital has made its contribution in this field. In the Ivory Coast, for example, between 1950 and 1965,

export agriculture absorbed 17 percent of investments in money (i.e., leaving out the "traditional investment" in reclamation work).

The reinforcement of a local capitalism in many of these countries of the second type has led to the development of tertiary activities and sometimes even to the development of industries catering to a local market, financed by native capital. This has happened in the cases of the "rich" countries of Latin America (Brazil, Argentina, Chile, Mexico), of Egypt, and of India and Pakistan. As a result, the distortion in favor of activities directed toward external markets is less marked in these countries.

In the past, right down to the Second World War, but especially in the period before the First World War, a considerable part of the capital exported from the old centers of Europe was invested in the public debt of other countries.[49] In 1843, at a time when hardly any capital was exported except by Great Britain, British holdings in the national debts of the countries of Latin America amounted to more than £120 million, or twenty times as much as the amount of British investment in the twenty-four largest mining companies of the world outside Europe. In 1880 British holdings in the national debts of the British colonies and dominions, of Latin America and of Eastern countries (the Ottoman Empire, Egypt, etc.) came to £620 million, to which was added a holding of £200 million in the U.S. debt. The French small saver is said to have had marked preference (though in fact it was the French business banks that carried out the transactions) for holdings in the state debts of other countries, particularly Russia. On the eve of the Second World War the proportion of the public debt of the colonial and semicolonial countries held by investors in Europe and North America ranged from 40 to 100 percent of the total amount of this debt, and accounted for between 15 and 70 percent of foreign investment.

The uses made of these funds were extremely diverse. A large proportion served to cover administrative expenses, another large proportion to finance investments in the infrastructure; but it can be stated that these public issues of bonds were never destined to finance industrial development, with which the states of the time, firmly convinced of the virtues of laissez-faire, did not concern themselves. To a large extent, however, the steep increase in public expenditure on the infrastructure, and even on administration, was occasioned by the integration of the periphery in process of formation into the world market.

After the Second World War, new tendencies appeared in the orientation of private foreign investment, and even more clearly in public

loans by the advanced countries to the underdeveloped countries ("aid"). First, public "aid" was greatly increased in both absolute and relative terms in the colonial areas (especially the African and North African territories of the French Union), in the countries that had emerged from colonial status but were still bound up economically and politically with the former ruling country, and in other regions where the wind of the Cold War was blowing (the Middle East, Southeast Asia).[50] For many countries this aid is tending to become the exclusive form in which they receive capital from abroad. Now, the direction given to the use of this aid, although varying from one country to another, tends to result in more attention to the financing of industry, including industry working for the home market. Soviet policy has played an important role in this connection, and it is in the countries that have most sharply broken with the political outlook of the West that the tendency has been strongest (e.g., Egypt).[51]

This policy has gradually led the West to revise its own preferences. While, for example, in the French-speaking countries of Africa, aid devoted to the infrastructure predominates, the aid that the European Common Market is planning for these countries tends to assign a bigger place to industry. It remains the case nevertheless that the doctrine laid down in the clearest possible terms by the World Bank—the International Bank for Reconstruction and Development (IBRD)—stipulates that investment must facilitate an improvement in the balance of payments such as to ensure repayment of the loan, together with the interest. Russia itself has been moving toward this attitude for some years. This confers a new dimension on the distortion toward the external market, within the context of an international specialization that concedes to the countries of the periphery certain industrial activities hitherto denied them.

This distortion of private foreign investment—and also, though to a lesser degree, state aid, and even the investment of local capital—toward export activities, or activities connected with them, is largely responsible for the accentuated integration of the countries concerned into the world market, in the forms already described and analyzed, with its structural characteristics (the trade of the underdeveloped countries being mainly carried on with the advanced countries, whereas the latter trade mainly among themselves). But the direction given to investment is not alone responsible for this evolution, for the shift in agriculture from the production of foodstuffs for local consumption to the production of export crops, even where this has taken place without investment playing any noteworthy part, works in the same way.

Internal market and external market.[52] How is this distortion toward export activity to be explained? The immediate answer, based on observation, is that exports offer a higher level of profitability. It must be realized, though, that this is not always easy to establish, since the second term of the comparison (activities directed toward internal markets) is largely missing. The rate of profit for actually existing activities is known, whereas for others what count are the hypothetical rates given in dossiers for projects—projects that were rejected precisely because of their inadequate profitability.

It is necessary, however, to go further, to go beyond appearances. Why *are* there differences in profitability? Current theory remains content with cursory and platitudinous statements: the external market already exists, the internal market has to be created. And yet this is theoretically false. No investment ever actually possesses an outlet *ex ante,* since the volume of the outlets of production cannot, at any given moment, be larger than the volume of production itself. Investment creates its own outlet, but this outlet cannot exist before the investment has been made. Besides, when investment is directed toward production for the external market, its outlet is ultimately not the external market which absorbs the additional imports that these new exports make it possible to pay for in real terms.

In the central capitalist countries, capital is invested in all branches of production. Firms expand, and an increasingly large share of their production is destined for export. The relative importance of foreign trade in the national product grows, and the market expands, from national to worldwide.[53] In the countries of the periphery it is mainly those enterprises whose entire production is destined for export that are established, something that is exceptional in the countries of the center. Whereas at the center there is partial specialization—in the sense that a commodity is produced partly for the local market and partly for export—in the periphery specialization is absolute. In the process of integrating the central capitalist economies into the world market there is symmetry in the relations among the partners, whose economies interpenetrate so as eventually, at the conclusion of a process not yet ended, to form one single market, one single integrated economy. In the relations between the center and the periphery, however, there is no such symmetry: the center plays the active role, opening up the market of the periphery in accordance with its own purposes.

At the start, in the contact freshly established between center and periphery, if real wages (or real rewards of labor) are more or less equal, the center, whose productivity is higher, is able to export, whereas the

periphery is not competitive in any sphere: real costs are higher there in all branches of production and the periphery can export nothing, except the exotic agricultural produce or crude minerals (provided the cost of transport is not too high) that have no equivalent in the center, because these are the only fields in which "natural advantage" means anything. It was in this way, moreover, that international exchange began: with exotic products—followed, when the cost of intercontinental transport had been sufficiently reduced, by the products (in crude form) of mining activity, which was to call for investment of foreign capital on a scale previously unheard of. Later, the ruin of the crafts resulting from the penetration of foreign goods having created in the periphery an imbalance between the supply of labor and the demand for it, the conditions were created for reducing the reward of labor in the periphery. The widening gap between real wages at the center and in the periphery would, after a certain stage, restore the profitability of certain industries, especially light ones, either for export or even for the internal market, even if the productivity of the periphery was lower. An additional motive then appeared for the investment of foreign capital. When productivity in the enterprises created by this capital became similar to that in the central countries, the lower level of wages made possible a higher rate of profit.

There remained, however, a reason why foreign capital preferred industries directly producing for export rather than those entering into competition with imports. The condition of disparity between the rewards of labor at the center and in the periphery did not become sufficient until a period had been reached when the concentration of industries at the center was itself already well advanced. In these circumstances it was the same monopolies that exported goods to the backward countries which also invested capital in them. They sought to maximize the profit they secured from their activities as a whole (at the center and in the periphery) and this led them to prefer the *export* activities of the periphery. As for the national capital that came into being in the periphery, this was not big enough—not sufficiently centralized—to be capable of competing with the foreign monopolies. It therefore chose, as far as possible, the sectors that were not competitive with the latter but complementary to them, especially *comprador* activity, services, etc., or, if this field had been left clear for it, agricultural production for export.

It must be appreciated that the sinking of local capital in activities complementary to those created by the country's integration into the world market, or in agricultural production for export, made no greater

contribution to the disintegration of the local precapitalist formations than was made by integration into the world market. True, here as everywhere else, local capital yielded a profit that was itself in turn accumulated—but always in branches complementary to those formed in order to accompany the country's integration into the world market. (Insofar as national capital proved inadequate to do this, foreign capital undertook the task directly, as in Black Africa, with the *commerce de traite*.) In other words, at the center the capitalist mode of production, based on developing the home market, tends to completely disintegrate the precapitalist formations that surround it and to become the sole mode of production. In the periphery, the extension of the capitalist mode of production continues to be motivated from without; this is a capitalism that spreads only to the extent allowed by an "international specialization" in which the periphery remains passive, and it has no tendency of its own to become exclusive.

The attraction that export agriculture may exert upon local capital brings with it some special consequences. The enrichment of the landowners that this development of export agriculture can imply certainly helps, among other things, to provide a local market for newly imported luxury goods. In the main, however, this enrichment attracts new capital formed in the urban sector toward the purchase of land. Merchants made wealthy by *comprador* trade in manufactured goods from the center, and in exotic products destined for the center, invest their profits not in industry, which would be unprofitable, given the foreign competition, but in the purchase of land, which constitutes a lucrative use of their savings. Now, the income obtained by ownership of land—namely, rent—is a monopoly income, the collective income of the landowning class. It does not imply, as does profit, a degree of saving necessary in order to invest, in the absence of which the source of income would dry up, owing to the competition from other, more advanced firms. On the contrary, it can be spent entirely on consumption. The attraction exerted on capital by land has the effect of limiting the rate of accumulation. It is in this sense that it is correct to say that "the land is a bottomless pit for savings."

This phrase is usually given a different significance, however. It is said that the purchase of land means a loss for the economy comparable to the hoarding of gold. In reality, this is not so, since the purchase of land entails only a transfer of wealth from buyer to seller. But the "beneficiaries" of the sale of land usually consume the proceeds of their sale. The pressure exerted by the demand for land causes its price to rise to a point at which the average rate of profit is no longer any

higher than the rate of rent. At the same time, the concentration of property that this mechanism reflects brings about a relative overpopulation of the countryside, which is accentuated by the modernization of agricultural techniques, as well as by the increase in the rate of rent. Egypt and India are striking instances of this mechanism.

In the long run, this distortion toward export activities constitutes a major reason for the blocking, at least to a relative extent, of the country's development, keeping it dependent and restricted. The requirements of the center for primary products (agricultural and mineral) from the periphery follow, at best, the average general rate of growth of the center. This is true, of course, only as an average, and not for every primary product taken separately, in all the different periods of the center's development. Moreover, the countries of the periphery have to pay for their increasing imports by means of exports increasing at least at the same rate, for reasons connected with the dynamic of the backflow of profits, as we shall see later.[54]

The growth rate of the center thus dictates that of the periphery. The capital that is continually being formed in the periphery thus tends, paradoxically, to become "superabundant," and this in turn causes a worsening in the terms of trade, through the transfer of value from the periphery to the center which tends to correct the superabundance. Local savings flee from the periphery or, exerting ever greater pressure, seek to invest in the creation of activities directed toward the home market. To achieve the latter, however, it would be necessary to break away, at least partially, from international integration: to set up tariff barriers for protectionist purposes, to import equipment and, in order to pay for this, to control the exchanges and the flow of money abroad, and so on. The contradiction between the development of national capital and the requirements of domination by foreign capital becomes ever sharper. The growth of the periphery, complementary to that of the center, tends to lose its relatively steady rhythm and to become jerky. The Third World becomes the scene of "miracles" of rapid growth followed by "blocking" and "failures to take off."

The historical geography of the Third World bears visible marks of this structural dependence on the center. Some regions that were prosperous at one time, because the export product they supplied was of interest to the center, later fell into hopeless decay when the center's interest shifted to a different product.

True, this blocking is, on the one hand, relative, and, on the other, not theoretically insurmountable. In other words, there are no "vicious

circles of poverty" that would make impossible any real, autocentric development, breaking with the bias toward export activities. If the slowing down of the center's demand for a particular product of the periphery entails a (relative) superabundance of savings in this region, a massive and organized investment of this available capital would create its own market, by expanding the internal market. But this would imply breaking with the profitability rule, as it would mean substituting, for the immediate future at any rate, local products for imported products. It is true, of course, that in the long run the independent industrialization of the underdeveloped countries would open up new markets for the manufactured products of the advanced countries of the center. This possibility remains only theoretical, however, since the immediate effect of the "unblocking" through massive, organized investment aimed at enlarging the internal market would be harmful to the suppliers of the underdeveloped countries.

The economists wish to stay within the framework of respect for profitability, just as they decline to repudiate the requirements necessary for foreign investment. For foreign capital, local investment aimed at the internal market aggravates the external imbalance if it fails to increase the volume of exports (or to reduce the volume of imports) by the amount needed to pay the profits that are to be exported. As the transformation of an economy based on massive imports of foreign capital brings in its wake, by accelerating the monetarization of this economy, considerable secondary waves of induced imports, direct and indirect, the requirement of external equilibrium seriously restricts the possibility of autocentric development financed from without. For economists who stay within this frame of argument, the "vicious circles of poverty" are a reality. This is what Buchanan and Polak call "the inflationary effect of the import of capital into underdeveloped countries."[55]

I reject the misuse here of the term "inflationary." This expression merely means that there is an increase in demand. Now, the new demand in question corresponds precisely to an increase in supply resulting from foreign investment. There is thus no inflationary effect of this investment, and no upsetting of the external balance, because this additional demand relates to a very large extent, directly or indirectly, to imports, whereas the new exportable supplies are inadequate to pay for these imports as well as covering the export of the profits of foreign capital.

To say that the solution consists in choosing investments focused on export, as do Buchanan, Polak, and Mandelbaum, is to go back to the

starting point of the process, since the blocking of development results from the fact that the center's capacity to export capital is greater than its capacity to import the product created by this capital. Other economists (Kahn, for example) evade the difficulty in a different way—by claiming that investment oriented toward the internal market does not always entail "inflationary effects" in the meaning given to this expression by the writers mentioned earlier.[56] Thus, for example, there might be an improvement in agricultural equipment that made possible an increase in output of agricultural produce for consumption by the producers. But even if we accept this hypothesis, how are the foreign loans, with which the imports of agricultural equipment have been financed, to be repaid? To criticize, as Kahn does, the policy of the IBRD, which declines to finance projects that do not obtain through export the means of repayment, by claiming that there are no a priori grounds for saying that an investment in the domestic sphere will create insurmountable difficulties in the way of external payments, is to dodge the problem of the requirements needed for foreign investment.

Local capital may certainly find it easier to contemplate an autocentric orientation of the economy, as it does not have to cope with the requirements of the export of profits. This is indeed a manifest tendency applying both to private national capital, where this is sufficiently concentrated to envisage the creation of industries competing with imports, and, where this is not the case, to publicly owned national capital. It still must be kept in mind, though, that this solution is possible only if those concerned are ready to break away from the world market. If this is not the case, then the complementary tertiary sector will be the sphere that attracts national capital.

Distortion Toward Tertiary Activities and Toward Light Activities and Techniques

Examination of the structure of the distribution among the sectors of both the product and the occupied labor force in the underdeveloped countries reveals a very marked distortion toward services, toward tertiary activities. Various theories have been put forward to explain this phenomenon, and I shall show their inadequacy, which arises from ignorance of these essential concepts: "formations of central capitalism," "formations of peripheral capitalism," and "world capitalist system."

The concept of productive and unproductive activities. The division of all economic activities into three sectors—primary, secondary, and tertiary—has become accepted in writing on the subject, but the same criteria for classification are not always followed. Often the writer does not go beyond an intuition suggested by the everyday meaning of the words: primary production means all the activities that "directly" extract "economic resources" from "nature," whereas secondary production means "processing activities." As for tertiary production, this forms a sort of catch-all for everything else, in which we mainly find services, both private and public. The results of this intuitive classification coincide to some extent with those of a classification based on the criterion constituted by the relative part played in production by the three factors: nature, capital (time), and labor. Looked at in this way, primary production signifies that in which the land, and so landed property, plays a big part, while secondary production is dominated by intensive use of capital, and tertiary production groups together those activities in which labor still occupies the principal place.

This threefold classification is in fact artificial. Do primary activities really "extract" more from nature than processing activities? The physiocrats were convinced that they do; but one would have thought Ricardo's masterly reply to Smith would have dissipated all illusions on that score. And yet there *is* something valid in the distinction between primary and secondary production. The point is that the land is subject to private appropriation. This is why Ricardo ascribes ground-rent, quite logically, not to nature (the "service" rendered by the land) but to private ownership of the land. Marx went further and analyzed the laws governing the transformation of surplus value into its components: profit and ground-rent.[57]

The marginalists claim that it is wrong to identify service of land with ownership of land—that under a socialistic regime in which private ownership of land has disappeared it would nevertheless still be necessary to "pay" the land for the "service" it renders. If this means that, when planning, one would have to take account of competing uses of land and of the land's varying suitability for these uses, it is quite correct.

Social conditions being what they are, however, the land enables its owner to levy a reward for himself in the form of ground-rent. All human activities being localized, none of them can avoid paying ground-rent to the owner of the land on which they take place. In agriculture, however, this ground-rent plays a very important part, whereas in manufacturing industry its part is a very small one. The

importance of ground-rent in mines and forests lies somewhere in between. The position of the rent paid to the owner of the surface, who cannot even make use of his status to prevent the mine from being worked, becomes increasingly secondary. In quarries and the exploitation of forests the position of rent still remains important. In agriculture itself the place of capital is assuming ever greater importance. Nevertheless, the capitalist character of production is much more clearly defined in mining than in agricultural activity. This is why it seems less artificial to classify forest exploitation along with agriculture in the primary sector, whereas mining is put in the secondary sector, along with processing industry.

But the artificiality of the threefold classification becomes more obvious when we examine closely the tertiary sector. There we find, side by side, activities as remote from each other as service-producing crafts (e.g., independent hairdressers), activities of the liberal professions that have to a greater or lesser extent been transformed into state employment (teachers, doctors and nurses in state hospitals, lawyers and judges, all playing the same economic role), and the capitalist production of commercial and financial services (banks) or even the capitalist production of services similar to those rendered to society by the crafts and the liberal professions (a hairdressing shop or an attorney's office). A dominant role played by labor is not common to all these activities from either the social standpoint (predominant form of income) or the technical standpoint (proportion of wages to the value of the finished product). In banking and commerce it is *capital* that is dominant, even if this factor mainly takes the form not of machinery but rather of reserves of money or stocks of goods.

In these circumstances, a return to the classical tradition, as developed by Marx's analysis, is found once more to be neither so primitive nor so useless as the marginalists have implied. We know that Ricardo, following Smith, divided human labor into "productive" and "unproductive" labor. The sphere of "productive" activity puts at the disposal of society material objects in the places where they are to be consumed. It can itself be subdivided into two sectors: the "primary" one, in which landed property has, historically at least, played the dominant role (agriculture), and the "secondary" one, in which it is capital that plays the dominant role (industries in the strict sense, together with mining and transport). The inclusion of transport among secondary activities shows that the term "material" must not be understood in a vulgar sense. Productive, material activity means activity that extracts something from nature. Strictly material substances are ex-

tracted from nature in their crude form, and are then processed and transported for consumption.

In contrast, "unproductive" activity extracts nothing from nature. This does not mean that it is useless: on the contrary, it is necessary in order to ensure the functioning of production proper. It enables man to extract more from nature. For most economists, this distinction will seem a purely verbal one. In fact it is essential in relation to the very subject with which we are concerned: development and underdevelopment. The fundamental approach adopted by the classical writers and by Marx was profoundly sociological. It corresponds to the undeniable fact that, in order to extract a certain amount of wealth from nature, men are organized in society (it would, of course, be different for Robinson Crusoe on his island) and so must spend a certain amount of their time not on direct production but on social tasks. Depending on the form of this social organization, a greater or lesser amount of potential productive forces will have to be devoted to "unproductive" activities.

Where the problem of development is concerned, the practical interest of this distinction is substantial. Let us imagine a society made up of 1,000 men living in a certain territory and having at their disposal equipment inherited from the labor of their forefathers: 990 of them make 300 units of clothing, 100 units of housing, and 1,000 units of foodstuffs, while the other 10 devote their time to organizing this activity. Let us now think of the same society, but with only 500 individuals engaged in making 150 units of clothing, 50 units of housing and 500 units of foodstuffs, while the other 500 spend their time and effort on organizing society. The parasitic nature of a section of these people stands out plainly. This is concealed by present-day calculators of the national income because contemporary statisticians do not shrink from alleging that the "wealth" of our two societies is absolutely equal! In reality, a coherent calculation of total income ought to show the proportion of the national income made up of wealth extracted from nature and the proportion of social forces dedicated to the *ongoing* organizing of this production. Comparison between the economic efficiency of different regimes would be facilitated thereby.

The distinction between productive and unproductive activity arises from the constitution of "economics" and "sociology" as distinct "sciences," both of them crippled, since there can be only one social science, as Marx's critique of political economy proclaims. The boundary between them gives rise to the problem of how to define the respective domains of the two "sciences." Economics is said to concern

itself with the problem of creating and distributing wealth (and so with productive labor, in the sense of "productive of wealth," this wealth becoming "values" in the commodity forms of production), while sociology concerns itself with the organization of social activities other than those of production in the previously defined sense—in other words, with political organization. Between the two there is in fact an obvious relation that reveals the artificiality of the distinction made, and the narrowly limited sphere assigned to "economics."

This distinction enables us to appreciate in their true significance the so-called comparisons that are made between "average income per capita" in one country and another. To say that a North American with an income of $3,000 is thirty times as rich as an African with an income of $100, is absurd. It leaves out the squandering of wealth which accompanies improvement in productivity: if motor transport enables men to cover in ten minutes a distance that would have taken sixty minutes by horse-drawn carriage, but at the same time the social organization of production is such that a useless urban concentration forces the workers to spend a greater amount of time to get to work, society has not been enriched by motorization (as the calculation of "income" would give us to suppose).[58] It is still more absurd to say that the level of "well-being" has been raised. The development of capitalism is full of waste like this, which actually reduces the significance of the increase in national income. Difference in productivity, the only objective criterion, should be measured directly—by comparison between the quantities of labor necessary in one place and in the other to produce the same goods.

The development of capitalism has as its fundamental law not the maximizing of satisfaction, the axiom on which marginalism is based, but the maximizing of profit. For capitalism, productive labor means labor that creates profit. The significance of this distinction is so obvious that, despite the criticisms the marginalists have hurled at the classical writers, contemporary economists constantly make use of the terms "productive investments" and "unproductive investments." Would it not be better to use these expressions in full awareness of what they signify, rather than using them without having defined their content?

Unproductive activity takes two forms—public, and private. Government's providing public administrative services is nothing new. Now the state is also assuming, to an increasing degree, functions that are strictly productive: transport, power production, and so on. As for private unproductive activity, this has taken on a variety of forms. In Smith's

time it was essentially of a craft character: hairdressers, actors, etc., sold their services to the public, domestic servants sold them to particular persons. Smith quite logically drew the conclusion that expenditure incurred in order to maintain servants was unproductive, whereas wages paid to workers in one's employment were productive. Today, these activities have in part survived in their old form and in part been transferred to the public sector: teaching, formerly private, has to a large extent become public.

But the most profound change has undoubtedly been the transition of the majority of unproductive activities from the petty-commodity craft mode of production to the capitalist mode of production. Companies of actors and independent hairdressers have been replaced by theatrical enterprises and hairdressing firms. For the theatrical entrepreneur who pays a wage to the performer and makes the public pay, out of its income, for the service rendered, theatrical activity is productive of profits. These profits are not necessarily reinvested in the same branch. They may find their way into the production sector. The problem of the effects of unproductive activity on development is thus considerably modified by this new situation. This capitalist form of unproductive activity already existed at the beginning of the nineteenth century, in commerce and banking, but today it has taken on much greater dimensions.

Distortion toward unproductive activities in the periphery.[59] Statistics of the distribution and gross internal product among sectors, in terms of both market prices and factor costs, already reveal a qualitative difference between the developed and underdeveloped countries. The tertiary sector (in Colin Clark's sense of the term) provides nearly 40 percent of the product in the capitalist countries of Western Europe, and 50 percent in the United States, whereas in the underdeveloped countries it provides between 30 and 60 percent: around 30 percent (rarely less) in the least modern countries, those least integrated into the world market (the interior of Africa, Afghanistan, etc.), more than 50 percent (and often a great deal more) where the degree of integration into the world market is high. On the other hand, in the developed countries, the proportion of the secondary sector is close to that of the tertiary sector, whereas in all the underdeveloped ones it is very much less. The same is true, qualitatively, of the distribution of the occupied population among the sectors. In the developed countries it is distributed more or less equally between the secondary and tertiary sectors, with a tendency for the occupied population in the tertiary sector to

get bigger as the average product per capita increases, whereas in the underdeveloped countries the proportion of the labor force engaged in tertiary activities is very much greater than that which is engaged in secondary-sector occupations. In this way, paradoxically, as far as the place held by the tertiary sector in the economy is concerned, the underdeveloped countries seem to be closer to the United States than to Western Europe, and even more "advanced" than the United States!

If, however, we look at the comparative historical evolution of these proportions in the formations of the center and in those of the periphery, we find a very different dynamic.[60]

In the developed countries, the movement or transfer of the occupied population from one sector to another is not linear. Thus, in the United States, for instance, between 1820 and 1880–90 a transfer of population took place from agriculture (whose share of the total occupied population fell from 72 percent to less than 50 percent) into both of the other two sectors, in proportions more or less equal and unchanging. In the twentieth century the decline in the agricultural population speeded up, but it was now more and more, especially after 1920, the tertiary sector that benefited from this population transfer. The evolution of the share contributed by each sector to the national product was approximately parallel, except that in the twentieth century the share of the tertiary sector in comparison with that of the secondary increased at an even faster rate than the increase in the labor force engaged in these sectors. This reflects the fact that, in the tertiary sector of today, technical progress has proceeded faster than it has in the secondary sector.

If we now examine the comparative rates of growth of production per capita in each sector, we find, as regards the developed countries: (1) that the progress of industry (and transport) in general has been much faster and more pronounced than that of agriculture; (2) that, on the other hand, the progress of the tertiary sector (excluding transport) has in general been much slower than that of industry (except in the United States in the present period, where it appears to be faster).

In the light of these facts, the transfer of population from agriculture to other activities cannot be explained by the comparative rate of progress alone, for the increase in industry's share of the total product could have occurred without any cut in the share of the occupied population engaged in agriculture. This transfer of population is in fact due to the combined working of the following two laws. First, progress in agriculture, although usually not so fast as in industry, demands the use not only of more and more capital (something that is not peculiar

to agriculture) but also of less direct labor per unit of cultivable area. Relatively rigid in pattern, progress in agriculture must release labor in absolute terms, and a fortiori in relative ones. Second, when income per capita increases, the demand for manufactured goods increases faster than the demand for agricultural products.

Does comparative technical progress also explain the way the division of the nonagricultural population between the secondary and tertiary sectors has evolved? It would seem that it does, since progress has generally been more pronounced in the secondary sector. If, therefore, increasing demand is to be shared equally between demand for manufactured goods and demand for services, the tertiary population must increase faster than the secondary, and all the more so if the demand for services is to increase faster than the demand for industrial products.

A rapid and superficial analysis that stopped at that point—at an examination of comparative rates of progress and of the comparative evolution of demand—might seem satisfactory, or at least half-way there, as far as the developed countries are concerned. Clark's and Fourastié's analyses are of this order. I say half-way to being satisfactory, because it still remains: (1) to explain why the movement is not linear, but shows a break, beginning at the end of the nineteenth century and becoming emphatic after 1920–30, and especially after 1950: in the nineteenth century the transfer from the primary proceeded more or less equally into the secondary and the tertiary, whereas in our epoch the tertiary takes an increasingly larger share; (2) to check the assumption about the increasing relative demand for services. Here, "services" means a very heterogeneous collection of items. It is conceivable that the extra income should swell the demand for services of entertainment, tourism, or instruction rather than that for certain manufactured goods (not always, though: there is always a luxury demand for *goods*—the weekend cottage, the yacht, the fur coat). Where transport of goods and trade is concerned, however, there is no "ultimate demand"—these are production charges. Such charges are not very elastic. An only slightly industrialized commodity society is obliged to allocate a certain percentage of its population to these functions of organizing the circulation of goods. The same society, enriched by a new industrial technique, can circulate a greater quantity of goods without allocating a larger proportion of its labor power to this task. The combined operation of this law and the increasing relative demand for certain services resulted all through the nineteenth century in comparative stability in the division of the population between the secondary

and tertiary sectors. The change that began at the end of the century and which has become ever more marked in the present period has still to be explained. The explanation which proved beyond the capacity of current orthodox theory was put forward for the first time by Baran and Sweezy in a general analysis of the dynamic of the absorption of the surplus under monopoly capitalism.[61]

On the other hand, the facts of the evolution that has taken place in the underdeveloped countries are not symmetrical with those concerning the developed ones. Urbanization, reduction in the proportion of the rural population, is certainly a widespread phenomenon in the Third World. While, in the middle of the nineteenth century in Latin America, the Arab East and Asia, and at the beginning of the twentieth century in Black Africa, the proportion of the population not engaged in agriculture was very small (only 2 or 3 percent), this is no longer true in our time. In the Third World as a whole the urban population exceeds 35 percent of the total; it is even greater than 50 percent in some of these countries, and is less than 20 percent only in those very poor countries that are but slightly integrated into the modern world.[62] Nevertheless, this rate of urbanization is, in comparison with the rate of general growth of population, lower than in the developed countries. In the latter, the rate of urban growth has for a century been of the order of 3 percent, or three times that of the average rate of general population growth. The result has been that, broadly speaking, the absolute figure of the rural population has remained stable over a long period, starting to decline only in recent times.

In the Third World countries the rate of urbanization has long been very slow, approximately the same as that of their population increase. Then, starting quite recently—usually subsequent to the Second World War, and only in exceptional cases between the beginning of the century and 1940—the rate of urbanization rose sharply to about 7 percent for the Third World as a whole. However, the rate of general population growth itself rose from 1 to 3 percent, so that over a century the *absolute* number of the rural population has increased, and continued to increase. Whereas, for the advanced countries, the percentage of the increase in the occupied population that is absorbed by agriculture is negative (relative *and* absolute reduction in the agricultural population), and that absorbed by other activities is positive and very high, in the underdeveloped countries *both* percentages are positive, with the latter at best merely two or three times the former. It is clear that this particular phenomenon reflects the intensification of an agrarian crisis in the Third World that is unknown in the developed world.

On the other hand, urbanization in the Third World is accompanied by a growth, both relative and absolute, of unemployment, such as has not been experienced in the West, apart from comparatively brief periods, mostly (except for the period of the great crisis of the 1930s) between 1820 and 1870. In Egypt, for instance, the percentage of the urban population in employment fell from 32 percent in 1914 to 22 percent in 1960. In the Maghreb in 1955 the unemployed made up between 15 and 20 percent of the (Moslem) labor force in the towns; in the Ivory Coast around 1965 they accounted for 18 to 20 percent, and in other countries of West Africa still more.[63]

Finally, the occupied section of the nonagricultural population in the Third World has moved into the tertiary sector rather than the secondary. This has happened since the beginning of the process of modern urbanization, in connection with the integration of these countries into the world capitalist system. As far back as 1914, the increase in industrial employment was very small in comparison with the increase in total population: from 1 to 18 percent, depending on countries and periods (in the majority of cases, between 1 and 5 percent). This percentage is in general lower than that of the secondary population in the total occupied population: the proportion of the secondary population thus declined even in this "initial" stage of industrialization. In Egypt between 1914 and 1958 the percentage of the population employed in industry, building, and construction generally declined steadily from 34 to 25 percent of the nonagricultural employed population, whereas those employed in the tertiary sector rose from 66 to 75 percent. In the Maghreb, around 1955, industry, the crafts, and building employed 45 percent of all urban labor, as against 55 percent engaged in trade, transport, services, and administration. In the Ivory Coast around 1965 the secondary sector employed only 33 percent of nonagricultural labor.[64]

We are thus justified in concluding that a linear and universal theory of the evolution of the respective shares of the three sectors can only be superficial and false. For: (1) the evolution of the developed countries has not been linear; and (2) the evolution of the underdeveloped countries has been different from that of the developed ones, and these countries cannot be seen, in this connection any more than in others, as being like the developed ones at an earlier stage of their development.

Economic development and unproductive activities. The threefold question that arises is therefore this: Is economic development expressed in a development of tertiary activities at a faster rate than

others? Does the faster development of the tertiary sector in the present-day formations of central capitalism correspond to a law of this kind? To what are we to attribute the faster development of the tertiary sector *from the beginning* in the formations of peripheral capitalism?

It must be realized that the concepts of productive and unproductive activity are relative to a particular mode of production—here, the capitalist mode. It is a question of activity that is or is not productive of surplus value (profit), which is functionally destined to accumulation, that is, to the widening and deepening of the field of action of the capitalist mode of production. Any attempt to confuse this precise problem with a different one, that of the "usefulness" or otherwise of a given activity, regardless of the mode of production in which it is situated, arises from a nonhistorical, idealist conception that is alien to my way of thinking. I am not trying to discover whether the building of the Pyramids, or of the Cathedrals of the Middle Ages, was "useful" for mankind or not, any more than I am trying to ascertain whether, in the ideal society of the future, time spent on labor will be progressively reduced in favor of activities that do not belong to the category of labor, because they lack the compulsory character of the latter—leisure, education, sport, and so on.

Within the capitalist formations—that is, those based on the capitalist mode of production—obvious relations of mutual dependence exist between the level of productive activities and at least some of the activities described as unproductive, such as, for example, education, health, the collective public services, etc. Investigation in this direction, which is still only in its infancy, will broaden the too narrow (economist) outlook of traditional "economic science" by obliging it to become integrated into the only possible social science, that of societies considered in their actual totality.

The view of Clark, Fisher, and Fourastié tries to answer the first aspect of the question in traditional, economistic terms, and therefore signifies very little. It comes down to one simple and general proposition: the tertiary sector being the one that includes most luxury activities, a relatively faster development of this sector must be interpreted as a consequence of the society's having become richer. The formulation is inexact: what is meant by "devoting more productive forces to tertiary activities"? If it means the transfer of the occupied labor force to the tertiary sector—and this is the interpretation put upon it by Clark and Fisher—the thesis is largely tautological, since one begins by dividing production into three sectors, then puts into the third sector those

activities in which direct labor plays a relatively larger role, and then notes that this sector uses relatively more and more labor—which goes without saying, since progress is reflected in a more intensive use of capital; and what has been put in the tertiary category is precisely that group of activities in which the ratio of direct labor to capital employed is greater than average.

If we consider the share of each sector in the total product, the view is found to be false. The field of activities covered by commodity economy (which is the object of the calculation of the product) itself expands with the development of capitalism. Criticizing Clark and Fisher, Bauer and Yamey emphasize, with good reason, the dangers in making comparisons of the product in time and space.[65] The development of capitalism has brought with it the commercialization of activities that were formerly "domestic," in other words, noncommodity in character. Every time a housewife stops doing her own washing or cooking and resorts to the commodity services of a laundry or a restaurant, the national product and the tertiary product are increased by the entry into the sphere of economic activities (based on labor) of activities that were previously domestic. In these circumstances it is not at all certain that the increase in the share of the tertiary sector necessarily reflects an enrichment, since it largely a mere reflection of the extension of the economic domain.

Again, what does the "enrichment of society" mean? The average degree of enrichment of all its members? Triantis has very properly pointed out that two societies having the same average income per capita, but with this income differently distributed, would be found to have differing proportions between the three sectors.[66] In addition to which, let us recall, it is possible to engage in luxury expenditure on primary products (exotic foods) or on secondary ones (weekend cottages, yachts).

On the question of the recent development of the tertiary sector at a much faster rate in the developed countries, Colin Clark's theory remains completely silent. Apart from any dispute there may be on the significance of comparisons relating to allocation between different activities in societies remote from one another (like present-day Europe and the Europe of 1850, or the United States and India), there is a manifest fact that forces itself on our attention: the tendency to very rapid growth of the tertiary sector in the central capitalist formations in the present period.

First of all we are struck by the growth of public expenditure, both civil and military, but especially the latter, at a rate higher than that of

the material basis of the economy. In the United States, government expenditure increased from 7.4 percent of the gross national product in 1903 to 28.8 percent in 1961; the share of military expenditure rose from 7.1 percent of all government expenditure in 1929 to 40 percent in 1957. We also observe that present-day central capitalism is characterized by a rapid growth in "selling costs" (advertising and other forms of economic waste), which have represented in the United States since 1930 about 10 percent or more of the gross national product, and have risen from $10.6 billion in 1929 (11.3 percent of the GNP) to $55.1 billion in 1963 (13.4 percent).[67]

All this is also reflected in a characteristic change in the proportions of investment. During the forty years 1880–1920, private industry in the United States absorbed more than 40 percent of national investment, house-building 22 percent, public services and subsidies 36 percent, as against 15, 18 and 66 percent, respectively, in the forty-five years 1920–1965.[68] The more than considerable reduction in industry's share reflects, it is true, not only an increasing distortion toward the "public tertiary" but also important changes in production techniques, now much less capital-using than in the traditional schema of industrialization. I shall come back to this problem later.

We are left to conclude that the only valid explanation of this profound tendency in present-day capitalism must be related to the internal dynamic of the system's evolution—to the conditions for the realization of surplus value. The system cannot function unless surplus value is wholly expended, whether it be invested or "squandered." If the tendency of the rate of profit to fall is such that the prospect of investment has lost its attraction, all that remains to the capitalists is either to strive to overcome this fall in the rate of profit, or else to "squander" the surplus value. In order to overcome the fall in the rate of profit they can either try to increase the rate of profit at home—in the center—or seek sources of investment elsewhere—in the periphery—that will show a better rate of profit. Increasing the rate of surplus value, however—whether at the center or the periphery—aggravates inequality in the distribution of income and deprives investment of its outlet. The contradiction between society's capacity to save and the possibility of profitably investing new capital, the outlet for which lies in current consumption (with a rate of growth less than that of accumulation), becomes more intense. All that is left to do then is to "squander" surplus value.

The changes in the conditions of competition associated with the appearance of the monopolies themselves led to "necessary waste."

"Selling costs," which Chamberlin first emphasized in the 1930s, both reflect the intensification of competition (between monopolies) and provide a solution to the problem we are considering. Competition between states also gets worse, and the militarization that results from this also constitutes a salutary form of waste; this has, since 1914, quite transformed the basic attitudes of capitalism, which until then had been hostile to military squandering. Intervention by the state, called for from Keynes onward, constitutes the third source of waste: some state interventions may take the form of civil expenditure that is useful (education, social services), but this is not always the case (problem of the "usefulness" of the infrastructure). The total mass, absolute and relative, of this squandered surplus is found to increase, as Baran and Sweezy have shown. To see in this a contradiction between the law of the tendency of the rate of profit to fall and the law, put forward by Baran and Sweezy, of increase in the surplus, seems to me to arise from an incapacity to grasp the process whereby the contradiction is all the time, and necessarily, being overcome.

There is a big gap between the real reasons for the rapid growth of the tertiary sector in the central formations of today and Colin Clark's current thesis, which is ultimately based on an apologetic ideology. As regards the underdeveloped countries, in any case, neither Clark's apologetic thesis nor the Marxist analysis of Baran and Sweezy (which is valid for the central formations) enables us to answer the question. Here, too, as in the central formations, the tertiary group of activities is heterogeneous.

The rapid development—*from the very beginning*—of nonadministrative tertiary activities—commerce, with commercial and paracommercial services (domestic service, liberal professions, etc.) in the formations of the periphery—is certainly hard to deny, though it is not easy to prove, owing to the lack of adequate statistics. In Egypt, between 1914 and 1960 the production of all kinds of industry increased at an annual rate of only 3.5 percent (lower, if building and public works are excluded), despite the near-zero starting point as far as modern processing industry was concerned: commerce increased by 3.5 percent, transport by 2.6 percent, and the other services by 2.2 percent, while administrative expenditure increased by 4.7 percent.[69] In Algeria the nonadministrative tertiary increased from 40 percent of the gross internal product in 1880 to 42 percent in 1955, in Tunisia from 47 percent in 1910 to 43 percent in 1955, in Morocco from 35 percent in 1920 to 36 percent in 1955.[70] In the Ivory Coast, between 1950 and 1965, despite the very rapid advance of new industry (18 percent

annual growth, excluding building), the rate of growth of the non-administrative tertiary remained high (10 percent), higher than that of agriculture (7.2 percent) and even that of agriculture, industry, and building taken together (8.6 percent). Many similar examples could be given.[71]

The ultimate cause of this distortion lies in the conditions governing the integration of precapitalist societies into the international capitalist market. This integration entails, in fact, three main consequences that tell in the direction indicated.

First, competition by the industries of the dominant centers that provide the imports of the periphery bars the way to investment in industry of the capital that is formed by the monetarization of the local economy, and guides this capital toward the complementary activities connected with the export economy, especially trade. Local capital has no other outlets available to it. We thus observe that, in those countries of the periphery that are closely integrated into the world market, the commercial sector appears relatively hypertrophied. The correlation between degree of integration into the world market (measured, for example, by the place of exports in the country's total product) and the share of *trade* in this product is very high.[72] What we have here, of course, is a tertiary that has nothing to do with any structure of demand biased toward luxury activities that reflect an "enrichment" of society.

Second, the hypertrophy of certain tertiary activities with low productivity (small retail trade, especially the itinerant form, many kinds of services, etc.) is a manifestation of hidden unemployment. The "imperfect composition" on micro-markets isolated from each other to which Holton and Nicholson refer for an explanation of the phenomenon constitutes only a very secondary aspect of the problem. Bauer and Yamey, like Rottenberg, are justified in saying that the relative scarcity of capital—or, rather, the relative abundance of labor—favors the development of labor-using activities, especially the tertiary sector of the economy, just as self-employment in those branches that do not call for any investment provides sanction for very low earnings—lower than the wage employers would have to pay.[73] Yet an argument of this kind could just as well have been applied to Europe at the beginning of capitalism, although no such hypertrophy was seen there as is common to the underdeveloped countries of today. The point is that relative abundance of labor, a "neutral" expression signifying mass unemployment, exists in the underdeveloped countries on a scale different from anything known in the developed ones. The destruction of the crafts

and the development of agrarian capitalism without accompanying industrialization, as a result of competition by overseas industries, are the origin of this "abundance." In this case, too, there is nothing to suggest a luxury character of these activities of semi-unemployment.

Third, the strengthening of the position of ground-rent, a distinctive characteristic resulting from the international integration of the peripheral formations, also implies a particular direction to the expenditure of income, marked by distortion toward certain tertiary activities. In the formations of central capitalism, landed property has progressively lost its dominant position in the economy and in society, to the advantage of capital, and along with this the position of ground-rent has progressively declined. Here, however, the intensification of external exchange in the context of growing specialization based, to begin with, on export of exotic agricultural products by the periphery has strengthened the dominant position of ground-rent wherever an unequal distribution of the land, whether existing to start with or developing as a result of commercialization of production has made this possible. Since, moreover, the predominant capital in these countries is foreign, the (exported) profits do not appear in the local distribution of income. There will thus be a tendency for reinforcement of the place occupied, among the "high" incomes, by those of a noncapitalist nature (ground-rent) rather than those that are strictly characteristic of the capitalist mode of production (profit on capital).

Current statistics of the distribution of income are of little help in making these essential distinctions. Nevertheless, a few works that have been written to enable us to make them. In Egypt, for instance, the rents of the large landowners (possessing more than 20 *feddans*) increased from 31 percent of total agricultural income in 1914 (18 percent of the national income) to 40 percent in 1960 (14 percent of the national income).[74] This very pronounced increase in rent seems to be general throughout the Middle East.[75] In the Ivory Coast the incomes of the upper stratum of the planters increased from Fr. 2.3 billion in 1950 (29 percent of the income of Ivory Coast planters) to 7.6 billion in 1965 (37 percent).[76] Now, ground-rent does not, like profit on capital, necessarily have to be saved in order to be invested to ensure the modernizing of production dictated by competition; it is monopoly income. It can therefore be entirely *spent;* and in fact this is very largely what is done with it. This expenditure is thus a luxury expenditure devoted, as far as material goods are concerned, to imported goods, and, as regards products of local origin, to services that cannot be imported: domestic service, leisure services, etc. This is the only real

sphere in which development (here of a very special kind) entails a more rapid growth in luxury demand.

The relative hypertrophy of the incomes of the dominant classes of landowners is also reflected in a substantial amount of liquid saving—the modern form, in a system dominated by capitalism, of the hoarding of precapitalist societies. This liquid saving feeds the well-known circuits of speculative investment, especially prominent in countries of large landownership (Latin America, the Middle East, India): purchase of land (and thereby increasing concentration of land ownership), house- and office-building (inspired by urbanization), and the export of savings. Thus, in Egypt between 1937 and 1952, ground-rent furnished half the total of private saving (profits of enterprise furnishing the other half); these savings were wholly invested in the purchase of buildings or land or hoarded in the form of gold or bank accounts.[77]

From the standpoint of the rate and structure of accumulation, the hypertrophy of tertiary activities is largely of negative significance. Expenditure, in many of these activities, is not a true investment, that is, a purchase of labor power that produces profit, but merely a transfer of property or income. These transfers raise the level of total consumption without contributing to form any surplus value, which would be destined by its essential function to be accumulated. The Keynesian analysis, which presupposes that all additional income is assigned partly to consumption and partly to saving, glosses over these essential differences in the functional destination of the different types of income, and can therefore classify every kind of expenditure, even an unproductive kind, as an "inducing investment."

As for the hypertrophy of administrative activities in the underdeveloped countries, this is one of the commonplaces of underdevelopment. An analysis that seeks to go beyond mere description of the problem needs to answer a whole series of questions in this connection. First, on the general plane, what are the comparative rates of growth of public expenditure and of the material basis of the economy, at the center and in the periphery? Is the tendency of distortion toward administrative activities a deep-rooted and long-established tendency of the periphery (apparent in the colonial period, for instance), or is it a recent tendency (connected with the political structures that have emerged from decolonization)?* Is this distortion more pronounced, in the present period, in the periphery than it is at the center? How is this public expenditure financed—what, in particular, is the dynamic of its

* I shall come back to this important point later.

sources of finance (local taxes, local and external loans, inflation), as compared with those at the center? On the sectoral plane, we need to analyze the comparative structure of public expenditure in the periphery and at the center ("productive" and "unproductive" expenditure) and the comparative structure of the way this expenditure is financed (what categories of income ultimately pay for this expenditure).

In Egypt, as we have seen, the rate of growth of the administrative services (4.7 percent per year between 1914 and 1960) was much higher than that of the productive foundation of the economy (1.8 percent).[78] To this expenditure were added considerable investments in the irrigation infrastructure (especially between 1882 and 1914). Broadly, it was the demands of the world market (development of cultivation of cotton on irrigated land) and of extended schooling that were the chief causes of this evolution. All these forms of public expenditure were financed without any inflation or external aid, which appeared only very recently (from 1957 onward), within a regressive and rigid fiscal structure based on customs duties and indirect taxation. The burden of taxation steadily increased, from a very low level (about 7 percent in 1914) to a very high one (about 30 percent in 1960).

In the Maghreb a progressive increase in public expenditure has been observed, affecting both the civil service and the nation's equipment, proceeding, in percentages of the gross internal product, from 12 percent and 4 percent, respectively, in 1880, to 18 percent and 9 percent in 1955, in Algeria; from 11 and 3 percent in 1910 to 17 and 8 percent in 1955 in Tunisia; and from 10 and 3 percent in 1920 to 12 and 5 percent in 1955 in Morocco. Financed exclusively from local resources until the time of the Second World War, this development is now financed from abroad to the extent of 40, 35 and 40 percent respectively of the local resources of these three countries as they were around 1955.[79]

In the Ivory Coast, current administrative expenditure increased from 12 percent of the gross internal product in 1950 to 16 percent in 1965, while public expenditure on equipment fell from 9 percent to 7.5 percent, and the net external contribution fell from 31 percent of total public expenditure to 18 percent. For the countries of the Central African Customs and Economic Union (UDEAC) as a whole (Cameroon, Central African Republic, Congo-Brazzaville, Gabon and Chad), the growth of production per capita between 1960 and 1968 was 1.9 percent per year, while total public expenditure of all kinds increased from 15 to 20 percent of the gross internal product and the treasury deficit from 5 to 6 percent of total expenditure.[80] I have shown how the

transfer of value from these countries to the metropolitan country was the chief reason for this negative evolution, which is the inevitable consequence of "international specialization." Similar phenomena are characteristic of practically all the countries of Black Africa today.

Distortion toward light activities and techniques. The techniques that are used, and even more so the branches of the economy that are most highly developed, are not the same in the developed countries as in the underdeveloped ones. In the latter we observe an obvious distortion, not so much toward light techniques as toward the light branches of the economy.[81]

The particular direction taken by an initial investment, as regards its capital intensity, determines a certain rate of growth of the surplus, which thus affects the rate of the subsequent growth that is induced. The problem is to know whether investment, left to itself under the special conditions of the international integration of the underdeveloped economies, takes the direction most favorable to maximizing the rate of accumulation. This problem has three aspects:

1. The question of the total rate of investment. What is the mechanism that determines the division of the national income between consumption and investment? Does this mechanism, under conditions of underdevelopment, determine a division that is particularly favorable to investment? Is it possible to determine a priori the proportion of the national income that it would be rational to devote to investment? In other words, up to what point is the restriction of consumption advantageous to a society which wants to speed up the rate of capital formation?

2. The question of the choice of investments. What are the mechanisms that guide investments toward one industry rather than another, differing in capital-intensity, toward the use of one technique rather than another? What are the effects on the rate of development of these mechanisms as they function in the setting of underdeveloped economies? Is it possible to establish a priori—that is, independent of the market— an order of priority among "useful" investments?

3. The question of international specialization from the standpoint of the differing capital-intensity of industries. What are the mechanisms that guide a country's production mainly toward light industry or mainly toward heavy industry, when this country is integrated into the international market? Are the results of these special mechanisms or international specialization favorable, in the case of the underdeveloped countries, to development at the most rapid pace? To what extent

should organized investment-effort be based on the internal economy, and to what extent should it depend on international exchange?

Marginalist and Marxist Theories of Investment

The marginalist theory of investment. Marginalism considers that it is the rate of interest, and that alone, which determines the direction taken by investments—that is its theoretical position. It considers, moreover, that only a rate of interest freely arrived at on the money market is capable of guiding investment in a rational way and determining the rate of growth that conforms to individual preferences—that is its doctrinal position.[82]

According to the marginalists, the rate of interest is what adjusts the supply of capital to the demand for capital. Now, production methods that are more capital-intensive cause the process of production to be prolonged and require a sacrifice from the consumer, who prefers present consumption to future consumption. The money market thus makes possible, through rates of interest, adjustment of the division of income between consumption and investment in accordance with the rate of depreciation of the future. It determines the general rate of development that conforms to individual preferences.

Furthermore, it is held, the rate of interest determines, besides the general rate of the formation of savings, the optimum distribution of investments between branches of production and the optimum choice of production techniques. It is the rate of interest that ensures that no capital is invested in any branch beyond the point at which the increase in productivity resulting from the additional investment becomes less than it would be in other branches. Interest is, in fact, not merely the yardstick of preference at the present time, but also that of the marginal productivity in value terms of the capital factor. It is here a matter of the marginal productivity of capital in *value* terms because, as far as the physical productivity of this factor is concerned, it is at its maximum when interest is nil, the lengthening of the period of production, that is, recourse to a more capital-using (heavier) technique being, in Böhm-Bawerk's view, always advantageous *physically.* This is why certain economists advocate the abolition of interest so as to maximize real productivity.[83] In reality, then, the productivity in value terms of this factor arises from no other source than the regular preference that individuals show for the present time. Capital is nothing but labor

congealed in equipment and used in production at a date later than that at which it was produced. Böhm-Bawerk and Fisher failed in their attempt to establish interest on a basis independent of preference for the present.[84]

Orthodox theory leads to the affirmation that resort to forced saving in order to hasten development is both harmful and impossible, because it is contrary to consumers' level of preference for the present. Any monetary policy aimed at keeping down the level of interest so as to favor investment and speed up the rate of development is thus neutralized by the consumers themselves, who end by getting tired of saving. Similarly, any forced policy of public investment is neutralized by inflation when it goes further than the desire of individuals to save.

In other words, free orientation of investment maximizes satisfaction. All plans must take account of this profound reality. Public investments should be directed toward the kind of production that is most profitable from the standpoint of the entrepreneur. Given several possible techniques, that one must be chosen which maximizes profit on a free market, taking into account the interest on capital. Allais strove to establish that the "optimum social return" requires that investment of capital be guided by considerations of profitability. Yet his argument, which is presented like the proof of a mathematical theorem, is caught in a vicious circle. It is clear that the "satisfaction" of individuals depends essentially on their income, and that in turn depends partly on the direction taken by investments and on the general rate of accumulation, and partly on a phenomenon that is entirely outside the conditions of the money market—the contractual strength between wage-earners and entrepreneurs, which determines the level of real wages. Nogaro has shown very clearly the fundamental weakness of the whole of marginalist economics, which regards demand as the sole basis of value.[85]

Under conditions of underdevelopment, the branches and techniques chosen will therefore continue to be lighter in capital than in the advanced countries, where the capital factor is relatively less scarce and labor less plentiful and therefore better rewarded. The option in favor of forms of production that are lighter in capital is defended by the great majority of economists.[86] It is essentially because agriculture itself is, from the standpoint of capital-intensity, a light activity, that many economists defend the priority of agricultural development. It is mainly due to the fact that the marginal production resulting from an additional use of capital is greater in light investment that this is to be preferred to heavy industry. Polak gives the example of India, where a

workshop set up with an investment of 300 rupees per worker gives a return of 200 rupees per worker, whereas a workshop set up with an investment of 1,200 rupees per head (4 times as much) brings in only 600 rupees per head (only 3.2 times as much).

The opposition to the majority tendency in marginalist writing is led by Kahn, who reproaches his opponents with having confused the marginal productivity of an investment with its *social* marginal productivity, in other words, with having overlooked the economies that heavier investment can make possible in other branches. The social marginal productivity may be negative if, for example, this investment takes indispensable workers away from other forms of production, or if it replaces with machinery a less expensive labor force which cannot find better employment elsewhere. On the other hand, the social marginal productivity of a heavy investment that is not very profitable for the entrepreneur may be very high if, for example, it makes possible a large increase in production through the opening up of natural resources that were until then unused.

Finally, since international exchange is held to be eminently advantageous to both parties, it is to the interest of the underdeveloped countries to specialize in the kinds of production for which they are best endowed, that is, in production in which the relatively most plentiful (and therefore cheapest) factor—in this case, labor—is most intensively employed. This is the more or less official and general view today.

The Marxist critique of the marginalist theory of investment. Like all analyses effected within the framework of the theory of general equilibrium, the marginalist theory of investment is caught in a vicious circle. It is obvious that an individual's level of preference for the present moment depends on the size of his income. The general shape of the distribution of income is itself dependent (in part, at least) on the rate of interest and the orientation of investment that it determines. This rate therefore does not at all seem to determine the division of the national revenue between consumption and investment in conformity with individual preferences. It would be truer to say that the rate of interest determines an essentially conservative division of the national income, in the sense that it ensures a definite orientation of future investment in conformity with the level of depreciation of the future that is itself determined by the distribution of income arising from the orientation of investment in the past. There is therefore nothing about it that can be described as rational. It is not surprising, then, that this

theory, which results in the existing state of affairs being regarded as optimal, does not seem, in the underdeveloped countries, capable of inspiring a policy of accelerated development.

Does the rate of interest really play the decisive part in determining the total amount of investment and the direction taken by capital? To me it seems that the answer is: certainly not. In the first place, the rate of interest is variable, being determined in the short run by monetary conditions, so that there are always divergences between this monetary rate and the "natural" rate of Böhm-Bawerk and Wicksell. It is these divergences that actually determine the total volume of investment and its orientation, if we are to accept the essential element of the marginalist thesis, namely, the determination of total investment and its orientation by the rate of interest. Now, investments, once they are made, remain. Second, it is obvious that, even at the level of appearances, it is not the rate of interest that plays the impelling role in investment: it is profit, the very existence of which is denied by marginalism.

In the static method of marginalism, a single instant in economic development is taken as one's standpoint. At this instant, the volume of capital, considered as the mass of existing instruments of production, is "given." The only problem is to know how best to use this capital. From a *dynamic* standpoint, however, the problem is quite different. The assumption of an inherited stock of capital goods has to be abandoned and replaced by a recognition of the fact that, ultimately, society's only wealth, apart from what nature provides, is *people and their knowledge* (their technical know-how). The only question that arises is: what use will be made of this human labor power? in what proportion must it be devoted to providing the country's equipment and in what proportion to ultimate production?

In the capitalist mode of production, this division is determined by the level of real wages (the rate of surplus value), and not by the present preferences of individuals.

Indeed, how does Böhm-Bawerk set about proving that the division of production between these two major sectors conforms to "individual time-preferences"? He starts from the principle that more intensive use of capital goods always makes possible increased production, but also requires a lengthening of the production period. This principle was subsequently called in question and has been the subject of endless polemics; though it would seem that the discussion can now be regarded as closed. Kaldor has shown that the length of the production detour is merely a way of measuring the capital-intensity of production.[87] The bridge between the two methods was very hard to

establish because Böhm-Bawerk's idea of the duration of production is highly original. In his sense, this duration is practically impossible to measure, because expenditure and receipts in production are inseparably bound up together. The "length of the production process" is a clumsy way of saying what the Marxist expression "organic composition of capital" says more clearly. This being so, Böhm-Bawerk's claim is no different from Marx's, namely, that the techniques that are heaviest in capital are also the most productive.

The consequence of Böhm-Bawerk's argument, however, seems less pertinent. Since the longer the production process the more productive it is, the production of intermediate goods ought to be developed ad infinitum. Clearly, at any given moment, human knowledge is limited; there is therefore at that moment a method that is "the longest and thereby the most productive." It ought always to be used. Yet it is not. Why not? Because, Böhm-Bawerk tells us, owing to the depreciation of the future, although the physical volume of production can be increased indefinitely if we lengthen the duration of production, the value of this production, increasingly large in volume but also increasingly distant in time, first grows and then shrinks, so that there is an optimum duration of production. For this to be so, however, is it not necessary to presuppose a priori that the rate of depreciation of the future is higher than the rate of growth of physical productivity when the production process is lengthened? If this were not so, then the longer the period of production the larger would be the product, despite the depreciation of the future.

To get out of this difficulty Böhm-Bawerk puts forward another proposition: this period *cannot* be lengthened indefinitely, because the means of subsistence needed by the workers who make the instruments of production have to be produced. But what does this new proposition mean? That the entire population can be divided into two categories, one engaged in producing consumer goods, the other in producing equipment for production. Böhn-Bawerk's new proposition, a matter of common sense, ultimately means that it is not possible to reduce the fraction of the population devoted to ultimate production below the number that ensures the strict minimum of subsistence needed by the population as a whole. The pace of development then appears to be fundamentally dictated not by the rate of depreciation of the future but simply by the level of real wages.

What happens when wages rise in an enterprise? The entrepreneur's cost of production rises. He therefore seeks to bring this cost to a lower level that will provide him with the normal reward of his capital, by

introducing more capital-using, and so more productive, methods of production. This happens on the microeconomic plane. What is the macroeconomic effect of this resort to a more modern technique? On the one hand, the relatively more intense use of machinery makes possible the same volume of ultimate production with a smaller amount of total labor (past and present). The greater use of machinery thus entails unemployment. Thereby a limit is set to the increase in real wages. On the other hand, this relatively greater use of machinery is reflected in a division of the occupied population that favors production of capital goods. Although the percentage of the occupied population engaged in ultimate production has fallen, the volume of this production has risen. The demand for ultimate goods that has risen, owing to the increase in real wages, can be satisfied. This is Marx's analysis of what happens.

Courtin and Robinson claim that, since the reward of labor affects in the same way the value of means of production and that of consumer goods, the rate of wages does not determine the choice between techniques that are more capital-intense and techniques that are less so. This type of reasoning leaves out the dynamic of the entrepreneur's behavior in response to variations in wages.[88]

Caught in his own contradictions, Böhm-Bawerk thus rediscovered Marx's proposition linking the rate of accumulation to the rate of surplus value that measures the relations of strength between workers and capitalists. The lower the level of real wages, the smaller can be the fraction of the population engaged in producing consumer goods, and the larger can be the fraction engaged in producing capital goods. At the same time, however, the lower the level of real wages, the more primitive is the technique employed, and the larger the total labor force (direct and indirect) needed to obtain a given volume of production.

As regards the distribution of capital between different branches, Marx analyzes the mechanism by which competition determines the direction of investment. This is the problem of the transformation of surplus value into profit, of value into price of production. In a world in which the organic composition of capital varies from one industry to another, the mass of surplus value engendered by one and the same mass of capital thus varies from one branch of activity to another (assuming that the rate of surplus value is the same everywhere). Capital will therefore move toward the *lightest* industries, in which the rate of profit is originally higher. A fall in prices will thus be brought about, to below the level of value, and prices will be fixed at the level of price of production, ensuring an equal reward to all capital concerned.

Examining the conditions on which the rate of profit ultimately

depends, Marx finds that this rate is directly proportionate to the rate of surplus value and inversely proportionate to both the organic composition and the turnover time of capital.[89] The average speed of turnover of capital in the Marxist conception is nothing more than the weighted average of the "turnover" times of the different elements of capital. These turnover times—the lengths of time during which these elements are immobilized in production—depend on the time taken for goods to be made and circulated. Technical progress is usually expressed in a lengthening of the turnover period of the total capital advanced. Here we have, so to speak, rediscovered Böhm-Bawerk's proposition on the basis of definitions that are far more effective for a description of reality.

These preoccupations, which were abandoned by marginalism, with its lack of interest in analyzing profit, have been brought back to the attention of economists by Robinson, in her study of imperfect competition. She relates the level at which real wages are determined to the degree of relative monopoly power held by the two contracting parties, employers and employed, and so reestablishes the bridge between the rate of surplus value and the division of total production between the construction of capital goods and the production of ultimate goods. By concentrating on interest and ignoring a factor as essential as real wages, marginalism actually separates economic theory from social reality.

The Social Productivity of Investments

For society, therefore, the only problem to be solved is, as we have seen, the division of the labor force between the construction of equipment and ultimate production. What is needed is to ensure a division that will facilitate the maximum ultimate production compatible with the desirable rate of development. Nature and the stock of goods inherited from the past are factors favoring this production, but society cannot influence those factors. All that can be done is to use the wealth they represent in the best way possible to obtain the desired result. Now, the results of a method of economic management on the plane of the social rationality of investments are different from those entailed by the mechanism of an isolated entrepreneur's search for immediate profit.

The attitude of the "rational entrepreneur" in the capitalist mode of production. Under the capitalist mode of production, the entrepreneur

who is considering the replacement of labor by machinery compares the cost of buying the machines with the saving he will make on wages. Actually, he does not compare the gross cost of the machines and wages. The terms of the comparison are, on the one hand, the present value of those machines, taking into account the "price of time," and, on the other, the present value (discounted at the current rate of interest) of the wages to be paid throughout the process of production. This second problem will be studied later. For the time being the rate of interest will be assumed to be nil, playing no role at all.

If we take the standpoint of society as a whole, we have to argue in different terms. The machinery, too, has to be produced. The only rational criterion for society, therefore, would appear to be the total saving of labor that the use of this machinery would make possible in the production of a given article. Obviously, if we are to measure this total saving of labor, we must take account of the relative consumption of "natural wealth" that is required by each of the two methods, as well as the time needed to produce the article in question. The two methods of calculation come to results that differ, because the isolated entrepreneur's calculation takes account of the distribution of net income between wages and profit, a distribution that depends on the relative strength of the social forces confronting each other. A change in this balance of forces makes profitable investments that were previously unprofitable. Yet this changes nothing in the quantities of total labor (direct and indirect) that the two methods require in order to produce a certain volume of production, allowing for the relative consumption of natural resources and for the time needed to produce the given product.

When, therefore, the rate of interest is zero, the method of investment based on calculating the comparative individual marginal productivity of the production techniques will give results different from the method based on calculating the social productivity of the investment. As Kahn has pointed out, the use that society may or may not make of the labor released by the introduction of a machine is not taken into consideration by the marginalist economists.

The role of time in the social organization of production. It is plain that a rational calculation made from the standpoint of society cannot ignore the time factor. Can we, however, regard as rational the measurement of the importance of this element by a rate of interest the fluctuations of which depend on monetary conditions that are quite secondary, and the average level of which is linked with an element so little

rational as a relation of forces determined by the distribution of property?

The "price of time" has to determine the general pace of development, in other words, the division of the productive forces between production of "intermediate" goods and that of "ultimate" goods. If we do not wish to let the "depreciation of the future" be evaluated by individuals, because the level of this depreciation depends on the level of total production and on the division of this total income, and because we want to change the situation on this very plane, there is only one possible solution: the rate of development must be decided by the community as a whole.

In the underdeveloped countries the "natural" level of depreciation of the future makes it impossible to hasten the rate of growth. Dobb has shown how this rate of accumulation must be decided by the community.[90] The dogma that underdeveloped countries must restrict themselves to light investments is based on the assumption of a stock of capital goods inherited from the past. Now, the use of labor to produce capital goods is aimed at increasing this stock. In a country that is rich in workers there is every reason to devote a substantial proportion of the labor force to producing capital goods. It is absolutely necessary to attain a faster pace of growth of production if one wants to be able to get out of the vicious circle of "poverty in capital." And to do this there is only one means: devoting the surplus labor force that is available today to the construction of plants that will serve to increase substantially the level of production tomorrow.

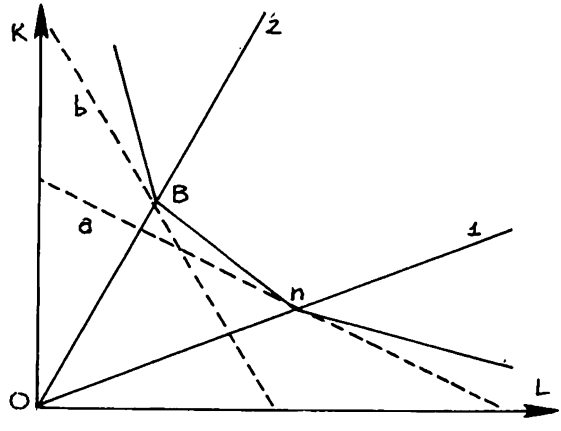
The "rate of economizing" of one investment as compared with another—that is, the ratio between the total economizing of labor (direct and indirect) obtained by the choice of one variant rather than another and the size of the investment necessitated by that variant—constitutes the criterion that enables one to take account of the time factor without having to go through the mediation of the rate of interest and the distorting effect of individual profitability.[91] Comparison between the total economizing, direct and indirect, made possible by one variant as compared with another is related both to the economy as a whole and to a given period of time. Moreover, planning can allow for other time elements, such as obsolescence, duration of the construction period, relative mobility of the means of production, etc. In the simple calculation made by the entrepreneur on the basis of the rate of interest, none of these elements plays any part. They make up what is called the "economic risk." The entrepreneur who has underestimated the rapidity of obsolescence of the equipment he chooses will certainly

pay for his mistake in due course, but ultimately it is society that bears the cost of past mistakes in investment.

Quite often this rate of economizing is higher with heavy investment, which thus appears the more desirable. It must be stressed, however, that this is not so automatically. Dobb has shown that the shorter production period sometimes makes it possible to obtain a fresh growth of production by reinvesting the surplus sooner (and, consequently, more often). It must be observed that the lower wages are, the more advantageous, relatively, is the short period, since the profit that is reinvested more often is greater in proportion as wages are low. This is why, in the underdeveloped countries, some very light investments—especially in agriculture (building of earth dikes, use of fertilizers, etc.)—may prove highly profitable for society. In general, however, even in these countries, heavy investment is not out of the question. Quite the contrary—for, although the low level of consumption makes it tempting to raise this level at once, the effect on productivity of a certain increase in the relatively small stock of equipment is very great.

While marginalist analysis focuses on the immediate effect of investment, Dobb brings out its cumulative consequences. This way of looking at the matter, which makes it possible to compare two investments from the standpoint not of their immediate effect but of their results at the end of a period as long as the state of human knowledge allows, is indispensable when one is tackling the problem of development consciously willed by the community.

The horizon of analysis: short-term and long-term advantage. On the question of choosing techniques of production, current theory resorts (as it nearly always does) to a type of marginalist analysis of which Figure 1 provides an illustration. A given volume of production P can be secured equally well with different combinations of the labor factor (the quantity of which, L, forms the X-axis) and the capital factor (K, forming the Y-axis). If there are no economies in size, each technique is represented by a straight line running from the point of origin, at an angle that is greater in proportion as the technique is "heavy" (labor-saving and capital-intensive). If the rewards of the factors—the rate of wages, "w," and the interest on capital, depreciation included, "i"—are given and represented by the broken lines, the angle of which is greater in proportion as capital is relatively plentiful and cheap, one can choose from among the different possible techniques the one which, with a given stock of factors of production, weighted in accordance with their relative rewards, makes it possible to maximize immediate production.



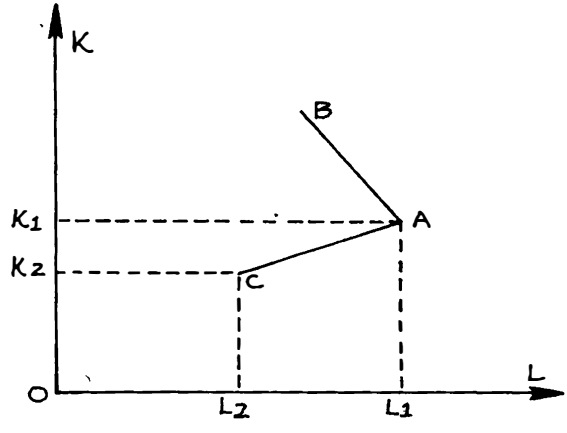
[FIGURE 1]

Illustration:
Situation a (underdeveloped countries): w = 3, i = 25%
Situation b (developed countries): w = 5, i = 15%
Light technique (1) = L = 50, K = 1,000
Heavy technique (2) = L = 40, K = 1,200
Costs of production of a unit: P = Lw + Ki
a1 P = 400 a2 P = 420
b1 P = 400 b2 P = 380
Indifference situation: w = 4, i = 20%
P1 = 400 and P2 = 400

The "capital-intensity" of each technique of production is measured by the ratio K/L, the productivity of capital by P/K, and that of labor by P/L. These ratios, expressed in physical quantities, represent, e.g., respectively: the investment necessary (in thousands of monetary units of constant value) per man employed, the production (at constant prices) per million invested, and the production per man-year. These ratios are obviously linked together by the relation K/L = P/L : P/K.

The use of a more advanced technique, characterized by a higher capital intensity K/L, is accompanied by an increase in the productivity of labor P/L. Under these conditions, two possible cases present themselves. First: the improvement in productivity of labor is less than proportional to the growth in capital-intensity. In this case the productivity of capital declines. Here we are in the classical situation illustra-

ted by Figure 1: while, in order to produce a physical unit of P, it is possible to employ less labor, one must necessarily employ more capital. Second: the improvement in productivity of labor is more than proportional to the increase in capital-intensity. In this case the productivity of capital is obviously improved as well. This means that we do not move from A to B on a convex polygon in relation to the point of origin, as in Figure 1, but move closer to the point of origin, from A to C, as in Figure 2.



[FIGURE 2]

The choice between techniques A and B, which is all that is studied by the theory, described as a choice between "efficient" techniques, will depend on the rewards w and i. The choice made between A and C, however, does not depend on these rewards, and technique A is found to be "inefficient." Technical progress manifests itself in one or other of these two forms.

What policy should be recommended in an underdeveloped country suffering from large-scale "structural unemployment"—in other words, where capital is the "limitng factor" for growth, whereas labor is available in unlimited quantity?

Clearly, here as always, techniques that are "lighter" but are also "inefficient," in the sense defined above, must be eliminated. Among the "efficient" techniques, it is very often recommended that that one be chosen which gives the greatest saving of the scarce factor, and therefore maximizes the productivity of capital P/K. This amounts to

saying: the technique that is "lightest" (minimizing K/L) among all the possible "efficient" techniques (that is, those that are situated on a convex polygon). The choice of a reference price zero for wages regularly leads to such preferences, since, in the cost equation P =Lw + Ki, the element Lw is abolished, and so minimizing P amounts to maximizing P/K for a given rate of i.

This way of arguing is very questionable, even given the assumption that the labor factor is actually available in unlimited quantity. For, among different "efficient" techniques, a technique that is less light may, given the actual rewards of the factors, enable a "surplus" to be obtained which, being assigned to investment, ensures further growth. But the calculation based on zero reference price for wages rules out this alternative, since this means overlooking the fact that, in reality, wages are distributed which, being devoted to consumption, reduce the nation's capacity to obtain a surplus to be devoted to investment.

In the example given above, the "heavy" technique (2) is preferable, because of the size of the surplus it makes possible, even in an underdeveloped country.

Light technique (1) L = 50 K = 1,000
Heavy technique (2) L = 40 K = 1,200
Rate of reward of the factors: w = 16, i = 20%
Cost of production:
——— with technique (1) P = 1,000
——— with technique (2) P = 880 (surplus S = 120)

It is thus impossible to recommend a choice that is rational from the standpoint of the acceleration of growth without bringing in this notion of "surplus."

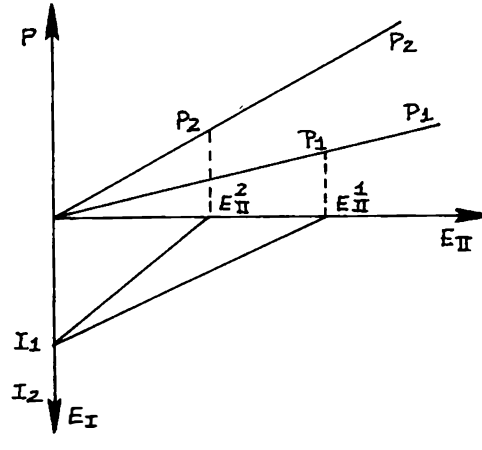
The first rule must be that the heavier technique remains preferable, even in an underdeveloped country suffering from "structural unemployment"—insofar as the improvement in the productivity of labor that accompanies it represents an adequate reward for the extra capital employed. In the example given above, since the surplus S is greater than 20 percent of the extra capital to be employed (K = 1,000), the heavier technique is advantageous.

But we must go further. If the surplus S is the source from which growth is financed, then advanced techniques must be chosen, because this surplus, reinvested, will make growth possible at a rate at least equal to the planned rate of growth.

The static apparatus of marginalist analysis which I have described

constitutes an instrument of little use for a dynamic analysis based on the idea of surplus. In effect, this method tells us how to maximize immediate production with a given stock of factors. It tells us nothing about the dynamic of growth entailed by any particular choice. This is why I am now going to examine this problem in a different way.

In Figure 3 we see represented in negative Y-axes employment E I in branch I of production of production goods, and in the X-axis employment E II in branch II of production of consumer goods, and in positive Y-axes the production P of consumer goods.[92]

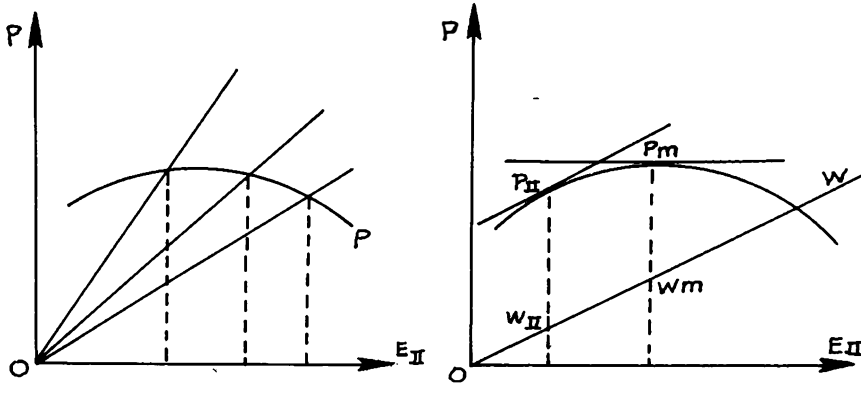


[FIGURE 3]

The surplus available to begin with, derived from the past, makes it possible to employ in year I a number O II workers in branch I, if the techniques of production in this branch are rigid (this assumption can be removed later). Employment OE II in branch II will depend on the capital-intensity of the techniques chosen for that branch: it will be higher in proportion as this capital-intensity is low. Production P depends both on employment E II and on productivity of labor in branch II. With each level of employment E II is associated a straight line P, the angle of which, measuring this productivity will be greater in proportion as the technique is heavier.

The points P, describing the level of production of consumer goods obtained with the employment levels E II and the techniques associated with them, are situated on a curve shown in Figure 4. In Figure 5, the straight line W represents total wages paid in branch II, proportional to

employment E II, the angle w of this straight line W measuring the rate of wages.



[FIGURES 4, 5]

The curve P presents a maximum at Pm, whereas the point PM of tangency between this curve and a mobile parallel to W is such that the segment PM WM is maximum.

If the purpose of economic policy is to maximize immediate production, the technique corresponding to point Pm will be chosen. But if the purpose is to maximize the rate of growth, a less light technique will necessarily be chosen, corresponding to point PM. The maximum extra surplus PM WM, carried over to time 2 on the negative y-axes of Figure 3, will make it possible in time 2 to employ in branch I a number 0 I $\bar{2}$ of workers, greater than 0,I.

The lower the rate of wages, the closer point PM comes to Pm. But these two points do not coincide except on the assumption of a calculation based on a zero reference price for wages, in which case W coincides with the X-axis.

Competition drives entrepreneurs to choose the technique that maximizes surplus. This is doubtless why, in economic life, in the modern business world, choices are not so very different in the underdeveloped world from what they are in the industrialized countries. Very often, when different choices are made, this is done more for reasons of size (connected with the size of the market) than for reasons of wage level. In any case, these choices are nearly always—and happily so—very far

removed from those that would be dictated by a calculation based on a zero reference price for wages. This enables the problem of the "choice of techniques" to be seen as largely a false problem, as often occurs with marginalism. The real problem is that of the choice of *branches* (light or heavy), and not of techniques.

It is nevertheless true that the low level of wages in the underdeveloped countries encourages a negative complacency where choice of techniques is concerned. Idle tranquillity, resistance to innovation, are real forces that make themselves felt within the enterprise. The goad of an advance in wages can stimulate the enterprise to break out of this lethargy. Experience shows that this goad is often the best means of compelling more efficient choices, the benefit of such choices being then divided between the wage-earners and the nation (insofar as the increase in wages does not absorb all the surplus S, and the undistributed part of this surplus is invested). The surplus S can, in fact, be assigned wholly to investment, or else consumed as a whole or in part, either by the entrepreneurs whose profit it is, or by the workers who obtain an increase in wages, or by the consumers if competition compels a reduction in the price of the product.

If we see the growth of the rate of wages w as the ultimate purpose of development, we shall endeavor to ensure parallel growth of the surplus S and of wages w. Given that the surplus S, available for investment, will grow the slower in proportion as the rate of wages w is allowed to grow faster, and that the growth of employment E depends on that of the reinvested surplus S, we shall be able to define a function of social optimum that will enable us to choose that combination of the growth rates of S and w which will maximize the mass W of distributed wages, not at the end of a period, but throughout a whole period (of ten or fifteen years, for instance).

The foregoing arguments are not merely theoretical; economic history confirms their implications. Countries which have begun industrialization later than others have experienced rapid growth rates of both productivity and employment whenever they have given priority to the most modern industries, using the most modern techniques. It is by employing the most efficient techniques—that is, more often than not, those with the highest capital-intensity—that they have realized the maximum economy of capital and hastened to the maximum extent the accumulation on which ultimately depend the simultaneous advances of productivity and employment. Comparisons made between periods of slow growth of certain countries that have given priority to industries with a low capital-intensity—textiles, for instance—and periods of rapid

growth of other countries that have made the opposite choice are eloquent on this subject. The body of writing devoted to this subject is now very extensive, since steps have been taken to measure systematically the growth over the last century of the countries that have become industrialized.

It should be added that the transition from light to heavy techniques often corresponds to the historical movement of progress rather than to the assumption of a choice made at a given epoch among several possible alternatives. This last-mentioned type of choice is in practice restricted only to certain situations: the choice between hydraulic power and thermal power, between rail and road, and so on. In processing industry the margin of possible variants—for a given dimension—is often extremely narrow.

This historical observation of the comparative growth rates in the different industrial countries at different epochs is also valid for the underdeveloped countries. If industrialization has made only slow progress in countries like India or Egypt, this is because, having taken off late, these countries have given priority to old, established industries in which technical progress is slow and capital-intensity relatively slight (such as textiles). The speed-up in the rate of industrialization in certain countries of the Third World after the Second World War seems also to be related to the making of less retrograde choices as regards capital-intensity. Congo-Kinshasa, by far the most highly industrialized country in Africa, is instructive on this point. The increase in wages in Congo-Kinshasa in the period 1950–1958 stimulated the enterprises to make less retrograde technical choices, which in turn made possible substantial increases in productivity, and these in their turn enabled a speed-up of industrial growth.[93]

One must therefore avoid bringing short-term considerations of employment into the choice of production techniques. It remains true that certain highly up-to-date techniques are difficult to put into effect immediately because they require highly skilled labor which is not available. Priority has therefore to be accorded to the training of this skilled labor. As an illustration we may take the modernization of agriculture in tropical Africa, where there is often a choice to be made between "mini-modernization," amounting to the replacement of hoe-cultivation by the use of the harness plough, and total modernization, characterized by direct transition to the tractor. Where agronomic conditions allow, the second solution may well be better, and it may be thought that it is better to train a thousand tractor-drivers and mechanics than a hundred thousand modern cultivators who know how to

look after their draft animals. I am aware that there are sociological obstacles which will make the more modern solution hard to implement. Are these obstacles easier to overcome if a less advanced technique is chosen? We may doubt this. But a discussion of these problems would take us too far from our subject.

Considerations of maximum employment in the underdeveloped countries suffering from substantial unemployment should be allowed only where the most labor-intensive technique is also really capital-saving in the sense I have defined, that is, where mechanization would enable labor to be saved *without* adequately increasing its productivity. There are cases of this kind, especially in certain jobs connected with storage. In this case, the choice of more highly mechanized techniques in industrial countries is due not to the fact that these techniques are more efficient economically but, quite simply, to the fact that there is a shortage of labor, either in absolute or in relative terms, in that jobs of this sort are depreciated because they require no skill. In the underdeveloped countries, unskilled labor should be made use of, by choosing less highly mechanized techniques in these sectors.

From the foregoing I draw an important conclusion regarding economic policy: there are no grounds, as regards the modern sector of an underdeveloped economy, for making any choices other than those that would be made in an already industrialized country; the most efficient technique must be chosen, namely, that which maximizes the surplus, at the rate of reward of the factors actually prevailing. In fact, speed-up in accumulation in the modern sector will be accompanied by a spontaneous advance in wages, whereas, in the traditional sector, where productivity is relatively stagnant, rewards will advance at a slower pace, if at all. Given these conditions, there are no grounds for surprise that average incomes in the two sectors, modern and traditional, will be unequal, and that this inequality will increase in the course of the development process.

Although the "spontaneous" movement proceeds in this direction of an increasingly unequal distribution of the rewards of labor, it is possible, and even necessary, to conceive that during the long period of transition a policy of genuine development will be unable to tolerate this increasing inequality, since it must break up national unity, the very condition of development. The state will then have to plan prices and wages so as to safeguard national cohesion: here again the market runs counter to the political requirements of deep social change. In order that this be possible, the local price system will have to be isolated from the world system. Then, however, it must be realized that, at

the same time, planning—the choice of sectors to be developed—cannot be based on the price system adopted, the rationality of which lies elsewhere: in the political need for solidarity between workers in sectors of differing productivity. There must be a system of reference prices, for purposes of economic calculation, such that the choices made lead to developing the modern branches. In proportion, of course, as the traditional sector shrinks, the price system that is rational from the standpoint of political cohesion will draw closer to the price system that is rational from the standpoint of economic choices.

The role of natural wealth in investment choice. It is necessary when actually calculating the rate of saving of an investment to take into account the utilization that is made of natural wealth. One of the chief aspects of this question is the problem of location and the varied possibilities of using a given area of land. Discussing this problem, Bettelheim summarizes the method that is rational from the social standpoint in these terms: "Thus the total cultivable land will be classified according to the total number of units of labor (direct or indirect) which have to be spent upon it, at the given level of technique, to obtain a given amount of the various kinds of produce, and each unit of land will be devoted to the use for which it is relatively best suited, *account being taken of the combined effect* of the different uses."[94]

Ground-rent makes it possible to choose in this way in a capitalist economy. But does it lead to the best results for society? The competition between the different possible uses to which a piece of land could be put undoubtedly favors its use in a way that conforms to social need. But the absolute rent that results from the monopoly of landownership plays here the same role as profit in the determination of the most advantageous technique. The social calculation outlined above very often leads, therefore, to results quite different from those that result from market competition. In this competition an element intervenes that is so lacking in rationality, from the general standpoint, as the relative strength of the landowners and farmers. This is a glaring fact in the underdeveloped countries that are described as "overpopulated." Here, the presence of a numerous peasantry enables the landowner to impose a high rate of rent. It is obvious that if this rate were reduced, the distribution of income would be radically altered, and thereby the social need for various products. The general shape of land utilization would change in consequence.

The general problem of location includes certain aspects (proximity of labor, for example) which are not allowed for in the market mech-

anism, because the cost of transferring human beings does not enter into the calculation of profitability made by an isolated entrepreneur.

The more general problem of the utilization of natural resources likewise includes a number of aspects which this individual accounting ignores. One example is the exhaustion of mineral wealth. This problem has sometimes become so acute that only a compulsory agreement between producers, under state supervision, has succeeded in stopping the abuses, of serious import for society, that resulted from competition. The rate of saving of investment can allow with relative ease for these factors that matter so much in the determining of the technique that is most advantageous for society.

Today nobody (except for a few liberals lagging behind the times) denies that a gap that is sometimes very wide separates the individual productivity of an investment from its social productivity. We still need to know the value of the attempts made in recent times in order to take account of this reality within the context of the orthodox thinking that declines to give up marginalist analysis.

Collective advantage. Many economists are attempting to construct a theory of the social productivity of investments. The task is to find a way of measuring the collective advantage obtained by an investment, to measure the gain in satisfaction that it brings to society as a whole.

The idea of constructing a theory of investment from the standpoint of the collectivity and not that of the isolated entrepreneur, while remaining loyal to the marginalist method, goes back some way. It was Pigou who, in 1912, started this new tendency.[95]

We must first establish how far it is advantageous for a collectivity to reduce present consumption so as to hasten the pace at which capital is formed, in order to ensure increasing consumption in the future. For Robinson Crusoe on his island, the problem of the optimum rate of accumulation is easily solved. Crusoe calculates directly in units of satisfaction. If he decides to build a machine, he considers, on the one hand, the utility of the objects he could have been producing in the time devoted to building the machine, and, on the other, the utility of the objects his machine will enable him to produce in the future. The sacrifice is temporary, the benefit lasting. Like every mortal, however, Robinson "depreciates the future," and this means that the infinite but decreasing series of future utilities may, at a certain rate of accumulation, equal the finite series of sacrificed present utilities. It is not the same for the collectivity, because when the pace of accumulation is altered this at the same time alters the general shape of the distribution

of incomes, so that it is not the same individuals who lose and who gain in the given operation. Here once more we come upon the basic difficulty of every subjective theory of value: how to compare the satisfaction gained by some with that lost by others. The difficulty is made worse by the fact that if we take the standpoint of the collectivity we have to compare the satisfactions lost by one generation with those gained by others that come later.

The second problem to be solved by the theory of investment is that of the choice between several possible production techniques, some of which are more capital-intensive than others. This problem presents itself in terms similar to those of the fixing of the general pace of accumulation. From the standpoint of individual productivity, the lightest investment is frequently to be preferred. If, however, we consider not the immediate interest of the entrepreneur but the interest of society—over a period, say, of ten years—then frequently the heavy investment will seem preferable. How preferable? An attempt has been made to sketch out a rational theory of investment. The economists of the "welfare economics" school come up against the same difficulties as those already mentioned: choosing one technique rather than another, besides altering the general pace of accumulation and thereby both future total income and the shape of the distribution of this income, also affects the general aspect of *present* distribution of income. Here too it is necessary to compare the satisfactions gained by different individuals, and even by successive generations.

The third aspect of the problem, the question of international specialization from the standpoint of the capital-intensity of national industries, brings us the theory of comparative advantages as revived within the setting of welfare economics. Prebisch's opinion is that the best solution, from the standpoint of collective advantage, is to guide investment toward the creation of a complex internal economy rather than to keep development within the framework of increasing international specialization. Just as, however, it is not possible to measure the utilities and compare the satisfactions of two different individuals, so it is not possible to measure, on the purely subjective basis of the theory of comparative advantages, the advantage that lies in creating a complex internal economy.

In the end it has to be acknowledged that these theories of collective advantage provide us with no real means of overcoming the essential difficulty that follows from their subjective view of value. This is doubtless why the theoreticians who make up the dominant group in current economic thought have failed to influence practical men. It is

remarkable, in this connection, that in a work such as Mandelbaum's the writer constructs a model of development over a five-year period on the basis of objective reality alone: the labor force to be divided among the different economic tasks, taking into account the natural resources available and the time needed to build the different possible forms of equipment.[96] No allusion to collective advantage is made in constructing this model.

To these basic theoretical difficulties, which are insurmountable, there is added a confusion among the theoreticians of collective advantage between theory and doctrine. If we assume that the difficulties encountered by the welfare economics analysis were to be solved, these economists would then have to put forward their recommendations as a matter of doctrine. When they had noted that a certain orientation of investment would "maximize social satisfaction," although the individual productivity resulting from actual investment expressing this orientation was not very high, whereas a different orientation the immediate profitability of which was large would not be optimal from the standpoint of the collectivity, how would they go about compelling the entrepreneurs to act against their own interests?

International Specialization and the Orientation of Investment in the Periphery to Light Industry and Techniques

The development of a capitalism based on the home market. In a closed economy, a certain level of national income, accompanied by a certain distribution of this income, entails a particular orientation of demand and in consequence requires a particular orientation of production in conformity with this demand.

The first industries established in Europe depended on techniques that were relatively light, because these were more profitable. But the development of an industry (e.g., textiles) necessitated increased production in other branches (e.g., the making of machinery). The most profitable technique in these branches might be a heavier one. Marx examined this problem when studying the equalization of profit. In a light industry the original profit is higher. Capital flows in, and prices become fixed at the level of prices of production, ensuring equal reward of all capitals. Moreover, if at this price level the volume of production exceeds the social need, market price is fixed at a level below the price of production. Capital flees from the branch of activity in which the

rate of profit has become lower than the average in other branches. Final equilibrium is obtained when the orientation of production conforms to social demand, on the one hand, and, on the other, ensures equal reward of all capitals. The tendency for capital to prefer to go into light industry is thus limited, so to speak, by the necessary, though subsequent, development of complementary industries which are heavier.

It should be noted that this definition is quite different from that which identifies light industry with the making of consumer goods and heavy industry with the production of capital goods. It is easy to conceive that coal production may use more labor per unit of capital than production of plastic objects. Generally speaking, it is true that the heaviest industries are most frequently found in the sector producing capital goods—a fact that has made easier some regrettable confusions. Nevertheless, the two phenomena are connected by a profound link: if, in any sector of industry, a more modern technique is put into effect, then the national production becomes heavier on the average. But then the production of capital goods has increased more than that of consumer goods. The increasing heaviness of techniques (i.e., progress) runs parallel with the shifting of the productive forces from ultimate production toward intermediate production. It should be added that there is also a relation between the size of enterprises, from the standpoint of the labor force employed, and the degree of capital-intensity. It is easier to start up business in the field of light industry, because this requires less capital, so that small enterprises can be established here more easily than in heavy industry.

Under conditions of international integration, however, when capitalism is developing in a framework of external exchange, and expansion of the home market plays only a secondary role in capitalist development, the heavier complementary goods may be imported. The preferential tendency of investment toward light industry is then reinforced by international specialization in some countries, while in others the share of heavy production increases still more rapidly.

International specialization and the restricted development of heavy industries and techniques in the periphery. The theory of comparative advantages advises underdeveloped countries to specialize in light industry. These countries do not need to procure the heavy complementary goods directly from their own production—these goods can be imported. Each nation, it is said, ought to specialize in whatever goods it has the greatest advantage for, realizing that this advantage is due to its

command, at a relatively cheap rate, of the factors required for the production of these goods. The highly capitalistic countries will produce the goods that require a lot of capital, the overpopulated ones the goods that require a lot of labor.

Obviously, such specialization by the underdeveloped countries is in conformity with their *apparent* interest, since the gain in exchange is plain to see. However, this is only apparent, since the condition of specialization is that the underdeveloped country, in which labor is more plentiful, should pay for this labor at a rate lower than that at which it is paid in the developed countries, productivity being the same in both cases. This orientation determines a slower pace of growth. The immediate interest of the entrepreneur thus conflicts with society's interest. The theory of comparative advantage lacks breadth of view.

It is certainly in the immediate interest of the entrepreneur to invest capital in the lightest industry possible, provided he can import the heavy goods needed. The planners of the poor countries are warned against the danger of imitating the techniques of the advanced countries. They are advised to adopt backward, less capital-using techniques. It is of course true that if these techniques are more profitable for the entrepreneur in the poor countries this is precisely because of the low wages that prevail there. Nevertheless, the standpoint of the individual firm is adopted, this being identified a priori with the collective interest. From an overall point of view, this individual calculation is meaningless: one ultra-light investment demands a complementary investment that is very heavy, whereas another, less light industry is accompanied by the development of other industries that are less heavy. It is only *social* productivity that matters.

What makes it possible to confuse individual with social interest is the possibility of having recourse to external exchange; if, in fact, the lighter investment is more profitable for the firm, it is so for society too, for there is no need to produce at home the heavier complementary goods. They merely have to be imported, being paid for by exports of light goods. At the moment, society gains from this specialization; but it loses in the long run.

This link between light industries and the import of heavy complementary goods is so close that all development policies that give priority to light industries necessarily presume international integration. Priority for consideration of the external balance of payments then comes into the picture; for, while it is advantageous for the moment to devote oneself to light industry in the underdeveloped countries, the heavy complementary imports still have to be paid for. However, the exports

of underdeveloped countries depend not on countries like themselves but on the situation in the developed ones. Allowance has therefore to be made for the effects of investment on the country's external payments, which have to be balanced before this investment has exhausted its effects on the national income.

Nevertheless, it is important, in conclusion, to recall that this division of labor (heavy industry at the center, light ones at the periphery) corresponds to only one stage in international specialization—the present stage. If, in the future, the most modern industries come to be distinguished not, as hitherto, by their "heavy" character but by their "high organic composition of labor,"[97] giving a greater place to skilled labor,[98] a new form of unequal division of labor, based on this new phenomenon, may reduce to its proper place in history the previous division, which we are analyzing here.

INTERNATIONAL SPECIALIZATION AND THE TRANSFER OF MULTIPLIER MECHANISMS

The Theory of the Multiplier and the Accelerator

Modern economics has stressed the "multiplier" aspect of most economic phenomena. In current practice a distinction is drawn between "primary" effects, which occur immediately after the change regarded as the motive force has occurred in the economic situation, and "secondary" phenomena, which exhaust their effects in the course of a theoretically infinite series of successive periods.

Traditional thinking on "general equilibrium" drew a distinction that was verbally similar. All the immediate effects of an independent change in "technique" or "taste," the two great independent variables of the marginalist system, made up the "primary effect" of this change. This effect was the true consequence of the change, which played the role of "cause." The whole system, which was assumed to be in equilibrium to start with, was thrown off balance as a result of this primary effect. Then there went into action the mechanisms of "readjustment." The primary effect, having in its turn become a cause, determined the coming into play of the "forces of equilibrium" that enabled the whole system either to find a new equilibrium or to recover its old one.

The modern theory has given up trying to discover forces of equilib-

rium and restricts itself to describing the changes in time, stage by stage, undergone by the general system. At the end of the first period we are thus confronted by a system in obvious disequilibrium. This disequilibrium entails another, during the second period, and so on indefinitely. It is no longer claimed that the system tends toward some sort of equilibrium. Instead, we are told that economic science is concerned only with explaining the successive series of causal sequences of facts. This sequence sets in motion forces that tend to re-equilibrate the system that was originally thrown off balance, but also forces that tend to engender new disequilibria. The order of the sequence in time of these mechanisms, and the speed with which variables respond to changes in other variables: these alone determine the real evolution of the entire system. The empiricist inspiration of this way of analyzing the economic system is obvious.

Wicksell was the first to give an example of a cumulative mechanism in which the order of intervention of the different economic forces eventually intensified the initial disequilibrium. The theory of the "inflationary spiral" belongs to the same type of analysis.

There are, however, situations in which the successive deployment of the economic mechanisms results in a new equilibrium. When faced with total amounts of different value at the beginning and end of the process, simple mathematical procedures enable us to reveal the "multipliers" which "summarize" the way the situation has evolved. One of these phenomena is the "multiplier effect" of investment, which expresses the fact that a "primary" investment brings in its wake a series of subsequent investments. The primary investment may thus be regarded as the pole of subsequent development. It sets going the mechanism of accumulation: the *multiplier* which measures the relation between the "independent" investment and the increase in income which it engenders, and the *accelerator,* which measures the relation between a causal increase in consumption and the induced increase in investment.

What is the general way in which this multiplier phenomenon operates? A new, independent investment takes place at a certain moment. This means that productive forces are shifted from "ultimate" production to "intermediate" production. The new investment effected in the sector of ultimate production calls for a complementary investment in the sector of intermediate production. If the technique used remains the same, the two investments taken together derive their labor resources from increase in population, in proportions that are characteristic of the economy. We then have an increase in the product, while

income per capita remains as before. If, however, a new technique is used, the complementary investment in intermediate production ties up more labor, proportionately, than before. In this case—the only one that is of interest, because it expresses a real advance—income per capita increases. If real consumption per capita remains stationary, then saving increases. To what fate is this saving destined? Let us assume that it is invested, that is, that it constitutes in the hands of its owner the advance of capital that enables him to shift productive forces, or, in other words, to raise, during a second period the level of society's production per capita. Provided consumption remains constant, this process could go on ad infinitum. To this extent it is possible to say that an independent investment has made possible an infinite series of secondary investments. Its multiplier effect is infinite. This amounts to saying that the first investment made by mankind made possible all society's subsequent progress; and this is indeed a confession of theoretical impotence, for the problem thus presented is of no interest at all.

What is interesting is to analyze in two phases the way the mechanism operates. In an initial phase, we study the mechanism by which the new investment raises the level of income (the multiplier); in a second phase, we study the mechanism by which the increase in income makes possible the investment of savings (the accelerator). Development then appears as an unlimited process in which the effects of the multiplier and the accelerator succeed each other endlessly.

The paradoxes of the multiplier. The multiplier is the number that measures the ratio between an investment regarded as independent and the increase in income that it determines. Keynes accorded it a strategic position of the first importance in determining the level of activity.

The Keynesian multiplier. Keynes is interested in the behavior of demand, not in that of supply. Demand always creates its own supply, but supply does not always create its own demand—this is the postulate of Keynes's "General Theory." If, then, we assume that total income R has, for some reason, increased by the amount ΔR, this additional income is partly spent and partly saved. If p, the average propensity to consume, is stable, the increase in consumption is $p\Delta R$. This new demand creates its supply; income therefore increases by $p\Delta R$. In a second period, this income increase $p\Delta R$ itself engenders a secondary increase in consumption of $p_2\Delta R$. The same happens in a third and then fourth period, and so on. Finally, at the end of an infinite series of

periods, income has been increased by $\Delta R + p\Delta R + p_2\Delta R + p_3\Delta R + \ldots = (1/1\text{-}p)\Delta R$, in which the quantity $k = 1/(1\text{-}p)$ measures the value of the multiplier.

This theory of the multiplier effect of every increase in income is quite general in character.[99] Keynes himself provides a particular application of it in the case in which the initial increase in income arises from an independent investment. For Keynes, in fact, total income is equal to the sum of consumption and investment. In this case, the coefficient "k" measures the ratio between the induced change in income and the inducing change represented by the independent investment. Further, it must be pointed out that, in Keynes's thinking, the "periods" mentioned are short ones, for demand creates its supply very quickly, so that the multiplier exhausts practically all its effects in a relatively limited time. In this analysis, Keynes is not concerned with tracing what happens to that proportion of the income which is saved. It will be seen that, if this saving is invested, the multiplier loses all significance, so that we have to assume that it is hoarded.

If we follow out the Keynesian analysis closely, we see why it is not valid in the case of underdevelopment. Keynes notes that the independent increase in income is partly spent and partly saved. He later affirms that the part of this extra income that is spent creates its own supply. But this happens only if demand creates its own supply through the intermediary of *production*. This intermediary, overlooked by Keynes, is essential. In a country where there are no free productive forces, the extra demand is lost in a price increase. Inelasticity of supply in the underdeveloped countries leads to this result. It is because he ignores this essential intermediary that Keynes is able to claim that demand creates its own supply automatically, and this same oversimplification allows him to overlook, in his analysis of the multiplier, the destiny of savings. If we put "production" back into the framework of reasoning based on Keynes's analysis of "expenditure," a great deal of the theory of the multiplier collapses. When demand can create its own supply this means that production is really capable of increasing, but for production really to increase, entrepreneurs must invest. The saved part of the "inducing" extra income must therefore be invested, at least to some degree, if supply is to increase in response to the increase in demand.

Does not the experience of the underdeveloped countries contradict this claim and confirm Keynes's view? The production of cotton in Egypt can increase, owing to a more intensive use of labor, without new

investment. Here as elsewhere demand creates its own supply through the intermediary of production (which can be increased owing to the existence of a reserve army of unemployed labor). The demand that is here creating its own supply is foreign demand (which causes agriculture to switch over from its former kind of production) and not the new (primary) local demand. The increase in local demand will be directed not toward this product but toward foodstuffs and manufactured goods. It should also be added that, contrary to appearances, even the more intensive employment of labor itself requires that the entrepreneur (here a large landowner) make an additional advance of capital, for capital has to be advanced not only for the purchase of equipment, seed, etc., but also for payment of wages. The current concept of capital which identifies it with "equipment goods" ("capital goods") is a source of confusion. The Marxist concept, which includes in capital the advance that the entrepreneur has to make in order to purchase labor power (variable capital), is the only one that ensures avoidance of the errors of current theory.

Finally, and above all, the model is a very specific one. What is envisaged is giving agriculture a different orientation—in other words, replacing one kind of production with another. The more usual model, however, is characterized by the fact that the new demand requires additional output of a certain product *without diminution of any other production.* In order to obtain more cotton from a *feddan* or devote more *feddans* to cotton without cutting down production of other crops (that is, to obtain more wheat, etc., per *feddan*), only one means is available: increasing the intensity of the use of capital per *feddan.* We thus find ourselves back with my very general statement that the demand that creates its own supply through the intermediary of production necessitates *new investment.*

What, then, is the destiny of the part of income that is "saved"? If all this income is invested in order that supply may be adapted to demand, we are back in the classical case: part of income is spent on consumer goods, the rest on the purchase of means of production intended precisely to make possible the production of these consumer goods that are in demand. The multiplier no longer makes sense: its "value" is infinite. This means that demand does not constitute the upper limit of production: it is supply that plays this role. The multiplier retains a finite value only when part of saving is hoarded, the rest being invested so that demand may create its own supply. In this case alone can it be said that production is limited by demand, and that the multiplier has a finite value.[100]

If we assume that part of saving is hoarded, we realize that increase in income always has a multiplier effect. But this hoarding is due to the fact that the new demand requires, in order to create its own supply, that only part of saving be invested. In this case it is not profitable to invest the whole of saving. The bridge between the theory of hoarding and an analysis of the requirements of production has been established without going through the intermediary of that psychological element, the marginal efficiency of capital, that constitutes the weakest point in the Keynesian theory—without going through the intermediary of the rate of interest and liquidity preference, which oblige Keynes to accept the quantity theory of money. This initial increase in income may be due to a productive investment—that is, a true investment which really increases the consumer goods put at the disposal of society—or to a "pseudo-investment" (such as the state paying the unemployed to dig holes and then fill them in again). This second form of increase in income is the one with the biggest multiplier effect, since it is entirely expressed in increased consumption without increased saving. It is clear that the same result can be obtained by a simpler distribution of money issued by the state, without any equivalent being required. And since, throughout this argument, stable prices have been assumed, this merely signifies that an increase in the level of real wages expands demand and creates the possibility of finding a profitable use for saving, which must provide the investment necessary if production is to adapt itself to the higher level of demand.

Keynes's very special way of seeing the matter is due to the fact that he puts expenditure at the center of his analysis of the birth of income. Now, while expenditure is necessary for economic functioning, it is not at all sufficient to ensure the birth of income. It is also necessary that *real production*, which alone constitutes the equivalent of real income, follow expenditure. Demand creates its own supply only if a real investment makes possible increase in real production. This real investment uses that very saving which is ignored by Keynes in his analysis of the multiplier. If, nevertheless, this increase in real production necessitates the investment of only part of saving, then the analyses of the multiplier recover their validity—provided that "propensity to consume" be replaced by "propensity to consume and to invest," or, what comes to the same thing, propensity to *save* by propensity to *hoard*.

In this case, is the analysis of the multiplier valid in the underdeveloped countries, where saving is in fact largely hoarded? Though this may seem paradoxical, the answer is: no. Let us see what are in fact the reasons for, and the forms assumed by, hoarding in these countries.

According to Keynes, one hoards part of one's income owing to the liquidity preference that is expressed in the rate of interest. In fact, however, in precapitalist economies, hoarding is not at all due to liquidity preference. It is due to the structural fact that the richest social categories, the landowners, are not obliged to invest part of their income in order to ensure future income. They are therefore able, once they have provided for current consumption, to retain their savings without investing them. This hoarding, which used to take the form of an accumulation of "real values" (gold and land), is increasingly taking the form of the hoarding of local currency. If hoarding leads to the accumulation of masses of gold, it must be identified with luxury consumption, since gold has to be produced, or paid for with real exports. If the hoarders buy land, hoarding cannot be seen as a "bottomless pit in which demand loses itself." In reality, the amounts that are hoarded and then spent on buying land pass into the hands of other individuals. Demand is shifted, changes hands, but is not sterilized. Nevertheless, this attraction to land does in the long run increase the inequality of distribution in the underdeveloped countries. Ownership of the essential wealth of these agricultural societies—the land—is increasingly centralized. This centralization of ownership is not without influence on the level of reward paid for the labor of the peasants who become sharecroppers or agricultural workers, and thereby on the ultimate demand for consumer goods. If, finally, hoarding takes the form of accumulation of currency notes or representative money, it remains to be seen whether the quantity of money will adjust itself automatically to economic need, so that this hoarding is sterilized as regards its effect on employment, while retaining its function for the hoarder, namely, accumulation of potential purchasing power, with reinforcement of his social effectiveness.

In the underdeveloped countries hoarding thus does not constitute a "leak," or "drain," that keeps down demand. If it hinders development at all, this happens when it takes a form resembling luxury consumption, as it then contributes to diminishing the intensity of the effort needed for saving and investment. And only real investment can raise the level of productivity in society.

It should be noted, all the same, that when hoarding takes the form of an accumulation of notes if may adversely affect development by disorienting the normal functioning of demand. If the central bank in an underdeveloped country is incapable of adjusting the quantity of currency to "economic need," the draining-off of a large quantity of currency units through hoarding might, by restricting the volume of

currency at the disposal of the economic system, produce the same effects that follow from hoarding in the advanced countries. But to say this is to reveal the narrowness of vision of the quantity theorists. Will not the expatriate banks actually issue more currency automatically, in order to satisfy the real needs of the system? Here again, currency cannot be held responsible for a much more fundamental disequilibrium. Besides, in the advanced countries themselves, hoarding is not harmful because it withdraws currency from the system. Here, too, is not hoarding "forced," in the sense that it is not "willed" for reasons of liquidity preference, but rather imposed on the system by real reasons?

A certain volume of production is accompanied by a certain distribution of income between wages, spent on consumer goods, and profits, partly spent, partly saved and reinvested, but hoarded if investment is not profitable. The investment of all saving is profitable only if the proportion established in distribution between wages spent and profits saved is the same as that which prevails in production between the value of consumer goods and that of the equipment goods needed for making these consumer goods. Now, the proportion between the value of consumer goods and that of the equipment goods needed to produce them is bound up with the level of the technique employed. There is a certain technique which, at a certain level of development of human knowledge, will ensure the maximum material production. Owing to competition, entrepreneurs have to adopt this technique. True, a fall in wages leads to the use of more backward techniques. But there is a minimum below which, whatever the level of wages, it is impossible to descend. As for the proportion of wages to profits, is this not bound up with the ratio of strength between the entrepreneurs and the wage-earners, the ratio that determines the level of real wages? If, then, we assume that in the course of development, total real wages remain stable while progress enables total production to be increased, and therefore the share taken by profits to increase, it will be seen that disequilibrium must soon occur. More generally, there is disequilibrium as soon as the rate of profit to wages increases faster than the ratio of the value of means of production to the value of consumer goods. This latter ratio itself increases with progress, when the latter requires more intensive use of capital. If this is so, then there is inadequate demand and forced hoarding. The analysis of the multiplier becomes significant again: the value of this multiplier is finite.

If we now turn back to the underdeveloped countries, where the whole of the income saved is hoarded in real values—that is to say, consumed—the Keynesian propensity to hoard is cancelled out and the

multiplier becomes infinite. If, in these economies, the evolution of the ratio of profits to wages is not faster than that of the ratio of value of equipment goods to value of consumer goods, the hoarding in local currency cannot have any harmful effect, because the monetary system automatically puts back into circulation the sums withdrawn from it by the hoarders. The multiplier is here infinite once again. This means that production is no longer restricted by inadequacy of demand. It is therefore *supply* that constitutes the upper limit of production. This supply can be increased only by real investment.

If such investment produces "multiplier effects," this happens in the following way: in those countries where equipment goods are not much used, an even slightly more intensive use of them makes possible a relatively large increase in production and, if wages are stable, in saving. It thus permits substantial secondary investment to take place. Here we are a long way from the Keynesian analysis. The latter, by keeping, like all university economics, to the plane of circulation, and thereby evading analysis of production relations, fails to ask the really important questions.

Export of profits and cancellation of the multiplier effects of investment in the periphery.[101] In the underdeveloped countries, as elsewhere, new investment constitutes additional demand. The new demand determines, in a second period, an additional amount of production that is made possible by a fresh investment. Saving thus finds, at least partially, a profitable use. If the saving obtained from the increase in income due to the first investment is greater than the investment needed to obtain the extra production that is to correspond to the portion of the new income that is spent, the saving obtained from the initial distribution of income cannot all be profitably invested during the second period. At the end of the first period, the primary investment has given rise to a secondary investment. But part of what has been saved is now excessive, and is hoarded. In the second period this secondary investment results in a distribution of income. Satisfaction of the additional consumption due to the spending of part of this income requires investment of part of the saving obtained from this additional income. At the end of this second period the secondary investment has thus engendered a tertiary investment. Once again, part of the new saving is hoarded. There is a rapid tendency toward equilibrium. Here we have a multiplier the value of which is finite. Is this multiplier schema valid in the conditions of underdevelopment?

In general, under conditions of a low level of capitalist development,

the whole of saving can be invested (the economic cycle is here left out of account). In such countries the whole of saving has to be invested in order to respond to the increase in demand. Not only is the value of the multiplier increased because the propensity to consume (in the full sense—that is, the propensity to consume ultimate goods plus the propensity to hoard real values and to invest in order to produce ultimate goods) is very high, but this value is, strictly speaking, infinite, since there is no forced hoarding. In reality, if, in the periphery, wages are low but the techniques employed are no less advanced than in the advanced countries, which is in fact the case, overall equilibrium between society's capacity to produce and society's capacity to consume will not be achieved: profits, which will be high, will not be invested, for lack of outlets. This is a contradiction specific to the periphery which, once again, forbids us to identify the periphery with central capitalism in its early stages. For the moment, however, I am ignoring this specific contradiction.

Nevertheless, it must be observed that investment does not increase total real income unless it is productive, increasing the average productivity of the given society. It would run counter to common sense to suppose that in the underdeveloped countries, where average productivity is already low, a levy on the productive forces to be devoted to some useless work, such as digging holes only to fill them again, could develop the country. It also emerges from our analysis of this real multiplier that the primary investment has no multiplier effect, finite or infinite, unless the profits drawn from this investment are *reinvested on the spot*. But this does not happen in the underdeveloped countries—these profits are exported. This is the single cause that by itself cancels out in the end the real multiplier effect of all productive investment. It is not hoarding that weakens the multiplier effect of investment in the underdeveloped countries, but the export of profits that cancels it out.

Of course one can always calculate the coefficient k that measures the Keynesian multiplier. In the underdeveloped countries where the level of income is low and where, consequently, the Keynesian propensity to consume is close to unity, the value of the coefficient k which measures the Keynesian multiplier is high. The impression is thus given that an independent investment ultimately determines a big increase in total income, contributing to development to a substantial degree. The saving obtained from the additional income during this first period will subsequently be invested. The Keynesian multiplier will again reinforce the beneficial effects of this investment.

On this half-Keynesian and half-real basis, a number of models of

development have been constructed, themselves half-Keynesian and half-real. If k be the value of the Keynesian multiplier, it is deduced that an independent investment ΔI_1 engenders in an initial period (this period covering the infinite number of short periods needed by the Keynesian multiplier in order to exhaust its effects) a first increase of income $\Delta R_1 = k\Delta I_1$. If ΔR_1, this additional income, is entirely saved in order to be invested in a second period, during this new period this invested additional income plays the part of an independent investment $\Delta I_2 = \Delta R_1 = k\Delta I_1$, which in turn engenders an increase of income $\Delta R_2 = k\Delta I_2 = k^2\Delta I_1$. Growth, it will be seen, follows a geometrical progression at the rate of k.

Despite the popularity of the Keynesian analysis of the multiplier, these models have been badly received. First of all it has been claimed that, while the Keynesian theory of the multiplier remains valid in all cases (there is always a certain propensity to consume, and so a certain value for the coefficient k), yet the Keynesian remedy that consists in increasing total demand by means of inflationary expenditure (the policy of systematic deficit budgeting and cheap credit) does not work in the underdeveloped countries. This is because the inelasticity of total supply and intermediate supply prevents production from responding to the pressures of demand, so that the purchasing power artificially created loses itself in a sterile price increase. On the other hand, given the structure of the underdeveloped economies, if the new demand, ΔI, did succeed in creating its own supply (the assumption of a primary productive investment), the additional income, $\Delta R = k\Delta I$, would not be saved in order to be invested but would be partly hoarded and partly spent on imports.

In other words, imports and hoarding constitute the "leaks," external and internal, that prevent growth becoming geometrical. This is how it is explained why the independent import of foreign capital has not set the multiplier mechanisms working in the underdeveloped countries—why this has not become a pole of development. The first foreign investments did indeed raise to a considerable extent the level of total income (since the multiplier has a high value), but this increased income was lost in hoarding and imports.

Finally, it must not be said that the Keynesian multiplier has not worked—it *has* worked, since foreign investment has succeeded in increasing income to a considerable extent—but the benefits of this work have not been reaped by the underdeveloped economy. There has been no formation of local saving as a result of this initial increase in national income. Growth has not become geometrical. Subsequent development

depends entirely on the import of fresh foreign capital, since the local people who have benefited from the increase in income have not generated local creative saving adequate to take over from foreign capital.

Thus, this current analysis is based on false premises. It does not appreciate the radically different nature of hoarding in the developed and the underdeveloped countries. Actually, if the Keynesian analysis is not valid in the underdeveloped countries, this is because these economies do *not* suffer from inadequacy of demand, as do the economies that Keynes studied. One ought therefore not to say that the analysis of the Keynesian multiplier is always valid, but that benefit of the multiplier effects of investment has not accrued to the underdeveloped economies owing to their propensity to import and to hoard. In the first place, the Keynesian analysis is valid (in the advanced countries) only if we replace the propensity to save by the propensity to hoard. It is hoarding, not saving, that constitutes the leak which enables the multiplier to acquire a finite value, and to mean something. Second, even when this correction has been made, the Keynesian analysis is not valid in the setting of underdevelopment, because hoarding is not, in these economies, a leak which reduces demand below the level of supply, but is comparable to luxury consumption.

Nevertheless, real investment does bring about an increase in income in the underdeveloped countries, just as in the advanced ones. In this sense, investment ought to have multiplier effects, and these ought, given conditions of a low level of development, to be infinite. Mandelbaum has constructed a model of development based on this "real" conception of the multiplier. During an initial five-year period, the investment of foreign capital makes possible a real increase of the national product. The profits derived from this investment are reinvested in the course of a second five-year period. The progression is geometrical. The writer assumes that the use of the capital lent from outside the country is centralized by the local state, which pays over to the foreign investor not all the profits derived from the new production, but only the contractual interest due. Taking his stand on this realistic basis from which the problem is approached in its essential aspect—production—Mandelbaum concerns himself almost exclusively with the fundamental question of development: the distribution of the labor force among the various sectors of production, taking account of the known natural resources and the desired rate of development. It is to be observed that, in this model, foreign primary investment engenders multiplier effects because the profit arising from this initial investment is *reinvested on the spot.*

It is indeed the export of profits, and this alone—and not hoarding—that cancels out the multiplier effect of foreign investment. This occurs because profit is essentially destined for investment—and so it is the profit obtained from primary investment that finances secondary investment—whereas the other incomes distributed in the course of the primary investment are destined to be spent on either foreign or imported goods, and also because the underdeveloped countries do not suffer from an imbalance between the capacity to produce and the capacity to consume such as to make an increase in the propensity to consume necessary in order to render a secondary investment profitable.

The role of the accelerator.[102] The accelerator measures the relation between an increase in consumption, considered as the causal factor, and the increase in investment that it induces. The period during which the multiplier exhausts its effects, whether finite or not, can itself be divided into an infinite number of very short periods: during the first of these, the entrepreneur who has invested new capital distributes income to the factors of production that have thus been newly engaged. Of this newly distributed income a part is consumed, and the rest saved. In the period immediately following, the income spent creates its own supply. The whole, or a fraction, of the saving derived from the previous period is invested in such a way that the new demand may create its own supply. If investment of only part of the saving is enough for the new demand to create its own supply, the value of the multiplier is finite. If investment of the whole of this saving is necessary, the Keynesian multiplier loses its distinctive significance: it becomes infinite. In any event, during the operation of the multiplier, whether finite or not, the continuous growth of consumption constantly entails the investment of new savings. It is by this means that demand creates its own supply.

The accelerator exerts its specific influence precisely at this moment, by increasing the scale of the investment induced by a given increase in consumption (that is, in demand). Modern production technique requires, in fact, the preliminary construction of buildings and machinery which take a long time to wear out. It is therefore easy to conceive that variations in the demand for consumer goods cause still greater variations in the demand for durable equipment. This principle, set forth by Aftalion in *Crises périodiques de surproduction* (and already brought out by Marx in Volume 2 of *Capital*), was subsequently integrated by Harrod in his model of the economic cycle.

It is clear that this mechanism, tending to increase the scale of

investment beyond what it would be if the increase in consumption did not require an additional investment strictly proportional to it, reinforces the multiplier effect of the primary investment. During the cycle it helps to maintain prosperity by concealing for a time the effects of the decline in the propensity to consume between one period and another.

Let me point in passing that when we measure investment in a given country during a given period, and the increase in income during this period, so as to estimate the multiplier, we are really measuring the effects of the multiplier and the accelerator taken together. It is impossible to separate the two effects in practice by an inductive statistical method.

Increased demand for ultimate goods thus causes a more than proportionate increase in demand for intermediate goods. But where does this derived demand make itself felt? Here we must distinguish between two cases: the case in which the foreign investment causing the primary increase in demand facilitates increased exports, and the case in which this foreign investment disposes of its products on the local market.

In the first case the balance of payments remains in equilibrium through the very working of the foreign investment. The influx of foreign capital, C, causes an induced import of equipment goods to an equivalent amount. The income distributed in connection with this new production is also directed toward demand for imported goods (wages, W), or else is exported (profits, P, including depreciation), and this affects the balance in the same way. We must therefore put on the debit side of the balance the quantities C + W + P. But the foreign investment has itself made possible production of goods to a total value of C + W + P. If these goods are exported, equilibrium is maintained, since this sum, C + W + P, must then be put on the credit side of the balance.

Nevertheless, in this case the place where the accelerator operates is transferred abroad. The induced import of equipment goods sets the accelerator working in the foreign country concerned, in connection with the demand for intermediate goods destined to produce these equipment goods. It is the same with the imports induced by the local distribution of income (particularly wages): the demand for intermediate goods destined to increase this additional production takes effect abroad. Thus, because the independent foreign investment which makes possible the local distribution of income spent on imports also facilitates the production of a commodity destined for export, external equilibrium is restored without the accelerator mechanism playing any

part. Here the accelerator functions only insofar as part of the locally distributed income enters into local demand. When this happens, local production should increase: demand for intermediate goods increases more than demand for ultimate goods. True, equipment goods are in this case imported, as a result of international specialization and the "light" option made by the poor countries, and these imports themselves are more than proportionate to the increase in local demand—which creates a problem in relation to the external balance. However, we need not concern ourselves with that here. Let us assume that equilibrium is established through an increase in, say, agricultural exports.

In the second case, the foreign investment weighs down the debit side of the balance (induced imports of equipment goods, C, of ultimate goods, W, and exports of profits, P), and contributes to the credit side only a limited quantity of foreign exchange, C. Equilibrium is here assumed to be reestablished through an increase in agricultural exports (increased commercialization of agriculture) at a pace faster than that of the imports induced by this commercialization. The strong marginal propensity to import here expresses the undeniable fact that the additional demand is taking effect essentially on the *foreign* market. The accelerator effect is thereby transferred from the underdeveloped country to the developed country from which its imports come. If, however, the developed country in its turn imports from the underdeveloped country a value equal to that of its exports, the level of production in the underdeveloped country rises. True, the specific accelerator mechanism does not operate in this connection. The new foreign demand (equal to the volume of exports from the foreign country) causes an equal increase in local production. But this production, which is generally agricultural, calls for very little investment. The equilibrium of the external balance depends on this. The distinctive characteristic of the accelerator is that it gives rise to new investment that is *more* than proportionate to the increase in demand, that it leads to investments that can ultimately produce more products than are required. This mechanism is bound up with the technique of modern production, with the intensive use of durable equipment. The same applied in the first-mentioned case, insofar as the fraction of wages distributed by foreign investment affected local demand, causing a deficit in the balance (owing to the induced imports of equipment goods, in order to meet the increase in local demand), which was made up for by a surplus of agriculture exports.

Thus, whenever locally distributed income causes a demand for imports, the place where the accelerator functions is transferred abroad. The link between this location and the marginal propensity to import is therefore very close. International specialization has, in fact, the consequence that additional income results, in the underdeveloped countries, in a demand for imports to a much greater degree than in the industrial countries. It is this fact—the underdeveloped countries' strong marginal propensity to import—that is significant here. What is meant, of course, is the propensity of the periphery taken as a whole to import products from the center, a propensity that is very high, whereas the propensity of the center to import products from the periphery is low. (We leave on one side the internal trade of the center, among the developed countries, which makes up the greater part of world trade.)[103]

This same specialization of the underdeveloped countries in light production which calls for only slight use of capital (especially in agriculture) has the result that, when the primary income distributed locally goes into demand for local products, the accelerator effect of this new demand is reduced.

INTERNATIONAL SPECIALIZATION AND THE MONOPOLIES

Investment abroad has always been a matter for very large firms (oil companies, mining companies, etc.). Sometimes, to be sure, the capital exported is derived from the savings of the general public. When this is so, however, it is the banks and financial concerns that concentrate these savings, and they must be regarded as the real investors. This is why the export of capital to the underdeveloped countries did not really occur to any significant degree until about 1880. It was then that the first multinational corporations were formed—the mining companies. Between 1815 and 1880 almost the only cases of long-term foreign investment were the exports of British capital to the continent of Europe and the United States, and some large loans to governments. In this period, capitalist development was mainly effected through the self-financing of small entrepreneurs. The British loans, which enjoyed remarkable success in the age when railway networks were being built in Europe and America, between 1840 and 1860, were floated by the

big financial houses. Loans to governments (particularly those of Eastern Europe, Latin America, Turkey, China, and Egypt) were also financed by the big European finance houses (British, French, and, to a lesser extent, German, Austrian, and Italian).

The Origin and Dynamic of Monopoly Superprofits

The marginalist theory of general equilibrium had been worked out from 1870 onward on the basis of an assumption of perfect competition. Monopoly was seen as the exception—at the very moment when reality was beginning no longer to correspond to this assumption. Not until 1932 was the question of monopoly raised, within the context of marginalism, in Robinson's *Economics of Imperfect Competition,* in which she undertook to examine the consequences of the increase in the degree of monopoly in the economy, as these affected the distribution of the national income and the rate of formation of savings. This analysis, was bound to come up against the inherent limitations of the microeconomic instrument of marginalism. This is doubtless why Kalecki later carried further this examination of the mechanisms of the division of the national income, by taking his stand deliberately on a *macro*economic basis. The essentials of Kalecki's work, scattered among articles published before the Second World War, were brought together by Kalecki and published in 1952 as *The Theory of Economc Dynamics.*

These two books constitute the essence of non-Marxist theoretical writing on the influence of monopoly on the formation of saving. Studying the distribution of income requires analyzing the laws that govern the way this income is shared between wages and profits. This is what Robinson and Kalecki set out to do. In order to do this it is absolutely necessary to break with marginalism, which is incapable of explaining the very existence of profit. For Marshall, indeed, at equilibrium profit is nil, or at least is included in the cost curves. If we include a "normal profit" in the cost curves, we still have to explain what this "normal profit" is, where it comes from, and how it evolves. On this crucial point, however, marginalist theory remains silent. To be sure, the neoclassicists have tried to establish the origin of this "normal profit," and have thought they have traced it to the ratio between supply of and demand for the "organization" factor, thus outlining a perfectly symmetrical theory of four factors. However, this theory is

unacceptable, for the entrepreneur does not correspond to this definition, since he is an individual who by his very nature creates his own demand.[104]

Robinson has attempted to reconstruct a general theory of profit. She explains the level of this reward by the monopoly forces that exist within the economy, in particular the monopoly ownership of capital, confronting a working class that is deprived of any means of life apart from its labor power. The reproach to which this theory is properly subject is that in the end it reduces the level of the rate of profit to a subjective relation of strength. A change in the relation of strength results in a change in the level of the rate of profit. To start with, however, it is (like the rate of interest as seen by Keynes) what it is "because it is not anything else."[105] In other words, it is a "conventional phenomenon."

Robinson's marginalist analysis. In her last chapter, the author synthesizes the results of her investigations, scattered through the preceding chapters. Robinson started with the assumption of a perfectly competitive economy in a state of equilibrium with full employment. She assumed that, suddenly, all the producers in each branch came together to form a cartel. What changes would this complete cartellization of the economy bring about in the conditions governing the formation of saving?

It might be thought that this change would result in an all-round contraction, each cartel deciding to cut down its production in order to maximize its profit by putting itself at the optimum point of the curve of total demand for its product. This analysis is correct only if we envisage the behavior of an isolated monopoly in a competitive world. If *all* the enterprises come together into cartels *at the same time,* workers are made redundant. The level of wages falls until full employment is ensured once more. It is not certain that this marginalist reasoning is sound. Even when the level of full employment has been reached, though total income is the same as it was before cartellization (equal to total production), the different way in which it is divided between wages (reduced) and profits (increased) affects the demand for ultimate goods. The total demand for every commodity declines. All the data of the economic system are thereby altered. It is the very method that consists in assuming the demand curve to be *given*—valid, at best, only when studying the attitude of an isolated enterprise or a single branch of production—that loses all meaning when what is being

examined is the overall production of all the branches of economic activity.

Developing the argument directly in macroeconomic terms, what do we find to be the result of complete cartellization of the economy? General shrinkage of production in consequence of monopolization, and greater power to the entrepreneurs, now more united than before, in relation to the wage-earners, result in a lowering of the wage level. Demand being reduced accordingly, an equilibrium of underemployment may well be established for a long period. This equilibrium is more to the advantage of the entrepreneurs: the rate of profit is raised. It is the same, of course, under a regime of perfect competition: the division of income between wages and profit determines the level of employment. It might have been supposed that, since Keynes wrote, the fallacious argument had been abandoned, according to which wages are seen merely as a cost for the enterprise—that marginalist argument which forgets the *income* aspect of wages. Underemployment is therefore also possible under a regime of perfect competition.

The level of employment essentially depends on the level of real wages. The lower they are, the fewer consumer goods can be sold. If the same techniques of production continue, the volume of labor employed in producing the equipment goods needed for the consumer goods that are to be sold will have to be cut down. For full employment to remain safeguarded despite a fall in real wages, the labor released from producing consumer goods will have to be devoted to producing more equipment goods. But these additional production goods can only be used to produce an unsalable surplus of consumer goods. However, the low wages cause the entrepreneurs to prefer more primitive techniques, those in which production is carried on with more labor but less capital. Less labor is therefore devoted to production goods, although more labor is involved in ultimate production. At the same time, the distribution of the labor force in which a smaller proportion is engaged in intermediate production reduces the volume of ultimate production.

Going back to more primitive techniques thus means that a greater total amount of labor, direct and indirect, is needed to produce the same quantity of ultimate goods. This is why the fall in wages is not so serious a cause of unemployment as it might seem to someone who thinks on Keynesian lines, which are in this respect not wholly adequate, since the changes in technique caused by changes in wages are overlooked, wages being seen only as an income. A fall in real wages certainly reduces demand, but it also leads entrepreneurs to adopt less

capital-using production techniques. If, therefore, a fall in wages does not necessarily cause a rise in unemployment, this is because it is accompanied by real economic retrogression. In any case, the level of unemployment is liable to be higher in proportion as wages are lower. The point is that there is a limit beyond which it is not to the interest of the individual entrepreneur to employ a more primitive technique. Beyond this point, despite the reduction in interest payment implied by a more backward method, a less backward one is preferred.

This is why sudden cartellization may well bring about increased unemployment. However, Robinson assumes that the same forces which give rise to full employment under a regime of competition would have the same effect if there were total cartellization of the economy. But such monopolization would in fact alter the distribution of total income and the orientation of production. This alteration takes place in two ways: on the one hand, because the elasticity of the curve of demand for goods enables the producers, who are now in a monopoly situation, to exploit the consumers; and on the other, because the elasticity of the curve of supply of factors of production enables the entrepreneurs, who are now in a monopoly situation, to exploit these factors of production.

In a first stage of her argument, Robinson considers the first of these phenomena. Adopting Lerner's definition of the elasticity of demand for goods, Robinson considers that this elasticity can be measured by the slope of the demand curve (e). She then shows that monopoly increases the competitive price by multiplying it by e/(e-I). The rates of reward of the other factors—real wages, real interest, and real rent—are therefore lowered in the proportion of (e-I)/e. Robinson goes on to consider the elasticity of the supply of the factors, measured by the slope, E, of this curve, and brings in the second cause of the exploitation of these factors by the monopolists. Actually, all other things being equal, the rate of reward of the factors is reduced for this reason by the monopolization of the economy in the proportion E/(E+I). Altogether, the incomes of the factors of production (wages, rent, interest) are reduced in the proportion (e-I)/e x E/(E+I). What the factors of production lose, the entrepreneurs gain. They now collect "superprofits" (the total volume of which was nil under the competitive regime) to an amount equal to R/I - ([e-I]/e x E/[E+I]), where R stands for the volume of income before cartellization.

From this analysis Robinson draws two conclusions: (1) that the national income is redistributed in favor of the entrepreneurs, and (2) that the orientation of production is altered. If, indeed, we assume that

the elasticity of total demand for goods varies from one activity to another, and that the elasticity of the supply of factors also varies from one sector to another, it is obvious that the orientation of production will be altered by cartellization. There will be greater production of goods for which the demand is less elastic, and less production of those for which the demand is more elastic. Similarly, the sectors in which the supply of labor is very elastic will expand, while those where it is less so will decline. Finally, Robinson concludes that increasing the extent of monopoly increases inequality of distribution, and so favors the relative growth of saving in the national income, and thereby the pace of investment and of growth of total income.

Some objections need to be made on this last point. First of all, increase in the degree of monopoly increases the volume of saving only in a proportion much lower than is shown in Robinson's analysis, which assumes that everything lost by the factors of production is gained by the entrepreneurs. We have seen that when distribution is altered in favor of profit, the technique of production used tends to be a more primitive one. The level of national production therefore declines, and the entrepreneurs do *not* appropriate everything that the factors have lost. Full development of the productive forces is restricted. Although the rate of profit is higher, total income is lower. On the one hand, it is not certain that this change in the distribution of the national income hastens the pace of development. This will happen only if all saving can be reinvested. At a certain level of development, however, this may not be so--as in the case of "mature" economies in which the volume of saving tends to be higher than that of investment. Savings are partly hoarded because total investment of them is not profitable. Capacity for production has grown too great in relation to capacity for consumption. Under these conditions, an increase in the degree of monopoly in the economy, by reducing the income destined for consumption and increasing that destined for saving, increases these difficulties. An ever greater amount of saving is hoarded. The pace of development, which depends on investment, is thus slowed down, not accelerated. This is why monopolization may cause unemployment, reducing still further the level of total production.

Baran and Sweezy, who show that under monopoly capitalism the actual surplus is less than the potential surplus, once again provide the right answer to the right question.[106]

Kalecki's macroeconomic analysis. Kalecki starts from Lerner's definition of the degree of monopoly: the quotient of the difference be-

tween the price, p, and the marginal cost, n, by the price p itself, or $\mu = (p-m)/p$. For the economy as a whole, the average degree of monopoly is measured by the quotient $\mu = \Sigma xp\mu/\Sigma xp$, x being the quantity of a product sold, p its price, and μ the degree of monopoly of the enterprise that produces it. The quantity $T = \Sigma xXp$ plays an important part, Kalecki calls it "aggregate turnover." He then shows that this average degree of monopoly μ can also be measured by the ratio (E+O)/T, in which E represents total profit and O the total cost of depreciation of fixed capital, allowing for interest.

Without reproducing the details of the proof, it can be checked intuitively that the ratio (E+O)/T does indeed measure the degree of monopoly in the economy, E+O being the gross share obtained by the entrepreneurs. The ratio (E+O)/T is thus the higher in proportion as the share of the entrepreneurs is larger.

Kalecki goes on to consider the national income A as being made up of wages, W, profits, E, and sums devoted to depreciation, allowing for interest, O. The average degree of monopoly (E+O)/T can then be expressed by the ratio $\mu = (A-W)/T$. It can easily be deduced from this that

$$\frac{W}{A} = \frac{1}{1 + \mu \frac{T}{W}}$$

It follows from this relation that the relative share of wages decreases when the average degree of μ increases. Not only does μ directly affect the quotient W/A, but also this alteration in μ affects the ratio A/W, since, total wages being fixed, it finds expression in a price increase. The ratio T/W therefore increases. W/A decreases for two reasons: the increase in μ and the increase in T/W.

On the other hand, independent changes can take place in T/W. An increase in the prices of raw materials, relative to wages, is reflected in a less pronounced increase in the general price level, because this level is proportionate to prices of raw materials and wages taken together. The increase in nominal wages needed if real wages are to remain stable is thus less than the increase in the nominal prices of raw materials. In other words, the value of the ratio T/W increases when the relative price of raw materials increases.

On this basis, Kalecki considers that he is in a position to determine the reasons why labor's share in the national income has been remarkably stable, in the developed countries, throughout history: the progressive increase in the degree of monopoly has been counterbalanced by

the evolution of the terms of trade in a direction unfavorable to raw materials.

Kalecki can be criticized for using the accumulated gross product, T. This quantity is not very significant. It depends, in fact, on the degree of integration of the economy. If two complementary entrepreneurs who have been independent of one another should merge, then the quantity T diminishes, because the semi-finished products that one of these enterprises used to sell to the other are no longer sold. Increasing monopolization of the economy is partly expressed in the spread of just such forms of vertical integration. In this case, μ increases but T declines; the value of the quotient W/A can thus remain unchanged. It is therefore rash to seek to measure the degree of monopoly on the basis of the elasticity of the demand curve.

The degree of monopoly and the division of the gross national product between on the one hand the value of raw materials and equipment used and, on the other, the sum of wages and distributed profits, both affect the rate of profit, independently of each other. Why does the division of the gross product affect the rate of profit? The answer is almost obvious, following from the equation: gross product = value of raw materials and machinery + wages + profits. The entrepreneur who starts production needs to have sufficient capital to pay for the first two of these quantities. He relates his profit to the sum of these two quantities. This is why, even when the ratio of wages to profit remains stable, the ratio of wages to gross product can decline with technical progress, as can the ratio of profit to gross product, and consequently the ratio of profit to gross profit less profit: in other words, the *rate* of profit. Technical progress is expressed, in fact, by the use of a larger material quantity of raw materials and machinery relative to human beings—by the possibility for the worker to work on ever larger quantities of materials. It contains in germ—if the ratio of profits to wages, that is, the division of net income, remains stable—the possibility that the rate of profit will decline.

It is true that the fall in the relative price of these raw materials may make up for their more intensive use. In this case, then even if the ratio of wages to profit has remained stable, since the ratio of wages to gross product has also not changed, the rate of profit does not change. To sum up, by pointing to the fall in the relative price of raw materials, Kalecki points to the countertendency that Marx himself already integrated in his analysis.

According to the figures provided by Kalecki, it seems that this countertendency has just about balanced the more intensive use of raw

materials and machinery, so that the rate of profit has remained stable, as has the share of wages in gross income, and that this is true of the period 1929 to 1941.[107]

Is this true when we take a longer period—a century, say, from about 1850 to 1960? It is important here to distinguish between the share of wages (or of profit) in the *gross* product and the share of these incomes in the *net* product. As regards the second of these ratios, corresponding to the rate of surplus value, statistical studies (notably those of Kuznets, Bowley, and Colin Clark) show stability. As regards the other, relating wages (or profit) to gross profit, its evolution is bound up with that of the ratio of net product to gross product. Now, it seems that this ratio has indeed declined steadily and to a substantial extent. Marx's law of the tendency of the rate of profit to fall thus appears to have manifested itself over the period of a century. The "tendency" (fall in the ratio of net product to gross product) is stronger than the "countertendency" (fall in the ratio of wages to profit).

Finally, the influence of the factor constituted by the division of income between net income on the one hand and depreciation on the other (analogous to Marx's division between variable capital and surplus value, on the one hand, and constant capital, on the other), on the rate and mass of profit, must be dissociated from that exerted by the degree of monopoly (measured by the ratio of wages to profit, that is, by the relative share of profit in net income).

In his last work, Kalecki reverts to a single formulation in a complex equation. Calling k the coefficient that measures the ratio between the profit obtained from an industry and the total cost of production (this coefficient measures the degree of monopoly, according to Kalecki), and j the coefficient measuring the ratio between expenditure on raw materials and depreciation, on the one hand, and expenditure on wages, on the other (the inverse of the "organic composition" of capital), Kalecki shows that the relative share of wages in the gross product (total of wages, profits, cost of raw materials, and depreciation) falls when the value of one of these two coefficients rises. Does this formulation add anything to Marx's analysis? It does not appear to, since the coefficient k, which measures the degree of monopoly, is merely the rate of profit itself. To say that, all other things being equal, the share of wages falls when that of profits rises is not to say very much: it is obvious! Kalecki goes on to observe that the degree of monopoly tends to increase over a long period. Undoubtedly—but only if we define this degree of monopoly differently, and avoid confusing it with alleged consequence, an increase in the rate of profit. As for the evolution of

the ratio between the value of intermediate goods and that of ultimate goods, Kalecki claims that it is difficult to know what this is. If the value of this ratio remains stable (technical progress being as rapid in the industries that produce intermediate goods as in those that produce ultimate goods), then this coefficient j decreases when the quantity of raw materials and machinery worked on by each worker increases (and this is the general law of technical progress).

We again find ourselves stumbling upon the law of the tendency of the rate of profit to fall. But it has not proved possible to bring together in a really unified complex the factor "monopolizing power" and the factor "organic composition" of capital. There has only been a juxtaposition. In other words, the effect on the rate of profit of increasing the organic composition of capital can be counterbalanced by an increase in the degree of monopoly, this change being defined as an increase in the share of profit in net income, that is, increase in the value of the ratio of profit to wages.

The Concept of the Degree of Monopoly in the Economy[108]

Kalecki's analysis has not succeeded any better than Robinson's in solving the real problem, perhaps because, having defined the degree of monopoly as the quotient of the difference between price and cost by cost itself, it became clear that increase in the degree of monopoly would bring about increase in the rate of profit. This rate, as seen by the authors, is in fact nothing other than the degree of monopoly itself.

The current theory. The slope of the curve of the demand for a product is the starting point of all writers, old and new, who concern themselves with the phenomena of monopoly. When numerous enterprises compete in the production of a commodity, this slope plays no part. Each enterprise sells its product at its marginal cost, and the profit is nil for each, as it is for all of them together. But if all the enterprises in a branch band together, then this slope becomes significant. It enables the newly established monopoly to obtain a superprofit from the consumers—or, rather, to obtain a profit *tout court,* since under competition this income is reckoned to be nil. The angle of the demand curve measures the power with which the monopoly can extract a profit from buyers of the particular product.

The real difficulty of the problem is revealed when we try to proceed from one cartellized branch producing a particular commodity to the economy as a whole. The curve of total demand then depends not

only on the relative intensity of wants but also, and mainly, on the income of the consumers who, broadly speaking, themselves consist of wage-earners. Relations between the entrepreneur and the rest of society then appear as relations between entrepreneurs and wage-earners, and no longer as relations between producers and consumers.

There are, however, two more crucial reasons which should lead us to reject this method of measuring the degree of monopoly. The first is that, seen in this way, profit completely disappears if we assume general competition: one is prevented from examining the dynamic of profit under a competitive regime. The second is that monopoly does not arise from the nature of a product for which the demand is more or less elastic. Chamberlin's theory of monopolistic competition, which carries this view to its logical conclusion, is not very realistic. Monopoly arises less from how "irreplaceable" the product is than from the amount of capital needed to produce it.

The "overall" conception of the degree of monopoly in the economy considers that every system potentially contains a certain degree of monopoly. There is always, in fact, a curve of total demand for every commodity, whether this be produced by a single enterprise or by an infinite number of firms. Whether the economy is perfectly competitive or wholly monpolized has no effect at all on this curve. Cartellization merely reveals the "degree" of monopoly inherent in the economy, making it effective. The method of Robinson and Kalecki would at best theoretically enable us to measure the degree of monopoly in an economy in which production has completely passed into the hands of the monopolies. It would not allow us to trace the real evolution of this concentration process. It would enable us to compare two totally monopolized economies, but not the same economy at two different stages of its evolution. And it is this aspect of the growing monopolization of the economy that constitutes the real problem. The method of the "demand curve" evades the real problem of monopoly.

The Marxist theory. The basic idea, since Lenin, is that the production of a commodity is governed either by competition or by monopoly. The existence of borderline cases must not lead us to entertain illusions about the profound difference between competition and monopoly. Whatever the criterion adopted in a classification, there are always borderline cases. Here we may wonder at what point an enterprise should be regarded as a monopoly. When it controls more than 50

percent of production? Or, more modestly, 10 or 20 percent? Or, should one insist on an absolute predominance expressed in, say, control of 75 percent of production?

It depends on the situation. Where an enterprise producing only 25 percent of total production has to compete with thousands of smaller firms, the enterprise undoubtedly possesses a monopoly. Two or more monopolies may engage in a relentless struggle with each other. But such a struggle is profoundly different in both methods and purposes from the rivalry among a lot of small enterprises. In the latter form of competition, the only way to emerge victorious is to gain a technical advantage. What results is regular, uninterrupted progress. In the struggle between monopolies, however, other factors come into play: advertisement, dumping, recourse to bank credits, to tariff legislation, to subsidies both open and concealed (preferential railway charges). These phenomena illustrate the new and greater variety of means of struggle. What is decisive in these circumstances is that the battle is restricted to a few contestants who know each other very well. It is not a matter of thousands of entrepreneurs fighting in the anonymity of "honorable" combat.

The alleged intermediate case of "monopolistic competition" is at bottom not very realistic. Its field of action is limited to the selling of a few finished goods of the beauty-products type. What is decisive in judging whether a branch is monopolized or not is to know whether production is for the most part contributed by a few big firms among which there is tacit, if not official, agreement. Such an agreement may itself be repudiated by one or more of the partners, and a violent struggle may break out among them. Such conflicts, however, concern the division of profits among the partners and not the attitude of the group as a whole toward outsiders. In the course of this fight, a change of attitude to the customer (lowering of prices) may serve as a means of bringing down one's opponent. But as soon as agreement is reached on the redivision of profits in accordance with the relations of strength, the attitude of all concerned toward outsiders again becomes uniform.

The share of the monopolies in the national product forms the only realistic criterion of the degree to which an economy is monopolized. It has nothing to do with the elasticity of demand.[109]

Monopoly Superprofits and Accumulation at the Center

The significance of the relations between entrepreneurs and factors of production. In a famous controversy, Robinson claimed that labor was exploited when it received less than its marginal product in value. On the basis of this marginalist definition it was established that monopolization made possible the exploitation of labor, as also of the time factor (capital) and the natural resources factor (land).[110]

Chamberlin replies to this by claiming that the entrepreneur is not interested in the marginal value of his product but in his marginal income—in what is added to the entrepreneur's income by each marginal unit of factors.[111] From this standpoint there is obviously never any exploitation at all. At bottom, however, the two positions diverge only because the definitions adopted are based on different grounds. It is of course a fact that monopoly makes it possible—if the price at which goods are sold remains unaltered—to extract a "superprofit" from all the factors of production. Robinson has established this quite irrefutably. If Chamberlin questions the exactitude of this proposition it is only because he denies the very existence of a reality that conforms to the pure-monopoly formula of classical theory, and constructs in its stead a model of monopolistic competition in which selling price is equal, as in perfect competition, to cost of production (allowing for "normal" profit), although it is not equal to the *minimum* cost of production (owing to the slope of the demand curve). As I have criticized Chamberlin's formula for its lack of realism, it must be taken into consideration that increase in the degree of monopoly in the economy does not result from a rise in the demand curve (which, on the contrary, is assumed to be stable) but from the transition from the classical formula of competition to the classical formula of monopoly.

Two comments need to be made at this point. First, it is important to know that the destination of the additional income drawn from the labor factor is quite different from the additional income that the entrepreneurs draw from the other two factors.

What is, in fact, the functional destination of interest payments? These are paid by the producers either to *rentiers* who have lent them the savings that represent for the *rentiers* a form of reserve saving, either directly (purchase of bonds, subscription to loans) or indirectly (deposit of these sums of money in banks or savings banks, which in turn lend these liquidities to the producers), or else to banks, for the service they render by issuing credits (creation of currency). Though the first type of interest seems indeed to be destined to pay for ulti-

mate consumption by the *rentiers,* the second constitutes in reality the source of bankers' profit. This profit is itself destined to be saved and invested, either in banking or in industrial activity (acquisition of shares). "Exploitation of the time factor"—meaning that the rate of interest is kept down to a level below the rate of depreciation of time—reduces consumption and increases saving only to the extent that it reduces the income of the *rentiers.* Apart from that, it appears as a mere transfer of income destined to be saved, from the entrepreneurs to the bankers. This transfer is, moreover, itself fictitious insofar as the bankers themselves acquire shares in the enterprises that they supply with credit. To this extent, the proportion of the interest paid by the entrepreneurs for the service rendered through the creation of credit increases relative to the proportion paid for productive use of the *rentiers'* savings. In fact, the banker who no longer seeks profit merely in banking but who also has interests in industrial enterprises will be disposed to be more indulgent to these enterprises. He will give them plenty of credit. This is one of the principal reasons for the continuous rise in prices during the twentieth century. The "production" of money is no longer "inelastic." Money is to an increasing extent created more or less at will by whoever wants it (if he is sufficiently powerful). As for the transfer of income from *rentiers* to entrepreneurs, this takes place more through the depreciation of currency than through small variations in the rate of interest.

Exploitation of the natural-resources factor seems more homogeneous. The rewarding of this factor is ultimately due to the monopoly possessed by landowners. The concentration of industrial property causes relations between entrepreneurs and landowners to move from the stage of monopoly (a large number of entrepreneurs seeking to secure the use of a piece of land, confronted by a single landowner) to the stage of *bilateral monopoly.* This weakens the power of the landowner, who only plays a really important role in agriculture, where concentration of the entrepreneurial function is not as advanced as in industry. While there has not been very much change in this area on the world scale, nevertheless, the changes that have occurred, however slight, must certainly have been to the advantage of saving (profits), at the expense of consumption (rents).

Relations between the labor factor and the entrepreneur, however, are of a different order of importance. The income of labor makes up a substantial percentage (between 30 and 50) of the national income. Here, a transfer has appreciable effects on the rate of the formation of saving (which is bound up with the share taken by profit) and with the

rate of investment of this saving (which is bound up with the degree of concordance between possibilities of consumption and those of saving).

Reduced to its simplest expression, Robinson's "exploitation" of the labor factor means that an increase in the degree of concentration in industry increases the strength of the entrepreneur in relation to the wage-earners. That is obvious, of course. Under the competitive system, wages appear to the entrepreneur as something he has to take as determined. He cannot for long pay his workers at a rate lower than that paid by his competitors. This does not at all mean that wage-earners are in as strong a situation contractually as entrepreneurs. When he has a monopoly, however, the entrepreneur can negotiate wages in a double capacity—as an entrepreneur "in general" (a capacity that is itself reinforced by the greater possibility for entrepreneurs to resist the claims of the wage-earners), and as the *only* entrepreneur in the branch of production concerned.

The share going to real wages, which will always be consumed, is thus reduced by an increase in the degree of monopoly, to the advantage of the share going to profit, which will be saved. This is why Kalecki—who, as we have seen, identifies the degree of monopoly in the economy with the average rate of profit—is quite logically led to conclude that the formation of strong trade unions does not increase the degree of monopoly in the economy, but, on the contrary, reduces it, because this "workers' monopoly" competes with the employers' monopoly and makes it possible to prevent the lowering of real wages and restrict the rise in the average rate of profit.[112]

The level at which labor is rewarded, however, depends mainly on this strength of the workers, and only to a secondary extent on the degree of monopoly on the employers' side. The changes that occur on that side are not *decisive* in the determination of real wages, and thereby of real profit.

The significance of relations between producers and consumers. Robinson's way of looking at this matter is highly original. She defines the degree of monopoly in a branch by the slope of the curve of demand for its product, and goes on to consider that the transition from a purely competitive economy to a totally monopolized one (that is, an economy in which there is only one enterprise per branch) alters neither the volume of employment of the factors—which is still assumed to be "full"—nor the rate of their reward—which was already at the first stage of the argument assumed to be unchanged. She then deduces that the transition causes a reorientation of production, which

abandons branches in which demand is highly elastic, in order to focus on those branches in which demand is not very elastic. This reorientation does not alter the rate of profit, which continues at the normal level of competition. This rate cannot, indeed, be changed except through a change in the level of the real rewards of the factors of production—a change that would enable the entrepreneurs to obtain superprofits from the exploitation of these factors.

This last proposition is in reality not sound. The reorientation of production changes the total amount produced. Since the real rewards of the factors remain unaltered, the rate of profit is changed. Here, this change is left out of account.

Actually, Robinson's view is of little use for analytical purposes. If we drop the unrealistic assumption of a completely cartellized economy, contrasted with a totally competitive one, and consider the economy as it really exists, with some branches monopolized and others not, the whole problem is then seen to consist in the division of the total (unchanged) profit among the branches. In reality, there, too, any change in the division of profit among the branches of production brings about a reorientation of production toward the most profitable branches. The total product is no longer the same, and neither is the total profit. If, however, we ignore this secondary change and retain only the primary effect of the formation of monopolies on the division of a profit assumed to be unaltered, then the relations between entrepreneurs and consumers appear as the superficial form of relations among the entrepreneurs themselves. Monopoly superprofit essentially originates in the redivision of profit, not in the division of net income between profit and wages. This division is obviously changed by an increase in the degree of monopoly in the economy, that is, the enlargement of the share of monopolized production at the expense of the share of production governed by competition.

The price mechanism teaches us that, when there is competition, a price is fixed at the end of a certain period (the period of adaptation of supply to demand) at the level of cost of production. It also teaches us that this does not happen under a system of monopoly. Let us then assume an economy that is half-competitive and half-monopolized. Let us also assume technical progress that is regular and shared equally by all branches of activity. Finally, let us assume stable monetary conditions. Competition obliges the enterprises of the competitive sector to reduce their prices regularly. The level of their profits, all other things being equal, remains the same. The lack of competition enables the monopolies to refrain from lowering their prices despite the reduction

in costs. The level of their prices, all other things being equal, rises. The monopolies have finally captured for themselves alone the additional income made possible by progress.

Clearly, the transition of the economy from the competitive stage to the monopoly stage has upset monetary conditions. It will be seen that, far from remaining stable, these have become unstable, with the value of money (which the monopolies can henceforth, thanks to the abolition of convertibility, create at will, provided the banks are agreeable) tending to decline steadily.[113] All prices must rise, but those of the monopolized sector rise more rapidly and proportionately higher than those of the competitive sector. Similarly, although during the depression phases of the cycle all prices decline, those of the monopolized products decline relatively less than others.[114]

To what extent can a transfer of profits be made from the competitive to the monopoly sector? It is at this stage of the analysis that it would seem possible to bring in the demand curve. The distortion of prices brings down the rate of profit in the enterprises of the competitive sector. Some marginal producers are eliminated. At all events, if it is assumed that most investment comes from self-financing, the rate of development of these branches is slower than that of the monopolies. Now, a certain level of total income determines a certain orientation of demand toward different goods, whether these are produced by monopolies or not. A moment therefore comes when demand exceeds supply, and the price can therefore be raised. The rate of profit can thus not be reduced below a certain point. Depending on whether a product is highly "necessary"—that is, its demand curve is near-horizontal—or, on the contrary, highly "replaceable"—that is, demand for it is very elastic—the fall in the rate of profit can either be quickly checked, or will go on much longer. The elasticity of demand, which measures the degree of relative necessity of products, is the only obstacle to absorption of all the profit by the monopolies. It forms the objectively insurmountable wall that halts at a certain level the transfer of profit from the competitive sector to the monopolized one.

If we now look at the monopolies, we see that the rise in relative prices—and therefore, probably, in profits—resulting from the creation of these monopolies is uneven between branches. What are the laws governing the transfer of profits from one monopoly to another?

The division of superprofits among the monopolies. Here, too, the elasticity of demand may play a part. For example, a steel monopoly can raise the relative price of steel more than a natural rubber monop-

oly can raise the price of rubber, because steel is irreplaceable in our civilization, whereas natural rubber is less so (competition from synthetic rubber). The elasticity of demand enters into the division of profit among the different branches of production controlled by monopolies.

But there are two other factors that affect the division of superprofit among the monopolies. In the first place, there is generally not just one monopoly per branch of production. The superprofit collectively realized by an entire branch is shared out among the partners according to certain laws. Furthermore, even when, in appearance, the production of a branch was in the hands of a single firm, the elasticity of demand for the product would not be the sole factor determining the rate of profit of the branch. Even if the demand curve allowed an absolute steel monopoly (a single firm) to annex more profits than the rubber monopoly, there would certainly be a point beyond which the rate of profit would exert an irresistible attraction upon new capital. Another financial group, backed by its own banking system, would eventually manage to break into steel production, and the conflict between the two would enforce a fall in the price of steel. Here we come upon the second factor that plays a part in the division of superprofit between the monopolies: the relations of strength among the different financial groups.

In general, relations between monopolies are like those analyzed in the formula of bilateral monopoly. The relation of strength between the parties dictates the way in which profit is divided. But it must be pointed out that this happens only when two independent monopolies confront each other on the economic battlefield. When the iron-ore monopoly and the steel monopoly, for example, come into conflict, this is so provided that these two monopolies, though legally more or less independent, are not in reality integrated economically—as is often the case. Interpenetration is effected by way of the banks, interlocking directorships, the acquisition of shares in each other, and so on. In this case the price of iron ore seems to be quite artificial and determined by other considerations—fiscal, psychological, and the like. What then has to be looked at is the aggregate profit of the two enterprises taken together.

If we regard all the monopolized activities in the economy as being controlled by a certain number of financial-industrial groups, with one more predominant in one branch, another in another branch, and so on, sometimes obliged to collaborate in a limited field, sometimes engaging in a desperate struggle in a sector that they share, then we shall be

inclined to favor the following solution: each group as a whole takes a share of the profit which is proportionate to its strength as measured above all by the *amount of capital* at its disposal, and to a lesser degree by such varied factors as the attitude of the state or public opinion toward it.

There is too much readiness to see in the struggles between monopolies only a variant of competition. Actually, the methods of struggle have been profoundly altered by the rise of monopoly. The little firms of the nineteenth century sought to sell at the market price by lowering their cost of production. The monopolies also strive to make profits, but the means they use for attaining this are new. The small entrepreneur makes a marginal calculation. The big firm does not regard the market as something given. Investment may serve the purpose of improving the firm's oligopolistic position (e.g., De Beers exports capital to Brazil in order to buy up a goldfield so as to prevent new competitors from appearing). It may aim at reinforcing integration (e.g., United Fruit forms its own fleet of ships).[115] What results from this is that the various monopolies clash when their plans become incompatible.

In a study of the behavior of the multinational corporation, Byé analyzes the nature of the investments made by monopolies: investments aimed at ensuring exclusive control of potential resources, investments in prospecting work, investments for actual exploitation. Constructing the exploitation plan of a monopoly on the basis of estimated gross income (total expected cost), Byé concludes that the exploitation plan will be longer in proportion as the demand foreseen is an increasing one, as the rate of interest on the money market is lower, and as production demands bigger initial investments. It is obvious, this being so, that monopolies clash over the general strategy to be adopted. Describing in detail the example of the conflict between the Compagnie Francaise des Pétroles and the Near East Development Corporation, inside the International Petroleum Corporation, Byé concludes that those monopolies that are obliged to make "short" plans owing to unfavorable conditions (in this case the CFP, a semipublic institution having access to a capital market more restricted than the American one, and lacking both prospects of expansion as vast as exist in the United States and also other business activities in other parts of the world) tend to adopt a competitive strategy: low prices and high production. The fight for maximum profit is therefore waged within the consortium, for adoption of this plan. In the event of a break-up of the cartel agreement, the fight becomes more overt. In any case, compromise (which is never more than a truce) allots to each partner a share of

the profit proportional to the strength of this particular monopoly—and in the economic field that strength is first and foremost the volume of capital at one's disposal.

Foreign Monopolies and Accumulation in the Periphery

Capacity to save would be greatly improved if the degree of monopoly in the economy were increased. On the one hand, the share taken by profit would rise at the expense of wages, while, on the other, the more unequal division of profit would determine a use of this income that was more favorable to saving. However, in the particular case of underdevelopment, an essential qualification still has to be made. It must not be forgotten that the usual fate of the profits of the foreign enterprises that are branches of the monopolies in the underdeveloped economies is to be exported, instead of being reinvested on the spot.

What is more serious is that it is not practicable to take a share of their profits away from these enterprises by fiscal or parafiscal measures, in order to finance the formation of public saving that might contribute to a harmonious development of the underdeveloped economy.[116] The foreign enterprises, which usually belong to powerful financial groups, can easily conceal their real profits by a policy of selling cheap to a related firm in the metropolitan country. It has often been stressed in recent writings that the center of gravity of the multinational corporation is not situated in the underdeveloped country. As an example, we may take the mining companies of Chile. Since this country has adopted a system of multiple rates of exchange, the foreign companies do not repatriate the dollars they get by selling copper so as to import with this money the equipment they need. They use these dollars *outside* the country. In this way the purpose of the Chilean system is evaded.

In general, the price of a raw material whose processing is carried out by firms integrated with those that supply the raw material itself becomes purely conventional. This is the case, for example, with the bauxite produced in Jamaica, Guinea, and elsewhere by the same groups that control the processing of it into alumina in Cameroon and into aluminum in Canada or Ghana. Depending on whether it is to the group's interest to localize its profits in the periphery or at the center, it will fix high or low prices for bauxite or alumina. The same applies to copper, as we are reminded by an important document by the Société

Générale de Belgique following the nationalization of the Katanga mines.[117]

We must now examine what happens to the saving-investment sequence when profit is divided in this way.

The profits realized by the monopolies are destined to be reinvested in the monopoly sector. Elsewhere the rate of profit is lower. Some of these profits realized in the monopoly sector are used, of course, to destroy the competitive sector. The monopolies invest in this sector and compete victoriously in it against the small enterprises. But this type of operation always remains a secondary means for the monopolies to make fruitful use of the funds they save. Once the small enterprises have been destroyed, will the rate of profit rise sufficiently in the newly monopolized branch of the economy? For a time the new monopoly will retain the privilege of being the sole enterprise in the branch. So long, however, as the amount of capital needed to break into this branch remains low, fresh, competitive, small enterprises will not be slow to appear in this sector and compel the monopolies to share their profits with them.

Let us take the striking example of the retail trade. Certain business groups set up chain stores. The more rational organization of operations and the possibility of bulk-buying enable them to bring prices down and to ruin the small traders. As soon, however, as the rate of profit rises as a result of their elimination and the consequent rise in prices, a new lot of small traders sets up in business. These small shopkeepers, who have to sell at the same prices as the monopolies, although they do not possess the means to acquire merchandise under such favorable conditions, nevertheless do make a profit. The rate of profit on their capital is lower than that of the chain stores. All the same, they compel the latter to share the profits of trade with them. This is why, in these activities which it is easy to break into, small businesses show tough vitality, and why these sectors attract the capital of the monopolies less than those where only monopolies possess the necessary resources.

Consequently, since saving and investment are more important in the latter sectors, a distortion appears which tends to become more and more pronounced, and development becomes more and more uneven. In the underdeveloped countries, where the gulf separating the monopolies from the small native enterprises is even bigger than elsewhere, for a number of reasons (export of profits, special backwardness of local industry, tax and customs policy, etc.), the distortion will be even more noticeable. Very rapid development of one aspect and very slow development of another are well-known features of underdeveloped econo-

mies. The apparent "dualism" of these economies will be reinforced, and the complementary character of the peripheral economy established there will be emphasized.

However, monopolies do not automatically reinvest all their profits in their own branch. First of all, the new division of income between consumption on the one hand and saving on the other, now becomes unfavorable to the former (through the ruin of the *rentiers* and, in the underdeveloped countries, through the low reward accorded to the "small savings" of traders, members of the liberal professions, etc.)—"small savings" such as played a far from negligible part in the formation of capital at the center, may deepen the gulf between capacity to consume and capacity to produce. In that case, it will not be possible to invest all of saving. Part of it will then be exported.

The inequality in the rate of profit, and the distortion that results from this in the development of the different sectors, do not fail to modify the conditions for subsequent development. Even if we assume that the competitive sector, the development of which has lagged behind, is able, owing to this very backwardness, to reinvest profitably (that is, at the level of its own rate of profit, which is lower than that of the monopolies) all the profits that it makes, it is possible that the monopolies, who would like to reinvest their profits in their own country, are unable to do so because their very success has deprived this investment of its profitability. In fact, the economy, which forms a coherent whole, requires that certain proportions be respected. The backwardness of some ultimately holds back the development of others. True, where the underdeveloped countries are concerned, the lagging behind of the local competitive sector has little influence on the rate of development of the foreign monopoly sector, because the latter works directly for the foreign market. But the very backwardness of the competitive sector in the developed countries holds back the development of the monopoly sector in these countries and that of their dependent firms in the underdeveloped countries. The rate of development of the oil industry and that of the growth of mining activities may be slowed down for reasons of this sort.

Furthermore, when the monopolies invest, do they always adopt the most modern technique? We know that competition compels entrepreneurs to do this. The importance of the relative "weight" of fixed capital in the rate of modernization has often been pointed out. In the competitive model, the innovator makes the others pay the cost of modernization. This is no longer so in the case of monopoly. The Malthusian policy of certain monopolies where the use of new tech-

niques is concerned is well known (buying up patents in order to "bury" them, etc.). The investment of the profits of the monopolies itself tends to lose all regularity and to occur abruptly in big waves, while throughout long periods these profits are kept liquid. A new discovery, or a new market, suddenly makes investment profitable. This abrupt and irregular character of investment is aggravated by the fact that it is not always guided by considerations of immediate profitability but also by considerations of "economic strategy."

The increasingly jerky character of investment by big firms entails a whole series of consequences for the underdeveloped countries. The big monopolies keep substantial liquid sums in the metropolitan countries in the intervals between investing their profits. These sums support a money market that is always overflowing. This is one of the reasons for the chronically low level of interest in the developed countries. This rate falls to a low level, although the steady depreciation of the value of money ought to prevent this. It is precisely because the rate of interest is very low in the developed countries that these liquid sums awaiting investment prefer to feed the speculative circuits in the economy both at home and abroad. Among these circuits, operations of temporary deposit abroad are especially important. Investments in portfolio, in contrast to direct investments, facilitate speculative operations. The investor profits for a certain period from the relatively high reward of capital in this form, and then, when liquid capital is needed for investment at home, these shares are sold. If the holder of the share bought by the monopoly disposing of temporary liquidities is a citizen of the country concerned, the transaction is not reflected in any movement of the external balance, but if he is domiciled abroad, it is so reflected. These speculative operations of temporary deposit of liquid capital thus help to make the external balance unstable. True, all these transactions can take place only in relations between the dominant advanced countries and dominated economies with a certain degree of development, such as Argentina, where there is a market for stocks and shares. This is why it has been observed that short-term portfolio investment of American liquidities is effected by purchasing shares in the enterprises of such countries.

In relations between the developed countries and the underdeveloped ones of the classical type, it is hard to proceed in this way. On the one hand, most of the foreign enterprises situated in these countries belong to big monopolies which do not offer their shares on the market, for fear that a possible competitor might take over the firm by buying up a sufficiently large block of them. On the other hand, all

the capital of these enterprises is usually subscribed from abroad. The result is that investment of the liquid assets of other monopolies in acquiring temporary holdings in these enterprises, when it is possible (and it is so to the extent that part of the capital is subscribed by small shareholders or speculators who are ready to sell their shares), is not usually reflected in erratic effects on the balance of payments of the underdeveloped countries where those enterprises operate. Investment by the developed countries in the underdeveloped ones therefore tends to assume more and more the aspect of direct investment by the monopolies of the dominant countries, in contrast to the portfolio investment typical of the nineteenth century.[118] In those days, portfolio investment was, moreover, the stable form of long-term investment. Today this category tends to become increasingly the means of short-term investment of liquid assets. In the underdeveloped countries a certain division of labor thus takes place. On the one hand, the monopolies carry out direct productive investment, largely by way of self-financing. On the other, certain banks specialize in speculation in the stocks and shares issued by these big monopoly producers and destined mainly for the public in the advanced countries. Where relatively advanced dominated economies are concerned, these operations, which are actually expressed in short-term international capital movements (because the local public subscribes to these loans to big foreign monopolies), affect the balance of payments to the extent that monetary integration is not complete.

The growing monopolization of world economy is thus reflected in the sphere of international capital movements by the simultaneous reinforcement of two opposed tendencies: that of direct investment (the normal form of productive investment by the monopolies) and that of portfolio investment (the normal form of speculative investment of the liquid assets of the monopolies).[119]

THE STRUCTURAL CHARACTERISTICS OF UNDERDEVELOPMENT

The current theory of underdevelopment, when it manages to escape from the rut of unscientific commonplaces that confuse underdevelopment with poverty, is capable at best of describing a series of "economic" features which are typical of the countries of the Third World of today and which form the structural characteristics of under-

development.[120] This, however, relates only to the outward appearances of the problem, as it presents itself to the observer. Also, it is only "economic" appearances that are covered, the sphere of the "economy" being artificially separated from the spheres of social and political organization. The genesis of underdevelopment, a whole historical process (and not merely an "economic" one), which coincided with the history of the geographical spread of capitalism and its constitution as a structured world system, with a center and a periphery, explains these outward features, which are three in number: (1) unevenness of productivity as between spheres, (2) disarticulation, and (3) economic domination from outside.

Price Structures and Sectoral Unevenness in Productivity

If we break down production (value added), on the one hand, and the occupied labor force, on the other, into sectors, and compare the average sectoral product per capita in the developed and the underdeveloped countries, we are struck by the relative concentration of products per capita around their national average in the countries of the center, and their very marked dispersal in the countries of the periphery. The tables given below provide a striking illustration of this very general and commonplace fact.[121]

In Latin America, for instance, the distribution of the gross product per occupied person around the average 100 was in 1960 as follows:

Table 18

	Modern sector	Intermediate sector	Primitive sector	Total
Agriculture	260	60	18	47
Nonagricultural activities	410	107	17	150
Extraction industries	1,060	99	16	521
Manufacturing industries	480	172	—	271
Craft production	110	34	13	29
Building	208	68	22	87
Essential services	352	140	30	165
Trade and finance	720	183	31	213
Other services	428	80	31	96
Administration	485	238	—	211
Total	388	98	18	100

The same is true of the other regions of the underdeveloped world, in Asia and Africa.

For Great Britain and the United States, however, this distribution is much less uneven, especially for Great Britain:

Table 19
Gross Product Per Occupied Person in 1960

	United States	Great Britain
Agriculture	47	93
Extraction industries	133	90
Manufacturing industries	125	97
Building	120	99
Essential services	147	128
Other services	90	98
Total	100	100

In Latin America the ratio of agricultural productivity to that of other activities is 1/3, in Great Britain it is practically 1/1, and in the United States it is 1/2. The extreme ratios observed, at the level of aggregation, are, for Latin America, 1/11 (between agriculture and extraction industry), as compared with only 1/1.4 for Britain and 1/3 for the United States.

It may seem curious that the unevenness is *more* pronounced in the United States than in Britain. This situation reflects the comparative backwardness of certain agricultural areas of the Southern states. Similarly, in the U.S.S.R. the unevenness in productivity between agricultural and nonagricultural activities is apparently 1/2, or perhaps 1/3.[122] This relatively high degree of unevenness reflects the relative backwardness of Soviet agriculture, which has not made the same progress as industry during the last fifty years.

It should be emphasized at once that a comparison such as this is meaningless unless the degree of "sectoral disaggregation" is more or less similar in all cases. Between the most modern and the most backward enterprise in the United States the difference in production per capita can of course be very great; the sectors chosen being themselves defined by the average figures for these sectors, the greater the degree of disaggregation the greater the scatter, all other things being equal.

What is the meaning of this phenomenon? And, first of all, how is it to be described? I offer the expression, "sectoral unevenness in produc-

tivity." This calls for an explanation. Actually, it is not possible to compare productivities, in the strict sense of the word, except between two enterprises or two branches that produce the same product: the productivity of one will be said to be higher than that of the other if the total amount of labor (direct and indirect) necessary to ensure the production of one physical unit of the same product is less. Between one branch and another one can speak only of different "profitabilities," as Emmanuel has reminded us.

All the same, I stick to my expression: if, with a given price structure, conditions are such that labor, or capital, or both of these factors of production, cannot be rewarded in a certain branch at the same rates as in another, productivity is lower in this branch. This makes sense, of course, only within a given price structure, for the latter could be such as to ensure that labor and capital are rewarded at the same rates in all branches. This is indeed the actual profound tendency in the capitalist mode of production, distinguished as it is by the mobility of the factors, that is, the existence of a market for labor and for capital. If, however, this price structure, corresponding at the center to homogeneous rewards for labor and capital, is transferred to the periphery, the result will be that the factors cannot be rewarded at the same rate in the different branches if the technical conditions (and, so, productivity) are distributed otherwise than at the center. Direct comparisons of productivity are sometimes possible if the product is, if not exactly identical, then at least comparable as regards its use value and the techniques employed to produce it. If, for example, a quintal of wheat, produced at the center, requires a certain total quantity of labor (direct and indirect), and if a quintal of millet, a product of the periphery that is comparable both in use value (a grain crop with the same caloric potential) and in the techniques that can be used to produce it, requires a larger quantity of labor, then this is because the production techniques in the periphery are backward. We are justified in speaking of a difference in productivity. In contrast to this, productivity will be the same at the center and in the periphery in the textile industries, where techniques are similar. For other products, of course, direct comparison of productivities is not possible: for example, for coffee, which is produced only in the periphery and cannot be compared to any product of the center (though one can imagine techniques such as might be employed at the center if coffee were to be produced there—techniques that would be more capital-intensive and whose productivity would be higher).

Now, the price structure of the center is, in fact, transferred to the

periphery. For the periphery belongs with the center to the same world system, and there is a world market. This market is certainly not perfect, nor does it embrace *all* products. Some are nontransportable (building services, electric power)—transport costs burden one product with a different relative weight from another—and there are always local reasons for relative price-differences (taxes, for instance). But all the same, the world market is a reality, and, through this reality, transfer inevitably takes place to the periphery of the essential structures of relative prices that prevail at the center.

There is no reason why production per capita should be the same in the different branches of a central capitalist economy. This production is made up of two components—the reward of labor, and the reward of capital—and for production per capita to be identical, five conditions would have to be fulfilled: (1) that the quantity of labor provided per occupied person (per annum, e.g.) be the same; (2) that the organic composition of labor (Emmanuel's useful expression, meaning the proportion of kinds of labor with differing levels of skill) be the same; (3) that the rates of reward of labor (with the same skill) be the same; (4) that the amount of capital used per worker (the organic composition of capital) be the same; and (5) that the rate of reward of capital be the same.

But there is a profound tendency in the capitalist mode of production toward the fulfillment of these conditions.

In the first place, the "uniformization" of labor time proceeds parallel with the spread of the wage relation. Where labor time is very different from what it is in capitalist economy, as in agriculture, for example, this is not for natural reasons (seasonal unemployment) but because the capitalist mode of production has not yet been fully established in this branch. Completely developed capitalist agriculture employs workers, even seasonal ones, in accordance with the general norms of labor time. "Economic science" ("economistic" rather than "economic"), being a result of the development of the capitalist mode of production, and a "lame social science," identifies the "disposable time" that is outside labor time with unemployment. Arrighi has shown, from the example of Africa, that, in traditional rural communities, time not devoted to direct productive work is not "lost" but is used to satisfy essential social needs that are concomitant with the prevailing mode of production.[123]

Second, the profound tendency of capitalism down to the present time has been to make labor uniform, to reduce it to its simplest, least skilled category. The Industrial Revolution and the use of machinery

replaced the skilled labor of the craftsmen of former times by a combination marked by quantitatively massive use of unskilled labor (along with machinery) and quantitatively limited use of skilled labor (generally more highly skilled than the craftsmen of former times) in the work of technical and commercial organization of production. The quantitative preponderance of unskilled labor has brought the different branches of production closer together in this respect, and progress (the transition from precapitalist forms to the capitalist mode of production) is always accompanied by an evolution of this kind. It must be noted, however, that very recent tendencies, determining the future forms of labor in close connection with automation, point in the opposite direction. But this is something for the future.

In the third place, "uniformization" of the reward of unskilled wage-labor is one of the essential laws of the capitalist mode of production, reflecting the effective existence of a labor market.

Fourth, there is a tendency toward the intensive use of capital in all branches of capitalist economy, constituting the mode of advance of productivity. True, between one branch and another the organic composition of capital is different, and the higher the degree of disaggregation in the analysis, the wider the range, with the new, dynamic industries (at the beginning of the nineteenth century, textiles; then iron and steel; then the chemical industry, electronics, etc.) having the highest organic composition. It is this "scatter" of organic compositions that explains the fact that sectoral production per capita is unevenly distributed in the advanced countries. If the rate of surplus value is 100 percent, that is, if wages represent about half of the national product (which is more or less the situation in the developed world today)—and extreme organic compositions (at the degree of disaggregation used throughout this analysis) vary from 2 to 8 (in relative terms, from 1 to 4), the average rate of profit for the economy being of the order of 15 to 20 percent, depending on the relative importance of the light and heavy sectors, the value added per worker will vary between 1.5 and 2.5—in other words, the extreme range will be confined within the limits 1 to 1.7, which corresponds to the real situation. In the underdeveloped countries, however, where this range extends from 1 to 10, for a rate of surplus value of the order of 200 percent and a rate of profit of the order of 30 percent, organic compositions range from 1 to 35, if we take it that the "light" sectors include about 85 percent of the labor force, as against 50 percent at the center, for a similar level of disaggregation.

The following tables sum up these simplified comparative situations:

Table 20

Center	Constant capital	Variable capital	Surplus value	Profit	Value added	Product per capita[124]
I	20	10	10	5	15	1.5
II	80	10	10	15	25	2.5
Together	100	20	20	20	40	2.0
Periphery	**Constant capital**	**Variable capital**	**Surplus value**	**Profit**	**Value added**	**Product per capita**
I	10	60	120	23	83	1.4
II	340	10	20	117	127	12.7
Together	350	70	140	140	210	3.0

Such a relatively big divergence for the organic composition of capital in the periphery is possible only if the capitalist mode of production has not taken hold of all the branches of production, as it has at the center.

Fifth and last, the tendency for the rate of profit to become uniform is certainly—even more than that for the reward of unskilled labor to become uniform—an essential law of the capitalist mode of production. It needs to be explained here, though, that the development of monopoly introduces two different levels into the equalization of profit—the level of the sector of small enterprises, where competition still reigns, and the level of the big firms (monopolies), which enjoy a higher rate of profit.

In the periphery, then, none of the tendency laws characteristic of the capitalist mode of production operates fully, and this results in considerable disparities in the distribution of product per capita. As the capitalist mode of production does not tend to become exclusive there, labor times differ widely between one branch and another, especially between agriculture—in which the mode of production is precapitalist even though it be integrated into worldwide capitalist exchanges—and the capitalist economy of the towns. This phenomenon is very improperly called "concealed employment." It is this, in fact, only in certain cases: when the capitalist mode of production has taken hold of agriculture and conditions therein are such that the degree of employment of agricultural wage-labor is lower than the general norms of wage-labor time (for example, in Egypt). In addition, in some sectors of

urban activity the labor time is also very much lower than the general norms for wage-labor. This is so in the "parasitic" activities of self-employment engendered by urban unemployment (petty trade, personal services, etc.). These activities are not survivals from a pre-capitalist past, but are, on the contrary, modern phenomena, brought about by the contradictions distinctive of the development of peripheral capitalism, which are manifested in the absolute and relative increase in urban unemployment.

The standardizing of labor conditions tends, in the periphery as at the center, to bring about uniformity in the reward of unskilled labor; but this applies only to the group of activities belonging to the capitalist mode of production, as the labor market does not embrace *all* the workers. It must further be mentioned that the monopoly character of a certain number of large enterprises, especially foreign ones, facilitates differentiations in wages that are due to the political strategy of these firms. This is the background of differences in reward depending on the level of skill which are sometimes, even often, more pronounced than at the center, for secondary reasons of relative scarcity of skilled labor.

It is also because the capitalist mode of production has not taken over *all* the branches of production in the periphery that the spread in organic compositions of capital is so much wider there. To this must be added the existence in the periphery of different levels of rate of profit, at least of one for foreign monopoly capital and another for dependent national capital.

The structure of the social distribution of income in the periphery is the result of these essential conditions and of other secondary phenomena, namely: (1) the level of employment, in the rural and urban zones, which has a determining effect on the division of income between wages and incomes of enterprise and of ownership; (2) the structures of distribution of ownership of capital and of enterprises, which mainly determine the distribution of income of enterprise in the urban zones; (3) the structures of distribution of landed property and of exploitation, which mainly determine the distribution of wage incomes in the rural zones; and (4) the distribution of labor supply in accordance with the levels of skill and the trade-union and political organization of the different groups, which largely determines the structure of the distribution of wages.

The underdeveloped countries are characterized, from all these points of view, by very great diversity—much greater diversity than is found in the highly industrialized countries. It follows that the structure of income distribution that results from the combined operation of

all these forces presents a spectrum ranging from one extreme to the other—from very inegalitarian structures to structures that are much less so—and that when, by chance, the degree of inequality in distribution, measured, for example, by an "a" coefficient of Pareto, is close to that of the industrial world, the structure of distribution is qualitatively different.[125] It is this last feature, more than the actual degree of inequality, that presents the underdeveloped countries with political problems of a specific kind.

Inequality in the distribution of wages is also greater in the underdeveloped countries than at the center.

a. Within the group of manual workers, the ratio between the wages of skilled and those of unskilled workers was, around 1960, distributed as follows:[126]

Table 21

Europe: industrialized countries		Asia	
Italy	108	Pakistan	159
Netherlands	118	India	168
Great Britain	118		
West Germany	127		
Switzerland	130		
France	139		
Latin America		**Africa**	
Argentina	132	Nigeria	157
Peru	171	Tunisia	179
Colombia	181	Ivory Coast	197
Brazil	184	Algeria	201
Venezuela	186	Tanzania	211
Chile	209	Ghana	240
Mexico	212	Senegal	253
		Congo-Kinshasa	268
		Congo-Brazzaville	287

Other statistics confirm this situation. Whereas in France in 1961 the ratio between the basic minimum hourly rate of pay, in accordance with collective agreements, of the lowest category of laborer and that of the "category-3" skilled worker was 1/1.5, in Senegal and the Ivory Coast in the same period it was 1/3. The experience of history confirms this tendency for inequality to be reduced as development progresses: at any rate in Latin America and in tropical Africa.[127]

b. Between manual workers and white-collar workers, inequality seems to be sometimes greater, sometimes less, in the underdeveloped countries. Whereas the ratio between the average earnings of a garage mechanic, on the one hand, and of a clerk or a short-hand typist, on the other, is close to 1/1 in Britain and 1/1.5 in the United States, it is 1/1.8 in Argentina and Mexico, 1/0.5 in Peru, and 1/0.5 to 1/1.4 (at different periods) in Chile.[128] Though much information tends to establish that white-collar workers enjoy both higher social prestige and better wages, the situation as regards wages is often reversed when the educational system turns out many more white-collar workers of the lower categories than the economic system can absorb (in India, Egypt, and many other countries).

c. Finally, attention has often, and rightly, been drawn to the substantial inequalities that exist, in the underdeveloped countries more than in the developed ones, between the wages paid to workers of the same skill in one enterprise and in another, or in one group of enterprises (the big foreign-owned enterprises, for example) and another (the small native-owned enterprises). A closer correlation in the underdeveloped countries than in the advanced ones between the level of wages and the profitability of the enterprise may be explained by the weakness and fragmentation of the trade-union movement.

The distribution of incomes (wages and others), which depends on all the factors mentioned above, has only rarely been subjected to statistical observation. I have worked it out myself, in a systematic way, for four African countries (Algeria, Tunisia, Morocco, Ivory Coast) and borrowed, for the Egyptian example, from the works of Hassan Riad. This analysis will enable me to explain the different inequalities by showing the effect of the factors mentioned. This will lead us to re-examine certain "fashionable" views which have, it seems to me, been put forward rather too hastily, such as the view that the wage-earners as a group are a "privileged" category in the Third World.

The case of Egypt. The average income per capita appears to be more than four times as much in the towns as in the rural areas.[129] If, however, we plumb deeper than the gross figures, we find that these differences are connected with differences in both productivity and rate of employment, and that they do not always work in favor of the wage-earners, alleged to be "privileged" as a category.

a. Massive unemployment (two-thirds of the potential theoretical labor force) affects the masses of the people who make up 80 percent of the rural population, but only 56 percent of the population of the

towns. Allowing for these different rates of employment, income for a full year's work for the mass of the people is only 2.5 times as much in the town as in the country.

Table 22

Categories	Total population	Income per capita per year in £E
A. Rural areas		
1. Masses		
10: landless	14,000,000	3.5
11: cultivating less than 1 *feddan*	1,075,000	6.1
2. Intermediate strata		
(cultivating 1–5 *feddans*)	2,850,000	26.8
3. Privileged strata		
31: from 5 to 20 *feddans*	875,000	87.4
32: over 20 *feddans*	150,000	773.3
Total and average	19,000,000	17.1
B. Urban areas		
1. Masses		
10: without recorded employment	2,983,000	0
11: domestic servants	934,000	21.4
12: subproletariat	186,000	26.8
13: traditional wage-earners	400,000	40.0
2. Proletariat	790,000	60.8
3. Petty-bourgeois elements		
30: minor office-workers	1,117,000	105.6
31: traditional entrepreneurs	736,000	127.7
32: middle cadres	614,000	133.5
4. Bourgeoisie	240,000	845.8
Total and average	8,000,000	73.4

b. If the average income seems to be only one-quarter as much in the country, the reason is, apart from the lower rate of employment and lower average productivity of labor (lighter techniques as regards use of capital), that the intermediate strata are relatively less numerous there (15 percent of the rural population, as against 40 percent of the town population), and that the average income of the privileged strata (4 to 5 percent of the population) is less than a quarter as much in the countryside. These differences also reflect the fact that the urban economy, being more advanced, draws on a labor force that includes relatively many more skilled workers: permanently employed workers, office workers, middle and higher cadres, members of the liberal professions, and entrepreneurs.

c. Among the working people of the countryside, the wage-earners are not at all a privileged group; on the contrary, they make up the bulk of group A1, the most poverty-stricken in Egypt (£E 11 per capita, for a theoretical year of full employment). The average annual income per capita of the unskilled urban workers (groups B11, 12, 13) is not much better: £E 26. Allowing for differences in price levels, and for the fact that the rural incomes are understated (production for self-subsistence, etc.) and that the expenses needed for living in town include items that do not appear in the countryside (transport; lodgings—which, even though wretched, cost a lot to rent; etc.), then, in terms of standard of living, the popular strata of the towns are not much better off than those of the countryside.

d. The "privileged" element thus appears to be confined to the skilled workers in the towns, of whom about 75 percent are wage-earners (categories B2, 30 and 32, in part, category B31 being composed of independent workers and heads of enterprises). The average income per capita of this group of wage-earners is four times that of unskilled workers in the towns. This hierarchy, from 1 to 4, is largely due to differences of skill. Nevertheless, because the absolute standard of living of the lower strata is low, and because this poverty is aggravated by the very high rate of unemployment among the unskilled, differences of income which are in any case much greater than in the industrialized countries assume a special sociopolitical significance.

e. Finally, among the urban bourgeoisie (category B4), an increasing proportion is made up of wage-earners, apart from the higher cadres of the state and the economy; the nationalizations carried out have caused a considerable number of the highest incomes in the category "incomes of enterprise" to move into the category of wage-earners.

The hierarchy or urban wages in 1960 was as follows:[130]

Table 23
Average Annual Income, in £E

	Unskilled laborers	Skilled workers	Minor office workers	Middle cadres	Higher cadres
State:					
Civil administration	–	120	230	350	1,350
Transport and telecomm.	–	125	230	350	1,550
Suez Canal	–	180	–	530	2,300
Modern enterprises:					
Industry, transport	60	145	–	290	1,330
Commerce, services	–	–	113	360	1,200
Traditional enterprises	–	90	–	–	–
Domestic servants	50	–	–	–	–

Even apart from the employees of the Suez Canal organization, whose relative advantages, still considerable in 1960, seem to have now disappeared, the differences in reward are more pronounced than in the industrialized countries.

During the last century the gap between the average income in town and country has increased, the ratio having moved from 3.8 in 1914 to 4.3 in 1960. At the same time it is to be noted:

a. that the progressive reduction in the average income in the countryside is wholly attributable to the progressive reduction in the level of employment, the percentage of landless poor having risen from 40 percent in 1914 to 80 percent in 1960.[131]

Table 24
Average Rural Income Per Capita (in £E, 1960 value)

	1914	1958
Landless and poor	6.7	3.8
Intermediate strata	20	27
Privileged strata:		
5 to 20 *feddans*	98	87
over 20 *feddans*	465	789
Average	28	19

b. that the stability of the average urban income conceals an increasing disequilibrium, the rate of underemployment having increased, so that the increases in productivity have been made up for by the reduction in employment.[132]

Table 25

	1914	1960
Average urban income (in £E, 1960 value)	80	78
Labor-force employed	728,000	1,930,000
Percent of employed population to total urban population	32%	22%

Whereas, between 1914 and 1960, the product of nonagricultural activities increased by 2.9 percent per year, employment increased by only 2.0 percent per year. The advance in productivity was marked in industry, the crafts—where numbers were reduced from 150,000 to 60,000—having given place to large-scale industry, where numbers increased from 20,000 to 280,000. In commerce and services the progress of productivity was much more modest:

Table 26

	Increase in manpower	Increase in production
	(annual rates 1914–1960)	
Industry, crafts	1.4%	3.5%
Commerce	3.3	3.5
Transport	2.3	2.6
Administration	4.5	4.7
Services	1.5	1.2
Total	2.0	2.9

Thus, over a long period: (1) productivity has been stagnating in agriculture while increasing in the urban economy, especially in modern industry—hence the increasing gap between the average rewards of workers employed in the two sectors, traditional and modern; and (2) the gap between the average incomes of the urban and rural populations as a whole is the combined result of the increasing gap in productivities and the different evolution of rates of employment.

The case of the Maghreb. In 1955 the ratio between agricultural and nonagricultural incomes per capita was, for the Maghreb as a whole, 1/2.1. But the gap between the average incomes per capita for the Moslem population was only 1/1.3.[133] The divergences were thus very much smaller than in Egypt. This was certainly due to (1) a smaller degree of relative underemployment of the rural population in the Maghreb as compared with Egypt, and (2) the existence of a highly productive modern agriculture (the *terres de colonisation*).

Table 27

Rural community	
Agricultural income	503 billion OF
Agricultural income: Moslems	373 billion OF
Occupied rural population	2,485,000
Average income per capita: overall	200,000 OF
Average income per capita: Moslems	150,000 OF
Urban community	
Nonagricultural income: Moslems	2,940 OF
Nonagricultural income: Europeans	6,020 OF
Occupied population: Moslems	1,270,000
Unemployed	195–365,000
Occupied population: European	580,000
Average incomes:	
Europeans	1,040,000 OF
Moslems (excluding unemployed)	230,000 OF
Total (excluding unemployed)	495,000 OF
Total (including unemployed)	420,000 OF

(OF = old francs)

Within the rural community, inequalities of distribution were much less marked in the Maghreb than in Egypt. Here, however, the wage-earners, being nearly all employed in the high-productivity sector (the European estates), did not stand out, as they did in Egypt, as the pariahs of rural society. The average wages of the permanently employed agricultural workers were higher (by 50 percent) than the incomes of the poorest third of the cultivators. However, the wages of the nonpermanent workers, five times as numerous, were lower, and comparable to the incomes of the poorest cultivators. Allowing for this, and for the fact that the productivity of the modern agriculture that employed these wage-earners was higher than that of traditional agriculture, the agricultural workers of the Maghreb did not deserve the charge of being a "privileged" section.

Table 28
Agricultural Incomes in 1955 [134]

	Algeria		Tunisia		Morocco	
	Man-power (000)	Income per capita (000 OF)	Man-power (000)	Income per capita (000 OF)	Man-power (000)	Income per capita (000 OF)
Workers:						
Permanent	100	100	25	120	415	70
Seasonal	500	50	110	65	—	—
Moslem cultivators:						
Poor	210	60	80	90	100	110
Medium	210	200	105	150	450	200
Rich	50	560	45	450	85	900
Total for Moslem agriculture	1,070	110	365	140	1,050	190

(OF = old francs)

Among the Moslem population of the towns, the hierarchy of incomes and wages is much less marked than in Egypt: the scale extending from the lowest category, "workers" (whether skilled or not), to the category "higher cadres and heads of enterprises," goes from 1 to 8 for Algeria and Tunisia and from 1 to 13 for Morocco, as against 1 to 22 for Egypt.

Table 29

Urban Moslem Incomes, 1955[135]

	Algeria		Tunisia		Morocco	
	Man-power (000)	Income per capita (000 OF)	Man-power (000)	Income per capita (000 OF)	Man-power (000)	Income per capita (000 OF)
Unemployed	150–230	–	25–55	–	20–80	–
Workers	225	150	118	160	300	150
Office workers	90	270	35	300	106	250
Craftsmen, middle cadres	135	270	53	300	183	270
Higher cadres, heads of enterprises	7	1,250	2	1,250	11	2,000
Total: Moslems	460	230	210	210	600	240
Total: non-Moslems	305	950	80	950	195	1,200

The numbers of Moslems in the higher categories are, however, comparatively fewer than in Egypt, the higher appointments and positions of heads of enterprises being occupied by Europeans who, moreover, receive higher incomes for the same skill.[136]

Table 30

	Manpower		Income per capita (000 OF)	
	Moslems	Non-Moslems	Moslems	Non-Moslems
Workers	650,000	150,000	150	400
Office workers	230,000	150,000	270	530
Middle cadres	370,000	220,000	280	1,200
Higher cadres	20,000	60,000	1,700	3,200
Total	1,270,000	580,000	230	1,040

Allowing for the non-Moslem population, the hierarchy of incomes extends from 1 to 14—from 1 to 20 if we consider only the Moslem workers in the lowest category and only the non-Moslems in the highest category. The wage-earners within Moslem society in the colonial period could therefore in no way be regarded as privileged persons.

During its historical development, colonial society in the Maghreb experienced only minor qualitative changes: income per capita of the Moslem population remained stagnant. The progress of modernization, reflected in the spread of the modern sector in both town and country, made possible an increasing settlement of colonists, which monopolized almost all the benefits of productivity.

Table 31

Evolution of Average Income in 000 OF, 1955 value[137]

	Algeria		Tunisia		Morocco	
	1880	1955	1910	1955	1920	1955
Moslem countryfolk	22	22	17	23	27	32
Moslem townsfolk	30	30	28	35	35	42
Non-Moslem townsfolk	200	320	200	320	200	320

The situation changed with independence, between 1955 and 1965. The exodus of non-Moslems benefited a minority of the local population: the numbers employed in the public services increased 9.5 times, whereas the increase in productive employment was only 30 percent. Although the remuneration of cadres and public officials was lower than that received by their non-Moslem equivalents in the colonial period, a new "privileged" group appeared, for which there was little justification either in their qualifications or in the state of the economy. It is the rise of this "privileged" group that has led observers to say, hastily and superficially, that wage-earners as a whole form a privileged category.

Table 32

	Urban Moslem Employees[138] (000)		Income per capita (000 OF)
	1955	1965	In 1965
Economy:			
workers	640	770	250
office workers	170	290	330
craftsmen, etc.	330	480	430
cadres	60	100	650
Administration	70	660	450
Totals	1,300	2,300	390
Unemployed	600	600	—

Similarly, in the case of agriculture, I have shown that more pronounced differentiations have appeared because, while incomes have remained unchanged in traditional agriculture, privileged minorities have inherited the colonists' estates: the permanent workers of the management committees in Algeria, small proprietors organized in cooperatives in certain cases in Tunisia, bourgeois absentee owners in certain cases in Tunisia and Morocco, and latifundia owners in Morocco. Where Algeria is concerned it is true to say that the government wage-earners in agriculture have become a privileged section.[139]

As regards the Maghreb, then, it can be concluded: (1) that, generally speaking, differences in remuneration, especially wages, are largely due to differences in productivity and skill; (2) that the chief cause of discrimination not based on productivity, namely, national origin, has been eliminated; (3) that, as a whole, wage-earners are not a privileged section, either in agriculture, where the bulk of them, made up of nonpermanent workers, belong to the most poverty-stricken strata of society, or in the urban economy (although in the latter case, probably owing to better trade-union organization and a lower level of unemployment, the hierarchy is less unequal than in many underdeveloped countries, such as Egypt); and (4) that the only "privileged" groups of wage-earners are to be found among the holders of the increased number of administrative appointments, together with, in the case of Algeria, the permanent workers who share in the benefits of collective management of the former colonists' estates. The special privileges of these sections clearly have a definite political significance, but they do not apply to the wage-earners as a whole.

The case of the Ivory Coast. In the Ivory Coast, income per capita seems to be even more unequally distributed between town and country, although the difference was progressively reduced from 1/9 in 1950 to 1/7.5 in 1965.[140]

Because the overwhelming majority of urban occupations are on a wage basis it is too quickly and simply deduced that wage-earners are a "privileged" category.

In the agricultural economy the wages of the 120,000 laborers (fr. 20,000 per year), though they may seem very high in comparison with money incomes in the subsistence economies of the areas from which the wage-earners come, are far from excessive when compared with the money incomes of the planters who employ them. These planters obviously benefit from the reserves represented by the subsistence-economy areas and in this way annex for themselves the greater part of

the increased productivity due to the transition from subsistence to plantation economy.

Table 33
Ivory Coast

	1950	1965
Population		
Rural	2,010,000	3,230,000
Urban	160,000	650,000
Product (billions, 1965 value)		
Agriculture	33.5	77.8
Other activities	24.4	117.9
Product per capita (1965 frs)		
Rural	16,500	24,000
Urban	150,000	180,000

Table 34
Incomes in Plantation Areas in 1965 [141]

	Number of production units (000)	Male labor: Family* (000)	Male labor: Laborers (000)	Total income (billions)	Wages (billions)	Income per cultivator (000)
Native planters						
Small	40	100	–	4.8	–	120
Medium	40	150	40	9.2	0.8	210
Large-scale	20	110†	80	9.2	1.6	380
Foreign planters**	110	190	–	9.3	–	85
Totals	210	550	120	32.5	2.4	145

* = planters and dependents
† = planters excluded
** = Africans from outside the plantation areas

The same degree of inequality between wage-earners, on the one hand, and planters, on the other, was a feature of the plantation areas in 1950. The alteration that has taken place here is expressed not in qualitative changes but only in the extension of the plantation areas, which increased 3.9 times in fifteen years.[142]

In 1965 the urban economy offered 164,000 jobs to Africans (to which should perhaps be added 20,000 jobs as unregistered family help) and 12,500 to Europeans and Lebanese, 142,000 of these being wage-earning posts. For the African ones the distribution of remuneration was as follows:[143]

Table 35

	Jobs	Average income (frs)
Noncraft economy:		
Laborers	23,000	150,000
Workers	36,400	240,000
Office workers	17,000	280,000
Cadres	600	1,800,000
Draft economy	47,000	280,000
Domestic servants	9,000	150,000
Public-service officials	31,000	550,000
Total	164,000	330,000

The hierarchy of wages, rising from 1 to 12, from the laborers to the higher cadres, is more or less similar to that of the Maghreb, but the hierarchy of incomes is much less unequal than it is in Egypt, because urban incomes for Africans, other than wages, are negligible in the Ivory Coast, a situation that reflects the absence of a local private bourgeoisie.[144]

The incomes of the non-African population are obviously more substantial, and taking them into account increases the degree of inequality.

Table 36
Non-African Urban Employment, 1965[145]

	Numbers	Average income
Heads of enterprises and urban independent workers	2,100	7,700,000
Wage earners:		
Public service	2,500	1,600,000
Economy	7,400	1,850,000
Total	12,000	2,800,000

Finally, a substantial proportion of the nonagricultural income is not distributed at all inside the Ivory Coast. The exclusion of this income, which makes up 20 percent of nonagricultural income, also intensifies the inequality.

Taken as a whole, then, African wage-earners are not in the least a "privileged" section, if we allow for differences in price levels between town and country, and the peasants' resources for self-subsistence. Here, too, differences in remuneration largely reflect differences in productivity. However, the fact that income of enterprise goes almost exclusively to foreigners, and is to a large extent distributed outside the Ivory Coast, causes the relatively privileged position of the public officials to stand out prominently. This fact is obviously significant in explaining sociopolitical behavior. This distribution structure, which is found over practically all of Black Africa, is not qualitatively different from that which prevailed in the Ivory Coast in 1950, change being expressed here in the spread of this type of urban economy without any alteration in proportions and relations.[146]

What conclusions can we draw from all these observations?

First, the very large divergences that are sometimes to be seen in the underdeveloped countries, between "average wages" and "average income" of the most deprived strata, especially the peasantry, are the inevitable consequence, under the capitlist system, of the juxtaposition in these countries of two economic systems belonging to different ages, with levels of productivity that are not to be compared. The hasty conclusion ought not to be drawn from this that "the wage-earners are a privileged section"—and, still less, that one of the purposes of economic policy should be to reduce the level of wages. A higher level of productivity not only makes possible a better wage but also, to a large extent, *requires* it. The Marxist concept of the "value of labor power" brings out this connection. This is why comparisons between standards of living, when incomes are very different in kind, are of dubious validity, as are comparisons between levels of satisfaction, welfare, or happiness, which too often draw economists out of the realm of science. It is not only price levels that differ very greatly between rural and urban areas in the underdeveloped countries. There are the foodstuffs provided by a food-gathering economy which is very easily carried on in certain parts of tropical Africa, but which are sold at very high prices in the towns; the cost of housing in urban areas, which is very high even for tiny, unsanitary rooms in shantytowns; the products of food-gathering or hunting that do not figure in the national accounts; and so on. There is also the way of life, which, when a country-

man goes to live in a town, becomes transformed, involving as it does new requirements such as fares, entertainment, etc. The intensity of labor also must be taken into consideration. It is often forgotten that the income of the traditional peasant corresponds to 100 working days per year, whereas that of the urban wage-earner corresponds to 300 working days. When all these factors are taken into account, the comparison between recorded incomes, in which the divergence is sometimes of the order of 1 to 10, often loses its dramatic quality.

Second, the problem of the "privileged wage-earners" lies elsewhere than in these too-general comparisons. The hierarchy of wages is, on the whole, more pronounced in underdeveloped countries than in industrial ones. In the modern economy, whether plantation or urban, the mass of unskilled wage-earners (notably agricultural workers and town laborers), who are relatively more numerous, make up the most deprived group in the nation. It is in relation to this mass—and even more so, where unemployment in the towns and the underemployment of landless peasants reach disquieting proportions, in relation to this mass of underemployed persons, who are often also unskilled—that the wages of the skilled workers (manual and office workers alike) give a feeling of "privilege" which, even when such wages are justified in terms of productivity, dictates certain sociopolitical attitudes. The same applies to the public-service-official categories, especially when the feeling prevails that their numbers are too large and their recruitment dictated by the sociopolitical pressures of the "little society of the towns," anxious for jobs. If, in addition, incomes of national capitalist enterprise are nonexistent, these "privileges" become significant.

Third, must the disparity become greater or must it shrink? According to one well-known view, the disparity should increase, in the underdeveloped countries, between the average income of the mass of the workers, the growth of which is bound to follow the (slow) growth of the national product, and that of the most highly skilled categories, for whom the demonstration effect of the incomes of similar categories in the developed countries is fully operative.[147] In this form, this thesis seems fairly acceptable, but its implications are restricted to members of the most highly skilled categories, who are in a position to transfer themselves abroad ("brain drain"). Intuition, and the little information available for making long-term estimates of these changes, suggest that the gap was very wide at the start, perhaps as wide as it is today, especially where the absence of mutual permeation between the two spheres, the traditional one and the modern one, established by colonization, caused the supply of labor in the modern sector to be insuf-

ficient. Little by little the gap gets narrower for the unskilled masses in the modern sector, in proportion as migration from the country to the towns develops, whereas it gets wider for the more highly skilled categories.

Fourth, wages have, in the underdeveloped countries, a political dimension different from what they have in the advanced countries. In the latter, the wage-earners represent the bulk of the working people, between 60 and 90 percent of the occupied population. Consequently, over a long period, the average wage cannot evolve very differently from the way national production per capita evolves. Besides, in the industrialized countries, the working class is, as a whole, through its trade unions, comparatively solid as regards unity in struggle—except where, owing to racial differences (between black and white in the United States, for instance) or national ones (between French and foreign workers in France and some other countries), this solidarity has been broken or at least impaired. The rate of growth of wages therefore tends to be fixed uniformly for workers in all branches of the economy, around the average growth rate of productivity, rather than around the very varying growth rates of productivity in each separate branch of industry. Under these conditions, wages policy is a fundamental element in national policy on income distribution. The situation is very different in the underdeveloped countries, where wage-earners make up only a small fraction of the occupied population—from 1 percent (Niger) to 20 percent (Congo-Kinshasa) or 30–40 percent (Egypt, etc.)—and where, moreover, solidarity among the workers is less strong, owing to the backwardness of trade unionism and the distance separating the rural world from that of the towns.

In these circumstances there is no obvious relation, in the underdeveloped countries, between the long-term evolution of wages and that of the national product. Thus we find, in certain countries, a very low or medium growth of the national product (from 0.2 to 3 percent) accompanied by a very fast growth in real wages (over 6 percent per year in Jamaica and Colombia; 4.5 percent in Ceylon; over 8 percent in Zambia, Rhodesia, Nigeria and Tanzania); or, on the contrary, very low rates of growth of real wages (even negative rates) even in countries where the growth of production per capita has been relatively better (Taiwan, Burma, South Korea, India, the Philippines, etc.).[148] Phenomena such as this are not open to simple explanations, for there is not the slightest correlation between the movement of wages and the pace of industrialization, or even the movement of profits. In some instances (Congo-Kinshasa, Puerto Rico, etc.), the steady rise in wages

has stimulated enterprises to make more efficient choices which have increased profits and quickened the pace of industrialization.[149] As regards response to chronic inflation, we find every possible case: belated adjustment of wages, steady increase in real wages, or, on the contrary, progressive reduction in real wages. Elastic behavior, upward and downward, in real terms, is only possible, of course, because the problem of wages does not constitute the main axis of income distribution, and this can be explained only as part of a general theory of the stages of development of the Third World of today, a theory that can be worked out only for groups of countries whose initial structures, natural resources, and types of exploitation are comparable (Central America, the West Indies, South America, Black Africa, the Arab world, Southeast Asia, etc.), and which must integrate both real phenomena (structures of the sectoral distribution of growth, bottlenecks in the external balance, etc.) and the monetary phenomena (chronic inflation, etc.) that accompany them.[150]

Fifth, the important gaps, both absolute and relative, between the levels of remuneration of the different categories of workers in the underdeveloped countries, notably between those of the rural and those of the urban spheres, between the skilled and the unskilled, between workers employed by certain big firms and the rest, although perfectly explicable on strictly economic grounds (differences in productivity, etc.), constitute an obstacle to the building of a coherent nation. It is thus conceivable that an economic policy of development might aim to work systematically *against* the "natural laws" of the economy, seeking to reduce these gaps in order to ensure national cohesion. This policy can be justified, of course, only if the reduction in the remuneration of privileged categories which it undertakes to achieve is not affected for the benefit of other categories of income (in particular, incomes of private enterprise, whether national or foreign), but genuinely for that of the community as a whole, and provided that the categories affected by this policy possess a clear understanding of it, based on political conviction.

An egalitarian policy of this kind is politically quite reasonable, the aim of national cohesion being essential for successful development. But it must be clearly realized that it means the adoption of a price system very different from that of actual market prices. The actual price system in the underdeveloped countries is largely determined by the one that prevails in the advanced countries, through international competition and the substitution of products. This system thus corresponds to a relatively uniform distribution of productivities. Given the

much greater spread between productivities in the underdeveloped economies, a uniform reward of capital and labor, respectively, would result in a very different price system. If a price system like this is to be aimed at, in the name of a particular rationality, namely, national cohesion, it must be appreciated that such a system is not rational from the standpoint of an economic calculation of the sectors of the economy that ought to be developed. Two price systems would then be adopted, the rationalities of which would exist on different planes: one, a system of actual prices, aimed at eliminating inequalities in reward and ensuring national cohesion, and another, a system of reference prices, serving the requirements of economic calculation. As development proceeded, of course, unevennesses in productivity would be reduced and the two systems would draw closer together.

It is the nature of the political relations between foreign capital, the local business bourgeoisie, the "privileged" strata of wage-earners, and the administrative bureaucracy that ultimately determines important aspects of the evolution of this social distribution of income. Where there is no business bourgeoisie, as is often the case in Black Africa, the privileged wage-earning strata may become, together with the administrative bureaucracy, the chief transmission belt of domination from without.[151] But this does not always happen. In Congo-Kinshasa, for example, between 1960 and 1968, it was the bureaucracy that grabbed the lion's share, while the condition of the working class was worsened, as was that of the peasantry.[152] I shall return later to this vital problem.[153]

The Disarticulation of the Underdeveloped Economy

The "disarticulation," or "astructuration," of the underdeveloped economies has become one of the commonplaces of current writing. Interindustrial tables, many of which have appeared during the last twenty years, depict the phenomenon. Here, too, structural comparison between developed and underdeveloped economies makes sense only if the interindustrial tables—which constitute the instrument of this analysis—are compiled at identical levels of "aggregation," as the current jargon puts it. A qualitative difference of structure then stands out quite indisputably, which is summed up in saying that the interindustrial tables of the underdeveloped countries are "empty" or that the "technical coefficients" are negligible. For a level of aggregation that retains fifteen sectors, the sum of the inputs (those of the diagonal

being excluded) represents more than twice the value added (the gross internal product or the local ultimate consumption: formation of capital and consumption both private and public) in the developed economies of the West, and less than half that for the average underdeveloped countries (those with between $100 and $200 product per capita).[154] This means, if imports (or exports) make up in both cases about 20 percent of the gross internal product, that, at that level of aggregation, external exchanges amount in the developed countries to about 6 percent of total exchanges, internal and external—20 out of 320—as against 12 percent in the underdeveloped countries—20 out of 170.

Table 37
Developed Countries

Branches	1	2	....	15	Total intermediate consumption	Local ultimate consumption	Exports
1	0	"	"	"	"	"	"
2	"	0	"	"	"	"	"
....	"	"	"	"	"	"	"
15	"	"	"	0	"	"	"
Developed countries							
Total inputs	"	"	"	"	200	100	20
Value added	"	"	"	"	100		
Imports	"	"	"	"	20		
Underdeveloped countries							
Total inputs	"	"	"	"	50	100	20
Value added	"	"	"	"	100		
Imports	"	"	"	"	20		

If we exclude internal and external ultimate exchanges, that is, the expenditure of income on ultimate goods (of consumption and investment), both local and foreign, if we accept that ultimate goods represent about half of imports, the "intermediate" external exchanges represent about 5 percent of the total of intermediate exchanges, internal and external, of the developed countries (10 out of 210) as against 16 percent for the underdeveloped countries (10 out of 60). The higher the level of disaggregation, the larger the divergence appears. At the level of 60 branches, the figures are 3 percent and 15 percent. Furthermore, these percentages, which are all mitigated at the overall level, are of course much higher for the chief branches of processing industry (here the gap lies between 10 percent and 60 percent), and would be even higher for certain especially important firms taken separately.

This means that the developed economy is an integrated whole, a feature of which is a very dense flow of internal exchanges, the flow of external exchanges of the atoms that make up this entity being on the whole marginal as compared with that of internal exchanges. In contrast to this, the underdeveloped economy is made up of atoms which are relatively juxtaposed and not integrated, the density of the flow of external exchanges of these atoms being relatively greater and that of the flow of internal exchanges very much less. It is said that this economy is "disarticulated," "astructural," or else that the developed economy is "autocentric" whereas that of the underdeveloped countries is "extraverted."

The origin of the phenomenon is obvious, and the mechanisms of this extraverted development have been sufficiently analyzed in previous pages for it to be unnecessary to return to the matter here.

Now, the consequences that follow from this disarticulation are crucial. In a structured *autocentric* economy, any progress that begins in any center of the economic organism is spread throughout the entire body by many convergent mechanisms.[155] Contemporary analysis has stressed the "leading effects" of an increase in primary demand: leading effects that are both direct—downstream (on the industries that directly consume the product), and upstream (on the industries that directly supply the branch whose demand has increased)—and indirect (on the industries that are consumers and suppliers of the foregoing); and also "secondary" leading effects (through the incomes distributed), which are likewise both direct and indirect. Formerly, analysis emphasized other channels of diffusion: the reduction in prices resulting from progress, and so along with this the change in the structure of relative prices, of demand and of real income, the possible increase in profits and

change in the distribution of investments. If the economy is *extraverted,* all these effects are limited, being largely transferred abroad. Any progress realized in the oil industry will, for example, be without the slightest effect on the economy of Kuwait, since nomad stock-breeding sells nothing to and buys nothing from the oil sector, but this progress will be diffused in the West, in all the industries that consume oil.

In this sense one ought not speak of "underdeveloped national economies," but to reserve the adjective "national" for the autocentric developed economies which alone constitute a true, structured, national economic space, within which progress is diffused from industries that deserve to be regarded as poles of development. The underdeveloped economy is made up of sectors, of firms, which are juxtaposed and not highly integrated among themselves, but which are, each on its own, strongly integrated in entities whose centers of gravity lie in the centers of the capitalist world. What we have here is not a nation, in the economic sense of the word, with an integrated internal market. Depending on its geographical size and the variety of its exports, the underdeveloped economy may appear as being made up of several "atoms" of this type, independent of each other (as with Brazil or India), or of a single "atom" (Senegal, which is entirely organized around the groundnut economy, etc.).

The consequence of this is that the false, nonstructured economic spaces of the underdeveloped world can be broken up, "exploded" into micro-spaces, without serious danger, something that cannot be done without almost intolerable retrogression with the integrated spaces of the advanced countries. The weakness of national cohesion in the Third World is often a reflection of this fact, which is also the source of "micro-nationalism": the area interested in the export economy has no "need" of the rest of the country, which may indeed seem a burden upon it, and so it may contemplate establishing a "micro-independence," as has been seen to happen in both Latin America and Africa.[156]

The effects of this disarticulation are plainly to be seen in the historical geography of the Third World. The areas interested in an export product that is comparatively important for the development of capitalism at the center experience "brilliant" periods of very rapid growth and prosperity. But because no autocentric integrated entity is formed around this production, as soon as the product concerned is deprived of the interest, even the relative interest, that the center had for it, the region falls into decline: its economy stagnates and even retrogresses.

Thus, Northeastern Brazil was in the seventeenth century an area of "prosperity," the scene of a real "economic miracle." It was a miracle that led nowhere: the moment the sugar-growing economy lost the relative importance it had enjoyed, the region fell into lethargy, to become later the famine area that it is nowadays. Even in Senegal, the river region was a "prosperous" one in the days of the gum trade. When natural gum was replaced by synthetic products, the region became an exporter of cheap labor, the only livelihood available to its population.

Many similar examples could be cited. When the iron ore of Lorraine is eventually worked out, this may create a difficult reconversion problem for the region, but what is certain is that it will be able to overcome these difficulties, for an infrastructure of integrated industries has been formed on the basis of the mineral—which can, of course, be imported when this becomes necessary. But when the iron ore of Mauritania is exhausted, that country will go back to the desert. The urban infrastructure created in the meantime on the basis of the "prosperity" of the mining period will no longer possess any reason for existing. In former times the contradictions that arose in such cases were solved very crudely by abandonment of the region, which was condemned to lose its population by emigration or famine (e.g., Northeast Brazil). Today such crude forms of readjustment may be masked by the external "aid" that political conscience necessitates.

The disarticulation of the underdeveloped economy is expressed, finally, in certain characteristic disharmonies: in the distribution of the occupied population and of the product among the sectors (especially inside the secondary sector), and in the distribution of investments.

Let us compare the distribution of secondary production:

Table 38

	In percentages		
	Senegal 1960	Maghreb 1955	Present developed countries*
Mines	5	17	5–10
Crafts, small-scale industry	7	19	5–10
Large-scale industry			
light industry	55	30	30–40
basic industry	0	4	30–40
Electricity, power	5	6	2–4
Building, public works	28	24	12–15

* Western and Eastern Europe, North America, Japan.

While the place held by mining varies a great deal from one underdeveloped country to another, we note: (1) the fundamental absence of basic industries throughout the periphery; (2) the relatively greater importance of building (connected with the structure of investments); (3) the different nature of the production of electricity—in the underdeveloped countries, 50 percent is provided at low tensions (80 percent in value terms), as against 20 percent in the developed countries (50 percent in value terms).

It is the same with the distribution of investments, as shown by the table below:

Table 39

	In percentages		
	Maghreb 1955	West Africa 1965	Developed countries
Agriculture	17	7	7
Mines, power, oil	10	7	7
Industry	11	7	35
Transport, trade, services	12	14	21
Housing	20	25	15
Infrastructure	30	40	15
Total	100	100	100

The predominance of not directly productive investment will be observed, together with the parallel smallness of the share of industrial investment in the periphery.

Economic Domination of the Periphery by the Center

The term "domination" has also become one of the commonplaces of present-day writing. This domination is expressed on all planes, economic and other (especially political and ideological). On the economic plane it is expressed in the structures of the commercial exchanges and in those of the financing of growth.

As regards commercial exchanges, domination by the center is not at all a result of the fact that the exports of the periphery are made up of primary products, as current writings on the subject allege. Some countries have been exporters of primary products (Canada, Australia, etc.), and still are to a large extent, without ever having been underdeveloped; and indeed, these primary products occupy an important position in the exports of many developed countries (wheat, timber, coal, etc.). Domination results from the fact that the peripheral economies are *merely* producers of primary products—in other words, that this production is, in their case, not integrated into an autocentric industrial structure. The consequence is that, taken as a whole, the periphery does most of its trade with the center, whereas the central economies carry out most of their exchanges among themselves. It is this difference in structure that implies an essentially unequal relation of strength which is expressed in a different evolution in the rewards of labor—which the structure of the peripheral formations and the development of the monopolies at the center made possible—and in the worsening of the terms of trade. This structure has evolved, during the development of capitalism, in a way that is unfavorable to the periphery. Trade with the periphery made up in the nineteenth century a much more important proportion of the center's total trade than it does now. Before the Industrial Revolution, this trade even constituted the greater part of Europe's maritime trade, and, as is well known, played a decisive role in primitive accumulation. After the Industrial Revolution, too, this trade continued to play a vital part.

At the end of the eighteenth century, the foreign trade of France, which came third after England and Holland, was on the order of 550 to 600 million *livres* (gold francs), respectively for exports and imports, of which 220 million represented direct exchanges with the periphery (American colonies and the Levant), excluding exports of slaves, while an important fraction of France's imports from England and Holland (about 160 million altogether) consisted of exotic products re-exported by these countries. Trade with the periphery, direct and indirect, thus represented considerably more than half of France's foreign trade.

Around 1850, France's foreign trade had doubled in comparison with the level of 1780 (which was recovered in 1825): 1,100 million in imports and 1,200 million in exports. Extra-European trade accounted for 45 percent under both headings, and even if trade with the United States is excluded the figure was still 25 percent. In addition, a large proportion of France's imports from England still consisted of colonial products. Finally, France's trade with its Western industrial neighbors (England, Western Germany, Belgium) was not much greater than its trade with the less developed countries of Europe (Russia, the Austrian Empire, Spain, and Italy). It can be said that 35 to 40 percent of France's foreign trade was still with the periphery. These proportions were not very different after the war of 1870, trade with the non-European periphery, the United States excluded, being of the order of 25 percent of all France's trade (which was worth about 4,500 million, as regards imports and exports alike). On the eve of World War I the proportions had evolved in a direction favorable to the periphery: out of a total 7.7 billion in imports, over 30 percent came from the "three continents," including the French colonies, while 25 percent of exports (out of a total of 5.8 billion) went to those countries. But trade with advanced capitalist Europe and the United States had become much more important than trade with backward Eastern and Mediterranean Europe—6.5 times as important. Despite the extraordinary increase in oil imports, trade with the periphery has fallen to less than 25 percent of all France's trade in recent years, the greater part of the country's exchanges now being carried on with European countries (particularly those of the Common Market) and the United States.[157]

Britain's trade shows the same features in its evolution, but even more pronounced. The share of the periphery in the absorption of British manufactured goods (especially cottons) was preponderant down to 1850 at least. On the world scale similarly, the proportion of internal exchanges within the developed group of countries, which was around 46 percent of world trade in 1928, had increased to 62 percent in 1965, while the proportion of exchanges between the center and the periphery decreased from 22 percent to 17 percent.[158]

In other words, the development of capitalism at the center has increased the relative intensity of the internal flows, but in the periphery it has increased only that of the external flows. The "development of underdevelopment" analyzed above, the intensification of the structural characteristics of underdevelopment in the periphery—this is what explains the domination by the center, this and not the nature of the products exchanged. For these products have themselves evolved. In the

earliest stages, exchange was a matter of exotic agricultural products in return for manufactured goods of current consumption (textiles, hardware, etc.): this was the situation in the age of the simple *économie de traite.* When an industry producing goods that took the place of imports was able to arise, through the expansion of the home market resulting from the commercialization of agriculture and the development of mining, the exchange relation evolved to a more advanced form of the *économie de traite,* in which what were exchanged were primary products in return for consumer goods and the production goods (power, raw materials, semifinished goods, equipment) needed by the light industry that was replacing the former imports. At a later stage the underdeveloped countries might become exporters of manufactured consumer goods, these being either exported from the more advanced to the less advanced of the countries concerned (this is already quite common: exports from Senegal to other countries of West Africa, from Kenya to other countries of East Africa, from Egypt to the Sudan, etc.), or even exported to the developed central countries (the policy recommended by certain international authorities, who favor leaving the textile industries, etc., to the underdeveloped countries).[159] In the future we may even conceive of a new "international specialization" in which the underdeveloped countries would supply most of the classical industrial products entering into international exchange (consumer goods and equipment goods produced by the "classical" industries, including the heavy ones—iron and steel, chemicals, etc.—which use unskilled labor), while the center retains the monopoly of new products which require skilled labor (automation, atomic power, space research, etc.).

In all of these cases, although the Third World ceases to be a mere exporter of primary products, trade continues to be unequal and the mechanisms of domination by the center are the same.

This domination is also expressed in the structure of financing. At the center, since capitalism is national, this financing is internal, but in the periphery it comes very largely from foreign capital, at least so far as the productive fraction of investment is concerned. For the structure of investments is itself, as we have seen, different in the periphery from what it is at the center: the relative position held by investments in the infrastructure is much greater. Now, these investments have always, or nearly always, been financed by the public authorities, and (with the recent exception of the French-speaking countries of Black Africa, whose economic basis is among the poorest in the Third World) the resources for them have always been found in local capital. Though the

proportion of external financing may therefore seem to be moderate or even slight, it continues to be decisive in relation to growth. Now, it is possible to show that if productive investment is financed by foreign capital, it must necessarily lead sooner or later to a flow of profits in the reverse direction, causing growth to be blocked. Thenceforth, external "aid" (public and free, or semi-free) becomes a necessary condition for the functioning of the system of international specialization. This "aid" has the effect of entrusting responsibility for the orientation of development to those who supply the funds. It obviously intensifies the mechanisms of economic domination, as also those of straightforward political domination.

Little information is available on the subject of exported profits. The balances of payments of a large number of underdeveloped countries are not reliably recorded, the published versions being sometimes (as with numerous African countries) quite fanciful. The official figures for exported profits show a very wide scatter of the underdeveloped countries; they appear as representing between 2 and 25 percent of the gross internal product and between 8 and 70 percent of all exports.[160] These are, of course, for the countries at the upper end of this spectrum, such as some of the oil-producing or mining states (Zambia is the extreme case), proportions that are already quite huge. The way this burden has evolved during the process of opening up the colonies is clear enough, although scientific studies are rare in this field. It is easier to appreciate this movement on the basis of the balance of payments of the developed countries. In Britain, income of overseas origin grew from 4 percent of the national income in 1880–1884 to 10 percent in 1910–1913 and was still 10 percent in the 1930s; in France, it rose from 2.5 to 5 percent between 1880 and 1913; in the United States income from abroad increased between 1915 and 1934 by about 2.3 times as much as the national income as a whole.[161] Between 1950 and 1965, income from American investments abroad also increased 2.3 times as fast as income from home investments, the former increasing from 8.8 percent to 17.8 percent of the total profits of American companies.[162]

All these figures err in the direction of underestimation, and only partially reveal the decisive role played by foreign capital in the periphery. The statistics of the balance of payments cover, at best, only the profits actually exported, whereas the whole of the gross profits of foreign capital should be measured, including that portion which is reinvested on the spot. This portion ought, logically, to be counted twice: once as exported profits and once as new capital imported. An

important share of internal expenditure is in reality made up of the profits of foreign capital collected and expended on the spot, especially in the colonies of European settlement (Rhodesia, Kenya, North Africa, etc.).

In Egypt, for instance, between 1945 and 1952 the profits of foreign capital made up 20 to 30 percent of the total mass of the reward of capital, and exported profits 15 percent.[163] Export of the profits of foreign capital reduced Egypt's growth rate between 1882 and 1914 from 3.7 percent per year (the potential rate if these profits had been reinvested) to 1.7 percent (actual rate), and then, between 1914 and 1950, from 3 or 4 percent to 1.4 percent.[164] In the Ivory Coast, private transfers increased from 7.3 billion C.F.A. francs in 1950 to 25.2 billion in 1965, greatly exceeding the influx of state aid and private capital, which rose from 4.6 to 15.4 billion between the same dates.[165] For the countries of the UDEAC as a whole (Cameroon, Central African Republic, Congo-Brazzaville, Gabon, Chad), the annual average outflow of profits was, between 1960 and 1968, 44.2 billion C.F.A. francs, while state aid and the influx of foreign investments did not come to more than 34.4 billion.[166] Gross profits exported accounted for 13 percent of the gross internal product of the Ivory Coast, and the same percentage of the countries of the UDEAC taken as a whole.

Harry Magdoff rightly emphasizes, moreover, that the information at our disposal understates the significance of the phenomenon. External accumulation of profits by American enterprises abroad has been so great that it has in twenty years made of these enterprises the third economic power in the world. It should be added that all the information available shows merely the size of the movement in terms of market prices—and these already include a massive concealed transfer of value.

That the dynamic of foreign investment must lead to a reversal of the balance of flows, with the outflow of profits eventually and inevitably exceeding the inflow of capital, is proved by both theory and history.

In its theoretical aspect the problem has been the subject of much discussion.[167] Prebisch does not hesitate to conclude that all plans for international investment in order to develop the underdeveloped countries come up short against the insurmountable obstacle presented by payment of interest on this investment. Approaching the problem from the standpoint of the countries receiving this income, Domar claimed that the amount of the return flow could remain constantly less than that of fresh exports of capital—but only on condition that the profits

were regularly reinvested on the spot, that is, that the (external) outlet for production that they make possible expand at a very rapid rate, which cannot be an indefinite rate. Salant and Polak emphasize the secondary effects inducing imports from the center that supplies the capital (which they see as "inflationary effects"). A priori, nothing proves that the principle of profitability is adequate: to say that the investments that are most profitable in local money are those that, directly or indirectly, must produce in foreign exchange a surplus sufficient to reward foreign capital, means believing in those mechanisms of spontaneous adjustment, which, as we shall see, belong to the ideology of universal harmonies.

History shows that the dynamic of foreign investment is very different in young capitalist countries (new central formations in process of development)—which in the nineteenth century meant the United States, Japan, Germany, and Russia, and later Canada, Australia, and South Africa—from what it is in the peripheral formations.

The young capitalist countries which embarked on the voyage of independent development, autocentric and largely autodynamic, were able to benefit from substantial amounts of foreign capital, which, however, played only an auxiliary role, secondary in quantity and declining as time went by. Thus, in the United States, the proportion of foreign capital in the national wealth fell from 10 percent in 1790 to 5 percent in 1850–1870: it was down to 1 percent around 1920, and thereafter vanished. Much the same happened with Sweden, Canada, Germany, Japan, and Australia. In these countries, investment as a whole, both foreign and local, induced growth that was rapid because autocentric, so that there was neither transfer of its multiplier effects nor any induced growing propensity to import. Under these conditions the problem of the outflow of exported profits was of secondary significance. These countries moved from the stage of being borrowers to that of being lenders, exporting in their turn their own capital, just like the old metropolitan countries (Britain and France, and later Germany).[168]

This, however, is not the situation in the countries of the periphery, which have never become exporters of capital, but have only moved from the status of young borrower (inflow of capital greater than outflow of profits) to that of old borrower (outflow of profits greater than inflow of capital). The date when they passed from one phase to the other has, of course, varied. In the oldest countries of the periphery, such as Argentina, it was reached at the end of the nineteenth century. Broadly speaking, Latin America and the formerly colonial countries of

Asia (India and Indonesia) have been old borrowers for several decades, in some cases for half a century, whereas tropical Africa is entering this phase only now. The opening up of new resources of interest to foreign capital, such as oil in the Middle East after the Second World War, may temporarily start a new wave of investment and cause the "young borrower" situation to be restored along with this.[169] But there is no escape from the dilemma: young borrower or old borrower.

What is true of the balance of private capitals is also true of that of state funds. Although the conditions governing state funds are regarded as especially favorable (large proportion of gifts, preferential interest rates for loans, etc.), it nevertheless remains the case that repayment of the national debt was already absorbing, in 1965–1967, 73 percent of the new contribution from public sources in Africa, 52 percent in Eastern Asia, 40 percent in Southern Asia and the Near East, and 87 percent in Latin America. According to the calculations of the World Bank, if the total of new loans is maintained for another ten years at the present level, in 1977 these proportions will be, respectively, 121, 134, 97, and 130 percent for the regions mentioned. The Third World as a whole will have largely become an "old borrower," as far as state funds are concerned.[170]

From these historical experiences of the periphery it can be concluded that, in proportion as the opening-up process goes forward—the development of underdevelopment—the balance of payments of the periphery tends to worsen, both because the periphery moves from the status of young borrower to that of old borrower and because the increasing commercialization of the economy, in the context of unequal international specialization, engenders growing (indirect and secondary) waves of induced imports.[171]

The reversal of the balance of financial flow can be held back insofar as the profits of foreign capital can be regularly reinvested, which is the situation during the prosperous periods of colonial development. In this case, however, the national wealth passes gradually into increasing control by foreign capital: this means that the benefits of development are annexed to an increasing extent by foreigners. In addition to this fundamental mechanism there is the growing competitive power of the foreign-owned capitalist sector, which, in some instances, drives out the local capital that was formed during the first phases of integration in the international market. This is what happened, for example, with Senegal, where the local bourgeoisie, the vehicle of the development of the *économie de traite* in the nineteenth century, was subsequently ruined, between 1900 and 1940.[172] The progressive trans-

fer of the national wealth into foreign hands can attain very great proportions, as in Black Africa, where between 15 and 80 percent of the gross internal product, in money terms, comes from the foreign-owned sector.[173] In the Ivory Coast in 1965, foreign incomes made up 47 percent of the country's nonagricultural product and 32 percent of the gross internal product.[174] In the Maghreb around 1955 these two proportions were, respectively, 70 percent and 57 percent.[175]

Forces exist, of course, that prevent the geometrical increase of foreign profits from reaching the truly astronomical heights that a simple mathematical calculation suggests. They are the same forces that prevent the sum of incomes of capital from annexing an increasing share of income within an economy. All these reasons—apart from monetary "accidents" (inflation) or political ones (nationalization)—are connected with the fall in the rate of profit. If the reward of capital were stable, its accumulation would lead to an increase in the share of profit in the national income. Furthermore, equalization of the rate of profit on the world scale, and the transfer of value from the periphery to the center which is connected with this, conceals the increasing share of foreign capital in the real product of the periphery, since national accounting does not embrace the flow of "hidden" transfers. It remains to be said that in the model of the "prosperous" underdeveloped country—with Rhodesia or South Africa as extreme examples—the polarization of control of the national wealth in the hands of minorities becomes extreme. The system itself is explosive.

THE BLOCKING OF TRANSITION

Historical experience proves that the development of underdevelopment is neither regular nor cumulative, in contrast to the development of capitalism at the center. On the contrary, it is jerky and made up of phases of extremely rapid economic growth ("economic miracles") followed by sudden blockages and "failures to take off." This blocking of progress is manifested in a double crisis, of external payments and of public finances, which is a chronic phenomenon in the history of the Third World. I set out below the theoretical schema for it.

Let us assume a growth rate of 7 percent per year for a peripheral economy. For a capital-output ratio of about 3 (a modest estimate), investments should represent 20 percent, approximately, of the gross

internal product. Let us suppose that half of these investments are financed by foreign capital rewarded at rates of 15 percent (again, a modest estimate). At the end of ten years the accumulated foreign capital would make up 75 percent of the gross internal product, and after 20 years it would be 125 percent. The flowback of profits would be 11 and 19 percent respectively. If imports increase at the same rate as the product, it will be possible for the balance of external payments to be kept level only if exports can grow at a rate much greater than 12 percent per year. The following table shows the factors in this dynamic growth.

Table 40

	Year 0	Year 10	Year 20
General economic equilibrium			
Gross internal product	100	200	400
+ Imports	25	50	100
- Exports	15	53	135
= Liquid assets	110	197	365
Consumption, private and public	90	157	285
+ Annual investment	20	40	80
(of which, external financing)	(10)	(20)	(40)
(Accumulated foreign capital)	(0)	(150)	(500)
Balance of payments			
Exports	15	53	135
+ Flow of foreign capital	10	20	40
= Total	25	73	175
Imports	25	50	100
+ Flowback of profits	0	23	75

Economic equilibrium would imply, moreover, an increase in consumption less than the increase in production: here, about 6 percent. This means that an increasing proportion of the gains obtained by increased productivity ought not be distributed in the form of liquid income (if, as is the case, the average "spontaneous" propensity to save increases little or not at all).

Furthermore, if taxation pressure is at its maximum and is constant (22 percent of distributed income, taken, e.g., as equivalent to consumption), allowing for the needs of financing public investments (the other half of investments), equilibrium in public finance would require that the advance of current public consumption grow at a still lower rate (4 to 5 percent only), that is, that current public expenditure make up a decreasing proportion of the gross internal product:

Table 41

	Year 0	Year 10	Year 20
Gross internal product	100	200	400
National consumption	90	157	285
Public receipts	20	35	64
Public expenditure			
Current expenditure	10	15	24
Investments	10	20	40

It is quite clear that things cannot go on like this. While exports of a particular product of a particular country may increase at a very high rate for a certain period, for the periphery as a whole exports which are destined for the center cannot grow faster than demand at the center, in other words, approximately at the rate of growth of the center: it is impossible to catch up on one's historical handicap while sticking to international specialization. There is something even more serious than this, though. On this basis, the imports of the periphery must increase faster than the gross internal product. This is indeed the tendency that is observed historically. It is easily explained. First, by two fundamental reasons:

1. International specialization, for a country of the periphery, means a relative narrowing of its range of productive activities (in extreme cases, it becomes completely specialized in producing a single commodity, which is exported), whereas the increased income that reflects growth means an expansion of the range of demand. Equilibrium can be achieved only if the country imports the products it lacks, in increasing quantity.

2. The disarticulation characteristic of international specialization implies a more rapid growth of intermediate imports. Added to this is the very high import content (both direct and indirect) of capital-formation and public expenditure.

From a different aspect, current expenditure must grow faster than income. There are several reasons for this requirement. The public investments in the infrastructure called for by international specialization involve recurrent operational expenditures which will increase like the accumulated investments, that is, much faster than the product. The balance available to ensure the social services essential to growth (education, health, not to mention the classical administrative needs) cannot be reduced, in relative terms, in such a drastic way: on the contrary, the spontaneous tendency here is for the share taken by this kind of expenditure to increase: The burden of taxation has its limits, especially since a substantial part of the gains of productivity cannot be distributed.

The twofold crisis of public and external finances is thus inevitable, and thenceforth growth will be blocked. The mechanism of this dynamic will not be able to function unless a start is made from a low level of international integration, unless a resource of interest to the center is suddenly opened up (making possible a big increase in exports), unless the prosperity that results from this attracts a large influx of foreign capital, and unless the tax burden, low to begin with, can be increasingly lightened. Growth will then be very strong: there will be a "miracle." But this eventually comes to an end: there is no take-off, whatever the level of income per capita that may have been attained. This is why no underdeveloped country has so far "taken off," either from among those whose income per capita is on the order of $200 or from among those where it is higher than $1,000 or $2,000. Autocentric and autodynamic development never becomes possible there, whereas it was possible at the center from the start, even with very low income-levels.

The absurdity of the schemas of "development plans" based on a progressive withdrawal of external "aid" as income increases is due to this incapacity of a theory reduced to a few false propositions ("propensities to save, to import," etc.) and to the clumsy manipulation of a few simple instruments (interindustrial tables, etc.) to analyze the contradictions of a dynamic based on "international specialization." There are, alas, all too many examples of "planning" exercises of this absurd variety. (I will not list them: the list would be too long, for it would have to include practically all the "works" on planning in Africa!)

Notes to Volume 1

Notes to Introduction

1. Amin, "Les effets structurels de l'intégration internationale" (hereinafter referred to as *Thesis*). When I reread it today, I find theoretical mistakes and shortcomings in it, although my fundamental position remains the same. I have borrowed several passages from my thesis, especially for my criticism of the tools of current economic theory in the universities.

2. Amin, *Trois expériences africaines de développement; L'économie dù Maghreb; Le développement du capitalisme en Côte d'Ivoire; Le monde des affaires sénégalais; Du Congo français à l'UDEAC; L'Afrique de l'Ouest bloquée.*

3. The most definite progress has been made, in my view, in the theory of monopoly capitalism in the present epoch (the writings of Paul Baran and Paul Sweezy), together with the new light thrown by Andre Gunder Frank on the theory of "the development of underdevelopment," and on the theory of unequal exchange by Arghiri Emmanuel. I owe a great deal to others as well, notably Giovanni Arrighi, Catherine Coquery, Christian Palloix, etc. I shall mention these numerous borrowings in the course of this book.

4. The international organizations—UNO, OECD, etc.—are the chief producers of this material, the quality of which is very uneven. The administrative services of the underdeveloped countries have also compiled considerable data. Finally, more systematic and better structured studies are available, especially in some excellent monographs of analytical economic history.

5. Meaning whether they are socialist or not, or, if they are "transitional," then the nature of this transition—toward socialism or toward

capitalism (and what sort of capitalism)—or the conditions for transition to socialism, and so forth.

6. Current theory is unaware, moreover, of the concept of mode of production, and when talking of the economy of the Pygmies uses the same concepts as when studying the economy of the United States. Furthermore, and because of this, it does not examine the process of production but only that of circulation.

7. This is why the proof of the "theorem of optimum social return" is pure tautology. Similarly, investigation of "social optimum" based on the market is vain because tautological.

8. This is how Robbins (*The Nature and Significance of Economic Science*) presents the problem. The result is that description of systems and structures inevitably proceeds in an eclectic manner. See, for example, Marchal, *Systèmes et structures.*

9. In these conditions, economic history will be either a metaphysic derived from a simple economistic theory, as with the classical writers (John Stuart Mill's "stationary state" resulting from the "law" of diminishing returns), or an eclectic description, as with the German historical school. Marxism alone offers a theory of history—historical materialism. This is why a group of some Marxist writers on underdevelopment, including A. G. Frank and Said Shah, intend to include in their anthology on underdevelopment a foreword in which they write that "theory is history."

10. As Knight writes, in his article "Profit." See my critique of analysis based on the state of "zero net saving" (Robinson, *Essays in the Theory of Employment*) in *Thesis,* pp. 39-40.

11. Economic historians (see, e.g., the *Cambridge Economic History*) and economic anthropologists are much better, in this respect, than the marginalist economists. It is worth noting, though, that Rist ("Quelques définitions de l'épargne") showed some awareness of the problem when he distinguished between reserve saving and creative saving. See my discussion of this subject of the different significance of the two kinds of saving, and the connection between them in different modes of production, in *Thesis,* pp. 10-20.

12. Thus, Samuelson's *Economics,* or Barre's manual of economic theory, no longer include any exposition of the theory of value, which is dismissed as "metaphysical"—in favor, of course, of the commonplace empirical eclecticism of the Anglo-American school.

13. This uninteresting body of writing makes up the essential material of the theory of underdevelopment as it is now taught: see any university course in development economics.

14. Rostow, *The Stages of Economic Growth.*

15. This criticism has been carried out by Baran and Hobsbawm in "The Stages of Economic Growth" and by Frank in "The Development of Underdevelopment" and "Walt Whitman Rostow: Ode to Underdevelopment." The quotation that follows is taken from the last-mentioned article.

16. See my discussion of the various Malthusian interpretations that have been put forward one after another, and the woolliness of the concepts involved, in *Thesis,* pp. 45-50. See also Stamp, *Our Undeveloped World,* and Myrdal, *Industrialisation and Population.*

17. Nurkse (*Problems of Capital-Formation in Under-Developed Countries*) has formulated this body of theory most systematically. See my critique (*Thesis,* pp. 23-30, 51-53), in which I show that in the end Nurkse is unable to avoid bumping up against the problems of international integration. See also the discussion of "outlets" (in Marx, *Capital,* vol. 2, chapter 21; Luxemburg, *The Accumulation of Capital;* and Lenin, *On the So-Called Market Question, A Characterisation of Economic Romanticism,* and *The Development of Capitalism in Russia)* and of the obstacle that rent presents to the integration of agriculture into the capitalist mode of production, an obstacle that raises the problem of the nature of absolute rent, which, overlooked by the marginalists, has had to be brought into their theorizing, although it contradicts the logic of the marginalist system (Buchanan, "The Historical Approach to Rent and Price Theory"; Nogaro, *La valeur logique des théories économiques,* chapter 13: "La rente ricardienne").

18. Baran, *The Political Economy of Growth.*

19. Results taken from my statistical thesis, *L'utilisation des revenus susceptibles d'épargne.*

20. A critique of the sociological approach, in particular as exemplified by the Chicago school behind the periodical *Economic Development and Cultural Change,* whose chief theoreticians are Bert F. Hoselitz, Everett Hagen, Benjamin Higgins, etc., has been ruthlessly carried out by Frank in *Sociology of Development and Underdevelopment of Sociology.*

21. This is why the optimum theory is meaningless. It deals with a false problem, the real one being situated on a plane that is wider than the merely economic one.

22. The classical and most typical work belonging to this predominant tendency is Lewis, *The Theory of Economic Growth.*

23. This querying of international integration is a feature of the best works on development economics, such as Hirschman, *Strategy of Eco-*

nomic Development, and, in France, the writings of the ISEA group led by François Perroux (e.g., Maurice Byé on the international firm). With their theory of domination and the emphasis they place on the structures engendered by domination in the periphery (destructuring, etc.), these writers come remarkably close to Marxism--on the plane, that is, of the analysis of phenomena.

24. See, on this, Jalée, *Imperialism in 1970,* chapter 2.

25. Figures for 1960 as given by the World Bank.

Policy of Dual Societies, and extended to the sociological field by Higgins, "The Dualistic Theory of Under-Developed Areas." See the critique of this idea, as applied to Latin America, by Frank and Stavenhagen, *Sept thèses erronées sur l'Amérique latine.*

27. Some good examples of this criticism will be found in Emmanuel, *Unequal Exchange,* and Palloix, *Problèmes de la croissance en économie ouverte.*

28. Poulantzas, *Pouvoir politique et classes sociales.*

29. If in this book I use the expression "underdevelopment," this is only because it is familiar and saves space, and I use it only in the sense indicated.

30. In Emmanuel's *Unequal Exchange,* see the critical observations contributed by Bettelheim. Their opposing views were also set out in articles published in *Le Monde,* 11 November 1969.

31. Boserup's *Conditions of Agricultural Growth* marks an important date in these sphere, since it is undoubtedly the first attempt at a general theory of the development of precapitalist agriculture.

32. See, for example, as regards Africa, Ewing, *Industry in Africa.*

33. This is where discussion arises on the subject of priorities, especially as regards the relations between agriculture, light industry, and heavy industry. See, e.g., Lacroix, *Industrialisation au Congo;* Schurmann, *Ideology and Organization in Communist China;* etc.

34. This is where the discussion about centralization and decentralization is relevant, the Soviet thesis being based on decentralization by the market (see Brus, *Problèmes généraux du fonctionnement de l'économie socialiste*) and the Chinese one on decentralization by local mass political control (see Schurmann, *Ideology and Organization in Communist China,* pp. 85 et seq.).

35. Their use is recommended by Jan Tinbergen.

36. Western theoreticians, both Marxist (Dobb) and non-Marxist (Harvey and Leibenstein), support absolutely the capital-using thesis, but the attitude of the Chinese is more discriminating: it distinguishes

between two sectors, one, modern, in which the "heavy" choice is the right one, and the other, in which labor-intensive techniques have to be used (see Schurmann, op. cit.), thus coming remarkably close to Mahalanobis's model.

37. See my article, "Sous-développement et marché mondial."

38. I include in this the theory of "giving" (F. Perroux).

39. Falkowski, in *Problèmes de la croissance du Tiers Monde*, systematizes this theory of development based on "external aid," which differs in no way from that of the IBRD, for example, or from the Pearson Report.

Notes to Chapter 1

1. I shall deal with this essential point later, in chapter 2.

2. Lenin, *Imperialism, the Highest Stage of Capitalism.*

3. Baran and Sweezy, *Monopoly Capital.*

4. Frank, *Capitalism and Underdevelopment in Latin America;* Emmanuel, *Unequal Exchange.*

5. Amin, "L'intégration internationale des sociétés précapitalistes."

6. The very clear term used by Gérard Destanne de Bernis.

7. For an account of Ricardo's theory, see: Angell, *Theory of International Prices;* Byé, "Les principes de la spécialisation internationale"; Wu, *An Outline of International Price Theories;* Ellsworth, *International Economy;* Metzler, "Graham's Theory of International Values"; Samuelson, "The Gains from International Trade."

8. Ricardo's formulation is rendered unclear through his mistakes regarding the equalization of the rate of profit (the confusion he makes between surplus value and profit is the reason for this). By discovering the laws of the transformation of values into prices of production, Marx was to provide the first correct formulation. However, that is a different problem from what we are dealing with here.

9. Viner, *Studies in the Theory of International Trade.*

10. Graham, "Some Aspects of Protection Further Considered."

11. Viner, op. cit., p. 467. It should be noted that the subsequent complication due to "domestic goods" (as opposed to "international goods") has the same basis. "Domestic goods" are those which cannot be exported owing to the excessive cost of transport, or which it is physically impossible to transport.

12. Graham, "The Theory of International Values Re-examined"; Viner, op. cit., pp. 462-67.

13. Viner, op. cit., pp. 483-89; Denis, "Le sens et la portée des coûts comparés"; Calcaterra, "La possibilità di divergenze fra i livelli nazionali dei prezzi."

14. A minor correction, similar to that made by Bortkiewicz concerning the transformation of values into prices of production.

15. Demonstrated by Graham, art. cit.

16. Mill, *Principles of Political Economy,* chapter 21; Hume, "Political Discourses," in *Essays Moral, Political and Literary,* pp. 340-45, quoted by Viner, op. cit., p. 292.

17. Inaugurated by Taussig, *International Trade.*

18. For this transition from the positive theory to the contemporary theory in terms of substitution, see: Haberler, *The Theory of International Trade,* pp. 175 et seq.; Lerner, "The Diagrammatical Representation of Cost Conditions in International Trade"; Leontieff, "The Use of Indifference Curves in the Analysis of Foreign Trade"; Bastable, *The Theory of International Trade;* Marshall, *The Pure Theory of Foreign Trade;* Edgeworth, review of Bastable, *The Theory of International Trade;* and Taussig, op. cit.

19. Which means making the implicit assumption that the organic composition and the rate of surplus value are the same; in other words, that the partners are at the same level of development.

20. Viner, op. cit., pp. 527-93. The founders of this analysis are Hicks, "The Foundations of Welfare Economics," and Kaldor, "Welfare Propositions in Economics."

21. See the characteristic passages in *Capital* quoted by Emmanuel in *Unequal Exchange,* pp. 136–37.

22. Ibid., pp. 40-41.

23. *Capital* 1, chapter 6 (1938 London edition, p. 150).

24. Heckscher, "The Effect of Foreign Trade on the Distribution of Income."

25. Emmanuel, op. cit., p. xiii.

26. Ibid., p. 164. See also pp. 52–60, 160–77.

27. Ibid., pp. 60–64, 76–80.

28. Palloix, *Problèmes de la croissance en économie ouverte.*

29. Palloix, op. cit., especially pp. 23, 57, 130, 133–37, 154–55, 175; and Byé, *Les relations économiques internationales.*

30. Bukharin, *Imperialism and World Economy* (emphasis added).

31. Preobrazhensky, *The New Economics,* p. 91.

32. Palloix, op. cit., p. 93 and pp. 257-58.

33. Ibid., p. 105.

34. See Arrighi, "Labor Supplies in Historical Perspective" and "The Political Economy of Rhodesia," in Arrighi and Saul, *Essays on the Political Economy of Africa.*

35. Lewis, "Economic Development with Unlimited Supplies of Labour."

36. Palloix, op. cit., pp. 268 et seq.

37. Sources are plentiful in this field. See, among others (for 1938), Clark, *The Conditions of Economic Progress,* p. 56, and for recent years the annual surveys of population and national income published by the United Nations. A very useful synthesis of the structures of world trade in our time is given by Jalée, *Imperialism in 1970,* chapters 2 and 3; see the same writer's *Third World in World Economy.*

38. See my treatment of this subject in *Thesis,* pp. 83-84. Also the U.N. statistical publication *Directions of International Trade,* annual issues 1938, 1948, and recent years.

39. A confusion that is unfortunately often committed, and which Emmanuel (op. cit., p. 80 et seq.) subjects to relentless criticism.

40. See my *Thesis,* pp. 76–82. See also the UNO publication *Commerce des produits de base et développement économique;* Chang, *Cyclical Movements in the Balance of Payments,* p. 24; Tinbergen, *International Economic Integration;* Weisser and Modigliani, *National Income and International Trade;* Polak, *An International Economic System;* UNO, *Statistics of National Income and Expenditure,* series H, no. 7, table 6, and *Annuaire du commerce international;* Chabert, *Structure économique et théorique monétaire,* pp. 120-36. Newlyn and Rowan *(Money and Banking in British Colonial Africa)* calculate the propensity to import in the monetary sector of the African economies (p. 21). The same calculation made in UNO, *Rôle et structure des économies monétaires en Afrique tropicale,* p. 36, leads to the conclusion that this propensity is high.

41. League of Nations, *Le réseau du commerce mondial* (1928 and 1938); GATT, *Rapports annuels sur le commerce mondial.* See also, as an example, my analysis of the African trade network, "Le commerce interafricain."

42. Lary, *Imports of Manufactures from Less Developed Countries,* p. 2.

43. Compiled from the annual report of the International Monetary Fund (IMF), *Directions of Trade,* and *A Supplement to International Financial Statistics* (1962-1966), pp. 3, 5, 7, 9.

44. Magdoff, *The Age of Imperialism.*

45. See, e.g., League of Nations, *Industrialisation et commerce extérieur,* pp. 25 and 103, and Bean, *International Industrialization* and *Percapita Income, Studies in Income and Wealth.*

46. UNO, *Prix relatifs des importations et des exportations des pays insuffisamment développés.* For the definition and calculation of the terms of trade, see Viner, *Studies in the Theory of International Trade,* pp. 558 et seq., and Moret, "Contribution à l'étude des termes et de l'échange."

47. UNO, *Prix relatifs des importations et des exportations,* n. 47.

48. Imlah, "The Terms of Trade of the United Kingdom."

49. Manoilesco, *Théorie du protectionnisme et du commerce international,* p. 276.

50. Bairoch, "Evolution 1960–67 et perspectives à court terme de l'économie du Tiers Monde."

51. Jalée, *Imperialism in 1970,* p. 61.

52. Documents of the New Delhi conference, in *Review of International Trade and Development* 1967, pp. 35-36.

53. The London *Economist,* quoted by Magdoff, op. cit., p. 188.

54. Amin, "Pour un aménagement du système monétaire," p. 27.

55. See the statistics of prices of raw materials published by the IMF, recapitulated in the December issues of *Prices of Major World Trade Commodities in U.S. Dollars.*

56. Emmanuel rightly emphasizes this point.

57. Clark, *Conditions of Economic Progress,* pp. 388-92.

58. See, e.g., the case of the United States between 1879 and 1919, in Kuznets, *The National Product Since 1869,* tables 4, 10.

59. See my *Thesis,* pp. 86 et seq. Sources, *inter alia:* UNO, *Méthodes et problèmes de l'industrialisation des pays sous-développés,* p. 19; Kuznets, *National Income of the United States,* p. 119; Clark, op. cit., pp. 103 and 381; Manoilesco, op. cit., p. 71; League of Nations, *Industrialisation et commerce extérieur,* p. 59. See also the calculations regarding France's textile industry in Mossé, *Marx et le problème de la croissance.*

60. Clark, op. cit., pp. 346 et seq.

61. Ibid., table following.

62. Table from Richta, *La civilisation au carrefour,* p. 373. Sources: Kuznets, Creamer, Dobrovolsky, Borenstein, Clark.

63. A view strongly maintained by Richta, op. cit., p. 375.

64. See, in the following chapter, the comparisons I have made of the gaps between the United States and Britain, on the one hand, and Latin America, Egypt, North Africa, and the Ivory Coast, on the other.

65. A point rightly emphasized by Emmanuel.

66. Triantis, "Economic Progress, Occupational Redistribution and International Terms of Trade."

67. See Chang, op. cit., pp. 42 and 50.

68. See Emmanuel, *Unequal Exchange,* pp. 80 et seq.; Nurkse, *Patterns of Trade and Development;* Singer, "The Distribution of Gains Between Investing and Borrowing Countries"; and Kindleberger, *The Terms of Trade.*

69. In UNO, *The Economic Development of Latin America and Its Problems.*

70. On this point Emmanuel is guilty of a confusion that causes him to be unjust to Prebisch (op. cit., pp. 80 et seq.).

71. This point was brought up by Lewis and is rightly stressed by Emmanuel (op. cit., p. 87). See especially Arrighi, op. cit.

72. See, e.g., *Annuaire statistique de la France,* 1938, pp. 436 et seq., for the evolution of prices in the great countries of the West since 1820.

73. See *Thesis,* pp. 96 et seq. Sources, *inter alia: Annuaire de la SDN,* 1938–39, pp. 226 and 231, and *Annuaires statistiques de la France.* Indian prices given by Jathar and Beri, *Elements of Indian Economics,* p. 129.

74. Coquery-Vidrovitch, "Recherches sur une mode de production africain." I fully accept this new and illuminating view; but it must be kept in mind that this is not a mode of production but an African social formation made up of a "village" or tribute-paying mode of production (which calls for more precise definition) plus long-distance trade.

75. Lacoste, *Ibn Khaldoun.*

76. See Williams, *Capitalism and Slavery.*

77. See on this my own studies of concrete cases, in *L'économie du Maghreb,* vol. 1.

78. I believe I have provided this in specific cases. See my *Economie du Maghreb,* vol. 2, and *Développement du capitalisme en Côte d'Ivoire.*

79. See the most recent UNO reports on the situation in Africa, Latin America, and Asia; also, Ewing, *Industry in Africa.*

80. See Richta, *La civilisation au carrefour.*

81. Emmanuel, *Unequal Exchange,* pp. 142 and 164.

82. Andre Gunder Frank's excellent expression, an improvement on my own "growth without development."

83. This will form the subject of the next chapter.

84. See, e.g., Hirschman, *National Power and the Structure of For-*

eign Trade, p. 126; Condliffe, *The Commerce of Nations;* Mosk, "Latin America and the World Economy, 1850–1914"; Venkatasubiah, *The Foreign Trade of India, 1900–1940.*

85. This problem has been the subject of an interesting discussion. See Ady, "Colonial Industrialisation and British Employment"; Brown, *Industrialisation and Trade;* Frankel, "The Industrialisation of Agricultural Countries"; Hirschman, "Industrial Nations and Industrialisation of Under-developed Countries"; Hubbard, *Eastern Industrialisation and Its Effect on the West;* Jewkes, "The Growth of World Industry"; Peltzer, "Industrialisation of Young Countries"; Prokopovicz, *L'industrialisation des pays agricoles;* Staley, *World Economic Development.*

86. For a study of the underlying tendencies of the external balance of payments see chapter 5 (*Accumulation,* vol. 2).

87. This is not the place to offer proof of this statement. The reader is referred to vol. 2, chapter 3, where I deal with the problem, which is bound up with the theory of the functions of money.

88. Cox, *Capitalism as a System,* especially p. 97 and pp. 117-30.

89. Palloix, *Problèmes de la croissance en économie ouverte,* especially pp. 37, 47, 48, 62, from which I have taken the quotations that follow.

90. Marx, *Capital,* vol. 3 (FLPH edition, p. 232).

91. Besides the textbooks dealing with the theory of international trade which I have already mentioned, see: Heckscher, op. cit.; Stopler and Samuelson, "Protection and Real Wages"; Samuelson, "The Price of Factors"; Ohlin, *Inter-regional and International Trade.*

92. Estimates taken from the following works: Hobson, *The Export of Capital,* p. 207; Feis, *Europe the World's Banker, 1870–1914,* pp. 47, 71; Hobson, *Imperialism;* Bank of England, *U.K. Overseas Investments, 1938–1948;* Cairncross, *Home and Foreign Investment, 1870–1913;* Jenks, *The Migration of British Capital to 1875;* Lewis, *America's Stake in International Investment;* Nadler, "American Foreign Investments"; Rippy, "The British Investment Boom of the 1880s in Latin American Mines"; Thorner, *Investment in Empire;* Iversen, *Aspects of the Theory of International Capital Movements,* Part II B; Royal Institute of International Affairs, *The Problem of International Investment.*

93. Marsh, *World Trade and Investments;* Ferns, "Investment and Trade Between Britain and Argentina"; Heaton, *Economic History of Europe,* pp. 630-32 (1948 edition).

94. See, e.g., UNO, *Growth and Stagnation in the European Economy*, p. 217, and other sources (*Thesis*, pp. 77 et seq.).

95. This illusion causes Emmanuel to make the same mistake as is made by the writers quoted below. Iversen, op. cit., pp. 104-6; UNO, *Foreign Capital in Latin America*, p. 163, and idem, *Les mouvements internationaux de capitaux entre les deux guerres*, p. 64.

96. UNO, *Foreign Capital in Latin America*, p. 162.

97. Sammarco, *Précis d'histoire de l'Egypte*, vol. 4, p. 322.

98. See *Thesis*, pp. 117 et seq.

99. Analysis of present-day tendencies in the export of capital has given rise to a plentiful body of writing. The best works of synthesis are: Magdoff, *The Age of Imperialism;* Jalée, *Imperialism in 1970* (chapter 4); Layton, *L'Europe et les investissements américains;* and Bertin, *L'investissement international.* The best sources of information are the reports of the OECD.

100. According to Woodruff, *Impact of Western Man*, p. 150, quoted by Magdoff, op. cit.

101. See sources cited by Magdoff, op. cit., pp. 59, 194, 60 et seq.: table of the share of U.S. capital in Europe's industries based on Layton, *Transatlantic Investments.*

102. Harrod, *Towards a Dynamic Economics*, pp. 22-23; Hicks, *Value and Capital* and *The Theory of Wages;* Pigou, *The Economics of Welfare.*

103. Robinson, "Notes on the Economics of Technical Progress"; "The Classification of Inventions"; "The Generalisation of the General Theory"; *The Theory of Imperfect Competition.*

104. Clark, *Conditions of Economic Progress*, pp. 423–33.

105. Ibid., pp. 60–70 and 497; Kuznets, *The National Product Since 1869*, table IV, 10.

106. Knight, "Capital, Time and the Rate of Interest."

107. Clark, op. cit., pp. 408, 412, 414; Bowley, *Wages and Income in the U.K. Since 1860.*

108. Robinson, *An Essay on Marxian Economics*, chapter 5; Sweezy, *The Theory of Capitalist Development*, chapter 6.

109. Bénard, *La conception marxiste du capital*, pp. 308–9.

110. The classic case of the United States (thanks to the frontier) and the white dominions, rightly pointed out by Emmanuel, *Unequal Exchange*, pp. 123 et seq.

111. See *supra.*

112. This problem forms the subject of vol. 2, chapter 5, devoted to the theory of the balance of external payments.

113. This problem of the dynamic of foreign investment will be dealt with in chapter 2.

114. Baran and Sweezy, *Monopoly Capital.* What follows is borrowed from this work.

115. Ibid., p. 194.

116. Baran, *The Political Economy of Growth;* Baran and Sweezy, op. cit.

117. Baran and Sweezy, "Notes on the Theory of Imperialism."

118. Magdoff, *The Age of Imperialism,* pp. 47-48.

119. Ibid., p. 97.

120. Lary, *Imports of Manufactures from Less Developed Countries,* p. 2, quoted by Magdoff, op. cit., p. 156.

121. Magdoff, op. cit., p. 198.

122. This superiority does not show up very strikingly in the shares of the different countries in world trade in manufactured goods: the U.S. share increased from 11.7 percent in 1899 to merely 20.6 percent in 1967, that of Great Britain fell from 33.2 to 11.9 percent, that of Germany from 22.4 to 19.7, that of France from 14.4 to 8.5 and that of Japan increased from 1.5 to 9.9 percent (Magdoff, op. cit., p. 55). It *is* striking, however, where the flow of capital is concerned.

123. Magdoff, op. cit., p. 37.

124. See Robert Engler, *The Politics of Oil.*

125. Magdoff, op. cit., pp. 58-59.

126. Ibid., pp. 124, 129, 188.

127. All these figures taken from *L'examen 1968: Aide au développement.* As regards the public debt, see IBRD, *External medium- and long-term public debt;* and Edward S. Mason, *Foreign Aid and Foreign Policy,* especially p. 14.

128. Lenin, *Collected Works* 3, 4th ed. Eng. trans., p. 590; quoted by Palloix, *Problèmes de la croissance en économie ouverte,* p. 124.

129. Denis, "Le rôle des débouchés préalables"; Bairoch, *Révolution industrielle et sous-développement.*

130. *Capital* 3, chapter 15 (FLPH edition, p. 251), quoted by Palloix, op. cit., p. 183.

131. Palloix, op. cit., pp. 20, 219, 227-28. Palloix himself acknowledges that "this is where the flaw in [his] argument occurs, in so far as [he provides] no theoretical justification . . ." (p. 219). The contradiction is obviously a dialectical one, between the appearance of a surplus (resulting from the tendency of the rate of profit to fall) and its absorption (in the forms analyzed by Baran and Sweezy), and it is therefore constantly being overcome.

132. Ibid., p. 20.

133. d'Alauro, "Commercio internazionale e concorrenza monopolistica"; Fellner, *Competition Among the Few.*

134. Viner, *Studies in the Theory of International Trade,* p. 556.

135. Hirschman, *National Power and the Structure of Foreign Trade.*

136. Scitovszky, "A Reconsideration of the Theory of Tariffs"; Stopler and Samuelson, "Protection and Real Wages."

137. Edgeworth, *Papers Relating to Political Economy.*

138. Brown, *Applied Economics,* p. 215.

139. For examples of these comparisons of elasticity, see *Thesis,* pp. 133 et seq. (sources: Chang, *Cyclical Movements in the Balance of Payments,* pp. 42, 50, 70, 72, 74).

140. Iversen, *Theory of International Capital Movements,* pp. 89-90.

141. The view taken by Bruton, "Productivity, the Trade Balance and the Terms of Trade."

142. The body of writing on this subject is very extensive, though almost entirely descriptive in character. See the bibliography in *Thesis,* pp. 149-50. See also some works of synthesis: Peyret, *La stratégie des trusts;* Durand, *La politique pétrolière internationale;* Owen, *Puissance de l'industrie américaine;* Tanzer, *The Political Economy of International Oil Companies and the Underdeveloped Countries.* A notable attempt at analysis of monopoly strategy will be found in Maurice Byé's works on the large interterritorial unit.

143. Byé, "La grande unité interterritoriale"; Perroux, "L'A.I.O.C. et les effets de domination" and "Esquisse d'une théorie de l'économie dominante."

144. UNO, *Economic Survey of Latin America, 1948,* chapter on Chile; von Burg, *La politique des cours différentiels de change;* Schlesinger, *Multiple Exchange Rates and Economic Development.*

145. Monthly letter, IRES, University of Kinshasa, no. 1, 1967.

146. Dobretsberger, "Théorie des territoires économiques"; Perroux, "Les espaces économiques."

147. Chamberlin, *The Theory of Monopolistic Competition.*

148. Byé, "Les principes de la spécialisation internationale."

Notes to Chapter 2, Part 1

1. Works on economic anthropology are often noteworthy in this connection: see, e.g., those by C. Meillassoux and E. Terray. By contrast, the work done by economists is disappointing: see, as an example of poverty of analysis, the UNO report, *Le développement de l'économie de marché en Afrique tropicale.*

2. For a criticism of this view, see Poulantzas, *Pouvoir politique et classes sociales.*

3. See Sweezy, et. al., *The Transition from Feudalism to Capitalism.*

4. Terray; *Marxism and "Primitive" Societies.*

5. I refer the reader to the extensive discussion of this subject that gave rise to a series of important articles in *La Pensée* in recent years, collected in 1969 by the CERM.

6. See Coquery, "Recherches sur une mode de production africain." The low density of population in Africa doubtless goes a long way to explain this marking time at the early stage of development of the tribute-paying mode of production. See Boserup, *The Conditions of Agricultural Growth.*

7. UNO, *Le développement de l'économie de marché en Afrique tropicale; Rôle et structure des économies monétaires en Afrique tropicale.*

8. See Amin, "Le développement du capitalisme en Afrique noire." I shall return to this theme in vol. 2 (chapter 2, part 3).

9. Arrighi, "Labor Supplies in Historical Perspective."

10. UNO, *Développement de l'économie de marché en Afrique tropicale,* pp. 29, 33.

11. This was why the agricultural revolution took place first. See Bairoch, *Révolution industrielle et sous-développement.*

12. UNO, *Développement de l'économie de marché en Afrique tropicale,* pp. 24–25.

13. Amin, *Trois expériences africaines de développement,* pp. 155–58.

14. Amin, *L'économie du Maghreb,* vol. 1, pp. 198-203.

15. Avineri, ed., *Karl Marx on Colonialism and Modernization.* Subsequent references are taken from this very thorough collection.

16. Ibid., pp. 38, 43, 93, 450, 451.

17. Ibid., pp. 86, 89, 99 et seq.

18. Ibid., pp. 132 et seq.

19. Ibid., p. 464 (letter to Engels, 8 October 1858).

20. Ibid., pp. 468–70.

21. See my previous chapter.

22. *Karl Marx on Colonialism,* p. 35 (the quotation comes from *The Poverty of Philosophy,* Martin Lawrence edition, p. 85); see also pp. 50; 87, 94, 137.

23. UNO, *Etude sur le commerce Asie-Europe,* p. 66.

24. See my treatment of this subject in *Thesis,* pp. 161–63.

25. See Boserup, *The Conditions of Agricultural Growth,* and Raulin, *Techniques et bases socio-économiques.*

26. Estimates by Mohamed Husny al Said in *L'Egypte contemporaine.*

27. See *Thesis;* also Riad, *L'Egypte nassérienne,* pp. 138 et seq.

28. See UNO, *Le développement de l'économie de marché en Afrique tropicale,* p. 51, and *Progrès de la réforme agraire,* pp. 56–62. Also Amin, *Le développement du capitalisme en Côte d'Ivoire,* chapter 3; Gutelman, *L'agriculture socialiste à Cuba,* chapter 1.

29. There are many works on the history of colonial trade. A full bibliography will be found in Gayet, *Histoire du commerce;* Mauro, *L'expansion européennne 1600–1870,* and *History and Politics of Modern Imperialism in Africa.* See also *Thesis,* p. 190.

30. For competition and international specialization direct the periphery toward light industry, but not toward light techniques. See *infra.*

31. For India, see Dutt, *India Today,* and Anstey, *The Economic Development of India;* for Egypt, see Riad, op. cit., and Issawi, *The Economic History of the Middle East, 1800–1914.*

32. Clark, *The Conditions of Economic Progress,* pp. 346, 350, 353.

33. *L'Egypte, mémento économique,* INSEE, p. 52.

34. Clark, op, cit., pp. 185, 350, 353.

35. League of Nations, *Industrialisation et commerce extérieur,* p. 156.

36. UNO, *Méthodes et problèmes de l'industrialisation des pays sous-développés,* p. 123.

37. Riad, *L'Egypte nassérienne,* pp. 138 et seq. See also the case of capitalist agriculture in Cuba before the Castro revolution, described in Gutelman, *L'agriculture socialiste à Cuba,* chapter 1.

38. Riad, op. cit., pp. 144 and 165; Amin, *L'économie du Maghreb* 1, p. 180, and *Le développement du capitalisme en Côte d'Ivoire,* p. 39.

39. For a bibliography of the history of the industrialization of the periphery, see *Thesis,* p. 191, from which the following items are

selected: Bonné, *State and Economics in the Middle East,* part 3; Issawi, op. cit., and *Egypt at Mid-Century;* Ewing, *Industry in Africa;* Lacroix, *Industrialisation au Congo;* Spiegel, *The Brazilian Economy;* Wythe, *Industry in Latin America;* Das, *Industrial Enterprise in India;* Divatia and Trivedi, *Industial Capital in India;* Fong, *Industrial Capital in China;* League of Nations, *Industrialisation et commerce extérieur.*

40. League of Nations, *Industrialisation et commerce extérieur,* pp. 14, 69, 156.

41. UNO, *Méthodes et problèmes,* pp. 157–60 and 177.

42. See *Thesis,* pp. 180 et seq. Sources: Jathar and Beri, *Elements of Indian Economics;* and Clark, *Conditions of Economic Progress.*

43. Dupriez, *Les mouvements économiques généraux.*

44. Issawi, "Egypt Since 1800."

45. Which has been "closed," moreover—that is, turned in on itself—since Latin America lost the position of principal periphery that it had held in the mercantilist period. This retrogression is stressed by Frank, *Capitalism and Underdevelopment in Latin America.*

Notes to Chapter 2, Part 2

46. Some basic works on the flow of investment of foreign capital (quantity, historical evolution, distribution among sectors, forms, rates of reward, etc.) call for mention here, in particular the works referred to in the previous chapter. See also my *Thesis,* pp. 196–208, which examines the results of individual lines of development, considered either from the standpoint of the advanced country which exports capital or from that of the country which imports it, relating in particular to India, Brazil, and Latin America generally, to Egypt, and to some countries of Black Africa. See also in *Thesis* the bibliography for these studies. Since 1945 the United Nations organization and the OECD have provided regular and exhaustive information on these matters. There is now quite a substantial body of writing about capital movements in the present period. See especially UNO, *Problèmes et méthodes de l'industrialisation des pays sous-développés; Courants de capitaux privés, 1946–52; Economic Development in the Middle East, 1945 to 1954;* and *Foreign Capital in Latin America;* OECD, *Rapports annuels sur les flux internationaux de capitaux,* notably *Examen 1968.* Finally, I should mention the most recent synthetical analysis of U.S. investments, in Magdoff, *The Age of Imperialism;* also Jalée,

Imperialism in 1970, and Layton, *L'Europe et les investissements américains.*

47. See, e.g., the role of Western Europe in the absorption of U.S. capital in the present period, in Layton, op. cit.

48. The bibliography on this is meager. Nevertheless, see the following special studies: Amin, *L'économie du Maghreb,* vol. 1, pp. 96 et seq., and *Le développement du capitalisme en Côte d'Ivoire,* p. 304; and Riad, *L'Egypte nassérienne,* pp. 166 et seq.

49. See, e.g., the case of Egypt and some other countries in UNO, *La dette publique, 1914–1946; Public Finance Surveys, Foreign Capital in Latin America;* Royal Institute of International Affairs, *The Problem of International Investment;* and, especially, for the present time, the reports of the World Bank.

50. See the OECD reports mentioned; for the standpoint of the aid-receiving countries, see the numerous reports on the national accounts of these countries that are now available.

51. See Yakemtchouk, *Assistance économique et pénétration industrielle.*

52. Discussion of this problem has given rise to a series of theoretical studies that are now regarded as classical and fundamental. See the bibliography in *Thesis,* pp. 286 et seq. In addition should be mentioned: Bruton, "Growth Models and Underdeveloped Countries"; Buchanan, *International Trade and Domestic Welfare* and "Deliberate Industrialisation for Higher Income"; Byé, "Les relations entre l'investissement international et la structure nationale" and "Stabilité internationale et économies nationales"; Johnson, "Equilibrium Growth in an International Economy"; Kahn, "Investment Criteria in Development Programs"; Kindleberger, "Planning for Foreign Investment"; UNO, *Formulation and Economic Appraisal of Development Projects;* Polak, "Balance-of-Payments Problems of Countries Reconstructing"; Salter, *Foreign Investment;* Singer, "The Distribution of Gains Between Investing and Borrowing Countries."

53. In some cases the reduction of these countries to the role of exporters of raw materials followed a preliminary destruction of their industries. The case of India is especially well known. In *Modern India,* Dutt shows the danger that threatened the British workers as a result of low-wage competition from India, a danger that constituted the basis for solidarity between the working classes of India and Britain. In 1928 the Sixth Congress of the Communist International, in a discussion of decolonization, condemned this view of the matter, which harbored the germ of an understanding of unequal exchange. What is involved in

these relations among advanced countries is mechanisms similar to what happens when two regions are integrated in a national economic whole. See Labasse, *Les capitaux et la région.*

54. Retrospective and prospective studies of the demand for primary products are also numerous. See, e.g., Steindl, *Maturity and Stagnation in American Capitalism;* UNO, *Growth and Stagnation in the European Economy;* League of Nations, *La crise agricole;* UNO reports on world trade, especially the report of the Geneva Conference; also the Paley Report, the transactions and reports of the FAO, etc.

55. Buchanan, *International Trade and Domestic Welfare* and "Deliberate Industrialisation for Higher Income"; Polak, "Balance-of-Payments Problems."

56. Mandelbaum, *Industrialisation of Backward Areas;* Kahn, "Investment Criteria in Development Programs."

57. Ricardo, *Principles of Political Economy and Taxation:* "the appropriation of land, and the consequent creation of rent" (Everyman edition, p. 33); Marx, *Capital,* vol. 3 (FLPH ed.).

58. Mumford, *Technics and Civilization.*

59. See the statistics of national income, especially the synthetical documents of the UNO (*Statistics of National Income and Expenditure,* series H), monographs on particular countries, and such synthetical studies as those by Clark, Kuznets, and Fourastié. See also *Thesis,* p. 226 (and Bibliography), the conclusions of which have been employed here.

60. *Thesis,* pp. 228–35; Clark, *The Conditions of Economic Progress;* Kuznets, *National Income of the United States,* etc.

61. Baran and Sweezy, *Monopoly Capital.*

62. UNO, *Annuaires démographiques.*

63. Riad, *L'Egypte nassérienne,* p. 158; Amin, *L'économie du Maghreb* 1, pp. 143 et seq., and *Le développement du capitalisme en Côte d'Ivoire,* p. 39.

64. Riad, op. cit., p. 158; Amin, *L'économie du Maghreb* 1, pp. 143 et seq., and *Le développement du capitalisme en Côte d'Ivoire,* pp. 153 et seq.

65. Bauer and Yamey, "Economic Progress and Occupational Distribution."

66. Triantis, "Economic Progress, Occupational Redistribution and the Terms of Trade."

67. Baran and Sweezy, *Monopoly Capital,* pp. 138, 143, 336–40.

68. Kuznets, *National Income of the United States.*

69. Riad, *L'Egypte nassérienne,* pp. 149 et seq.

70. Amin, *L'économie du Maghreb* 1, pp. 84–85.

71. Amin, *Le développement du capitalisme en Côte d'Ivoire,* pp. 28 et seq.

72. A phenomenon that is particularly evident in Black Africa. In Senegal, for instance, a country very well integrated in the world market, the tertiary sector accounts for 50 percent of the internal product, and commerce alone for 30 percent.

73. Tottenberg, "Note on Economic and Occupational Distribution."

74. Riad, op. cit., p. 163.

75. *Thesis,* pp. 242 et seq. See also Warriner, *Land and Poverty in the Middle East.*

76. Amin, *Le développement du capitalisme en Côte d'Ivoire,* p. 293.

77. Amin, *L'utilisation des revenues susceptibles d'épargne.*

78. Riad, op. cit., pp. 138 et seq. and pp. 166 et seq.

79. Amin, *L'économie du Maghreb* 1, pp. 91, 94.

80. Amin, *Le développement du capitalisme en Côte d'Ivoire,* p. 306; Amin and Coquery-Vidrovitch, *Du Congo français à l'UDEAC.*

81. *Thesis,* pp. 274 et seq. I have made a comparison from this standpoint between the industry of Egypt and that of the United States, and noted the historical tendencies shown, with at the center a growth of production in Department I faster than in Department II, whereas in the periphery this tendency is countered by the import of production goods, which grows at a faster rate. See also Chang, *Agriculture and Industrialisation;* League of Nations, *Industrialisation et commerce extérieur;* UNO, *Méthodes et problèmes de l'industrialisation dans les pays sous-développés;* League of Nations, *L'expérience monétaire internationale;* UNO, *Rôle et structure des économies monétaires en Afrique tropicale.*

82. Massé, "Pratique et philosophie de l'investissement"; Pradel, "L'optimum d'investissement."

83. Allais, *Economie et intérêt;* Harrod, *Towards a Dynamic Economics,* pp. 129 et seq. These two writers revive Proudhon's utopian idea.

84. Courtin, *Théorie de l'intérêt.*

85. Nogaro, *La valeur logique des théories économiques,* chapter 8.

86. Much has been written on the choice between branches and techniques. For a bibliography, see *Thesis,* p. 291. Among others, see: Aubrey, "Deliberate Industrialization"; Balogh, "Note on Deliberate Industrialization for Higher Incomes"; Belshaw, "Observations on In-

dustrialization for Higher Incomes"[2]; Buchanan, *International Investment and Domestic Welfare* and "Deliberate Industrialisation for Higher Income"; Chenery, "The Application of Investment Criteria"; Datta, *The Economics of Industrialisation;* Frankel, "The Industrialisation of Agricultural Countries"; Kahn, "Investment Criteria in Development Programmes"; UNO, *Measures for the Economic Development of Underdeveloped Countries;* Polak, "Balance-of-Payments Problems of Countries Reconstructing"; Sen, *Choice of Techniques;* Strumilin, "The Time Factor in Capital Investment"; Vries, *The Balance Between Agriculture and Industry in Economic Development.*

87. Kaldor, "Capital Intensity and the Trade Cycle."

88. Courtin, *Théorie de l'intéret;* Robinson, *An Essay on Marxian Economics,* and "The Generalization of the General Theory."

89. Bénard, *La conception marxiste du capital,* p. 131. We find here the tendency of the rate of profit to fall (the link between rate of profit and organic composition). See, on this subject, the bibliography already given. The link between the rate of profit and the organic composition is emphasized by some studies, e.g., Rostas, "Industrial Production, Productivity and Distribution"; Fellner, "The Capital-Output Ratio in Dynamic Economics"; and Mandelbaum, *Industrialisation of Backward Areas,* pp. 95 and 99.

90. Dobb, "Note sur le degré d'intensité capitalistique."

91. Bettelheim, *Théorie et pratique de la planification,* pp. 235 et seq.

92. What follows is based on Sen, *Choice of Techniques.* See also Liebenstein, *Economic Backwardness and Economic Growth.*

93. See on this subject the very convincing book by Lacroix, *Industrialisation au Congo.*

94. Bettelheim, op. cit., p. 286.

95. Pigou, *Wealth and Welfare,* and *The Economics of Welfare;* see also *Economie appliquée,* special issue on "L'avantage collectif," 1952, no. 4.

96. Mandelbaum, *Industrialisation of Backward Areas.*

97. To employ a useful expression of Emmanuel's in *Unequal Exchange.*

98. Richta, *La civilisation au carrefour.*

99. The generalization of the theory of the multiplier is due to Goodwin, *The New Economics,* chapter 26: "The Multiplier." See also Haberler, *Prospérité et dépression,* chapter 13.

100. See on this subject Lange, "The Theory of the Multiplier"; Nogaro, *La valeur logique des théories economiques,* chapter 17; Stop-

ler, "A Note on the Multiplier"; Bettelheim, "Revenu national, épargne, investissement" and *Nouveaux aspects de la théorie de l'emploi;* Klein, "Theories of Effective Demand and Employment"; Mstislasky, "Some Questions Regarding Investment Efficiency"; Tsuru, "On Reproduction Schemes"; Strumilin, "The Time Factor in Capital Investment."

101. Okyar, "Théorie keynésienne et pays sous-développés"; Rao, "Investment Income and the Multiplier" and "Full Employment and Economic Development."

102. See Marchal, *Le mécanisme des prix,* pp. 72–82; Aftalion, *Les crises périodiques de surproduction,* book 11, ch. 3, sect. i, pp. 371–73; Marx, *Capital* 3, ch. 20, sect. 11, "Replacement of the Fixed Capital."

103. Neisser, "The Nature of Import Propensities and the Multiplier." See the statistics given in Chang, *Cyclical Movements in the Balance of Payments,* p. 37.

104. Gordon, "Enterprise, Profits and the Modern Corporation."

105. Bettelheim, *Les théories contemporaines de l'emploi,* pp. 100 et seq.

106. Baran and Sweezy, *Monopoly Capital.*

107. Kalecki, "The Distribution of National Income," pp. 199–200 and 216 and *Theory of Economic Dynamics,* pp. 20–26.

108. Bain, "Measurement of the Degree of Monopoly"; Kalecki, "Degree of Monopoly"; Lerner, "The Concept of Monopoly and the Measurement of Monopoly Power"; Morgan, "A Measure of Monopoly in Selling"; Rothschild, "The Degree of Monopoly"; Sweezy, "On the Definition of Monopoly"; Rufus, "The Degree of Monopoly"; Whitman, "A Note on the Concept of Degree of Monopoly."

109. This criterion, though essential, is nevertheless insufficient. The way credits allocated by the banks are distributed has the effect of reinforcing the monopolies. See on this subject the German investigation of 1933, *Materialen zur Vorbereitung der Bankenenquete und Wirtschaftsdienst.* The degree of monopoly is also measured by the degree of concentration of the labor force. For a calculation of this degree of monopoly, see Barret, *L'évolution du capitalisme japonais* 1; Bettelheim, *L'économie allemande sous le nazisme,* pp. 61, 66; Chenery, *Cartels, Combines and Trusts;* Laidler, *Concentration of Control in American Industry;* Lynch, *The Concentration of Economic Power.* For a calculation of this degree of monopoly in the underdeveloped countries, see Gritly, "The Structure of Modern Industry in Egypt."

110. Pigou, *Economics of Welfare,* p. 549; Robinson, *The Theory of Imperfect Competition,* pp. 283 et seq.

111. Chamberlin, *The Theory of Monopolistic Competition,* pp. 196 et seq.

112. Kalecki, *Theory of Economic Dynamics,* p. 17.

113. See chapter 3 (*Accumulation,* vol. 2).

114. See the examples quoted by Fetter, *The Masquerade of Monopoly,* p. 197: a fall of only 5.6 percent in the price of cement between 1929 and 1933, but 54.6 percent in that of wheat and 54.3 percent in that of cotton.

115. These two examples are taken from Maurice Byé's doctoral thesis on the multinational corporation in *La spécialisation internationale.*

116. See on this subject the studies of Schlesinger and Wolfram von Burg, and the UNO study already mentioned (*Economic Survey of Latin America, 1948*).

117. IRES—Université Lovanium de Kinshasa, *Lettre mensuelle,* no. 1, 1967.

118. *UNO, Courants internationaux de capitaux privés,* 1945–52.

119. Ducros, "Les investissements américains à l'étranger."

120. See, e.g., Rudloff, *Economie politique du Tiers Monde;* Albertini, *Les mécanismes du sous-développement;* Lacoste, *Géographie du sous-développement.*

121. Pinto, Egelund colloquium, tables 1A and 3A and table 2.

122. That is, one-half if we consider that, the agricultural population being 35 percent of the total, the income of agriculture constitutes 20 percent of the national income; one-third if the income of agriculture constitutes only 15 percent.

123. Arrighi, "Labor Supplies in Historical Perspective."

124. In order to compare production per capita between one country and another, it is necessary to take into account (a) the difference in rates of surplus value, and so to divide by 1.5 the figures relating to the periphery; and (b) the lower level of productivity in Department I in the periphery where the organic composition is very light.

125. In the empirical formula

$$N = \frac{A}{Xa}$$

N representing the percentage of the population whose income is higher than X, and A a parameter of dimension, a measures the degree of concentration of the distribution of income.

126. Berg, Egelund colloquium, table 1.

127. Ibid., table 2, tables 3 and 4.

128. Ibid., table 5.

129. Riad, *L'Egypte nassérienne,* p. 41 (figures for 1960).

130. Ibid., pp. 46–60.

131. Ibid., p. 148.

132. Ibid., pp. 158–60.

133. Amin, *L'économie du Maghreb* 1, pp. 130 et seq.

134. Ibid.

135. Ibid.

136. Ibid., pp. 181, 185.

137. Amin, *L'économie du Maghreb* 2, pp. 157 et seq.

138. Ibid.

139. Ibid.

140. Amin, *Le développement du capitalisme en Côte d'Ivoire,* tables on pp. 285 et seq.

141. Ibid., pp. 292–93.

142. Ibid., pp. 89–92.

143. Ibid., pp. 155–78.

144. For incomes of this kind, see ibid., pp. 175–78.

145. Ibid., pp. 155–78.

146. Ibid., pp. 298–99. However, important changes took place almost everywhere in Black Africa between 1960 and 1968 as regards the comparative evolution of the real wages of the working class, those of the bureaucracy, and the incomes of the peasants (see *infra*).

147. Expressed in particular by Dudley Seers.

148. Smith, Egelund colloquium, tables 3, 6, and 9.

149. Lacroix, *Industrialisation au Congo,* and Lloyd G. Reynolds and Gregory, *Wages, Productivity and Industrialization in Puerto Rico.*

150. See this type of theory in the writings of Dudley Seers, Raul Prebisch (in connection with the worsening of the terms of trade), A. D. Smith (at the Egelund colloquium), etc.

151. Arrighi, "Communication au Congrès des Etudes Africaines de Montréal."

152. Bézy, "La situation économique et sociale du Congo-Kinshasa."

153. See section 3 of this chapter (*Accumulation,* vol. 2).

154. Comparison between the interindustrial tables of France, on the one hand, and of the African countries, on the other.

155. It was François Perroux who drew attention to the investigation of these fundamental problems. See also Hirschman, *The Strategy of Economic Development.*

156. Thus, in Africa the "rich" states (such as the Ivory Coast) have worked actively to break up the old colonial groupings (in this case, French West Africa). Inside these states, increasing inequalities between

regions (see the example of the Ivory Coast in my book already referred to) are more important than tribal hostilities as the explanation of weak national cohesion. The same is true in Latin America (see Andre Gunder Frank's book) and also, apparently, in India.

157. Imbert, *Histoire économique des origines à 1789,* pp. 393 et seq.; *Annuaires statistiques de la France.*

158. League of Nations, *Le réseau du commerce mondial* (for 1928); see also chapter 1.

159. See Amin, "Le commerce interafricain."

160. IMF, *Annuaires des balances des paiements extérieurs.* On a world scale the exported profits included in the balances of payments of forty underdeveloped countries come to about $6 billion (Luas, "Economie, tiers-science").

161. See UNO, *Le revenu national et sa distribution dans les pays insuffisamment développés.* See also other UNO publications, especially *National Income and Expenditure.* Also Finch, "Investment Service of Underdeveloped Countries"; UNO, *Rôle et structure des économies de marché en Afrique tropicale,* p. 23. For India see the estimates made by Paish (1911) and by Rao, Birla, Shenoy, etc. (for 1928, 1929, 1939, etc.), in Anstey, *Economic Development of India,* p. 498. For Latin America see Royal Institute of International Affairs, *The Problem of International Investment,* p. 223, and pp. 19 and 123, following Hobson and Feis; Clark, "The National Income of Great Britain in 1932"; estimates by Stamp and Bowley.

162. Magdoff, *The Age of Imperialism,* p. 212.

163. According to my own calculations. See Amin, *L'utilisation des revenus susceptibles d'épargne.*

164. Riad, *L'Egypte nassérienne,* p. 186.

165. Amin, *Le développement du capitalisme en Côte d'Ivoire,* p. 307.

166. Amin and Coquery, *Du Congo français à l'UDEAC.*

167. UNO, *The Economic Development of Latin America and Its Problems,* p. 42 (Prebisch); Belshaw, "Economic Development in Asia"; Salant, "The Domestic Effects of Capital Export Under Point Four"; Hinschaw, "Foreign Investment and American Employment"; Domar, "The Effects of Foreign Investments on the Balance of Payments"; Polak, "Balance-of-Payments Problems of Countries Reconstructing." A summary of the controversy is given by Ducros in "Les investissements américains à l'étranger." On the effects of systematic reinvestment of profits, see Balogh, "Some Theoretical Problems of Post-war Foreign Investment Policy"; Mears, "Private Foreign Investment and Economic

Development"; Singer, "The Distribution of Gains Between Borrowing and Investing Countries"; Wu, "International Capital Investments and the Development of Poor Countries." See the brief review of the discussion in *Thesis,* pp. 325 et seq.

168. Pentland, "The Role of Capital in Canadian Economic Development"; Lewis, *America's Stake in International Investment;* Kuznets, "Les différences internationales dans la formation du capital"; Iversen, *Aspects of the Theory of International Capital Movements,* pp. 344 (quoting White, *French International Accounts*), 370, 382 (quoting Viner, *Canada's Balance of International Indebtedness*), and 441 (quoting Graham, "International Trade Under Depreciated Paper").

169. See *Thesis,* pp. 328–38. Sources: Iversen, op. cit., p. 427, quoting Williams, *Argentine International Trade;* Bloch Lainé, *La zone franc,* pp. 92–146; Wallich, *The Monetary Problems of an Export Economy,* pp. 330–32; Spiegel, *Brazil,* p. 120; UNO, *The Economic Development of the Middle East, 1945 to 1954,* pp. 72–77; League of Nations, *Le réseau du commerce mondial.*

170. Pearson Report.

171. See my study of the balance of payments in chapter 5.

172. Amin, *Le monde des affaires sénégalais.*

173. UNO, *Le revenu national et sa distribution dans les pays insuffisamment développés,* pp. 14 and 19; Durand, *Essai sur la conjoncture de l'Afrique noire.* See also *Thesis,* pp. 322–23.

174. Amin, *Le développement du capitalisme en Côte d'Ivoire,* p. 299.

175. Amin, *L'économie du Maghreb* 1, pp. 181–85.

176. Amin, *L'économie du Maghreb,* especially in the conclusion, "Le développement du capitalisme en Côte d'Ivoire"; Amin and Coquery, *Du Congo français à l'UDEAC.* See also my articles on Ghana, Guinea, and Mali in the *Encyclopaedia Universalis.*

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Samir Amin

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A Critique of the Theory of Underdevelopment

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The Formations of Peripheral Capitalism
Part 3: The Social Formations

The tendency of the capitalist mode of production to become exclusive when it is based on expansion and deepening of the internal market is accompanied by a tendency of the social structure at the center to approach the pure model of *Capital,* characterized by polarization of social classes into two fundamental classes, the bourgeoisie and the proletariat. The social classes formed on the basis of former modes of production (landowners, craftsmen, merchants, etc.) either disappear or are transformed (e.g., into an agrarian bourgeoisie). True, the social system gives rise to new stratifications at the same time as it becomes simpler: white collars and blue collars, cadres and unskilled workers, native and foreign workers, and so on. But these new stratifications are all situated within the framework of the essential division between bourgeoisie and proletariat, for all the new social strata in the course of development are made up of wage-earning employees of the capitalist enterprise. The relevance of the new stratification is therefore not economic (since from this standpoint the positions of the new strata are identical, being all sellers of their labor power), but political or ideological. In addition, the concentration of enterprises, the formation of monopolies, modifies the forms in which the bourgeoisie manifests itself. However, the alleged dichotomy established between ownership (dispersed) and control (said to have passed into the hands of the "technostructure," to employ Galbraith's neologism) is a delusion. The "technocrats" who take the decisions take them in accordance with the logic and interest of capital, exercising an increasingly concentrated control—which merely means that objectively the time is ripe for socialization. Nevertheless, the fact that in the capitalist mode of production the social structure is thus directly shaped by the movement of the economy itself leads to the *ideologization of economics,* or in other

words to *economism as an ideology*. The illusion is created that the economy is a power above society, which the latter cannot control. This is the source of modern alienation, in contrast to alienation in precapitalist societies, which takes place in the sphere of ideology, with religion as its form of expression. This is also why economics claims to fill the entire field of social science.

If, however, as I have shown, the capitalist mode of production, introduced from outside—that is, based on the external market—tends to become not exclusive, but only dominant, it follows that the peripheral formations will not tend toward this essential polarization. Contrasting with the increasing homogeneity of the social formations of the center is the persisting heterogeneity of those of the periphery—by which I do not mean mere juxtaposition ("dualism"). Just as the precapitalist modes of production are here integrated into a system, subjected to the distinctive purposes of dominant capital (the peasant goes on producing within the setting of his old mode of production, but he is henceforth producing goods that are exported to the center), so the new social structures form a structured, hierarchical totality, dominated by the "great absent member" of colonial society: the dominant metropolitan bourgeoisie. It results from this, of course, that, just as the economic system of the periphery cannot be understood by itself, because its relations with the center are crucial, so the social structure of the periphery is a mutilated structure, which cannot be understood unless it is properly situated: as an element in a *world* social structure.

The form assumed by the peripheral formations may therefore be varied, depending, on the one hand, on the nature of the precapitalist formations subjected to aggression, and on the form taken by this external aggression, on the other. The precapitalist formations that were attacked seem to me to fall into two main types: the Eastern and African formations, and the American formations.

I have already said, regarding the first group, that they were structured combinations made up, on the one hand, of a variety of modes of production, the tributary mode being predominant (in a primitive form, based on a still-living village community, or in a developed form that was evolving toward a feudal mode of production), with the simple commodity mode and the slave-owning mode being in the service of this predominant mode; and, on the other hand, of long-distance trade relations with other formations. I have said that the simple primitive variety was the "African" type, while the developed one was "Asian and Arab."

The formations known as "American" are different. The New World

; not uninhabited when the Europeans discovered it, but it was rapidly peopled with immigrants, most of whom arrived before the definitive victory of the capitalist mode of production at the center—in other words, before the Industrial Revolution. The native inhabitants were either driven back or exterminated (North America, West Indies, Argentina, Brazil) or else entirely subjected to the requirements of European merchant capital (the Andean areas of South America). Merchant capital, ancestor of fully developed capital, established annexes in the New World, in the form of enterprises for the exploitation of precious metals (mainly silver) and the production of exotic crops (sugar, later cotton, etc.). European merchant capitalists, who held the monopoly of this exploitation, thus accumulated the money capital needed for the subsequent complete development of capital. The forms assumed by the exploitation might be various: pseudo-feudal (the *encomienda* of Latin America), pseudo-slave-owning (mines), slave-owning (the plantations of Brazil, the West Indies, and the British colonies in the southern part of North America). They were nonetheless in the service of nascent European capitalism: they produced for the market, which forbids us to confuse them with the true feudal or slave-owning modes of production. Moreover, these annexes themselves developed annexes of their own—the enterprises needed to supply food for their labor force and materials for use in their exploitation. These enterprises sometimes had a feudal look about them, especially in Latin America, with its big ranches, but they never became really feudal, being destined to produce for the capitalist market. They belonged in most cases to the simple petty-commodity mode of production, being formed on free land and in free towns by European immigrants. Farmers and craftsmen also produced there for the market constituted by the plantations that were annexes of merchant capital.

The forms of aggression were also diverse. The Americas, Asia and the Arab world, and Black Africa were not transformed in the same way, because they were not integrated at the same stage of capitalist development at the center, and therefore did not fulfill the same functions in this development.

Peripheral Formations in America and in the East

The Americas played a vital role in the mercantile period. It was then that Latin America acquired the main structures that characterize

it to this day. These are based on agrarian capitalism of the latifundia type, with labor power provided by peasants of degraded status (peons and former slaves). To this was added a local commercial bourgeoisie of the comprador type, when the metropolitan monopoly became overstretched. Along with it a petty urban community of craftsmen, small shopkeepers, officials, domestic servants, and so on came into being, in the image of that which existed in the Europe of those days.

Independence consecrated, at the beginning of the nineteenth century, the transfer of power to the landlords and the local comprador bourgeoisie. The structures described were to persist and become reinforced throughout the century, parallel with intensified exchanges with the new metropolitan center, Great Britain, which set up a network of import-export firms and banks all over the continent and drew extra profits from financing the public debt of the new states. The installation of (largely North American) oil and mining capital during the twentieth century, and then of industries producing goods to take the place of imports, gave rise to a limited proletariat, the higher categories of which were to appear all the more "privileged," comparatively speaking, because the agrarian crisis brought about a steady impoverishment of the poor peasantry and an increase in rural and urban unemployment. Sometimes, and from the start in association with foreign capital, the oligarchy of landlords and comprador merchants invested capital from agriculture and trade in the development of the new light industry or in the highly profitable activities connected with increasing urbanization (property, the tertiary sector, etc.). What is characteristic of this type of social formation is (1) its oligarchic character, the new (urban) bourgeoisie being the same class, made up of the same families, as the class of big landlords and comprador merchants, and (2) its development in the wake of the dominant foreign capital.[177]

In Asia and the Arab world the start came much later. It was only in the second half of the nineteenth century that the former feudal classes transformed themselves into big capitalist landowners producing for the world market. Developments of this kind, moreover, were highly uneven, affecting only a fringe, sometimes a very narrow one indeed, of the huge continent. Egypt, entirely transformed into a cotton farm for Lancashire by its few thousand big landlords, was the most extreme case. The power of survival of the village community resisted for a very long time, in a number of regions, the development of agrarian capitalism—less in India, where the British authorities granted the Zemindars ownership of the soil, forcibly breaking up the village communities; more in China and in many areas of the Persian and Ottoman

empires, which avoided direct colonial subjection, Egypt being the extreme exception of a development along capitalist-latifundia lines. Only in the present period (sometimes only after the Second World War) did small-scale agrarian capitalism, with rich peasants of the *kulak* type, make its appearance on a serious scale, especially where agrarian reforms ended or restricted large-scale landownership. The belated and limited development of agrarian capitalism, and phenomena distinctive of the structures of urban life and of the ideology and culture of the new dominant classes that had emerged from the transformation of the old ones, or which were characteristic of the forms of colonial subjection, restricted to a greater or lesser degree the extension of the comprador commercial sector, either to the advantage of the European firms or to that of a partly Europeanized bourgeoisie of cosmopolitan background ("Levantines," for example). Subsequently, as in Latin America, sporadic industries set up by foreign capital enabled the local oligarchies to engage in new activities. The structure of these formations then tended to become markedly similar to that of Latin America, the late start made up for all the faster because of the powerful penetration of modern forms of foreign capital.[178]

Peripheral Formations in Africa

It is this lag that Black Africa, the last region to have been incorporated in the system, is now engaged in overcoming. For three centuries Black Africa was an annex to America, with the function of providing that continent's slave labor. The hunt for slaves, which extended all over Black Africa, had the effect of transforming the previously existing formations even before actual colonial conquest. It contributed substantially to the establishment of military monarchies superimposed on solid village communities. In certain coastal regions in direct contact with the slavers' bases it resulted in the introduction of a new slave-owning mode of production.[179] Subsequently, Black Africa, conquered at the end of the nineteenth century—but hardly opened up before the war of 1914–1918 and only to a limited extent between the wars, which was a period of relative stagnation of capitalism on the world scale—underwent a form of colonial subjection that was direct, crude, and simple, providing no opportunity for the appearance among the natives of any equivalent to the big agrarian capitalists and comprador merchants of the other two continents. Black Africa has, however, been closing this gap at a faster rate since the end of the Second World War.

The idea that Black Africa is the most backward and least-changing part of the underdeveloped world is certainly one of the most mistaken of prejudices—a survival of racism, perhaps. In fact, Black Africa is probably that part of the Third World which has undergone the most thoroughgoing transformations during the last half-century, and it is still changing with amazing speed. This process of change is certainly uneven between the different sectors of social life and different regions, and full of contradictions. This is because colonial subjection has been applied in Black Africa to societies that were among the most primitive, and apparently the least fit for adaptation to the new conditions of the dominant capitalist economy. Most of these societies had hardly grown beyond the level of primitive village communities, and state forms were still too recently arisen for the degradation of these village communities or their domination by the state machine to have reached an advanced stage. There was nothing comparable to the great states of the East or to the modern-type states of Latin America. Under these conditions, the ruling strata, the tribal chieftains, were less capable than elsewhere, economically, politically, and culturally, of transforming themselves into national bourgeoisies of the agrarian comprador type, well inserted in the totality of the new social and economic relations.

Elsewhere, in the Eastern and Latin American worlds, it was generally on the basis of large-scale landed property and the higher strata of state service, and sometimes also of the commercial community, that the new national bourgeoisie was formed. Large-scale landownership, which was often identified with political responsibility, became reinforced and transformed into landownership of the bourgeois type by adapting itself to agricultural production for export. This large-scale landed property was absent in Black Africa. Agricultural production for export was here often undertaken by big European plantations, as in the Belgian Congo and French Equatorial Africa. In other regions the *économie de traite* involved millions of small peasants organized in village communities. The survival of these community relations was bound to slow down the inevitable processes of differentiation that accompany the commercializing of agriculture. Nevertheless, under certain conditions, it was in this petty peasant economy that a rural bourgeoisie most easily took shape. On the other hand, in some cases the *économie de traite* stimulated the formation of social organizations which (for want of a better term and to be brief) I will call semi-feudal, notably in the Moslem savannah country, in Senegal, Nigeria, and the Sudan, where there came into being, not large estates of the bourgeois

type, but hierarchical theocratic chiefdoms wielding political domination over village communities obliged to pay tribute.

In the great states of the East, with highly urbanized civilizations, there were often, before the colonial period, merchants similar to those of precapitalist Europe who were capable, by virtue of their technical knowledge, culture, and wealth, of adapting and transforming themselves into modern bourgeoisies. Black Africa had nothing like this. In the absence of great urban civilizations, the traders appeared here as an extension of large-scale Arab trade. Dyula, Sarakulle, and Hausa traders of the West African savannah appeared as a result of contact across the Sahara with the Arab-Berber world, which was seeking to obtain the products of the forest zone. In Eastern Sudan and on the coast of the Indian Ocean, Arab traders carried out these functions. The slave trade with the European trading centers on the Gulf of Guinea or the Arab bases on the East Coast was usually carried on by new elements, alien to traditional society, the *traitants*,[180] who were often half-breeds. In these circumstances, in the towns that were established from scratch after the colonial conquest, the new commercial tasks, even the most subordinate ones, were reserved either for the colonial companies or for foreign communities: Lebanese ("Syrians"), Greeks, and Indians.

Finally, the absence of solid political superstructures such as those of the East also had the effect of delaying the appearance of the bourgeoisie in Black Africa. It was often from the native members of the administrative organization that the modern national bourgeoisies of the Eastern and Latin American countries were formed. In Black Africa, however, the cadres of the administration, like those of the modern business enterprises, were recruited, down to quite a low level in the hierarchy, from among the foreign colonists. This situation was still further heightened where, as in Kenya or Rhodesia, a system of settlement in the colony enabled "poor whites" to fill *all* these functions, to the detriment of the formation of local elites of the modern type.

The very pattern of direct colonization, the *pacte colonial* that went with it, the lack of big towns, were also bound to delay the creation by colonial capital of light industries such as arose in the East or in Latin America. This delay itself held back the formation of technical cadres that would have served for the constitution of a national bourgeoisie. It is characteristic that the principal exceptions in this sphere are Kenya and Rhodesia (as well as South Africa, of course): colonies whose light industry was formed almost exclusively by and for the European minor-

ity. The Belgian Congo thus forms the only real exception, explained by the international statute governing the Congo basin, which deprived the Belgians of the privileges of the *pacte colonial.*[181]

The handicap constituted by the primitive rural structures of Black Africa—the absence of large landed property—was to become an advantage in the present epoch. Whereas in the East and in Latin America the solidity of semi-feudal structures very often presents a major obstacle to capitalist development, in several regions of Black Africa a rural bourgeoisie of modern planters has come into being very quickly. This progress has, of course, not affected the whole of Black Africa, for—even apart from the Moslem savannah zones, which, under the influence of the commercialization of agriculture, have evolved toward semi-feudal types of society—extensive regions are still stagnating quite outside the area of this transformation.

Comparative study of the zones in which a rural bourgeoisie has succeeded in developing leads to framing the hypothesis that four conditions need to be present in order that this occur.[182]

The first seems to be the existence of a traditional society organized in a sufficiently hierarchical way, so that certain strata of the traditional chieftainry possess enough social power to appropriate substantial tracts of tribal land. It was in this manner that the traditional chiefs of Ghana, Southern Nigeria, the Ivory Coast, and Uganda succeeded in creating a plantation economy rarely found among the nonhierarchical Bantu peoples. It should be noted, though, that excessively pronounced, more advanced hierarchies of the semi-feudal type, as in the Moslem savannah country, have *not* been favorable to the development of a rural bourgeoisie.

The second condition is that there be an average density of population of ten to thirty inhabitants per square kilometer. Densities lower than this make private appropriation of land ineffective and the potential supply of wage-labor inadequate. Excessive densities, as in Rwanda and on the Bamileke plateau in Cameroon, make it difficult for tribal chiefs to appropriate sufficient areas of land. The mechanism of proletarianization is considerably facilitated, moreover, when a labor force of ethnically alien origin can be drawn on, as with the workers from Upper Volta who work in the Ivory Coast. At a second stage of the process the younger members and dependents of the families of the original planters may in their turn be proletarianized.[183]

The third condition is the existence of rich crops, such as to enable a sufficient surplus to be obtained per hectare and per worker from the very first phase of the opening-up of the territory, when mechanization

is at a low level of development and the productivity of agriculture, still largely extensive, is not high. Cotton in Uganda, or groundnuts in the Serere country,* and in general the production of foodstuffs, are forms of production too poor to make possible what coffee or cocoa beans have allowed to develop elsewhere.

The fourth and final condition is that the political authority be not unfavorable to this type of spontaneous development. The facilities offered for private appropriation of the soil, the freedom of labor, the availability of individual agricultural credit, have everywhere played a big role in the formation of this rural bourgeoisie. Characteristic in this connection was the abolition of forced labor in the French colonies in 1950. The bourgeois demand for freedom of labor enabled the planters of the Ivory Coast to turn to their own advantage a flow of immigrants incomparably greater in intensity than the supply of labor provided by the forced recruitment of workers—who, moreover, had until then been made available only to the French planters. It also made possible the organizing of a great political campaign in the countryside, with the peasantry who had been the victims of forced labor lined up behind the native planters. Contrariwise, the paternalism of the Belgian *paysannats* undoubtedly played a negative role, slowing down tendencies to bourgeois development in certain regions, such as the Lower Congo. Is it not significant that it has only been since the collapse of this policy, following independence, that a bourgeois development of this sort has succeeded in making progress?[184] True, it must also be mentioned that, in the Lower Congo, another condition—the possibility of calling on an ethnically alien labor force—has been present only since 1960 (the refugees from Angola). The policies of apartheid and of "defense of African traditions" practiced in South Africa, Rhodesia, and Malawi are also, of course, obstacles to the advance of a rural bourgeoisie.

Is the same true of policies of cooperative rural development? Carried on everywhere in accordance with the same rather naïve paternalistic principles, based, no doubt, on the Utopian desire to see the whole countryside progress without inequality, at one and the same steady pace, these policies have neither prevented the plantation system from developing where it was possible nor caused any noticeable qualitative changes.

It remains true that huge areas are immune to movement, because the

* A region in Senegal which has retained less hierarchical forms of social organization than the Wolof country.

conditions that make change possible have not been present there: the Africa that "has not started," that "cannot start."[185] This is the rural Africa which is "free from problems" in the sense that it can cope with population increase without modifying structures, by merely spreading wider the traditional subsistence economy. The insertion of this Africa into the colonial world has brought about a very limited development of export crops, often imposed by the administration as necessary for the payment of taxes. Sometimes, when the terms of trade between these exported products and the manufactured goods they make it possible to buy have grown worse, or simply when the administrative pressure that imposed them has weakened, we see these crops being given up in favor of subsistence agriculture. It would be superficial to describe this change as retrogressive, since rationality is here on the side of the peasants, not of the administration that strives to impose the cultivation of these noneconomic crops. The development of a parasitic urban economy, with the inflation it brings in its train, often lies behind this worsening in the terms of trade, the most spectacular example of which is the setback given to the cotton-producing economy of Congo-Kinshasa. Similar phenomena have occurred elsewhere (in Mali and Guinea, for example). There is much matter for reflection in a comparative study of these cases, especially regarding the role of different family structures and religious ideologies (animism, Islam, etc.), some of which seem to have adapted themselves more easily than others to the requirements of the new development.

In the regions affected by progress, the social upheavals have been radical and fast. Numerous strata of planters have broken with tradition; they engage in precise economic calculations and adopt European ways of life and consumption. Growth rates that are sometimes exceptionally high have been realized in agriculture: rates of 7 percent per year over ten or twenty years are not unknown.[186] Undoubtedly, the transformations undergone by these rural areas of Africa during the last three decades contrast with the relative immobility of the rural areas of the Eastern world as a whole, and are closer to certain parts of Latin America.

Under these conditions, the "average rate of growth" of agriculture in Black Africa is a meaningless concept. Whereas in the East such average rates do in fact reflect the slow progress of an agriculture that is broadly homogeneous, in Black Africa they conceal the exceptional progress of regions that are moving into the capitalist mode of production. The conclusions drawn by the international organizations which,

accepting these meaningless averages, put Black Africa at the bottom of the list, are superficial and deceptive.[187]

The capitalist mode of production that is installing itself in some areas of Africa has its limits, however. Landed property, there as elsewhere, forms a protective monopoly. The possibility of geographical extension of the system reduces the need for an intensification that would in turn call for investment in land and the development of a local industry to provide machinery and fertilizers for it. Subsequent development based on commercialized production of food crops, when the possibilities of the external market start to level off, will also necessitate an intensification that will be more difficult.

In the Eastern world the urban bourgeoisie usually appeared earlier than its rural equivalent, the development of which was hindered by the semi-feudal relations dominating the countryside in the East. Moreover, the antiquity of urban civilization facilitated the rapid transformation of old-style merchants into a bourgeoisie of the modern type to which the Chinese Marxists have given the classical description of "comprador": intermediaries between the dominant capitalist world and the rural backwoods. As a rule, this commercial bourgeoisie, in association with the rich landowners and the upper circles of the administration, cooperated at a later stage with foreign capital in the creation of industries. It was on the basis of these higher strata of society and not of the rural bourgeoisie and the "third estate" made up mainly of craftsmen and clerks, numerous in the big cities of the East, that the essential nucleus of the national bourgeoisie was formed. As for the strata of the "third estate," in particular the craftsmen, the competition of foreign or local industry either proletarianized them or doomed them to hopeless decline. The mass underemployment found in the big cities of the East is due largely to this phenomenon.

This pattern of the formation of a national bourgeoisie differs both from the European pattern and from that of present-day Black Africa. In Europe the bourgeois strata of the *ancien régime* did not usually play the main role in the formation of the new industrial bourgeoisie. In many cases they were "feudalized" through purchase of land, leaving the new rural bourgeoisie and the craftsmen to provide the principal contingent of entrepreneurs in the nineteenth century. In the East the extreme weakness, or even nonexistence, of the rural bourgeoisie, together with the impossibility for craftsmen to rise in the world in the face of industrial competition, necessarily caused the national bourgeoisie to be highly concentrated numerically from the very start.[188]

The concentration of landed property, of which India and Egypt provide perhaps the best examples, with the continual movement of fortunes made in the towns into the countryside, to buy land, accentuated this centralization of wealth and the merging of large-scale landownership with the new urban bourgeoisie.

In Black Africa, where urban development has taken place only recently, in the colonial period, and where large-scale landownership is lacking, the formation of an urban bourgeoisie has been delayed for a longer period. The traditional traders, such as those of West Africa, were not capable, for lack of adequate financial resources (and probably also because of their rigid traditional culture), of modernizing themselves and entering the circuits of modern commerce. Their development has therefore remained limited, with their field of activity very often confined to traditional exchanges (cola,[189] dried fish, etc.). Some of their activities, moreover, have ceased to exist, such as the trade in salt and in metals. In certain sectors, however, a noticeable enrichment has taken place, the volume of exchanges having considerably increased. Examples of this trend are the cattle merchants of the Niger bend, of Nigeria, and of the Sudan, and the dried fish merchants of Mali, Chad, and the Bight of Benin. A few of these merchants have sometimes ventured into modern trade, in textiles and hardware, but they have, as a rule, failed to secure more than a very limited position in these branches. Yet the spirit of enterprise is not lacking among them, as we see from the emigration of Sarakulle and Hausa merchants to the distant Congo, attracted by the trade in diamonds. Nevertheless, the numbers involved remain very few, their financial means meager and their technical know-how slight.

As is well known, colonial conquest was preceded, over several centuries, by the operations of the coastal bases of the *économie de traite.* In these centers a trading bourgeoisie, European by origin on the West Coast, Arab on the East Coast, but in both cases rapidly becoming half-caste, might have served as the nucleus of a national trading bourgeoisie. These men did indeed follow the advance of colonial conquest, but they did not establish themselves as *traitants* in the new market towns of the interior, in the midst of areas where agriculture was becoming commercialized. Their development was cut short, owing to its late start, through the victorious competition presented by the big monopolies of colonial trade at the opening of the twentieth century. Here examples can be quoted of the bankruptcies suffered by merchants of Saint-Louis and Gorée at the end of the nineteenth century, as a result

of competition by Bordeaux and Marseilles firms. Their children all went into state service.[190]

The development of commercial relations within the countryside should also have given rise to a bourgeoisie of small traders. Here too, however, the power of the big trading monopolies prevented them from growing above the level of very petty trade and moving into wholesale and import-export trade. One special field, however, seems to have been reserved for the local trading bourgeoisie: the trade in locally produced foodstuffs, which has so far remained a highly atomized business often carried on by women. Even here, tendencies toward concentration seem to have made themselves felt in some places.

All these groups with bourgeois inclinations have also suffered from the absence of a rich landed aristocracy by association with whom they might have speeded up their accumulation of capital. The narrowness of the African markets has also played a negative role. A very limited number of branch offices of the big concerns, in the *escales*,* together with small traders of immigrant origin (Greeks, Lebanese, and Indians), sufficed to meet the needs of commerce. Only in quite exceptional circumstances, when, as a result of independence, European traders withdrew, or the state intervened actively on behalf of native traders, have the latter succeeded in breaking into the wholesale and import-export trades. The case of Congo-Kinshasa is particularly illuminating from this standpoint: here, the distribution of import licenses, together with inflation, have enabled a rich new trading bourgeoisie to develop, and to attain within only a few years an exceptional degree of maturity. Organized in a strong trade association (the Aprodeco), the Congolese merchants today account for perhaps 20 percent of the wholesale and import-export trade—something unparalleled in the rest of Black Africa. It is interesting that this bourgeoisie has originated from humble circles without great wealth or traditional social prestige with a modern education: clerks, teachers, nurses, etc.

The process of industrialization in Black Africa also offers some striking differences from the Eastern and Latin American patterns. This process is much more recent in Black Africa. The *pacte colonial* and the narrowness of the markets doubtless provide the explanation for this late development. Only since the Second World War has the process begun, sometimes becoming so rapid as to enable large areas of Black

* Market towns in the interior where the trading concerns had their agencies.

Africa to make up for their delay in starting, as compared with the East. This has happened in Senegal, Ghana, Southern Nigeria, the Ivory Coast, Congo-Kinshasa, Congo-Brazzaville, Kenya, Rhodesia, and Cameroon. Everywhere, however, even when it has taken place following independence, industrialization has been carried out almost entirely by foreign capital. Modern industry (even light industry) requires resources too great for an association of local national capital, deprived as it is of the source of accumulation represented in the East by large-scale landownership. Consequently, there are practically no small African-owned industries. Those that are usually classified as such in statistical tables are really examples of urban crafts (bakeries, carpenters' shops, and the like), in which the possibilities for accumulation are very limited. European enterprise reaches very far down in the scale of industrial activity.

For the same reasons the African rural bourgeoisie is unable on its own to create a modern industry, to follow the example of its European equivalent. It has neither the financial means nor the technical capacities for this. Its younger generation escapes into state service. Nevertheless, exchanges of capital do take place between town and country. Those who have become officials invest the money of their country kinsfolk in sectors which do not require excessive capital: road haulage, taxis, services, building. Conversely, officials buy plantations or tracts of land destined for market-gardening. The small scale of private fortunes in the towns restricts the scope of such transfers.

The African pattern of development of capitalism is thus different from the Eastern and Latin American patterns as regards the fundamental point of the respective places occupied by the rural and urban bourgeoisies and the relations between these two classes. Whereas in the East capitalism began in the towns, to spread later, and with difficulty, into the countryside, in Black Africa the reverse seems to be more typical. In Black Africa, rural capitalism has the good fortune to strike deeper roots, being scattered among tens of thousands of planters. On the other hand, Black Africa lacks a highly concentrated urban big bourgeoisie, allied to large landed property, such as is found in the East and in Latin America.

The new tendencies toward a development of state capitalism which are common to the Third World as a whole are doubtless due to the dominant position held by foreign capital and the weakness of the urban national bourgeoisie which results from this. Consequently, these

tendencies are likely to be more pronounced in Black Africa than elsewhere.

The development of foreign capitalism in the towns has indeed created in the Third World national communities which are mutilated, insofar as the classes and social strata whose existence is (negatively) related to foreign capital are absent. In Black Africa this feature is all the more marked because urban development is recent and the dominance of foreign capital more complete.

The towns of Black Africa contain few social survivals from the past comparable to the craftsmen and petty traders of the East. The occupied native population is made up almost entirely of officials and office workers. The working class is weak in numbers in proportion to the up-to-dateness of industry. The mass of the people consist, apart from the lower strata of public employees and the employees of foreign private concerns, of a large number of unemployed, usually young men, who have come in from the country.

Under these conditions, the national movement has been led by the urban petty-bourgeoisie of officials and office workers, together with the bourgeoisie of small businessmen and planters, where this exists. The traditional rural elites have usually lined up with the colonial order, which they see as safeguarding tradition, threatened in the towns by cultural modernization. The urban bourgeoisies, with few exceptions, have been overwhelmed by the petty-bourgeois nationalist movement.

Independence has strongly reinforced the specific weight of the new state bureaucracy in the national community, especially because the rural bourgeoisie, where it exists, remains scattered and has a limited outlook, and because the bureaucracy inherits the prestige of the state, something that is traditional in non-European societies and that is reinforced in Africa by experience of the apparently absolute power that was wielded by the colonial administration and by the fact that the petty bourgeoisie from which this bureaucracy is recruited holds a monopoly of modern education and technical knowledge.

The new bureaucracy tends in these circumstances to become the principal driving force in society. The relations between this social group, on the one hand, and, on the other, the bourgeoisies arisen from the planters and from small-scale urban business, and foreign capital, constitute the essence of the problem of relations between political power and economic responsibility in these countries.

The question then arises: what will be the most probable form of

development of African national capitalism under these conditions—private capitalism, or state capitalism? Comparative analysis of the recent evolution of African states suggests that these two forms are being combined in different ways depending on the stage of evolution at the end of the colonial period.

The development of capitalism within the colonial framework was based on the transformation of subsistence agriculture into agricultural production for export, and on mining. The growth rate of colonial capitalism was determined under these conditions by that of the demand of the advanced countries for the primary products originating in the colonies. At a later stage, the local market created by the commercialization of agriculture and the urban development that was bound up with this made possible the establishment of groups of light industries financed almost exclusively by colonial capital. It has already been shown that, on this narrow basis, the mechanisms of capitalist development become blocked at a certain level. Examples are plentiful to illustrate this analysis. A large number of African states—Senegal, Ghana, Southern Nigeria, Congo-Kinshasa, for example—reached this level ten or fifteen years ago. A new leap forward would require both an advance in the productivity of agriculture producing foodstuffs for the markets of the new towns and the establishment of groups of basic industries the outlet for which would be industrialization itself rather than direct consumption.

In certain cases where foreign capital had not exhausted the possibilities of this type of development at the moment when independence was achieved, the new local administration was obliged to leave unchanged the economic structures inherited from the colonial period. Often, however, when foreign capital had already exhausted these possibilities, the new administration has gradually come to desire to take over the foreign-owned sector, this being the only way open to it to secure rapid expansion by providing itself with an economic basis. It then tends to transform itself from a classical administrative bureaucracy into a state bourgeoisie.

In the first of these two cases, parallel with the development of the foreign-owned sector, a certain scope can be found for national development, in small and medium business activity. Efforts are sometimes made by the state to promote this type of development. It can be shown, however, that this scope is necessarily limited. The development of national capitalism at the expense of the foreign sector offers, in contrast to this, a greater range of possibilities, and it can assume a variety of forms, to the advantage either of private national capital or

of the state. Transfers of ownership of foreign plantations to the well-to-do strata of urban society and the taking-up of shares in new foreign-owned industries furnish examples of the first type of process, with Congo-Kinshasa as probably the best example. Nationalization of large enterprises, like the Union Minière du Haut Katanga, provides examples of the second type.

In every instance, however, the state is the instrument needed to bring about this process, which cannot occur through the mere working of economic forces. The local bourgeoisie of planters and merchants does not possess the financial means to buy up the investments of foreign capital. To do this it needs the backing of public funds. It is this drift toward state capitalism that seems to me to constitute the essence of what is conventionally called "African socialism."

Certain circumstances have favored the radicalization of the current tendency, giving it a bias toward types of organization that are called socialist (in the sense that they are inspired by the Soviet statist pattern); other circumstances have favored development toward forms that are described as liberal (in the sense that they are inspired by the mode of economic organization characteristic of the West). The history of the national movement, and the role that has been played in it by the popular masses in the towns, or at least by the lower strata of the petty bourgeoisie, and sometimes by the rural masses (which have shown themselves capable of substantial revolts, in Kenya, the Congo, Cameroon, the Sudan, and Nigeria), are not without influence in this connection. When the blocking of advanced colonial-style development has already been effective for a long time, and the problems are therefore all the more acute, the pressure of these masses may have led to the adoption, after independence, of sharper attitudes toward the private bourgeoisie, as began to become apparent in Ghana. Similarly, though paradoxically, when this private bourgeoisie is nonexistent, owing to a delay caused by the form of colonial development, as in Mali or Guinea, the specific weight of the administration in the country's life may reinforce tendencies toward statism. Conversely, a process of colonial-style development under way as in the Ivory Coast, Biafra, or Cameroon may strengthen liberal tendencies and modify the relations between the private bourgeoisie and the administration. Generally speaking, however, the state bourgeoisie has in no case in Africa eliminated the private bourgeoisie, but has been content to absorb it or to merge with it. Indeed, the rural bourgeoisie of planters has always retained a leading economic role and an important political position.

The place occupied by the bourgeoisie—thus conceived in the widest

sense of the term—in the political life of Black Africa today seems to be a decisive one. It is characteristic, in this connection, that the great ethnic movements that are in the process of upsetting the map of Africa by breaking through the artificial frontiers inherited from the colonial period are experiencing very different fates, depending on whether they affect ethnic groups that have been transformed by the development of capitalism or, on the contrary, groups that have remained unaffected by modernization. The national bourgeoisie gives an ethnic movement consistency, coherence of aims, and a definite program which peasant revolts have proved unable to combine under present circumstances. The contrast between the Biafran succession, organized around a local bourgeoisie, and the rebellion in Southern Sudan, a country without bourgeois elites, is illuminating in this respect. In the Congo, when independence came, the ethnic groups most affected by the development of capitalism, the Bakongo and the Baluba, immediately organized their provinces into a national state, and remained aloof from the great peasant revolts that involved the zones that were lacking in a bourgeois framework, namely, the provinces of the East and North, and Kwilu.[191] In Ethiopia, the Eritrean opposition, grouped around the bourgeoisie of that province, possesses a coherence that is lacking among the Galla peasants and the Somali nomads.[192]

The national bourgeoisie continues with greater or less success the work begun by foreign capital, namely, the development of plantation economy and light industry. During a certain period it may even perhaps enlarge its scope by gradually taking over the foreign-owned enterprises. Progress beyond that point demands the overcoming of serious handicaps standing in the way of rapid advance by food-producing agriculture and the creation of large economic spaces, which are the necessary conditions for further development.

True, there are examples to show that the transformations effected in export agriculture can also be effected in the production of foodstuffs for the market (the cases of the Senufo district in the Ivory Coast and of the Lower Congo are among the most illuminating), although, it seems, this is more difficult, for reasons that need to be analyzed. The spontaneous tendency runs in this direction, but at a rate that is inadequate to the needs of the present epoch, given the acceleration of urban development and the economic disequilibria this entails. In order to proceed much faster it may be necessary to bring in active participation by the rural masses. It is hard to say how this could be secured (though a systematic analysis of peasant revolts might provide valuable pointers), but it can be stated that a paternalistic egalitarian policy,

whether in the traditional style, like the *paysannats*, or in the modern style (*animation rurale* and cooperation), has little prospect of producing any better results in the future than it has produced in the past.

As regards the need for large spaces, moreover, it is not to be forgotten that, having been created within the setting of the small artificial states of today, the national bourgeoisie will rise only with difficulty above the limited horizons of these states. Social forces that have no immediate interest in maintaining these micronational forms are nevertheless bound to appear on the scene.

International political hierarchy derives its structure from relations of economic inequality. The age is past in which bourgeoisies of different origins could coexist, each operating in a relatively independent sphere. The transformation of the relevant problems into *world* problems threatens young bourgeoisies with the prospect of being kept at the level of appendages to the most powerful forces on the world scale. This will continue to be the case at least as long as the underdeveloped countries remain what they are now—exporters of primary products, deprived of basic industries.

It is true that the development of capitalism in Black Africa remains embryonic, in the sense that vestiges of the past, especially the survival of structures that are still living realities (tribal ties, for example), often continue to hide the new structures (ties based on class, or on groups defined by their position in the capitalist system).

The numerical weakness which still frequently characterizes the bourgeois classes, and the modest income at their disposal, contribute to this impression of the indefiniteness of capitalist relations. The belated incorporation of these new bourgeoisies into a world unified, organized, and hierarchically ordered by capitalism makes the prospect even more uncertain. While they have not yet succeeded in building bourgeois national states, the bourgeoisies of Black Africa are already having to cope with problems of a new kind: destructuring of the rural community, development of towns accompanied by inadequate industrialization, a growing gap between the excessively slow pace of economic growth and that of the progress of education, cultural traumas—all of which reflect not the general difficulties characteristic of capitalist development, but those peculiar to the development of peripheral capitalism.

GENERAL FEATURES OF PERIPHERAL FORMATIONS

Despite their different origins, the peripheral formations tend to converge toward a pattern that is essentially the same. This is not surprising: it simply reflects the increasing power of capitalism to unify the world, relegating regional peculiarities to the museum of survivals from the past, and organizing the center, on the one hand, and the periphery, on the other, into a single hierarchical world structure. The development of agricultural production for export tends to give rise to an agrarian capitalism throughout the periphery and, furthermore, the latifundia form of this agrarian capitalism, both in Latin America and in the East, is continually threatened by the rising power of the rich peasantry, so that the *kulak* form of agrarian capitalism is tending to become general and to expand in scope. Integration into the world market tends everywhere to create comprador bourgeoisies. Even where, as in Black Africa, old-time mercantile colonial capital used to fulfill this function, its positions are being challenged by the first generations of national capitalists, who press their claim to take over. The shifting of the center of gravity of foreign capital from this old-time colonial capital to the great interterritorial mining and industrial concerns helps to make possible this nationalizing of trade, which has lost its former importance among the mechanisms of domination by the center.[193] By creating in the periphery, in the sectors that are of interest to it, organizations for mining and industrial processing on the scale required by modern technique, the center everywhere blocks the path for the development of a national industrial capitalism capable of competing with it. Hence the general tendency of local capitalism to assume statist forms.

The formation of colonies of settlement by Europeans has played its part in the gradual creation of a periphery. We have seen that, in Latin America, European settlement served to establish from the start that peripheral structure toward which national communities tended in the other regions of what was to become the Third World. The settlement of "poor whites" in North Africa or in Kenya fulfilled the same functions in relation to peripheral capitalism in the agrarian and commercial spheres. Only in the extreme (and exceptional) cases of North America, Australia, and New Zealand (and also, with special features of their own, South Africa, Rhodesia, and Israel), did the establishment of colonies of settlement result in the creation of new *central* formations.

The function fulfilled by New England was a special one from the outset. A model, such as history has rarely provided, of a society based

on petty-commodity production, it took England's place as the new center (at first only partially) in relation to the periphery constituted by the slave-owning colonies of the South and the West Indies. Having thrown off control by the monopolies of metropolitan merchant capital, New England became a fully developed center, and later, as the United States of America, rose to its present status as the metropolis of the world. This offers the best available example that the simple commodity mode of production necessarily gives rise to full-blown (autocentric) capitalism, and that the less this mode of production is hindered by other modes the more striking will be the capitalist development it engenders. A partial analogy is to be seen in the original formation of the countries of White Oceania, also based on petty-commodity production. These countries, however, remained for a long time principally agricultural producers, exporting to Europe and not to the periphery, as with North America. For this reason Australia and New Zealand had more difficulty advancing to the industrial stage. Here too, however, the dynamism of the simple commodity mode of production, unhindered by precapitalist modes of production, showed its power to achieve this stage. The same can be said of South Africa, which was at first a mere agricultural appendage to the British center. At that stage, the white community remained isolated from the surrounding black world, and did not exploit it, merely driving it back. When it had reached the industrial stage, owing to its own dynamism as an unhindered simple commodity economy, white South African society found its own potential periphery ready to hand. This, it seems to me, is the explanation of the remarkable triumphant imperialism of South Africa, which has virtually annexed Rhodesia and does not hide its ambition to reduce the whole southern half of the continent to the status of its periphery. On a smaller scale, Israel exemplifies the same phenomenon in the Middle East.[194]

All the peripheral formations thus share three essential features: (1) the predominance of agrarian and commercial capitalism in the national sector of the economy; (2) the creation of a local bourgeoisie in the wake of dominant foreign capital; (3) the tendency to a peculiar bureaucratic form of development which is characteristic of the periphery in our own day.

Predominance of Agrarian and Commercial Capitalism

The predominance of agrarian capitalism forms the most striking and obvious of the classical features of the underdeveloped societies. The classical image of the dominant class in the underdeveloped world is the large landowner—not the feudalist but the planter (producing for export).

This predominance shows itself in one or another of the three forms of which I have analyzed the process of formation. The most complete of these is certainly the latifundia form that is found in Latin America, Cuba having provided the most thoroughgoing example, because this form was established there from the start to fulfill this very function, without any process of internal evolution or transformation of precapitalist formations. The fact that this latifundia form made use of servile labor (slaves or peons) for a long period before evolving toward general employment of wage labor offers a further confirmation that, whenever capital lacks a labor force, it does not hesitate to resort to political means in order to create this labor force.[195] The slavery and peonage of the Americas, like, closer to our time, forced labor on plantations (as in the Ivory Coast until 1950), or confinement of the African peasantry to inadequate "reservations" (South Africa, Rhodesia, Kenya before independence), constitute so many methods of implementing this policy.

When the formation of a capitalist latifundia proceeds by way of transformation of precapitalist formations, it comes up against the resistance of internal social forces that are all the livelier because the village community forms the basis of these precapitalist formations. When these forces are completely overcome, the finished pattern is realized, as in Egypt. Very often, however, development proves unable to reach this point. The consequence is the creation of agrarian capitalist formations that are integrated into the world market by their essential function but are nevertheless clothed in feudal forms. The systems of groundnut cultivation in the Murid country of Senegal and in the sultanates of Northern Nigeria, or the Sudanese economy, exemplify this incomplete transformation. The new ruling classes take for themselves only part of the land, often quite a small part. They continue to benefit from the tribute-paying system on which their position was originally based. Very often—as in the African countries mentioned—this tribute is levied in the name of new religious functions, the peasant community being integrated into a system of brotherhoods (Murid, Tidjane, Ansar, Ashiqqa, etc.).[196] This new religious force has been born not of a dis-

tinctive internal dynamic but of a need to collect a larger amount of tribute than in the past. Isolated from the world market, the local ruling class can only levy a tribute in subsistence goods, to provide for its own consumption and that of its hangers-on and its machinery of government. Once integrated into the world market, it can commercialize this tribute and adopt European patterns of consumption. Its appetite becomes limitless, and it can secure the increased tribute it needs only if a new force—here, religion—causes the peasantry to give its assent.

Paradoxically, where this path is closed because the original precapitalist formations are not sufficiently well developed, it is the most dynamic and modern form of agrarian capitalism that establishes itself. This has happened in the areas of native-owned plantations in Black Africa, where it is the rich peasant, the *kulak,* who has become the central figure in the new formations, whereas elsewhere the internal contradictions of a latifundia system integrated into the world market had to develop before agrarian reforms were imposed which favored "kulakization" (Egypt, India, Mexico, etc.). Here, too, it is absurd to try to ignore politics and reduce the significance of the process to strictly economic terms. It is interesting to observe that even where the conditions for transforming precapitalist formations integrated into the world market into formations of *kulak*-type agrarian capitalism are not at all favorable, it is nevertheless in this direction that the tendency runs. We then see meager forms of sporadic agrarian microcapitalism, as in the savannah country of Niger.[197] The concentration of modern means of production (tractor-drawn machinery), through the cooperatives, and the hiring out of these means, which is frequent in Africa, reflects the power of this tendency toward capitalism, even though in a setting that is very poor and confined.[198]

The predominance of agrarian capitalism brings in its train the agrarian crisis which is also a general feature of the Third World. Natural population increase being unable to find its normal outlet in industrialization, pressure on the land becomes intense. Moreover, capitalist forms in agriculture cause the excessive agricultural labor force to be thrown out of employment. In the precapitalist systems, the whole population, regardless of the theoretical surplus of labor, has the right of access to the land, but as capitalist forms develop, this right is lost. An increased proportion of landless peasants, and the driving of ever larger numbers of them right out of production, with the consequent appearance of unemployment, are the results of this process. At the same time the mechanisms of unequal exchange reduce the countryfolk

to poverty despite the increased productivity of their labor. These are fundamental reasons for the flight from the countryside, and why it is accelerated despite the inadequacy of the urban outlet.

The Dependent Character of Local Capitalism

The control exercised by foreign capital over native-owned enterprises is more, or less, effective, depending on whether or not these enterprises are situated within the circuits exposed to external exchanges and therefore dominated by foreign capital. Analysis of some historical experiences of the development of national capitalism in the periphery shows clearly what these mechanisms of domination are: for example, in the case of Senegal, of the vicissitudes of whose national trade between 1820 and our own time I have made a study.[199]

This history makes sense only if one clearly distinguishes between the concepts that are essential for an analysis of accumulation: the concept of expanded reproduction and the concept of primitive accumulation. There is expanded reproduction when profit—the income from invested capital—is saved and reinvested in order to expand productive capacity. In contrast to this, in the prehistory of capital, the income that is originally turned into capital cannot itself be derived from the profit from a previous investment of capital, but must emerge from exploitation of noncapitalist sectors: this is primitive accumulation. In the relations between advanced and underdeveloped countries we observe mechanisms (up-to-date ones) belonging to the type of primitive accumulation, which operate to the advantage of the dominant foreign capital and therefore restrict the possibilities for development of the local capital, which remains peripheral. Politics thus plays a vital role. The case of Senegal between 1820 and our own day is a striking illustration of this truth.

This is why, in examining relations between the center and the periphery, we must never forget what is fundamental, namely, *the mechanisms of primitive accumulation for the benefit of metropolitan capital.* Integration into the world market determines the essential price structure, that which defines the ratio between prices of exported products and internal prices. This structure makes possible a systematic transfer of value from the periphery to the metropolitan center. This being a process of unequal exchange, it is a mechanism not of normal expanded reproduction but of primitive accumulation. The latter not only went on before the historical appearance of expanded

reproduction: it continues to go on today, and is characteristic of all the relations between the center and the periphery of the world system.

National capitalist activities are nevertheless not absent from these relations. This is why we can also observe mechanisms of expanded reproduction for the benefit of the national bourgeoisie which has arisen in the circuits by which the periphery is integrated into the world market. This was the case in Senegal with the native *traitants* dealing in gum, and later in groundnuts, and with the import merchants of today. But this circuit is dominated by the capital of the center: the margin in which accumulation for the benefit of the national bourgeoisie can be carried on is wholly determined by the hierarchical relations between the bourgeoisie of the center and that of the periphery. Left to the unmodified working of spontaneous economic laws, this margin continually tends to be reduced to zero, because changes in relative prices transfer the benefit from the national bourgeoisie to the bourgeoisie of the center. These are the mechanisms that account for the ruin of the Senegalese bourgeoisie between 1900 and 1930, just as they explain the meager results obtained today in the sectors grafted on to the world market (forwarding agents, for example). Extraeconomic (political) relations between the bourgeoisie of the center and that of the periphery, which define the distinctive characteristics of the social formations of the center and of the periphery, either mitigate or aggravate this tendency for transfer of the capacity to accumulate from the periphery to the center. Other examples (of which there are many in Africa, such as that of the forest entrepreneurs) lead to the same conclusions.[200]

Only to a very minor degree do we observe mechanisms of primitive accumulation or normal expanded reproduction to the advantage of the national bourgeoisie operating in sectors that depend only indirectly on the external market, being mainly bound up with the expansion of the home market. Here the possibilities of rapid accumulation are greater, being much less subject to control by foreign capital. (This is the situation, for example, of the meat salesmen in Senegal.) These mechanisms belong to the sphere of primitive accumulation, when local capital is in relations with the noncapitalist sector of the local economy; otherwise they belong to the sphere of normal expanded reproduction.

G. Arrighi has used the expression "*lumpen* bourgeoisie" to describe this micro-bourgeoisie that comes into being in the wake of foreign capital and can develop only within the narrow limits allotted to it by the policy of the dominant capital.[201] This wretched form of national capitalism is frequent in Africa where the bourgeoisie is chiefly recruited from the ethnic group traditionally engaged in trade (Dyula,

Hausa, Bamileke, Baluba, Bakongo, etc.) or, in some countries, from women (the "market-mammies"). Though abject and narrowly restricted by the degree of tolerance shown by the dominant capital, this bourgeoisie may flourish and, amid the general poverty, constitute a local social force of decisive significance. This is the case in Southern Nigeria, where this type of African enterprise is often cited as an example of the success of promoting indigenous private enterprise.

It is quite clear that where the chief form of colonial economic dependence was through commercial relations and the chief form of foreign capital was old-style colonial merchant capital, even this limited and miserable type of national capitalism had no chance of developing. In the French colonies in particular, the mediocre dynamism of the metropolitan capitalism itself meant that excessive relative weight was given to this old-style merchant capital of Bordeaux and Marseilles, with its background in the monopoly companies of the *ancien régime* and the slave trade. In our time, of course, the center of gravity of the dominant foreign capital has, even in this case, shifted from the commercial houses to the big interterritorial mining or industrial concerns, so that the trading sector is rapidly losing its importance and being abandoned to local capital.[202] The change in political relations resulting from political independence also has a decisive influence here. The blossoming of this national bourgeoisie is all the more pronounced because the many ties that link it to the machinery of state—family, connections, corruption, etc.—favor its formation. In the most extreme cases of concentration of local power it is the upper strata of the bureaucracy, themselves merging with the landed oligarchy, which, either openly or through intermediaries, become a new bourgeoisie of the comprador type. They are then able not merely to take over their trading functions from the colonialists but even to secure an association with foreign capital in the modern sectors (mines, industries, banks).[203]

It remains true that, even in these most favorable situations, the very mechanisms of integration into the world market—both the economic ones (unequal exchange, lack of independence of the financing structures, vulnerability of the balance of payments, etc.) and those that belong to the domain of ideology and politics—forbid the national bourgeoisie to go beyond a "desire for autonomy."[204]

Contemporary Tendencies to the Development of National Bureaucracies

It is a commonplace that the world of today is witnessing the development, in all fields of social life (state and business administration, political and trade-union activity, etc.), of bureaucratic machinery that is unprecedented in its scope and effectiveness, at least in the capitalist formations of the center. Some explain this phenomenon as being necessitated by modern technique, adding, in the case of Burnham and Galbraith, that it reflects a transfer of political power from parliamentary democracy to state technocracy. Proof that it is a deep-rooted consequence of technical progress is said to be provided by the developments proceeding in Russia and Eastern Europe, the "convergence of the systems," despite the difference in ownership of the means of production—public in the East, private in the West.[205] Transposed to the periphery, this body of socioeconomic theory seeks to identify the bureaucratic phenomenon observable there with that which is characteristic of the center in our time. The demands of accelerated development in the Third World are said merely to reinforce a tendency that is general in the age we live in.

Although this theory fits the facts so far as their *appearance* is concerned (but *only* so far), it does not stand up to analysis. Here, too, we find the center and the periphery treated as though they were the same, so that it is not impossible to grasp the specific functions each fulfills within the same world system, and the real mechanisms by which each of them operates.

It seems to me that, at the center, the capitalist mode of production implies the polarization (which has in fact taken place) of society into two classes, bourgeoisie and proletariat (even if increasingly important sections of the latter—cadres of every variety—although they are employed for wages, deny that they belong to the proletariat). I think, too, that in the exercise of political power and management of the economy, the bourgeoisie cannot itself directly take on all the functions of direction and execution that its position demands. The farther society progresses the more complicated do its mechanisms become, and the more intensified this phenomenon. This is why social groups are formed that are entrusted with these functions: the higher administration, police and army, the technostructures of big firms, groups of professional politicians, and so on. Some of these groups have lost their traditional function: this has happened to the more professional politicians, who carry out, within the framework of parliamentary demo-

cracy, the function of negotiators on behalf of the different interests within a collective capital which at that stage is still scattered and intracompetitive, but who, with the coming of monopoly, have lost their function to the technocracies of the big firms and the state.[206] Only in periods of serious crisis, such as that from which Nazism arose, does the bourgeoisie lose control of these groups, which then seem to constitute an independent social force, for a time at least. In my view, the strengthening of the technocratic machinery in the countries of Eastern Europe, and their demand for "democracy" (restricted to this bureaucracy), reflect an evolution toward a new form of generalized state capitalism, which is essentially marked by the reestablishment of market mechanisms and the ideology (economism) that necessarily accompanies this. Investigation of the origins of this evolution, especially in Russian history, and discussion of whether or not this evolution is "inevitable"—in other words, the problem of the future of China after the Cultural Revolution—though matters of importance, are not our business here.

For nothing justifies us in transposing these analyses to the periphery. The bureaucratic developments in the periphery need to be interpreted, in my opinion, in relation to their own setting, which is that of the formations of peripheral capitalism.

In the East and in Latin America the domination of central capital has given rise, as we have seen, to social formations that include local ruling classes (big landowners and comprador bourgeoisie) who wield political power locally. This power has been exercised by these classes within the framework of a world system, that is, for the benefit of the center and of themselves, whose own development was determined from outside. Matters proceeded differently in other parts of the periphery, especially in Africa. In North Africa, direct colonial rule and the settlement of "poor whites" restricted within very narrow limits the formation of social classes similar to those in the East. In Black Africa, generalized direct colonial rule, in a particularly simple and crude form, reduced for a long period the local population of vast areas to what was in effect an undifferentiated mass, the traditional hierarchies having largely lost their meaning, while all the new economic functions were directly taken over by foreigners.

Within the setting of political independence and the formation of national states under these conditions, the connection between the new bureaucracies and the social structures has assumed a variety of forms, having different significances and opening up prospects of different types of development. Where the peripheral formations are advanced,

the national bureaucracy has found itself in a relation to the social structure that is—in appearance—similar to that which obtains at the center. In appearance only, for the reason, at least, that the system does not constitute a truly *national* whole, that is to say, one that is coherent and self-sufficient. Just as the peripheral economy can be understood only as an appendage of the central economy, so is peripheral society a mutilated society: the important element absent from it is the metropolitan bourgeoisie whose capital dominates it. Owing to the weaker and one-sided development of the local bourgeoisie, the weight of the bureaucracy in this society seems much greater. Moreover, a specific contradiction may develop from this fact. Either the state fulfills its functions within the framework of the system, that is, at best, helps to promote the advancement of a local peripheral bourgeoisie, or it undertakes to free the nation from domination by the center, through promoting national industrial development—which can only be public in form—and then it risks coming into conflict with the social formation from which it has arisen. Where the peripheral formations are not very advanced, this conflict does not occur, since the local bureaucracy is practically alone on the scene.

Such important phenomena as those of the role played in the Third World by the classes and strata described as "privileged" cannot be interpreted without analyzing the structure as a whole. There is a popular attitude that the wage-earners (in general) are "privileged" in comparison with the rural masses. This is not true, however, in the more developed formations, where their "privileges" shrink beside those of the local property-owning classes. The contradictions characteristic of the periphery, resulting in increasing unemployment in town and country, give all skilled workers (even those at the lowest level who enjoy relatively stable employment) a scale of income that is beyond comparison with that (in theory, nil) of the unemployed. However, there are systems of redistribution—which are deplored but which at bottom represent society's necessary response to its own situation (and which are not so much "survivals from the past" as responses to problems caused by the development of capitalism at the periphery)—that are not allowed for in the national accounts. Moreover, the pressure of unemployment has its effect on the organization of the wage-earners themselves, and, as we have seen, explains unequal exchange—meaning that these wage-earners receive rewards that are lower than those paid at the center for the same productivity.

The "privileged" situation of the wage-earners is more pronounced in the less developed formations. In Black Africa especially, colonial

rule tended, in the phase preceding independence, to foster certain differentials in wages. Direct colonial rule, simple and crude, became less and less bearable. The development of towns and the creation of industries necessitated an increase in the payment of urban wage-earners, living as they were in contact with European modes of consumption. The solidarity of traditional social relations in the countryside, which were as yet breaking up only slowly, restricted the influx of labor power into the towns. The social order imposed a revision of the reward of labor *in the towns*. The shifting of the center of gravity of foreign capital, from old-style merchant capital to the capital of big concerns with high productivity, made this revision possible and not very expensive.[207] The case of the Belgian Congo, the most highly industrialized country in Africa, is eloquent in this respect. Between 1950 and 1958, real wages in industry were doubled. This increase, incidentally, had no harmful effect on the newly established industries, but, on the contrary, stimulated them to modernize and expand.[208] Here, then, the wage-earning sections did become relatively privileged. The colonial power thought it was gaining something useful at a low price: instead of basing itself on a dependent peripheral bourgeoisie, it imagined it could restrict its concessions to social strata with a low level of skill, thus avoiding the formation of "elites" that might be more demanding. It was then that the present social structure took shape, to be inherited by the independent states.[209]

The amount and distribution of these petty privileges were modified, however, after independence. Here, too, the case of Congo-Kinshasa is significant. The Congolese inflation of 1960–1968 resulted in a considerable change in the distribution of income within the country, the share going to foreign capital not being affected: the formation of a local bureaucratic machine (and so of a bureaucracy which, to be sure, is made up of several grades, but the highest grades of which are today by far the most privileged sections of Congolese society) was financed (1) by a drastic cut in the real income of the peasants producing for export (an internal worsening of the terms of trade for them which was much greater than that of the external terms of trade) and (2) by a no less drastic cut in the real wages of wage-earners in industry and commerce, which were brought down to the level of 1950. The IRES group of economists have shown the retrogressive character of these changes: the higher proportion of expenditure on imports and on consumer goods in the new distribution of income; the two-fold structural crises, potentially permanent, in public finance and the balance of pay-

ments, which is inherent in this situation, and the increased dependence on the outside world which it implies.[210]

I have shown that, without the factor of inflation being present, phenomena similar to this are characteristic of the development of the countries of the franc area, and also, with only a moderate degree of inflation, of some other countries, such as Ghana. The mechanism is thus as follows: freezing of wages and of prices paid to agricultural producers, increasing indirect taxation to balance the budget, leading to an internal price increase and a decline in the incomes of peasants and wage-earners. The most dramatic examples are found in countries where there is no adequate basis of industry or agriculture producing for export and where a transformation of the same type, aimed at by the new bureaucracy, comes up against the practical impossibility of extracting revenue from the country, so that the latter is reduced to hand-to-mouth dependence on external factors, and chronic inflation with no prospect of any end (the case of Mali). Everywhere the peasants react to this worsening of their position by withdrawing from the market, by a return to subsistence economy, which constitutes their only economically rational way of defending themselves: the basis from which the state derives its revenue is thus made narrower.[211] The political and social significance of the analyses made by Arrighi and Saul, mentioned above, seems liable, therefore, to be overtaken by the current processes of change.

One must go further than this, however. There is a deep-rooted tendency throughout the Third World today toward political and social changes that move in the same direction, namely: overthrow of the local political power of the big landowners and the comprador bourgeoisie, where these exist; direct exercise of power by the bureaucracies (civil or military, with the army often appearing as the vehicle of the new regimes—being the best organized corporation, and sometimes the only one available); and the creation and subsequent development of a publicly owned sector of the economy. A similar evolution is observed even where there is no former power to be overthrown, taking place through a continuous development. Contradictions characteristic of peripheral formations account for this phenomenon. The inadequate level of industrialization and the absence of the foreign bourgeoisie enable groups of a petty-bourgeois character (officials, office-workers, in some cases old-style craftsmen, small traders, middle peasants, etc.) to assume major importance in local affairs. The spread of education and the increasing unemployment bring about a profound crisis of the

system. The very need for hastened industrialization in order to overcome this crisis leads to the development of a publicly owned sector, since the rules of profitability (which determine the flow of foreign capital) and the insufficient capacity of local private capital would otherwise slow down the pace of industrialization.

The consequent strengthening of the state bureaucracy may result in a regime of state capitalism becoming general. This is more radical or less so, depending on whether it proceeds to nationalize foreign capital (as in Egypt and, to a less advanced degree, in Congo-Kinshasa and Zambia), and on the extent to which it tolerates a local private sector with which it associates itself (as in Tunisia). Even, however, in the most extreme cases (Egypt), state capitalism tolerates—or, rather encourages—the development of private capitalism in the countryside (the "kulakization" that results from agrarian reforms is part of this tendency), although it may endeavor to organize and control this development, by means of cooperatives, for example. If it does not challenge integration into the world market, but merely plays upon secondary contradictions which are in any case on their way out (Western market versus Eastern market), this state capitalism is bound to remain fundamentally peripheral, like its private predecessor, and merely expresses the new paths of development taken by capitalism in the periphery, and the transition from old forms to new in the international specialization between center and periphery.

These processes, too often hastily reduced to the alleged profound and ancient tendencies of non-European societies ("Asiatic despotism"), are in reality expressions of the integration of the Third World in the process characteristic of the world of today, under the specific conditions of the periphery.

Summary of Conclusions

1. Economic theory interests itself occasionally in the problems of "transition from a subsistence economy to a money economy." Owing, however, to its lack of a set of concepts making possible an exact analysis of the various precapitalist formations, the theory currently offered is painfully meager. The pattern of transition to peripheral capitalism is, in fact, fundamentally different from that of transition to central capitalism. The onslaught from without, by means of trade, carried out by the capitalist mode of production upon the precapitalist formations, causes certain crucial retrogressions, such as the ruin of the

crafts without their being replaced by local industrial production. The agrarian crisis of the Third World is largely the result of these setbacks, rather than of alleged "demographic determinism." The subsequent investment of foreign capital does not have the effect of correcting these retrogressive changes, because of the extraverted orientation of the industries that this capital establishes in the periphery. These distinctive problems of transition to peripheral capitalism largely escaped Marx's notice, and this accounts for his mistaken notion about the future development of the "colonial problem."

2. Unequal international specialization is shown in three kinds of distortion in the direction taken by the development of the periphery. The distortion toward export activities (extraversion), which is decisive, does not result from "inadequacy of the home market" (the "vicious cycles of poverty"), as the commonplace analysis suggests, but from the superior productivity of the center in all fields, which compels the periphery to confine itself to the role of complementary supplier of products to which natural advantage is relevant (exotic agricultural and mineral products). When, as a result of this distortion, the level of wages in the periphery has become lower, for the same productivity, than at the center, a limited development of autocentric industries will have become possible in the periphery, even though at the same time the terms of trade will have become unequal.

3. This initial and essential distortion brings another in its train—the hypertrophy of the tertiary sector in the periphery. Here, too, the attempts of current economics to reduce to a single model the distribution of activity between sectors at the center and in the periphery avoid the real problems. Neither the evolution of the structure of demand nor that of productivity can explain the hypertrophy of the tertiary sector in our time, both at the center and in the periphery. At the center it reflects the difficulties of realizing surplus value which are inherent in the advanced monopoly phase, whereas in the periphery it is from the beginning a result of the limitations and contradictions characteristic of peripheral development: inadequate industrialization and increasing unemployment, strengthening of the position of ground-rent, and so on. A fetter on accumulation, this hypertrophy of unproductive activities, expressed especially in the excessive growth of administrative expenditure, is manifested by the quasi-permanent crisis of government finance in the underdeveloped countries today.

4. Unequal international specialization also underlies the distortion in the periphery toward light *branches* of activity. The current marginalist doctrine, which accords a decisive role to the rate of interest in

the "choice of techniques," sets out in the economics taught at the universities a series of pseudo-problems resulting from the alleged preferential choice of light *techniques* in the developed (?) countries. The facts, as also the theoretical analysis of the mechanisms of investment, contradict this current doctrine. The contradiction really characteristic of the periphery (namely, a tendency toward light branches), which results from the complementary nature of development in the periphery, is the source of the special problems that dictate development policies in the periphery that are different from those on which the development of the West is based.

5. The theory of the multiplier effects of investment cannot be extended in a mechanical way to the periphery. The significance of the Keynesian multiplier is indeed restricted to the situation at the center in the phase of advanced monopoly, characterized by difficulties in realizing the surplus. Neither hoarding nor imports constitute, in the periphery, "leaks" that reduce the multiplier effect. What in reality annuls this effect is the export of the profits of foreign capital. Furthermore, unequal specialization and the marked propensity to import that follows from this, and which is typical of the periphery, have the effect of transferring the effects of the multiplier mechanisms connected with the phenomenon known as the accelerator from the periphery to the center.

6. The increasing volume of profits on foreign capital, destined to be exported, ought to attract serious attention to the question of the origin and dynamics of the superprofits of monopolies. Here too, however, marginalist theory, by locating the origin of monopoly not in the relations of production but in the form taken by demand curves, avoids the real problems. Analysis of the strategies of foreign monopolies in the underdeveloped countries is restricted merely to the field of the "concrete study," without any concern to develop theory. This analysis proves that, so long as the dogma of the periphery's integration into the world market is not challenged, the periphery is without economic means of action in relation to the monopolies.

7. Underdevelopment is manifested not in the level of production per capita, but in certain characteristic structural features which oblige us not to confuse the underdeveloped countries with the countries now advanced as they were at an earlier stage of their development. These features are (1) the extreme inequalities that are typical of the distribution of productivities in the periphery, and in the system of prices transmitted to it from the center, which result from the distinctive nature of the peripheral formations and largely dictate the structure of

the distribution of income in these formations; (2) the disarticulation due to the adjustment of the orientation of production in the periphery to the needs of the center, which prevents the transmission of the benefits of economic progress from the poles of development to the economy as a whole; and (3) economic domination by the center, which is expressed in the forms of international specialization (the structures of world trade in which the center shapes the periphery in accordance with its own needs) and in the dependence of the structures whereby growth in the periphery is financed (the dynamics of accumulation of foreign capital).

8. The accentuation of the features of underdevelopment in proportion as the economic growth of the periphery—in other words, the development of underdevelopment—necessarily results in the blocking of growth, in other words, the impossibility—whatever the level of production per capita that may be attained—of going over to autonomous and self-sustained growth, to development in the true sense.

9. While at the center the capitalist mode of production tends to become exclusive, the same is not true of the periphery. Consequently, the formations of the periphery are fundamentally different from those of the center. The forms assumed by these peripheral formations depend, on the one hand, on the nature of the precapitalist formations that were there previously, and, on the other, on the forms and epochs in which they were integrated into the world system. In this context we can distinguish between the American formations, the Asiatic-Oriental formations, and the African formations. Only this type of analysis enables us to grasp the essential difference that contrasts the peripheral formations with the young central formations, the latter, based on the dominance of the simple commodity mode of production, possessing for this reason a capacity for independent evolution toward a fully developed capitalist mode of production of a particularly dynamic kind.

Whatever their differences of origin, the peripheral formations all tend to converge upon a typical model, characterized by the dominance of agrarian capital and ancillary (comprador) commercial capital. The domination by central capital over the system as a whole, and the vital mechanisms of primitive accumulation for its benefit which expresses this domination, nevertheless subject the development of peripheral national capitalism to strict limitations, which ultimately depend on political relations. The "truncated" nature of the national community in the periphery (the foreign bourgeoisie being the "great absent member") confers an apparent relative weight and special functions

upon the local bureaucracy which are not the same as those of the bureaucratic and techno'cratic social groups at the center. The contradictions typical of the development of underdevelopment, and the rise of petty-bourgeois strata reflecting these contradictions, explain the present tendency to state capitalism which is general in the Third World. This new path of development for capitalism in the periphery does not constitute a path of transition to socialism so long as integration into the world market is not challenged, but rather the future way of organizing new relations between center and periphery, based on a new state in unequal international specialization.

Chapter 3
The Monetary Mechanisms in the Periphery and the World Monetary System

The monetary field is a very weak section of current economic theory. Strictly speaking, the subjective theory of value can have nothing to say regarding the value of money, except tautologically ("the value of money is that of the goods it enables one to acquire") or by resorting to a subterfuge "liquidity"—which conceals another piece of tautological reasoning (to say that money derives its value from its "liquid" character, that is, from its nature as money, is like saying that a sleeping pill possesses "soporificity" . . .). This is why marginalism and neomarginalism have to call in the quantity theory of money to help them.

It is not surprising that money has become the focus of the most widespread illusions, such as that of "management" of the conjuncture, of prices, of external equilibrium, and so on. At the same time, of course—this is what always accompanies such illusions—the true role of money in the mechanism of accumulation is evaded by means of a theory that runs off in the direction of Byzantine discussions and quantitative observations which are as confused as they are plentiful.

When carried over into the setting of the underdeveloped countries, monetary theory produces the oddest results. A violent attack is launched against what are called "perverse monetary mechanisms," said to be characteristic of the underdeveloped countries, while ignoring the real features distinctive of the system, which, moreover, merely reflect on the monetary plane the fundamental relations of dependence which prevail at a different level.

What I wish to analyze here are these monetary mechanisms that function in the underdeveloped countries (within the differing institutional frameworks that exist there: foreign-exchange standard or "autonomous" national currency), after first recalling the theory of the role

of money in the mechanism of accumulation. We shall then see the theoretical error that the monetary illusion is based upon. Current theory, in contrast to this way of proceeding, completely ignores the essential fact—"the integration of banking"—the fact that, until recently, the functions of bank credit have been looked after in the underdeveloped countries almost entirely by branches of foreign banks. Monetary integration—a foreign-exchange standard, with unlimited and unrestricted transfers at a fixed rate—was accompanied by bank integration.

The forms of the institution of the foreign-exchange standard have been various, ranging from simple circulation of banknotes of the dominant economy (the dollar in Liberia, Cuba, and Central America) to the issuing of a local currency, entrusted to a bank of issue, transfers being uncontrolled and at a fixed rate (the system that existed in Egypt between 1916 and 1947, the French colonial system, and the current system in the franc area), and including the original system of the British Currency Boards (British colonies in Africa, Central America and Southeast Asia, with the Portuguese colonies having a similar system). In these countries, at these periods, monetary and banking integration by the commercial banks of the dominant country, themselves dependent on the central bank of that country, is accompanied by the circulation of notes that are issued, in the last analysis, by this central bank. Nowadays only the African countries of the franc area (former French West Africa and French Equatorial Africa, Togo, Cameroon, and Madagascar), the Portuguese colonies, the West Indies, and some Central American countries are still integrated in this way in a highly centralized currency area.

Elsewhere this integration either has become, or always was, imperfect. It was usually confined to the activity of expatriate commercial banks on an underdeveloped territory where the state, having stayed independent, had retained the sovereign right of creating currency. Nearly everywhere in Latin America paper money issued by the local state treasuries, and put into circulation through the budget, whether balanced or not, and sometimes through the discounting of bills that was also undertaken by the state treasuries, constituted the only legal tender. Here, the exchange fluctuated and transfers were unlimited and unrestricted, including, of course, those effected by the branches of foreign banks, which played the main role in banking.

With the coming of independence to the Third World there were born, all over Asia, the Middle East, North Africa, the English-speaking countries of Black Africa, and Latin America, central banks entrusted

with the task of bringing order into the system of paper money where this existed, of "controlling" or "managing" credit, in accordance with the illusions of the monetary theory. To varying degrees, systems of national commercial banks, either public or private, took over from the branches of the big foreign banks, and, to varying degrees, transfers were subjected to control. Finally, the system of fluctuating exchanges which governed international relations (including those between the advanced countries in the first phase after abandonment of the gold standard) was replaced by a world system of rigid exchange rates (revised by devaluations when these occurred) which has been symbolized since 1945 by the organization of the International Monetary Fund. Has this withdrawal, to varying degrees, of the underdeveloped countries from the system of monetary and banking integration seriously modified the mechanisms by which the underdeveloped countries are really integrated into the capitalist world market? This is what the monetary illusion implies. But we shall see that, in fact, the means of action at the disposal of the central authorities of the underdeveloped countries remain very limited. Analysis of the monetary mechanisms and of the types of inflation in these countries shows that money remains, whatever the monetary system, fundamentally what it is—the form of exchange relations. Insofar as these continue to be based on international specialization, that is, on integration into the world market, money continues to be the effective instrument for organizing the transfer of value from the underdeveloped periphery of the world system to its advanced center: the transmission of the value of the dominant currency or currencies, and that of the price structures of the center, constitute the forms of this transfer. Past history—that of the integration of the countries that have become underdeveloped in the world market of precious metals, which preceded their banking integration—as also current history—that of the crises of international liquidities, with which I end this study—show that the mechanisms whereby the center exercises real domination over the periphery cannot be overcome by monetary illusions.

THE FUNCTIONS OF MONEY IN THE ACCUMULATION MECHANISMS

Money fulfills four essential functions: it is the instrument by which value is measured, it is the concrete instrument of circulation, it is the licensed instrument of legal tender, and it is the instrument by which value is stored. Marginalist theory emphasizes the role of money as a circulation medium from which all the other functions are derived. Keynesian theory emphasizes money's function as "means of hoarding" (from which we get "liquidity preference"), regarding *this* as the most specific function of money. Rist and Nogaro give pre-eminence to none of these functions rather than any other, seeking to maintain a positivist and empiricist attitude. Some contemporaries (Lindhal, Myrdal, Lundberg, Harrod) ascribe a complementary, though secondary, role to the two functions in the mechanisms of accumulation, while the Chicago school (Milton Friedman) goes back to the quantity theory. Marx occupies a special place here, shared to some extent by Schumpeter. He is the only economist to have opened the way to a real discussion on the role of money in accumulation (in the realization of the product).[1]

"Classical" Thought

Paradoxically, the economic thinking that Keynes calls "classical" attributes, like the Keynesian doctrine itself, a decisive role in the mechanisms of economic development to the rate of interest, and a quite negligible one to the banking system.

Saving and investment are, for the writers whom Keynes attacked, real factors in the economy. However, the monetary form in which these quantities are expressed adds a new cause of maladjustment to the real causes of possible disequilibrium. There is a "natural rate" of interest that ensures economic equilibrium. The amount of saving made available, allowing for "preference for the present," is, at this rate, equal to the amount of investment demanded, allowing for the productivity of capital. This is the real, fundamental reason why equilibrium between the supply of saving and the demand for investment can be achieved.

Now, not only is this analysis tautological, since neither Fisher nor Böhm-Bawerk established the existence of the productivity of capital on any foundation other than "preference for the present," so that the

so-called natural rate of interest is nothing more than the rate of depreciation of the future, but the mechanism of determination of the "natural" rate of interest at the point where the curves of supply of saving and demand for saving intersect actually explains nothing at all. Keynes showed this very clearly: when the demand for capital changes (some innovation calls for larger investments), incomes change, and therefore likewise the supply of saving![2] By resorting to history in order to solve the problem—supply of capital available today is determined by the distribution and amount of income that existed yesterday—the logical difficulty is dodged.

In any case, the first marginalist paid no attention to monetary conditions. It "went without saying" that monetary conditions caused the rate of the money market to "tend" toward the "natural rate," but they could not say exactly how this happened. Wicksell opened a new era when he showed how cumulative processes in the banking mechanisms allowed the monetary rate to diverge from the natural rate. This analysis, taken up later by Myrdal, Keynes, and Cassel, served to explain economic cycles.[3]

This being so, when these processes are not operative, the state of "monetary equilibrium" (understood in this sense) is realized. When the rate of interest directly determined by monetary conditions is equal to the natural rate, the banking system then plays the modest but technically perfect role of "transforming desired saving into desired investment." This is the mechanism that Robertson analyzes at length: if the public wish to increase the amount of their saving, they slow down withdrawals from their bank accounts. If the bank raises the level of its advances, the desired saving is transformed into desired investment. If the bank fails to do this, then, the rapidity of circulation of money having diminished, the quantity MV in the quantitative equation becomes smaller: prices fall and bank accounts increase in real value—the desired saving has been squandered without investment having taken place. But in reality the bank will always transform saving into investment because, when it observes that depositors are drawing less rapidly on their accounts, it will realize that they have "too much money," in other words, that they want to save more.[4]

How does this mechanism of adjustment of saving to investment differ from the Keynesian mechanism? Two basically different problems are in fact involved here. Keynes analyzes the lack of adjustment between saving and investment due to liquidity preference that is too strong relative to the marginal efficiency of capital—in other words, the lack of adjustment due to the fact that capacity to produce is greater

than capacity to consume, so that the profitability of investments (their "marginal efficiency") is too low. Robertson studies the technical mechanisms by which banks transform saving into investment. Needless to say, a bank may fail to do this, not for technical reasons but for more fundamental ones. Let us suppose that clients are withdrawing less from their accounts, but are also declining the credits offered to them, because investment would not be profitable. This means that the level of activity has fallen, since the money derived from previous sales has not been returned to production, in order to finance new production. This is why part of Robertson's argument seems unsound: although velocity (V) has fallen, and so the quantity MV has diminished, prices do not fall, because the volume of production has diminished too. It is even this decline in the volume of production that is reflected in the fall of V! This does not mean, of course, that the contraction due to inability to sell does not impel entrepreneurs to reduce prices later on. But this subsequent fall is secondary, and is not determined by the contraction in the amount of money available.

Can this subsequent reduction in prices restore activity to its previous level? The classical writers believed that only a fall in real wages could restore the profitability of investments. Keynes denies this, noting that although wages are a cost for the entrepreneur they are an income for the worker. Pigou maintains that the fall in prices and in nominal wages, taken together, must restore profitability, by giving greater value to the savings previously hoarded.[5] But if these sums were hoarded it was not done voluntarily, but because the gap between capacity to produce and capacity to consume made new investment unprofitable. So long as this gap persists (and if prices and nominal wages both fall, so that *real* wages do not increase, there is every reason to suppose that this gap will remain unaltered), then, whatever the real value of the amounts hoarded, investment will continue to be unprofitable, because the entrepreneur looks to the future, not to the past. But that is a different problem.

The banking system thus plays an important technical role, but not the fundamental economic role of adjusting savings to investment by varying the rate of interest—the role that the Swedish school assigns to it. For that to happen it would be necessary for the rate of interest to govern the volume of saving as well as that of investment. But it does not. Saving depends essentially on the absolute and relative amount of incomes from property. Investment responds only slightly to variations in "i"; essentially, it depends on the degree to which capacity to produce corresponds to capacity to consume.

In Keynes the same paradox is found, between the excessive role attributed to the rate of interest and the passive role attributed to the banking system. The imbalance between saving and investment is ultimately ascribed to liquidity preference, which prevents the rate of interest from falling below a minimum level. Replying to classicist critics, Keynes formulated with clarity the way this mechanism functions.[6] The rate of interest is determined by the state of liquidity preference, allowing for the volume of money supplied by the banks (for interest is exclusively monetary, according to Keynes). Equilibrium forces then determine relative prices such that the marginal efficiency of different capitals is in every case equal to this rate. From that moment there is no longer any gap between "i" and the efficiency of capital, and consequently there is no further net investment. The equilibrium state of the Swedish school has been attained, in which, the monetary rate being equal to the natural rate, profits are nil (Joan Robinson's "zero net saving"). Clearly, however, this equilibrium may well be an equilibrium of underemployment, because whatever the volume of money, the rate of interest cannot, owing to liquidity preference, fall below a certain level. The banking system is then quite helpless, as Hicks has plainly demonstrated.[7]

This is why many Keynesians condemn the policy of monetary expansion, which, after passing a certain point (when the rate of interest has reached its minimum level), cannot but engender inflation, even without full employment.

The whole of this analysis is based on the idea of liquidity preference, that is, of propensity to hoard. But does such a propensity really exist in the capitalist mode of production? And what in fact is meant by "the need for liquidity"? On the one hand, it is the need to have ready cash with which to finance transactions. To what extent is an entrepreneur prepared to pay out the funds needed to keep his current production going? Clearly, he will do this until the point is reached at which these charges reduce his profit to zero. Here, too, Ricardo's analysis shows itself to be more realistic than that of the marginalists. On the other hand, it is the need to have cash for hoarding. But in a capitalist society, for fundamental reasons, there is no propensity to hoard. Once he has ensured the reserve savings he needs, the entrepreneur has no desire to hoard. He wants to save in order to invest; so long as investment brings a return he will use his funds to expand his enterprise. The question is thus not why the rate of interest cannot fall

below a certain level, but why the level of the marginal efficiency of capital can fall so low. On this point, Keynes's explanations remain extremely vague.[8]

If an entrepreneur wished to hoard, would he be held back by the volume of active money? Not at all, for the banks would see that they can without risk increase the ratio of advances to reserves, which they had previously lowered, thanks to this increase in the volume of reserve savings. The harmful effect of hoarding on employment is automatically cured by an extra dose of credit (as Robertson, quoted above, has shown). Should the hoarder decide one day to invest the money he had been hoarding, the banks would correspondingly restrict the credits they accorded to industry.

What is disappointing in Keynes's theory is that the banking system appears helpless not merely beyond a certain point but *all the time.* One might think that money plays a passive role, in the sense that its supply is adapted to the need for liquidity. Keynes considers that this supply is rigid. It is this rigidity that, faced with a fluctuating demand, determines the current variations in the rate of interest. True, variations in this rate are sometimes due to the quantity of money becoming adapted to demand. But these difficulties are only temporary, and cannot explain the average level at which this rate remains over a long period;[9] "where Keynes speaks of adaptation of monetary demand to available supply there is in reality rather adaptation of the quantity of money to demand."[10] The "passive" conception of money (in this sense, and not Say's) is the very opposite of the quantity theory. Keynes's notion of the rigidity of the supply of money, however—its inability to adapt automatically to demand—causes him to slip back into the quantity theory.

The banking system thus plays no *fundamental* role in the mechanism of accumulation. But its role is nevertheless not a negligible one. It will be seen, moreover, that this role goes much further than a mere automatic adaptation of the quantity of money to the product "PT" of the quantitativist equation (general level of prices multiplied by level of economic activity, allowing for habits of payment).

The Passive Function of the Banking System

The first question to be answered is how the adaptation of "MV" to "PT" takes place. Total saving does not constitute a homogeneous mass: we must distinguish the *creative saving*—the money put aside by

entrepreneurs with a view to subsequent expansion of production—from the *reserve saving*—the money put aside either by consumers with a view to future expenditure on ultimate consumer goods, or by entrepreneurs in order to finance all the productive expenditure needed to ensure the *present* level of production of the system and the normal disposal of this production. These last-mentioned sums (to which I shall confine the term "liquidities," although in current writing this term is applied to both types of saving in money form) are certainly hard to distinguish in practice from saving waiting for investment. It is from cash in hand that the entrepreneur pays the wage and buys the raw material and machinery needed to ensure current production and to expand his enterprise. However, the fact that the two kinds of saving are mixed together in the same till is not a reason for denying that current expenses are met from *gross* income, whereas creative saving is taken from *net* income, after ultimate consumption has claimed its share. The frequent overflows from the money market into the finance market, and vice versa, do not justify a denial of the logic and useful nature of this distinction. There is indeed a minimum amount of money needed for the mere functioning of the economic mechanism, in other words, needed just for the "staggering" over a period of time of expenditure and receipts. This amount of money constitutes a mass of liquidities of a particular type. If we merge with this, in "total saving," the liquidities that fulfill the *complementary* function of constituting reserves of money waiting for investment, the procedure leads us into a blind alley.[11]

It is this volume of liquidities that constitutes the primary social need for money. The banking system adjusts the amount of money in circulation to this need, by means of short-term credit. It is at the request of entrepreneurs that commercial banks grant short-term credits to them, in other words, introduce bank notes and representative money into the economic circuit. These credits serve merely to finance the current functioning of the economy, that is, to spread over a period of time the receipts and payments of enterpreneurs.

The whole question is whether or not this social need for money is predetermined—that is, if we assume habits of payment to be stable (which is true in the short run; in the long run, the improvement in banking techniques speeds up the circulation of money, in view of the increasing need for this to be done); whether or not the size of the national income is predetermined, or, in other words, whether or not the levels of economic activity and prices are predetermined. If the banks can modify these levels by injections or withdrawals of money,

then to say that the banking system "adjusts the quantity of money available to the need for it," is meaningless.

Here, too, we need to know whether, fundamentally, the level of activity and the level of prices are determined by the quantity of money, or whether these levels ultimately depend on other economic factors. It is not a question of denying that credit facilities (lowering of the discount rate, for example) influence the level of future activity (by encouraging the formation of stocks of goods through making this more easily bearable financially, for example), and thereby influence the amount of money needed.

This is what Keynes, paradoxically, refuses to see: for him, the supply of money is rigid, an "independent factor." Warburton has shown that "i" affects the level of activity and thereby the demand for money.[12] In the course of the cycle the bankers, faced with this increased demand, often confine themselves to increasing the volume of short-term credit, without raising the rate of interest: the supply of money then adjusts itself quasi-automatically to demand.

But does that mean that it is the rate of interest that determines the level of activity (and consequently, in the last analysis, the amount of money, which is the decisive variable)? This is what Keynes thinks: the margin between interest and the marginal efficiency of capital determines the volume of investment and thereby of activity. But if we give some thought to the matter, this analysis appears inadequate, for what determines the marginal efficiency of capital? Keynes has nothing to say on this point. Actually, this efficiency, which is nothing but the profitability of investments, is directly bound up with the degree of correspondence between society's capacity to produce and its capacity to consume. If the capacity to produce ever became greater than the capacity to consume, the profitability of investments would soon shrink to zero, so that, whatever the rate of interest, economic activity would shrink.

A big step forward has been taken since modern theoreticians accepted this common-sense observation that variations in the rate of interest are too slight, as compared with variations in the profitability of investments, to be decisive.[13] Rist protested long ago against the lack of common sense shown by economists. Neither a fall in the discount rate nor open-market operations can do more than stimulate further an upward movement that has begun for other reasons. In a depression, sums of money artificially put into circulation will find their way back to the banks, and nothing more than a stock-exchange operation will have taken place.[14]

This is why, when, at the end of a boom, the capacity to consume starts to diverge dangerously from the capacity to produce, the lowering of "i" cannot avert a crisis. This fall enables entrepreneurs to maintain the burden of increasing stocks of unsold goods, but it does not enable these goods to be sold. It runs counter to the movement of real economic forces. It enables the crisis to be postponed, but not averted: indeed, the longer the period of artificial animation by means of credit, the deeper the depression when it comes. This is why it is recognized that variations in the rate of interest do not play a leading role in the cycle. This is why the "hawtrey solution" remains a fanciful notion based on an overestimation of the role of money in relation to the real forces in the economy. Moreover, modern theories of the cycle and the conjuncture, like those of "chronic depression" and "overdevelopment" in the 1940s, concern themselves solely with analyzing the "real" difficulties that arise from the possibility of disparities—whether cyclical, conjunctural, or lasting—between the capacity to consume and the capacity to produce.

Fundamentally, then, the level of activity depends on something other than the quantity of money. Is this also true of the price level?

Quantitativism associated the value of money in a mechanical way with the quantity of money. Although this mechanical connection, as shown in Fisher's equation, has now been abandoned, it does not follow that every trace of quantitativism has been eliminated from theory. There has even been an attempt to rescue quantitativism by showing its link with the subjective theory of value. Thus, Von Mises declared that when M increases, certain incomes have increased and, since the marginal utility of money declines for individuals when their incomes increase, prices therefore rise.[15] Is this reasoning well founded? When M increases, it is usually the case that production has increased, for the additional money has entered the economy through concrete channels. To an increased demand there corresponds an increased supply. Again, even if there be no increase in production, why should the additional money not go to swell the hoards? Why should it automatically and wholly find its way onto the market?

Economic theory seems to have taken a new path: that of studying the function fulfilled by money of "satisfying the need for liquidity." The discovery of "liquidity" was made by Hicks, who, in 1935, analyzing the *Treatise on Money*, set out explicitly the three theories of money contained in it: a theory of marginal choice between liquidity and profit (liquidity having a price due to the cost and risk of investment). Much earlier, however, an approach had been made to the

theory of liquidity, in the course of investigation of the supply of and the demand for money. As early as 1921, Cannan, asking how "demand" for money was made up, rejected the demand for money for hoarding purposes, this being the *specific* service rendered by money. (Yet the other "service," that of facilitating circulation, is no less specific!) On this basis, Ellis tried to save Fisher from downfall, noting that to each level of the rate of interest there corresponds a particular allocation of money between the categories of hoarded and active money, an allocation that determines the level of prices, in accordance with the formula MV = PT, in which M stands for the amount of "active" money. All that Ellis did here was to show that Keynesianism is not fundamentally opposed to the quantity theory.[16]

Has liquidity analysis radically eliminated quantitativism? There is reason to doubt this. In the Keynesian model, the supply of money and the rate of interest being given, the level of liquidity preference determines the proportion of money that will be hoarded (and, consequently, the proportion that will be active). As the rate of interest determines the volume of investment (because the marginal efficiency of capital is an independent variable which does not depend on the quantity of money) and thereby the volume of national income, all the factors in the economic system are present except the general level of prices, which must be determined, according to the quantitative formula, by the ratio between the real national income and the quantity of active money. Keynes therefore remains, so to speak, a second-degree quantitativist. This is why, when the effect of liquidity preference ceases to be felt, quantitativism reasserts itself. This way of looking at the matter, in which the quantity of money is a factor to which the other factors adapt themselves (for Keynes, the quantity of money determines both the level of the national income and that of prices, instead of determining the latter alone, as the classicists hold), rather than being itself a variable dependent on the demand for money—in other words, on the level of income and prices—has made it easy to reintegrate the Keynesian system into the classical system. This reintegration, carried out by Modigliani in a general model, is liable to all the reproaches directed by Nogaro at the "mathematical" method and the quantity theory.[17] An anti-quantitativist position is, in fact, incompatible with any theory of general equilibrium, since there has to be an independent variable in the system! The Chicago school (Milton Friedman) has made this return to quantitativism. It is then led, once the quantitativist assumption has been accepted, to orient all its investigations in the only direction open to an empiricism that condemns

itself to seeing only appearances—seeking for direct correlations between the quantity of money and sundry variables of the system ("permanent income"), "psychological" analysis of the "desire for cash," and all sorts of other problems that are false because badly conceived.[18]

If, then, all forms of quantitativism are rejected, the problem of how the value of money is determined remains to be solved. This being so, we can distinguish between two cases: that of a currency convertible into gold and that of an inconvertible one.

In the first case it is certain that the cost of production of gold plays a decisive role in the mechanism of determination of the general price level. Marjolin, in his study of price movements over the centuries, notes: "A rise in the price of goods is a necessary consequence of the opening up of gold mines in which the cost of production is lower than hitherto. It follows from the choice of gold as the measure of values." Wicksell made the same observation when he studied, at the end of the nineteenth century, the rise in prices that resulted from the opening up of new goldfields in Australia. If, indeed, a reduction in the cost of gold production is assumed, then the extra profits realized in this branch of economic activity will attract capital into it. This inflow of capital does not, however, bring about, as normally occurs, a fall in the price of the commodity produced, because gold is bought by the banks at a fixed price. Profits continuing therefore to be exceptionally high, they constitute a mass of additional income which, applying itself to the market for consumer goods and to that for capital goods, the supply of which has not increased, brings about a general rise in prices. This upward movement cannot ease until the general price level has rendered the cost of production of gold normal, that is, one that leaves the entrepreneur only a "normal" margin of profit. The production of gold will then be stabilized at this level. This analysis is not abstract construction: it corresponds to the account given by Paish of the general price increases experienced in South Africa following the opening up of richer mines. Robertson thinks that variations in the cost of gold can engender only very slight variations in its value, since gold production represents only 2 percent of the stock of precious metal, so that the value of gold is indeed equal to the marginal cost of production, but is not determined by it. It is because Robertson thinks the value of gold arises from its quantity (that of the existing stock plus new production, together making up the total supply of gold) that he is able to raise this objection.[19]

However, if the currency is *not* convertible, then the safety barrier constituted by the value of gold is no longer present. Up to this point,

no expansion of credit could exceed the limit of needs because any excess credit that was offered would not be taken up by entrepreneurs. Only in the form of a distribution of purchasing power without any real backing (issue of paper money in wartime, for example) could the quantity of money be increased. An increase in prices, resulting from an imbalance between income and production, and not from the quantity of money, makes it necessary to abandon convertibility. When the banks no longer buy gold at a fixed price, the expansion of credit, or issue of purchasing power, can then (given certain structural conditions, to be examined later) take place without any limit, since they draw the price of gold into the general upward movement. The fundamental dependence of the supply of money on the demand for it therefore seems to have been eliminated.[20] It only seems so, however: while a general increase in prices *may* occur, this actually happens, as will be seen, only if certain conditions exist. It is still true that there is no longer any normal price level. This is why Hicks and Lange consider that under this regime a divergence between supply of and demand for money can bring about a general price movement.[21]

Analyzing the "monetary effect," Lange notes that if the price of a commodity that is being overproduced falls, if the elasticity of expectations is higher than unity (that is, if the public expects a further fall), and if the banks keep stable "the supply of money in real terms," then all goods will be in a state of overproduction, and the fall will be general. The banks' attitude certainly causes this development to happen all the sooner; but the problem remains, *why* is it that the public sometimes expects overproduction to become general, and sometimes does not? It may be that experience has taught them that there are situations in which, for real reasons, general overproduction does exist, and other situations in which such general production does not occur.

Finally, we see that the role of the banks is to adjust the quantity of money to this primary need, which is itself determined by the level of activity and that of prices. Needless to say, however, under a regime of inconvertibility a general price movement may itself be started by the banks, together with the entrepreneurs: the latter ask for credit greater than the need measured by the actual lever of activity and prices, and the banks grant this credit. (They run no risk if the Central Bank automatically rediscounts these advances, creating a quantity of bank notes corresponding to the volume of representative money issued by the banks.) I say "may" and not "must" because it is possible for a general price movement to originate elsewhere than in the attitude of

the banks, which then merely adapt the quantity of money to the changing level of prices.

The Active Function of the Banking System

The last case shows that the banking system is in fact more powerful than it has seemed up to now in this analysis. It does not confine itself to adapting the quantity of money supplied to the product PT of the quantitative formula. It plays a more active role than this in the mechanism of accumulation.

Capitalist accumulation requires, in fact, an increased quantity of money not just because the gross national product is increasing but also because, in order that the transformation of saving into investment may take place, it is constantly necessary that new money be introduced into the circuit *before* the gross national product has increased. New investment has no outlet at the moment when it is made, since all the outlets existing at a given moment cannot exceed the volume of production at that moment. But new investment will soon create this new outlet by expanding production. In order to invest, however, the entrepreneur needs a certain amount of money. It therefore seems that some previously existing outlet must enable him to sell that part of his production the value of which is destined to expand production, so as to realize in money form the "saving" he has accomplished, his extra capital. The problem appears insoluble, for the entrepreneur can find no such outlet, since the outlets available when the entrepreneur wants to sell cannot exceed the volume of present production, and the entrepreneur has to find today an outlet equal to the volume of tomorrow's production. In reality, it is enough for an extra quantity of money equal to the value destined for accumulation (which will create its own outlet tomorrow) to be placed today in the entrepreneur's hands—from whatever source this money may come.

As we see, this is the problem raised by Rosa Luxemburg in *The Accumulation of Capital.* Contrary to her view, and in conformity with that of Marx himself, the only problem here is not the outlet (which investment itself will create) but the preliminary increase in the volume of money available. This quantity of new money comes to the entrepreneur either through gold production or through the banks. The channels whereby this gold penetrates the economy were analyzed a century ago by Marx, and I shall not go over that ground again.[22] Let me say merely that the production of new gold makes possible a special

kind of sale: the producer of gold buys with his profits, which are in the form of gold, products from other entrepreneurs which he requires either for consumption or in order to expand his production. The gold producers can thus sell their surplus product (in which their real saving is crystallized) and realize in the form of money the value destined to effect expansion of their industry. With this money they can buy means of production and hire workers. The outlet existed potentially, but a special monetary mechanism was needed to enable the entreprener to obtain today in monetary form the benefit of the outlet that was to be created by the investment made possible by this monetary technique.

Today it is through the channel of credit that the quantity of extra money is created *ex nihilo* by the banks. Schumpeter has shown how this money put at the disposal of entrepreneurs enables production to be expanded.[23] Naturally, the bankers claim not to possess such great power. They claim that the banks keep an eye on the accounts of the enterprises they finance, so as to make sure that the latter do not tie up in long-term uses the short-term credits they are granted.[24] True; but this does not affect the matter, since expansion of production calls for long-term investments (purchase of machinery) and also for short-term investments (purchase of raw materials, payment of wages). The entrepreneur makes use of this latter need to borrow sums of money which, in economic reality (whatever may be the case in accounting), will serve to finance the expansion of production. Insofar as the new investment creates its own outlet, the entrepreneur is able to repay the bank loan with interest. The national product is then increased, and also the need for money, in the first sense defined here.

But even this service rendered by the banking system, which in this sense is not passive, is not fundamental in character. It is, indeed, only when the investment has created its own outlet that the advance can be repaid. Real reasons of a profound nature may cause this not to happen, and then the issue of money does not solve the problem of the absense of any outlet for the extra production.

Nevertheless, however secondary in relation to the general equilibrium this double role played by the banks may appear, it is decisive in making accumulation possible. Without a quantity of money constantly adapting itself to the necessary liquidities, no accumulation is possible. Without concentration of savings, without mobilizing reserve savings and making them available for investment, this development is greatly hindered. We must see whether the banks fulfill these two complementary tasks correctly in the underdeveloped economies.

THE MECHANISMS OF ISSUING MONEY AND CREDIT IN THE PERIPHERY

In current writing about the underdeveloped countries we find with increasing frequency the statement that their monetary and banking systems are defective. Issuing of money in these countries is said to be not in accordance with need, already defined as the second member of the quantitative equation (PT). It is said to be, on the contrary, automatically determined by the external balance (reduced, for greater clarity, in the rest of this outline, to the trade balance), and therefore both too plentiful in times of prosperity (when the balance shows a surplus), which gives rise to local inflation, and too slight in times of depression (when the balance shows a deficit), which delays recovery.

I reject this statement categorically, as resulting from a quantitativist view of the matter. I reject the alleged amplification of the economic oscillations by a "perverse" monetary mechanism. I will show that, while it is true that disturbances in the trade balance automatically give rise to changes in the issuing of money, the credit policy of the commercial banks can *and should* counterbalance these movements when they go beyond the limits fixed by the "need for money."

I will show that the monetary system of the underdeveloped countries fulfills its role just as well as in the advanced countries, adjusting circulation to local need: that it is "passive" (and also "active" in the sense defined above, namely, that it enables capital to be accumulated where this is possible). This fundamental function is fulfilled no less well by the system of foreign-exchange standard for a currency than by the system of a "managed" national currency.

The Foreign Exchange Standard: The Apparent Mechanisms of Issue

The British currency boards.[25] There are a number of foreign-exchange standard systems. The essence of the mechanism, however, is the same: a certain organ agrees to exchange the local currency for the dominant currency, and vice versa, at a fixed rate and in unlimited amounts. The local currency no longer constitutes a different currency from the dominant one: it is the latter that really circulates, though under a different name, in the underdeveloped economy.

For clarity of exposition I will take the British Currency Board. This is a public organization endowed with reserves of sterling and entrusted

with the task of exchanging currencies in unlimited amounts and at a fixed rate. The Board invests its reserves in short-term sterling securities (British Treasury bonds).[26] The product of these investments is paid to the government of the given colony, together with the small commission of ½ to 1% which is paid for the exchange operation, a commission that does not in the least resemble a rate of exchange determined in the market. Whenever an individual (or a bank) wants some local currency, he pays out sterling in London and the Board gives him local currency on the spot. The Board's assets increase, as also do its liabilities, the local currency in circulation. Thus the two entries—assets and liabilities—evolve in parallel.[27] If they are not always absolutely equivalent, this happens because the value of the treasury bonds that constitute the Board's reserve may fluctuate on the market.

The first Currency Board certainly began to function when, at the end of the last century, the British government suspended the free minting of silver rupees, thenceforth supplying these rupees in exchange for sterling in London, and vice versa, in unlimited quantity and at a fixed rate. In the colonies of British West Africa silver coins circulated as legal tender from the beginning of the colonial period (1886), being minted in those countries in exchange for sterling deposited in London. The increased import of silver by the colonial governments (increasing from 550 pounds in 1885 to 1,259,450 pounds in 1910) reflects the penetration of money into the local economy.[28] When the Currency Board for this region was set up in 1912 it made no change in the situation apart from deciding that from that time onward it would print the sterling banknote no longer "on silver" but on paper. Subsequently this system was extended to other colonies.

The cost of the creation of this system was often a heavy one for the local economy, the Currency Boards having been endowed with gold found in those countries and transferred to London (as happened with Iraq, Palestine, and Transjordan). The same thing happened, *mutatis mutandis,* in the case of Egypt, where the National Bank, which from 1898 issued notes backed by gold to the extent of 50 percent and by British Treasury bonds for the rest, and which played the role of a currency board (exchange at a fixed rate and in unlimited quantity), adopted the practice of retaining in Egypt only the legal gold cover, and exporting whatever exceeded it, even momentarily. In 1916 the six millions in gold that represented this cover were transferred to London, and the issue of notes, thereafter inconvertible, was covered by British Treasury bonds. Here the cost of setting up the system was very heavy,

for with this gold an autonomous system could have been created. When, after the Second World War, it was decided to establish such a system, Egypt was obliged to pay for the creation of a gold cover for its currency, as Great Britain declined to reverse the operation of 1916, that is, to reconvert into gold the treasury bonds which had then been exchanged for the precious metal. The same thing happened in the countries that had no gold stocks (the African colonies). The Currency Board was endowed at the outset with a sterling reserve paid for by the colony itself, a reserve that was, of course, less than the local circulation. It was regularly added to, the colony paying every year into the reserve fund a proportion of its revenue, so as to build up eventually a reserve equal to 100 percent of the circulation.[29] In this sense the circulation was actually equivalent to a 100 percent gold circulation; in other words, it was paid for in real values (exports) until the day when the entire circulation was covered by the reserve (the process can start all over again if the Board decides to make the reserve greater than the circulation). This does not apply when the Board remains content to carry out exchange without making any unilateral increase in its reserves.

The circulation of a foreign currency: the example of Cuba. I chose the system of the British Currency Boards for the foregoing explanation because it is clearer when, as in their case, the banking function and the function of exchange at a fixed rate and in unlimited quantity are attributed to two different organs. In reality there may, however, be no exchange organ at all, and the banknotes of the dominant currency may circulate as legal tender in the colony (Madagascar until 1925; Cuba, where the U.S. dollar circulated; Liberia; etc.). Again, a commercial bank, which may enjoy the privilege of local issue, may be entrusted with exchange operations (Egypt between 1916 and 1947; the French Union).[30]

The U.S. dollar was legal tender in Cuba, while alongside this fundamental currency there circulated pesos issued by the Cuban Treasury which were also legal tender, freely convertible into dollars in unlimited quantity, but without a rigidly fixed rate of exchange. The peso was introduced into the economy through the budget, even when this was balanced (the state paid its creditors in pesos). Thanks to restraint in the issuing of currency, the rate of exchange always stayed around unity. The peso, which circulated as "odd money" to make up amounts (the dollar remaining the fundamental currency of capitalist exchanges,

both internal and external), tended to depreciate slightly in relation to the dollar, but was nevertheless sometimes worth more, when the internal need for make-up money was very high.[31]

The French colonial monetary system.[32] France very soon conceded the privilege of local issue in its colonies to private banks in these countries, which operated both as banks of issue and as commercial banks: in 1848 in the old colonies; in 1851 in Algeria (Bank of Algeria, which in 1885 became the Bank of Algeria and Tunisia); in 1875 in Indochina (the Bank of Indochina); in 1901 in French West Africa (the former Bank of Senegal, of 1848, became the Bank of French West Africa, Madagascar, where the notes of the Bank of France circulated as late as 1925, was the only exception.

Originally it was a matter of little systems copying that of the metropolitan country: the local banks of issue were endowed with gold reserves and authorized to rediscount the bills of the commercial banks. However, the difference of strength soon made itself felt between, on the one hand, the colonial branches of the great commercial banks with their practically limitless resources (able to draw on their metropolitan funds, in the absence of any control over transfer and despite the independence of the rates of exchange of the colonial currencies), and, on the other, the local banks of issue, with their limited gold cover. This imbalance would certainly not have led to the ruin of the banks of issue. During a boom the commercial banks could do without the rediscounting that the banks of issue would decline to undertake, owing to the inadequacy of their gold cover; they could import the funds they needed from the home country. These imports, by pressing on the demand for local currency, would have caused it to appreciate up to the gold point of entry. Gold would have flowed into the colony and the gold reserve of the banks of issue would have increased. But the abandonment of the gold standard prevented this mechanism from operating. Thenceforth the cash in hand of the banks of issue consisted of liquid assets in francs: "The old conception of cash in hand tends to be replaced by a new one, that of the amount of liquid assets in francs adequate to ensure transfers."[33] There is here, indeed, a risk for the banks of issue, which, being independent and not branches of a French organization, have only limited amounts available in francs. If obliged to change metropolitan francs into colonial francs at a fixed rate and in unlimited sums, the cash in hand of these banks may prove inadequate if the policy of the (quite independent) commercial banks is too expan-

sionist. What we see here is, therefore, somewhat of a caricature of the French system.

True, the Treasury guarantees the transfer in exchange of this obligation, if the bank lacks the sufficient francs. This led the banks of issue to become semi-public organizations subordinate to the Treasury, until they were nationalized (Bank of Algeria, 1946; creation of the CCFOM for French Equatorial Africa and the colonies in 1944, replacing the old private banks; the Institution d'Emission of French West Africa taking the place in 1955 of the Bank of French West Africa). Released from their commercial function, these institutions become joint branches of the Bank of France and the Treasury. The replacement of these issue institutions, after independence, by central banks (of West Africa, Equatorial Africa, Cameroon, and Madagascar) has made no change in the economic mechanism I have described.

The functioning of this system is completely analogous to that of a Currency Board, except that a commercial bank that needs liquidities can either import them from its head office in Paris or rediscount them with the local bank of issue. The "control of credit" exercised by the latter is thus quite illusory, since, if rediscounting be refused, the commercial bank can always apply to its head office. It is therefore the Bank of France, and it alone, that ultimately controls advances of credit to commercial banks, not only in the home country but also in the colonies and the associated countries overseas.

The Egyptian monetary system.[34] Free minting of gold prevailed in Egypt at the time of the British conquest. Turkish, French, and British gold coins circulated simultaneously. The first crucial measure taken by Britain was the undervaluation in 1885 of the pound sterling, which was fixed at 97.5 Egyptian piastres, whereas in weight of pure gold it was worth 98.4. Thus the gold sovereign drove the other currencies out of circulation. The standard of the Egyptian currency was no longer gold, but *sterling* gold. The country, which every year imported gold in order to finance the cotton harvest, and then re-exported it, thenceforth gave preference to the British banks.

In 1898 the National Bank of Egypt was founded, with the privilege of making an issue covered by gold to the extent of 50 percent and for the rest by sterling securities. In 1914 banknotes were made obligatory legal tender, and the Bank was authorized to issue against increased gold cover (which had to be kept at 50 percent) in London and not, as before, in Cairo. The National Bank bought and sold gold in London in

accordance with its issue needs. The Egyptian currency had ceased to be independent. The banknote that was inconvertible into gold in Egypt had become convertible into sterling: against Egyptian pounds the National Bank supplied British pounds in London at a fixed rate and in unlimited amount; this sterling was obtained by the National Bank by selling its gold in London. When, in 1916, the British government declined to sell gold to the National Bank, and the latter decided to buy sterling securities instead, Egypt bowed its head to the sterling standard. The National Bank thus fulfilled at one and the same time the functions of a bank of issue, a commercial bank, and a Currency Board.

The expatriate commercial banks in Egypt were in no way subject to any control by the National Bank. When they were short of banknotes in Egypt they had only to pay sterling into the National Bank in London to obtain what they needed.

The exchange control established in 1939 between Egypt and the countries outside the sterling area (with free exchange inside the area) reinforced the position of sterling. From then on, two new problems were faced by Egypt: unblocking the sterling assets that had been accumulated, and converting them into other currencies. When in 1945 Egypt joined the International Monetary Fund it remained a member of the sterling area. Nevertheless, it acquired the right to determine freely the parity of its exchange—the right not to devalue if Britain did so. But at the time Egypt was definitely setting its course toward monetary independence.

The thesis of "perverse monetary mechanisms." This can be summarized in the following three propositions:[35]

1. The amount of money in circulation in a country that is on the foreign-exchange standard is determined by the state of the external balance. Not a single bank note is issued in the given country unless its equivalent in the dominant foreign currency is deposited. It is thus strictly the state of the external balance that determines this issue. The question arises: what entries go to make up this balance? It will be seen that the answer totally refutes this pseudo-determination of issue by the external balance of payments. The supporters of this theory nevertheless stick to their vague claim. They add that, as the use of checks is not widespread in the underdeveloped countries, this issue constitutes the main element in liquid assets in money form. Consequently, in the short run at any rate, the ratio between the fiduciary circulation (notes) and the circulation of representative money (deposits) cannot but be constant (it depends on habits of payment which are slow to change);

therefore, no sudden increase in the use of checks, in order to remedy the shortage of notes, can take place, and ultimately the total volume of liquid assets depends on the state of the external balance.

2. Any excess or shortage of currency affects the general level of prices. Without adopting a mechanistic quantity-theory standpoint, it is alleged that pressure is exerted on prices in this way.

3. In a period of prosperity the external balance is favorable, and the influx of money makes prices rise, whereas in a depression the opposite mechanism takes effect.

The facts, as they crudely appear, seem fully to confirm this point of view. Chabert shows from the example of El Salvador, where 80 percent of total monetary resources are of external origin (as measured in net assets in gold and foreign exchange), that when exports increase the mass of money increases too (between 1940 and 1945), whereas it decreases when exports go down (between 1945 and 1947). The movement of the mass of money of internal origin does not make up for that of the external component. This phenomenon is a general one. It is true in the cases of Cuba, Egypt, and Iraq, countries on the foreign-exchange standard, where, consequently, the whole circulation of money (notes) can vary only under the influence of the balance of payments, and where the movement of money of local origin (deposits) has not made up for the movement of this circulation of external origin, since the volume of liquid assets in money (the sum of both components) has varied parallel with the volume of circulation, not only year by year but over the whole period 1937–1951. It is true also of other countries where the monetary circulation is of mixed origin (internal and external), as these countries do not form part of a foreign monetary system (their currency is "independent": Mexico, Brazil, Argentina, Turkey, etc.). Thus, during the war these countries accumulated assets in foreign exchange, while their total circulation increased.

The writer then makes a close study of the coefficient of correlation and dependence between the indices of monetary circulation per capita and those of wholesale prices, for fifteen Latin American countries, four Middle Eastern countries (Iran, Iraq, Turkey, Egypt) and two advanced countries (the United States and Great Britain), for the period 1937–53. The correlation he reveals is clearly better for the underdeveloped countries than for the two advanced countries, despite a certain number of exceptions (notably for the period 1937–41, for the countries of Latin America, and the period of 1946–52 in Turkey). It should be added that, for a number of underdeveloped countries, a month-by-month correlation is observed between issue

of currency, which increases seasonally, and prices, which follow this movement, though at a much lower level (Salvador, Mexico, Brazil). Finally, the priority of the movement of circulation over that of prices seems to be proved by the improvement of the coefficient of correlation when there is a time-shift, circulation preceding prices. For the United States, however, the best coefficients are those of the series in which wholesale prices precede circulation. Furthermore, the movement of prices cannot be attributed to that of the exchange, since the percentages of increase were lower than those of monetary circulation or prices (Bolivia: increase in the rate of exchange, 200 percent; increase in prices and circulation: 1,000 percent). Sometimes even the influence of the rate of exchange has been a factor stabilizing internal prices, imported goods having increased in price less than domestically produced ones, as we see from the example of Venezuela. To conclude, it can be said that the cyclical variations in monetary circulation and prices, after elimination of the trend calculated for the period 1937–52, show a remarkable degree of correlation in the underdeveloped countries, whereas this is not apparent in the case of the United States.

This thesis of the "perverse mechanisms" of issue is basically wrong. It is not true that monetary circulation is determined in countries on a foreign-exchange standard, by the external balance.

Let us assume that the external balance (reduced for greater simplicity to the trade balance) is positive. A local importer obtains foreign exchange from abroad. He takes it to the Currency Board, which gives him local notes, which he then deposits in a (foreign-based) commercial bank. The cash in hand of this bank having increased, it may grant more credit to the local economy (the coefficient of liquidity—that is, the ratio between liquid and mobilizable assets, on the one hand, and, on the other, payments due, whether on demand or short-term—has increased). I say that it *may* do this because the bank may offer credit but no one may wish to take it. It is still true that if advances are asked for and the bank agrees to grant them, so as to bring the coefficient of liquidity back to its former level, the volume of liquid assets in money form will have increased more than the surplus of the external balance.

Thus, the volume of liquid assets appears to depend *both* on the surplus in the balance of payments and on the needs of the economy, the former constituting a ceiling that cannot be surpassed. There seems to be, at any given moment, a fixed ratio between the use of fiduciary money and that of representative money, determining a rigid coefficient of liquidity—even if the local producers should ask the bank to

agree to let them have more credit than it is able to give. This is just where the mistake in this argument lies.

If a local producer asks the bank for credit and wants a certain amount in the form of an overdraft and the rest in banknotes, all the expatriate bank has to do is apply to its head office for sterling to be paid over to the Currency Board, and it can have the banknotes it needs there and then. A bank need never lack local currency if it has plenty of sterling in London.

There have already been cases where this mechanism has operated. In Southern Rhodesia between 1946 and 1951, the external balance was negative. Local currency was therefore being taken to the Board to be changed into sterling in order to meet the deficit. At the same time, however, the banks were changing their own sterling into Rhodesian banknotes in order to finance a big increase in their local credits.[36] It will be said that the deficit in the balance is here being compensated by an influx of short-term credit from abroad. This needs to be rejected as ambiguous, because it suggests that the influx of credit is induced by the gap in the balance and is necessarily equivalent in amount to this gap.

This is not so. It is better to distinguish clearly the balance of real payments, made up of exports and of the influx of capital intended for long-term investment, which make up the credit side, and imports and the outflow of profits from foreign investments, which make up the debit side, from the balance of the movement of bank capital (import and export of sterling by the banks on their own account, and not as representatives of a client).[37]

The balance of real payments is whatever it is. I think there is a tendency toward long-term equilibrium in this balance through the income-effect (a deficit constitutes a transfer of purchasing power), but that the deficit is not necessarily reabsorbed automatically—especially given that exchange is rigid and unlimited. In the case of independent currencies, there is added to this income-effect an exchange-effect (disequilibrium entails devaluation, which affects the balance in a favorable or perverse direction, depending on elasticities) which sometimes contributes to *short-term* equilibrium (not long-term, as devaluation brings about an increase in prices which cancels out this effect).

As for the balance of movements of bank capital, this is entirely independent and is not induced by the balance of real payments, so that, although the balance of real payments automatically affects circulation, this effect is without importance since it can be either counterbalanced or not by the movement of bank capital, which is always

determined solely by the economy's need for money, and is limited by nothing else.

This is why it is possible for the volume of liquid assets in money and even the volume of circulation to increase although the balance of payments shows a deficit. There is no proof that imports and exports of money are induced by external payments, declares I. Greaves, after studying the experience of the British West Indies. A bank changes sterling into local currency because it needs this currency for the requirements of depositors; when it changes local currency into sterling, it does this not because it lacks foreign exchange but because its local cash-in-hand exceeds the requirements of the economy. This is why, between 1912 and 1950, the Currency Board of British West Africa issued £115.28 million against payment of sterling in London, whereas it transferred only £55.88 million of African currency into sterling.

As for the quantitativist explanation, this does not stand up to criticism. On the one hand, as we have seen, it is not the external balance but the economy's needs that determines the volume of money in circulation, and, on the other, it is not the volume of money in circulation that determines the price level but precisely the reverse, here as elsewhere.

The data for Egypt between 1920 and 1940 (trade balance, monetary circulation, price indices) show that, in conformity with the theoretical schema, the external balance tends to be better in a period of prosperity than in one of depression. In a period of prosperity, exports increase at first faster than imports (the surplus increases between 1922 and 1924), then more slowly—so that it was possible for the surplus to turn into a deficit in 1926. The movement runs the other way in a depression period. The other elements in the balance of real payments (entry of long-term capital, exit of profits, stable extra-economic factors—services, tourism, British Army), on which no data are available, probably intensify the movement (entry of capital during prosperity, cessation of this in time of depression).[38]

On the other hand, there is an obvious correlation between the movement of the balance of payments and that of issue (which increases when there is a surplus in the balance and decreases when there is a deficit). Although the coefficient of correlation, calculated crudely, is not high, it is possible to accept the assumption that there is a strong correlation owing to the intervention of factors in the balance of real payments other than the exchange of commodities. These elements, by accentuating the movement of the balance, bring the latter into line

with the movement of circulation (whereas here the variations in the circulation are less than those in the trade balance alone).

Must we then conclude that the quantity theory is correct? Not at all. Prosperity is reflected in increased prices, in Egypt as elsewhere. True, prosperity improves the trade balance, but it is not this balance that causes the movement of prices. That is quite normal. It needs to be added that not only does the price of cotton improve on the external market and, correspondingly, the price of imports rise (as a result of the prosperous situation of Egypt's suppliers), which tends to raise the general level of prices in Egypt; but also the general solidarity of prices, on the one hand, and, on the other, the automatic transmission of the fluctuations in the value of the dominant currency, due to the psychological element (the Egyptian currency being sterling), intensify the general movement. Prices being higher, the need for money increases, and the circulation expands. There is indeed a correlation between the two movements, but the logical priority lies with prices.

It nevertheless remains true that price fluctuations are greater in Egypt than in Britain. Must we attribute this fact to the perverse quantitative effect of the external balance? Certainly not. The price of cotton, a raw material, fluctuates more than that of British manufactured goods—this is the reason for that feature of the situation. Also, throughout the period 1922–1938 the general trend was downward; but the decline was more marked in Egypt than in Britain. I attribute this to the general behavior of prices in highly monopolized economies (such as Britain) as compared with those in economies with a low degree of monopoly (such as Egypt). In any case, the fact that this trend was more marked cannot be attributed to the external balance, which was negative throughout the period in question.

Finally, there is the alleged priority of circulation in relation to prices which Chabert found to apply in the bulk of the underdeveloped countries between 1937 and 1953. This is only an illusion. The period was generally one of prosperity. The tendency for circulation to increase faster than prices is easily accounted for. On the one hand, the real national income increases, and with it the need for money, at constant prices. On the other, hoarding in the underdeveloped countries, in "modern" money (notes and deposits), subjects the system to an increased need for currency. Finally, and above all, the velocity of circulation of money slows down with development, as Chabert himself shows at some length.[39] Under these conditions it is normal for the volume of money to increase faster than the price level rises. By calcu-

lating the correlation that exists between the increase in prices and the increase in circulation, with a displacement of the latter toward the past, we find a greater proportionality between the phenomena, which gives the illusion that money is the cause and prices the effect. It should be added that, during the war, when the movement ran parallel to the accumulation of substantial amounts of foreign exchange in the underdeveloped countries, owing to the impossibility of importing goods, the illusion of a mechanical link between the state of the external balance, the circulation of money, and the level of prices was complete.

The fact remains that the parallelism between prices and circulation is much more obvious in the underdeveloped countries than in the advanced ones. I am inclined to ascribe this difference to the fact that in the underdeveloped countries the issuing mechanism is automatic, so that circulation adapts itself immediately to requirements, whereas in the advanced countries the management of credit by the Central Bank—that is, the numerous manipulations of the monetary situation that the state carries out—has the effect of concealing the connection between circulation and requirements. We shall see later on the significance and implications of this absence of management of credit in the underdeveloped countries.

In cases where a foreign currency circulates (as in Cuba in former times), the monetary phenomena are no different. There is an apparent correlation between the external balance, the volume of liquid assets in money form, and the volume of bank credit. The example quoted shows, however, that improvement in the external balance between 1931 and 1936 did not bring about any inflation of the circulation, which continued to be linked (like the volume of bank credit) with the general economic situation. This clearly indicates the independence of the balance of real payments and that of bank capital. Finally, in the case of Cuba, the positive balance of the external real payments as a whole and of bank accounts led Wallich to declare that the circulation of money was paid for in real terms.

The "cost" of the circulation of money. The mixing-up of the balance of real payments with the balance of bank capital in a single balance of payments has induced many economists to say that the foreign-exchange standard system is equivalent to a system of 100 percent gold circulation. It is alleged that if, in the long run, the use of checks does not spread quickly enough to make up for the increased demand for notes, then real exports will have to "pay for" the necessary influx of foreign notes.

As soon as one distinguishes between the two balances, and recognizes that it is only the balance of real payments that tends toward equilibrium (through the transfer of income), the theory of the excessive cost of the foreign-exchange standard collapses.

Nevertheless, insofar as the colony has "bought" its monetary circulation, at the outset, by transferring gold to London, or by forming a reserve to endow the Currency Board, by means of an allocation from the local budget (signifying a real levy upon the economy), it is true to say that the *initial* cost of the system in question *is* extremely high.

On the other hand, the balance of real payments tends toward equilibrium; and if this is attained, and the colony imports currency in order to meet its increased need for liquidities, then the balance of real payments and of bank payments taken together shows a surplus (equal in amount to the import of bank funds). The impression is thus given that it was the foreign-exchange standard system that gave rise to the need to export more than was imported, in order to "pay for" the import of monetary media.

"Managed" Currency and the Monetary Illusion

Criticisms of the foreign-exchange standard system, which are becoming more and more severe, can be grouped around three poles:

1. The foreign-exchange standard automatically transmits fluctuations in the values of the dominant currency. Acutally, there is no transmission here, since it is the currency of the dominant country itself that circulates. It will be seen what causes and consequences of this "transmission" are, and whether the system of managed currencies succeeds in preventing the harm done.

2. The foreign-exchange standard reinforces economic integration in the economic area dominated by the particular advanced country.[40] This is so, first and foremost, because the freedom of economic movements (absence of exchange control) favors the penetration of foreign capital, the export of profits, and commercial exchange. This is fundamental. Further, the dominated country enjoys no freedom to carry out an independent trade policy. It is deprived of resources in foreign exchange, since these go to feed a pool which is situated abroad and which is not under the dominated country's control. This is why Portugal possesses a strong currency, thanks to the surplus in the balance of its colonies' dealings with the United States: these resources in dollars benefit Portugal alone, and not the colonies. So long as the

dominant currency is freely convertible into foreign currency, the system is still tolerable. As soon, however, as this convertibility is suspended, the system becomes quite intolerable. This was how it happened that during the Second World War Egypt accumulated £415 million sterling which not only were convertible but are still blocked in London. India, Burma, and the Middle East accumulated £1.732 billion in similar "sterling balances," the Dominions £384 million, and the rest of the countries of the sterling area £607 million. There are thus territories at every stage of colonial history which "feed" the metropolitan country in this way. After the war, it was Ghana that, along with Nigeria and Malaya, supported the pound in withstanding the attacks of the dollar, thanks to the reserves held by the Marketing Boards.[41] It is true that there are cases, such as the French colonies since 1945, in which the balance is often negative where foreign exchange as a whole is concerned. In such cases the metropolitan country supplies the colony with the foreign exchange it needs. In return, however, the colony is obliged to give the metropolis preferential entry on imports—a preference which is, moreover, forced on the colony owing to the uniform regulation of exchange control and the ban on trade with other countries, a ban both legal and economic (owing to the lack of any reserve of foreign exchange controlled by the colony itself).

3. The foreign-exchange standard prevents any "management of credit" in accordance with local needs. This is the criticism most frequently levelled at the system, and yet the weakest.

The statement that issue is mechanically linked with the state of the external balance is quite false, as we have seen. On the contrary, indeed, it is acquisition of real monetary independence (autonomous exchange control) that brings a real danger, in an underdeveloped country, that this statement will come true, that is, that the external balance will become the factor ultimately determining the local issue!

In fact, under the foreign-exchange standard system, local issue is controlled to the same extent as issue in the metropolitan country, by the Central Bank of that country, through "credit control"—the importance of which economists have tended to exaggerate. Generally speaking, by showing that circulation adapts itself to requirements, the possibility of really *managing* the issue of money has been refuted. Nevertheless, we shall see later how, with inconvertibility on the one hand, and the development of monopolies on the other, the possibility of an inflationary issue, with the agreement of the Central Bank, has become a real one. In this sense, "management of credit" (restricting or approving this issue) has acquired a meaning, even if only a negative one

(impossibility of issue if the economic system does not allow of this, possibility only of restricting an issue which is desired by the producers). Acquiring the possibility of doing this on the local scale, or, more precisely, getting free from the necessity of following the policy of the dominant country, has become the content of the new doctrine.

The doctrine—strongly inspired by the international organizations—has suggested three axes along which the chief reforms have been carried out during the last twenty years: (1) expansion of the embryonic money and finance market, (2) abandonment of the foreign-exchange standard in favor of a flexible system without a rigid exchange, and (3) creation of central issuing institutions endowed with their own reserves in gold and foreign exchange.

It will be seen that, in fact, all these efforts fail to secure the desired freedom to manage credit (in the sense of liberation from the power of the expatriate commercial banks) unless control is established over transfers, and *a fortiori,* the banks are nationalized. In the event these measures are taken, the country concerned really has "broken out of international monetary integration." Even in such an extreme case, though, we shall see that the new system does not safeguard the local economy against transmission of fluctuations in the value of the dominant currency. Moreover, the new system brings a number of disturbing elements into the local economy. Without control over transfers, issue remains independent of the state and of the external balance. But the rate of exchange, which is no longer rigid, becomes a factor of disturbance: in the event of disequilibrium of the external balance, due either to economic causes (disequilibrium in the balance of real payments) or to monetary ones (export of funds resulting from a crisis that has caused a surplus of liquidities), the rate of exchange depreciates. If control over the exchange is established, then determination of issue by the external balance becomes a reality!

All this has caused the countries that have taken the path of monetary independence to move further and still further along that road. Before the Second World War, the foreign-exchange standard system prevailed in two of the underdeveloped continents, Africa and Asia (China excepted), and in part of Latin America (the Caribbean). After the war, the movement to set up local monetary systems began in Asia. Today nearly the whole of Asia, the Arab world, and the English-speaking countries of Africa enjoy more or less real monetary independence. French-speaking Africa is almost alone in remaining subject to the classical foreign-exchange standard. In Asia and the Middle East,

certain countries have gone all the way, setting up Central Banks with their own reserves in gold and foreign exchange, and establishing exchange control. Egypt is a typical example. Others have gone less far and adopted a more flexible regime. These countries sometimes continue to feed a pool of foreign exchange somewhere abroad. At the same time they have set up central systems and decided to fix freely their own rate of exchange, and, in order to make this freedom real, have kept at home at least part of their assets in foreign exchange and gold (India, Pakistan, Ceylon, etc.). As for South America, like China in former times it never knew the foreign-exchange standard. A system of local paper money operated there throughout the nineteenth century. Acquisition of monetary independence was reflected in the setting up of a central system of issue control (that is, by replacing paper money with an inconvertible fiduciary currency), and in some cases by the establishment of exchange control.

This brief outline of the old system will enable us to see that, even given the earlier hypothesis of paper money, the mere presence of expatriate banks enabled issue to be adjusted to requirements.

Paper-money systems in the periphery in the nineteenth century. The foreign-exchange-standard system, which is typical of the underdeveloped countries, was not introduced without prolonged tentative measures. True, often the system was introduced without its theory having been worked out: thus, for a long period, cash vouchers circulated in the West Indies which were not convertible into gold but *were* convertible into bills in the metropolitan country. The exchange fluctuated with the state of the external balance, because there was no organ that ensured exchange at a fixed rate and in unlimited amounts.[42]

In general, all through the nineteenth century, the colonies and the countries of the East and Latin America made use of gold, or more commonly silver, coins (China, Japan, Dutch East Indies, India, and Persia, and Latin American with the exception of Brazil). Only gradually was the foreign-exchange-standard system introduced: in 1899 in India, in 1903 in the Philippines, in 1904 in the Straits Settlements, Siam, Cuba, and Mexico. A direct gold exchange standard (without passing through the intermediary of a gold coin of a particular country's currency, as was the case in India from 1898 onward) was introduced in Argentina in 1899, when the Conversion Office undertook to exchange gold for local currency and vice versa. The same system was set up in Brazil a little later. China continued to use silver

coins and silver ingots. Latin America was, all through the nineteenth century, the favorite region of paper money, which circulated alongside silver coins that were more or less at a premium, depending on the volume of issue. Mexico moved belatedly from this situation in which the rate of exchange fluctuated with the price of silver, to the foreign-exchange standard. The other states were unwilling to come to this decision, and only in the twentieth century did they at last stabilize their currencies by setting up central systems of the modern type (incontrovertible credit money). The experience of Latin America, where paper money issued by the state treasury circulated, is worth some attention.

There is no point in detailing the internal flaws of the regime. Money, here introduced into the economy not by way of bank credit or commercial credit (bills) but through the budget, may prove to be excessive in quantity. In the case of a budget deficit, money incomes are created *ex nihilo*, without any real counterpart: prices rise, the external rate of exchange collapses. But let us assume a balanced budget—which was not the actual historical reality in Latin America or China.

A mere disequilibrium of the external balance results in a fall in the rate of exchange. This brings inflation through the increased price of imports. If the disequilibrium of the external balance is part of a permanent tendency, as is the case with the underdeveloped countries unless exchange control is applied, then what occurs is an endless series of devaluations, price increases, and fresh devaluations.

Let us now suppose that the balance of real external payments is, like the budget, in equilibrium. The money in circulation may prove to be insufficient even so. Money is introduced into the economy, as already mentioned, only by way of state expenditure. A trader who finds himself momentarily short of liquidities applies to the foreign commercial banks. In order to respond to his application, the latter need an extra quantity of the local paper money. They import funds that belong to them, and buy local currency on the exchange market. This transaction tends to raise the rate of exchange, which in turn causes prices to fall. In this case the amount of money does indeed adjust itself to requirements, but only at the cost of continual upsets in the level of the exchange rate and prices. The solution in these countries is replacement of paper money by fiduciary currency, that is, establishment of a Central Bank endowed with the privilege of issue and capable of coping with the country's increasing demand for money.

And as, here too, the bank encounters, in its foreign competitors, a force that is stronger than itself, it will be necessary to resort to control of transfers.

This outline is not fictional: the history of Latin America (Brazil, for example) has conformed closely to the line of development indicated.[43]

Modern systems of managed currency. Independent monetary systems are today being increasingly established, in Latin America, in place of the paper-money system previously in use, and in Asia, the Middle East, and the English-speaking countries of Africa, in place of the previous foreign-exchange standard system. Only French-speaking Africa remains outside this movement.

Freedom to fix the rate of exchange does not mean that the latter ceases to be determined by the cover and the state of the external balance. If the cover of the issue is still made up of foreign exchange, fluctuations in the value of the foreign currency will continue to be transmitted. To alter this situation the local issue will need to be covered by gold. We shall see once more that price movements in the advanced central countries always eventually spread to the periphery. As for the external balance, this operates via the rate of exchange to influence the market—whether free, official, or "black." Only exchange control is capable, by imposing equilibrium on the country's balance, of keeping its currency in good condition.

Although many illusions have been cherished regarding the creation of a local finance and money market, both to encourage the mobilization of national capitals and to enable the central bank to manage credit by a monetary policy, the results have so far proved highly disappointing.

The setting up of a central bank is undoubtedly the crucial element in the new system. Let us see how far the adaptation of issue to requirements—which, as we have seen, was perfect under the foreign-exchange standard system—is modified by the creation of a central bank. Technically, issue follows the same pattern as in the advanced countries, either in that the reserve held by the central bank has to constitute a certain minimum proportion of the issue (as in Egypt, India, Pakistan, Indonesia), or that the volume of banknotes issued over and above a certain maximum has to be fully covered (Burma). Sometimes the rules governing issue are extremely liberal (Ceylon, Thailand, Philippines).[44] The nature of the cover (gold or foreign exchange) is of great importance in whether the value of the currency of the dominant economy is automatically transmitted to the under-

developed economy. For the moment I will deal only with the problem of whether or not the local central bank can manage credit. In order to do this I must examine (1) the assumption of freedom of transfers and (2) the assumption of control of transfers.

1. Under freedom of transfers, the central bank has no influence over the policy of the expatriate commercial banks.

Management of credit implies that in the relations between the central bank and the commercial banks the balance of strength is in favor of the former. This is not the case in any of the underdeveloped countries. Banks of issue with meager reserves of foreign exchange are confronted by branches of the great American or European banks with almost unlimited funds at their disposal. Although the laws establishing the central banks give them the right to fix the proportion between the reserves and the liabilities of other banks, freedom to practice open market operations, and so on, issue in fact eludes control by this central authority.[45]

What has to be realized is that the commercial banks in the underdeveloped countries do without rediscounting by the bank of issue. While this is also true in Britain, for historical and technical reasons (which in no way prevents these banks from depending on the Bank of England), the reason is quite different in the underdeveloped countries: here, the commercial banks do not have recourse to the services of the central bank simply because they are richer than this native institution which is legally their superior! In case of need, the expatriate banks draw advances from their head office to be repaid when they fall due. This disparity of financial strength, besides making impossible control of issue by the central bank, has for secondary effect a deplorable high liquidity preference. Insofar as the banks of local nationality do not possess open credits in the central countries, unlike their foreign competitors, they are obliged to keep an amount of cash in hand that would seem excessive in an advanced country. The history of Cuba has shown that when the local banks, lacking open credits in the advanced countries, allow themselves to grant credits to their clients in the same proportion to the reserves they hold as applied in the case of expatriate banks, they very soon find themselves, in the event of crisis, in a situation verging on bankruptcy.[46]

This high liquidity preference is reflected in a high level of cash and balances held in the central bank, relative to total liabilities. It is a situation thoroughly detrimental to mobilization of the local savings deposited in the native banks. It applies in the capitalist sector—in other words, in that sector of the economy where there should be no justifi-

cation for it. The "feudal" hoarding that is characteristic of the underdeveloped economies is a feature of a sector where saving is not by nature destined for investment. Under those conditions it has no deflationary effects, and is akin to luxury consumption rather than to the baneful liquidity preference of which Keynes writes. In the case we are now considering, however, we find a true high liquidity preference of the Keynesian type.

For the same reasons, if the central bank alters the proportion between the reserves and the liabilities of the commercial banks, the latter are not at all obliged to restrict the volume of credit: they can import from the home country the funds they need to bring up the level of reserves. Finally, the open market system is itself impossible in countries where the market in treasury bonds is practically nonexistant.

Thus, under this assumption the central bank controls nothing, and the expatriate commercial banks remain masters of the country's monetary fate. It is to be observed, nevertheless, that the volume of liquid assets in money form remains adapted to the volume of local requirements, just as under the system of the foreign-exchange standard.

Monetary independence has contributed nothing new from this standpoint, while at the same time it has introduced serious disorders. Under the new system, indeed, the rate of exchange is of real importance. Disequilibrium in the external balance causes the rate to go down and prices to rise. As in the Latin American system in the nineteenth century, this disequilibrium may result from bank policy. If we assume that the central bank refuses rediscounting so as to restrict credit, and the expatriate commercial banks decide not to submit to this, and import liquidities from their head offices, what happens? Serious pressure is suddenly brought to bear on the rate of exchange, which rises, entailing an increase in prices. The upset is liable to become permanent.

Any violent conflict due to disagreement on general policy thus brings the danger of a clash between the central bank and the foreign-owned commercial banks. In this conflict the government possesses, to be sure, one effective means of coercion, namely, possible control of transfers. All the means by which the foreign banks can get around the regulation of credit by the central bank can in fact be neutralized by control over transfers. But this signifies real independence by the underdeveloped country from the international capital market. How, indeed, is it possible to distinguish between the capital that comes in "to be invested" and the capital that the banks import in order to feed the economic system with the liquidities "necessitated by development"? Wallich is perfectly aware of this dilemma. Despite the advantages of

exchange control where the monetary domain is concerned, he rejects it because such control isolates the country from the international capital market.[47]

Let us assume, nevertheless, that an exchange control office is clever enough to detect these imports of liquidities by the foreign banks. In that case the central bank can certainly dictate to the commercial banks, forcing them to have recourse to its services. But at what price?

2. Under control of exchanges and transfers, the central bank can dictate to the expatriate banks, forbidding them to import liquidities. This advantage is nevertheless bought at a very high price: (a) because now the fluctuations in the external balance affect issue directly, (b) because now the backing of the currency in gold and foreign exchange is paid for in real exports, and (c) because now the foreign-owned commercial banks make the economy pay for a service they can no longer render—providing advances backed with the guarantee of a strong foreign currency.

a. Credit and fluctuations of the external balance: A deficit (or surplus) in the balance of payments results in an exit (or entry) of foreign exchange. These movements can determine fluctuations in the general level of prices in the underdeveloped countries, by way of the exchanges. These fluctuations in turn bring about variations in the quantity of money required. More harmful still, however, is the fact that these fluctuations in the volume of the reserves that make up the cover of the local issue oblige the banks to regulate the volume of credit in relation to the vicissitudes of a balance of payments the state of which does not depend on the underdeveloped countries but on the economic situation in the advanced countries.

We have already heard and rejected the allegation that cyclical fluctuations were intensified in the underdeveloped countries by perverse alterations in the quantity of money. Nevertheless, without accepting any of the schemas inspired by quantitativism, we must acknowledge that the response made by the local banking system to the state of the balance of payments does risk aggravating the difficult situation as regards external payments.

Thus, when a deficit in the external balance causes the local system's foreign exchange to be drained away, the banks may (not "must") be led, if the drain is too great, to restrict the volume of credit accorded to the economy in general, and to activities working for export in particular. These activities may find themselves compelled to restrict production, which will cause the external deficit to get still worse. On the other hand, a surplus in the external balance brings no benefit to the

local economy. Not only may the banks be put in a situation where, further credits not being required by local producers (in particular because the volume of exports, already substantial, cannot be increased), the surplus of foreign exchange is sterilized, but also, when an injection of credit could actually be effected, it may be that the tendency to a rise in prices that this entails (together, moreover, with such other effects as the excessive demand experienced by the local market owing to the country's prosperity following a good export drive) will prevent the volume of exports from increasing, or will even reduce it, and this will rapidly deprive the country of its favorable situation in its relations with the outside world.

In any case, this monetary dependence involves permanent disequilibria in the mechanisms of local issue: accumulation proceeds less and less regularly, becoming increasingly a jerky phenomenon at the mercy of the chances of the external balance.

b. The cost of the backing for the currency: It must also be said that monetary independence implies for the underdeveloped systems a heavy cost in real terms. The foreign exchange that constitutes the backing for the local currency is obtained through a real surplus of exports over imports, since the exchange-control office maintains equilibrium in the balance of real payments and bank payments, so as to keep the local currency in good condition. The regime is thus equivalent to a system in which the money in circulation is backed by gold. This extra cost, these overheads of the economy, are undoubtedly reflected in a corresponding contraction in the volume of saving. True, the cost is not so heavy as it may seem: the foreign exchange is never anything but the backing for local issue, and that only to a partial extent.

But it is only in the case of an independent currency that this real cost exists. In the case of the foreign-exchange standard it was not so.

This situation is not peculiar to the underdeveloped countries. In the advanced countries also, circulation is backed in part by gold and in part by foreign exchange. There it is a matter of overheads of the system of production. In those countries too, the policy of the central bank may be hindered by the way the external balance evolves.

Nevertheless there is a difference in *quantity* between the underdeveloped countries and the advanced ones. The cyclical fluctuations in the external balance, the sensitivity of external exchanges to the conjuncture, is much greater in the underdeveloped countries than in the industrial ones, and therefore the cost of the system is heavier.

c. The price of bank services: This being so, does the service ren-

dered to local economic activity by the foreign-owned banking system justify what it costs? This question raises a serious problem indeed, that of the real cost of the banking system to the banks for the service constituted by short-term loans destined to ensure the normal functioning of the economy constituting a transfer of income whose explanation is to be sought in history. If all the entrepreneurs of the nineteenth century had possessed an initial stock of gold equal to the volume of "necessary liquidities," and if the production of new gold had kept in step with the pace of economic growth, then perhaps short-term credit would not have developed in the way it has done. But in fact gold circulated in increasingly inadequate quantities, although it was the only currency acceptable in the society of those days. The banks used this situation in order to issue fiduciary money: the convertible note, or representative money, in return for the payment of interest. They then ran the risk, to be sure, that was implicit in convertibility, since at any moment the entrepreneur might demand metal coins. It may well be claimed that since convertibility has been abandoned this risk no longer exists. It is true that commercial banks still run a certain risk, since the receiver of credit may always ask for bank notes. Insofar as the central bank does not automatically supply these to commercial banks, the latter incur a risk. But, provided these banks adapt their policy to the wishes of the central authority, there is no real risk involved. Nevertheless, even in this case, the central bank obliges the economy to pay for these quantities of new money.

Interest no longer corresponds to risk. The central bank has become a public service providing the economy with means of payment. Interest is no longer the reward for this service, but a convenient means of restricting the demand for money (which may account for Keynes's attempt to explain theoretically the role of interest on these grounds). There are other ways of restricting the supply of money; the quantitative and qualitative control of credit has multiplied these techniques.[48] In a planned socialist economy, the banks strictly limit advances to enterprises to the amounts laid down in the plan. As the enterprises have no right to extend credit to each other, the banks control the issue of money even more thoroughly than in the West. Obviously, since the plan has decided the volume of production, and both prices and the distribution of payments into and out of the enterprises are well known, the volume of credit to be granted is known in advance. There is no need to resort to a rate of interest as a means of restricting the demand for money. This is not the place to discuss which of the two methods is better. In any case, the payment of interest by

borrowers of bank credit does not impoverish the economy in the least, since it passes from the hands of those for whom it would have constituted an extra profit (the entrepreneurs) into the hands of those for whom it will constitute the same kind of income (bankers' profit), even though this does have an effect on the pace of development, and the direction taken by it.

It is not at all the same in the underdeveloped countries, where this payment represents a real loss for the local economy. Let us take the example of Egypt. Until the nationalization of foreign banks in 1957, the banks took every year a fraction of the value of the cotton harvest as payment for a service of short-term lending that an issue of local paper money could have rendered just as well. Before 1914, around £10 million was imported by the banks every year in order to finance the cotton campaign. The risk that the banks ran, however slight, was at least compensated by the placing of gold coins at the disposal of the economy. After 1914 a mere book transaction between the foreign banks in Egypt and their head office in London expressed this short-term movement of capital. Here too, the cost of the operation (in interest) for the Egyptian economy can be justified by the fact that a form of foreign exchange was made available to the economy which constituted a solid guarantee for borrowers. Today, however, with exchange control, it is the local deposits, and no longer foreign capital, that finance this annual campaign. The extra amount needed (since these deposits are inadequate) is obtained purely and simply by an issue of paper and of local representative money. Yet the interest paid by the cotton producers is exported, because it forms the profit of banks that are legally foreign, a fact which provides no additional guarantee. If the cotton producers were unable to pay back their loans, the Egyptians whose savings had been advanced in this way would have no greater guarantee than if the banks that now found themselves in a state of nonliquidity were Egyptian, since exchange control in Europe might prevent expatriate branches in Egypt from importing capital. Given that the harvest is in reality financed not by local saving but simply by local *issue*, no such danger actually exists so far as the indigenous savers are concerned. If a slump in cotton sales should occur, the central bank would refloat the producers through an additional issue. It is the whole of the economic system that meets the cost of this inflationary operation. The foreigner provides no extra guarantee in this instance. This situation sufficed to justify the nationalization of foreign banks. Some years later, the same argument justified the nationalization of banking in Tanzania.

Ought one to suppose, this being so, that the creation of an independent central banking system has been negative in its significance for the underdeveloped countries? The previous system, that of the foreign-exchange standard system, fulfilled its task perfectly well, providing the local economy with all the liquidities it needed, and doing this at reasonable cost. This system, moreover, guaranteed monetary stability, the use of a currency highly esteemed on the world market, and the feasibility of a negative external balance. The system that has replaced it brings in many factors of disturbance to the economic mechanism, instability in the rate of exchange and prices, and furthermore is very expensive, since it implies that the cover for the issue of money is to be paid for in real terms. Finally, it makes the guarantee provided by the expatriate banks illusory and therefore causes the service they render useless, and the loans they provide expensive. All this in order to secure an illusory control over credit!

And yet monetary independence *is* a necessity. It is a condition for that control over relations with foreign countries which is needed in order to protect local industry (customs dues are not always enough—the quota system is sometimes better), to supervise and control the inflow of foreign capital and restrict the export of profits, to supervise and control the policy pursued by foreign-owned commercial banks, and so on. As for the negative features of the system, they are due not to the system as such but to underdevelopment. Effective control over relations with foreign countries is necessary for real, not monetary, reasons. Monetary independence is thus, though a *necessary* condition, not a *sufficient* one, for a policy of development.

THE CONCRETE FUNCTIONING OF BANK CREDIT AND THE LIMITS TO THE FINANCIAL MARKET

The criticism addressed to the monetary system of the underdeveloped countries—that it supplies the economy alternately with too much money or not enough—is therefore without foundation. The monetary and banking system, even when foreign-controlled, supplies the economy with as much money as it requires. But to *whose* requirements does the activity of the expatriate commercial banks correspond?

It is well known that the banks in the underdeveloped countries do

not finance all the sectors of economic activity. It is not here a question of why these banks do not finance development, because it is not the task of banks in general to finance new investment (except to the secondary degree examined above under the heading of the "active" role played by the banks in the mechanism of accumulation. It is a question of why the commercial banks in these countries do not even provide all the sectors of activity with the liquidities needed merely for their current functioning.

One must, of course, eliminate from the discussion a certain number of false (or badly formulated) problems. Thus, the hesitation shown by the big commercial banks as regards financing the modernization of craft production, small-scale business, or agriculture is easily accounted for. What these sectors really need is special credits, medium-term and subject to favorable conditions, not so much in order to ensure speedier turnover of their funds—which is the role par excellence of bank credit—as in order to enable them to modernize themselves, if such modernization is practicable—that is, provided that the conditions of competition from local large-scale modern industry, or from imports, do not condemn them to inevitable disappearance from the scene. Similarly, appeals to the banks for finance to launch new enterprises are wrongly conceived, since that is the responsibility of a promotion fund. It must further be realized that this division of responsibility, excluding the commercial banks from this field, is that of the orthodox French and British tradition. Elsewhere—in Germany, in Italy, in the United States, and in Japan—the banks *have* played this role in relation to national capitalism.

In reality, the banks correctly carry out their task in relation to what exists, namely, peripheral capitalism, based on expansion of the external market. This peripheral capitalism is sometimes foreign-owned and sometimes national. True, in some cases the banking system seems to function exclusively in the service of the foreign-owned sector; but that does not constitute an absolute rule of conduct for the banks in the underdeveloped countries. It is, rather, an exception, due to the overall strategy—economic and political—of the particular dominant foreign capital.[49] Characteristically, the sectors of *non*-peripheral national capitalism—the independent capitalism based on the *internal* market—have almost always found difficulties in developing, *inter alia* because of the banks' abstentionist attitude. In this case the sectors that have proved able to develop with relatively greater ease are those in which it was possible for primitive accumulation to be financed directly by the primary economy.[50]

We give the name "inertia" to this restriction of the granting of short-term credit in the underdeveloped countries to the sector currently engaged in production for export.[51] This particular restriction is due to the fact that the semi-capitalist sectors of economic activity do not really require financing by the banks.[52] Let us consider, for instance, native agriculture. This sector functions in the old way. It possesses a certain quantity of liquidities which is usually sufficient to spread expenditure and receipts conveniently over the year. When, therefore, a peasant experiences a shortage of liquidities, this occurs not because his activity is developing too fast but because he is on the road to ruin. The peasant then has recourse to the services of a usurer. The banks do not wish to take on this function; they do not exist to help peasants on the brink of bankruptcy. That task may be undertaken by agricultural credit cooperatives, helping small producers to resist the triumphant competition of more powerful producers. The role of the banks is not to lend to enterprises that are threatened with ruin but to lend to those that are developing.

The same is true of the native crafts. Formerly they had no need to call for outside aid in order to function: they possessed their own funds for financing current activity. When a craftsman needs money, this is a sign that his economic situation is bad; that he has not managed to sell his products as he usually does, that he is being ruined by modern industry. This being so, why should a bank, which avoids risks, and has the task of supplying liquidities in increasing quantity to producers whose continuously developing activity is proof of their good economic health, come to the aid of a craftsman who is heading for bankruptcy? The usurer who hastens this bankruptcy, and sells off the craftsman's possessions by auction, fulfills this social function better than the banker, who avoids incurring such troubles.

This is why, in order to come to the help of agriculture and the crafts by reducing the monopoly of the usurers, in view of the banks' unwillingness to intervene, governments have taken the initiative in setting up cooperative organizations. But a cooperative cannot bring lasting aid to craftsmen unless they modernize their production so as to withstand industrial compeitition. Credit cooperatives have very quickly been led to finance the modernization of such activities, by means of long-term or medium-term credits. In the end the effect is to facilitate the more rapid break-up of the old-style forms of activity, to the advantage of the most dynamic forms. There are a few exceptional cases in which foreign banks *have* specialized in these operations, such as Dawson's bank in Burma, which financed the development of native

agriculture. It hastened the end of the old-style agriculture, giving place to a new type. But such cases are extremely rare, and foreign banks nearly always confine themselves to financing the capitalist spheres of the economy, leaving to other organizations the task of disintegrating the local subsistence economy.

The fact is that the banks in the underdeveloped countries have a history that is closely linked with that of the installation of peripheral capitalism in those countries. The European banks established branches in these countries when international trade had reached large-scale dimensions, and with the intention of facilitating this trade. Historically, moreover, most of the expatriate banks were set up in the ports, in order to carry out foreign-exchange operations. Parallel with these activities, which were closely connected with the export trade, certain financial institutions financed state loans. Thus, in Egypt, banks were set up in order to serve as intermediaries between the great European finance houses and the Khedive Ismail.

Broadly, however, foreign trade was the banks' main concern. On that basis, their field of operations was gradually expanded so that they took over the financing of the sectors bound up with international trade. Thus, in Egypt, besides financing the sale of cotton, they financed narrow-gauge railways for the transport of cotton. In addition to these activities connected with foreign trade, the banks never stopped financing certain public services, so maintaining a very old tradition. They thus helped the local governments to create essential public services and to modernize the infrastructure needed for the development of external exchange. These operations were, it is true, very profitable at that time, and closely connected with external relations: the entrepreneurs who obtained the concessions to develop these services were foreigners. Their monopoly enabled them to derive substantial profits from the work, which they exported through these same banks.

In the end, this "inertia" of the banking system constitutes a powerful means of guiding the development of peripheral capitalism in a way that conforms to the needs of the center. The example of Egypt again supports this analysis. Every year the volume of currency is greatly inflated at the time of the cotton harvest. Nothing like this happens at the time of the wheat or the maize harvest. The sale of cotton can be spread over as many months as necessary: the banks are there to lend the money that will make this wait possible. The exporters can thus endeavor to conquer new outlets: the growth of the cotton-producing

economy is greatly favored. Wheat, on the other hand, has to be sold quickly, in accordance with tradition. Should a producer wish to try and expand the production of wheat, and should he then find himself in difficulties in selling as quickly as usual the extra amount produced, the banks would not rally to his support, and he would have to struggle with insurmountable difficulties to make ends meet. Wallich thinks that this would be the position in Cuba if the agricultural producers wanted to expand the production of rice or maize. We have seen a similar problem in Senegal, in relation to the commercialization of cola nuts.[53]

The banks' "inertia" results in wasting part, sometimes a considerable part, of the country's savings. The banks receive substantial sums in deposits, which arise in spite of everything from the foreign-owned capitalist sector and the country's other activities. It is not merely a matter of liquidities, but also of actual saving of money, and even of hoarding, by the country as a whole. Instead of mobilizing these resources for long-term development—which could be done, but which would not be profitable—the banks prefer either to export these savings or to use them locally to meet state expenditure.

The consequence is that we often see, especially in the colonial period, a high degree of liquidity in the banking system in the underdeveloped countries. I have given a number of examples of this familiar fact, which reflects the imbalance between the increasing sources of deposits and the limited local possibilities for profitable use of these deposits.[54] It is this imbalance, especially marked when the development of peripheral capitalism has come to reinforce an agrarian capitalism of latifundia owners whose hoarded savings assume modern forms and amount to considerable sums, that accounts for the abnormally low rates of interest charged in many underdeveloped countries.[55] The accumulation of saving in the form of bank deposits withdrawable on demand is thus due to a marked liquidity preference on the part of the banks and not on that of individuals. The relatively small amount of loans to the local economy (which is reflected in the high liquidity of the system) causes the banks' profits to be too low for them to attract deposits by offering high interest rates. The banks do not need these overabundant deposits. They always pay a very low rate of interest (from 0.5 to 1.5 percent in Egypt), whatever the period of the deposit. Accordingly, the savers often keep their savings in current accounts.

It is easy to imagine the loss an underdeveloped economy suffers through the absence of a system that would enable these sums to be used productively. If they had been invested as fast as they were ac-

cumulated, this process would have left behind it a real production potential that would not have been subject to the depreciation that has affected the value of money.

The constant withdrawal of fiduciary and representative money from circulation by hoarders in the underdeveloped countries constitutes, moreover, a powerful deflationary force. The hoarding that goes on in the underdeveloped countries in the traditional form of accumulation of gold is comparable in its effects to luxury consumption. The modern form of this hoarding of the precapitalist type appears, however, to have deflationary effects—not in the Keynesian sense, for this hoarding is not forced, in that it does not arise from the insufficient profitability of investments, but is truly voluntary, but because it constitutes a siphoning-off of purchasing power which is thus prevented from swelling demand, and *that* makes the profitability of investments more precarious.

It is obvious that hoarding of this sort can have no influence on prices if the banks introduce into the circuit additional credit that is equal in amount. This is what would normally occur, as Robertson has shown: when the rapidity of circulation of deposits diminishes, the banks reckon that they can raise the level of their advances. They create extra purchasing power which replaces on the demand market the loss caused by saving. Prices remain stable. In this way, saving by some can finance investment by others. The rigid attitude of the authorities in forbidding commercial banks to provide both short-term and long-term credit, which is understandable in Europe, where the deposits in these banks are usually not savings deposits, should have been overcome by the prospect of large profits and by the great security of the operation. It was not a question of long-term immobilization of short-term savings (which the Germans have dared to effect) but merely of using for productive investment savings that their owners intended to keep for a long time. The explanation of this attitude has to be sought in the real facts of the system. Industrialization of the country is not profitable, owing to foreign competition. In addition, the banks, which are closely connected with the big foreign-owned enterprises established in the country, do not wish to compete with them.

This being so, the deflationary effect of this form of saving is unquestionable. If we assume that this effect is balanced by an active policy on the part of the banks, what would be the social significance of this accumulation of money savings? A certain amount of potential purchasing power is accumulated in the hands of this social category—a potential that each member of this category can use as he wishes, and

which gives him extra leverage. Nevertheless, the totality of these funds could not be used all at once by all the hoarders, for this would bring about illiquidity and the collapse of the banking system. If we assume that the central authorities cover the banks by a massive rediscounting, the ultimate result of the operation would be a general inflation of prices (as a result of the sharp increase in demand without real equivalent in supply), which would cancel out the effects mentioned.

Besides, the foreign-owned sector itself, as a whole, shows little interest in these funds of local origin. Most of the industrial enterprises operating in the underdeveloped countries are branches of extremely powerful monopolies, which themselves have commercial banks at their disposal in the home country. Their financial resources are inexhaustible: they float big loans in Europe and mobilize the deposits of European savers. Undoubtedly, the big monopolies commit to long-term investment in their overseas branches only the funds they can procure for themselves. They do not like to call upon banks that are outside their network, for these would bring into the business a new, and perhaps rival, power. Even, however, in cases where these foreign-owned enterprises need short-term funds, they do not turn to the locally established banks. The mother concern sends them what they need, drawing upon its own banking system—which, if necessary, simply creates the amount of money required to finance the temporary deficit of the overseas branch. Thus, the interest on these short-term credits does not move outside the complex of firms that forms the monopoly.

There is no shortage of examples of procedures such as this. We may take the example of the United Africa Co., which has never borrowed, even on a short-term basis, from the banks of British West Africa. The line followed by the copper producers in Zambia and the Anglo-Iranian Oil Co. in Iran has been the same.[56]

If the expatriate banks are so little interested in local investment of their money resources, this is because they can always—provided there is no exchange-control—export these liquidities to the finance markets of the advanced countries. Examples of this massive export of local savings, facilitated by the centralization of the banking system, are plentiful. The Royal Bank of Canada drains off to the finance markets of North America the deposits of savers in Haiti; Cuba provides another such instance. One cannot, of course, say that the savings exported would have been automatically put to use within the country where they originated. Wallich considers, on the basis of the study of this question made by Aliènes, that this export is not an autonomous move-

ment of capital but, on the contrary, an induced movement, caused by the state of the external balance and the economic situation generally. I do not agree, but see in this export of capital one of the autonomous forces that *determine* the state of the external balance. During a period of prosperity, the accumulation of savings in an underdeveloped economy is so large that the banks dispose of considerable funds that they can export. When depression comes, dishoarding reduces these funds. The correlation observed between the general economic situation and the state of the trade balance gives the impression that what we have here is an induced movement. We see everywhere the same tendency to keep abroad not only local savings but even sums that become temporarily available.[57]

The expatriate banks have a twofold tradition in underdeveloped countries, depending on whether they are foreign-exchange banks or have served as intermediaries between foreign lenders and local governments.

For a long time the underdeveloped countries, having become colonies, ceased to make use of these intermediaries, and floated their loans directly on the metropolitan market. At the same time, the banks invested their liquidities in metropolitan government stock, that is, they became lenders to the state in the metropolitan country. Examples are provided by the French Union and by Egypt.[58] Nowadays, however, there is a marked tendency in most of the underdeveloped countries for these disposable assets to be used for financing current administrative expenses.[59]

Thus, whereas in the advanced countries the financial institutions have facilitated the transformation of the reserve-savings deposited with them into long-term investments, in the underdeveloped countries everything tends toward the utilization of savings (including sums that the saver would like to commit to long-term investment) either for short-term financing of the economy (insofar as these savings, deposited in the banks, are used to finance foreign trade transactions) or even for financing state expenditure, much of which, unproductive so far as the country's economy is concerned, is only productive of interest payments to the holders of state bonds. The "transformer" mechanism is here working the wrong way round.

The expatriate commercial banks have thus not always fulfilled either the traditional rôle of banks supplying liquidities to all sectors of the economy or, *a fortiori*, that of business banks financing the country's industrialization.

Attempts made by some local private banks to carry out these func-

tions have nearly always failed. The experience of Cuba during the First World War is particularly striking, together with the more recent experience of Nigeria, and the achievement of the Bank Misr in Egypt is almost the only exception.[60]

The attempts made recently by several states to create a money and finance market, to promote public or semipublic financial institutions—stock exchanges, savings banks, mortgage and industrial credit organizations—have produced only very modest results.[61] Well-known are the unfortunate consequences of the attempts made in India, Mexico, and Chile, where the establishment of stock exchanges in a climate of feverish speculation brought ruin to savers, with discouraging effects. The prosperous stock exchanges found elsewhere (in Southern Rhodesia, for example) are only branches of stock exchanges in the metropolitan countries, where foreigners deal among themselves in the shares of foreign companies. The ultimate reason for these setbacks lies in the real situation of the underdeveloped economy. The creation of financial institutions may well favor the mobilization and centralization of capital, but these funds will remain unused if local industry fails to come into existence owing to foreign competition.

MONETARY DISORDERS AND INFLATION

Critics of the foreign-exchange standard not only charge this system with insusceptibility to "management" in accordance with local needs, but also declare that it favors the automatic transmission of fluctuations in the value of the dominant currency. I will examine how far "monetary independence" frees the underdeveloped countries from this tie-up with the dominant economy. The importance of the subject derives from the circumstance that the advanced world of today exists in a permanent atmosphere of inflation.[62] This "transmitted inflation" may, of course, be in addition to monetary disorders of internal origin.

Transmission of the Value of the Dominant Currency

Transmission in the foreign-exchange-standard system. It is certain that, "when products are freely exchanged and the different masses of money are in practice all one mass, the price-level necessarily tends to

be the same everywhere; if this is not so, the disparities are to be ascribed to structural reasons (cost of transport, of labour or of power, for example) that are immune to monetary manipulation."[63]

A good example of this automatic transmission of fluctuations in the value of the dominant currency is the parallel evolution of prices in France and in the overseas countries of the franc area. Similarly, between 1914 and 1939, price fluctuations followed parallel courses in Britain, Egypt, and India—although their dimensions sometimes differed, which confirms the presence of autonomous local forces that influence prices in spite of everything.[64] By causing falls in prices to be greater, and rises to be smaller, in the underdeveloped trading partners, the deflationary effect of hoarding and of the absence of monopolies in production has been increased. It is these local conditions—the imbalance between supply and demand reflects them—that, together with the transmission explained above, explain the special forms of inflation during the Second World War in the Middle East.[65] Britain paid its creditors in that part of the world by making payments into their blocked accounts in London. In exchange, the central banks of the countries concerned not only obtained the right to issue money to an equivalent amount but also, in effect, paid the local creditors of the British. The rise in prices resulted from the purchasing power distributed locally in quantity greater than the supply, since, their accounts in London being blocked, the Middle Eastern states concerned could not import goods of equivalent value. It was because of this imbalance between supply and demand, and not because of some alleged quantitative mechanism due to the additional issue of money, that prices rose. The amount of imports ought to have risen, but in fact declined sharply. This is the ultimate reason why the price rise was higher where the local supply was less elastic (Iraq) and where local military expenditure was heavier (Egypt, as compared with the Sudan). It remains true that the intervention of a psychological factor, constituted by the evolution of prices in the dominant economy, is shown by the very great rise in prices that occurred in Syria and Lebanon, although the imbalance between supply and demand caused by military expenditure was not higher there than elsewhere.

This psychological factor played only a secondary role so far as the countries of the sterling area were concerned, as prices rose in Britain by only 30 percent during the war. Here it was the imbalance between supply and demand (the excessive volume of demand) that was decisive. In the French dependencies, however, the psychological factor played a much more important role. The examples of Syria and Lebanon testify

to this, although the imbalance between supply and demand intensified the price rise (which was of the order of 600 percent, as against 490 percent in France between 1938 and 1945). In North Africa and Black Africa we can also observe the results of the combined workings of the two factors, psychological and real (local imbalance between supply and demand). After 1943 the evolution of prices proceeded parallel with that in the metropolitan country.[66]

Transmission in the "managed" currency system. The direct influence of the value of the dominant currency on the value of the dominated one did not have to be proved in the case of the foreign-exchange standard, since where that applies there is no indigenous currency—what exists is merely the foreign currency itself in a disguised form. In cases, however, where unlimited exchange at a fixed rate has been abolished, and where there is a managed currency backed by foreign exchange, this one-way influence nevertheless remains basically the same: if the value of all the foreign exchange is reduced, so that the cover possessed by the local currency declines in value, this currency itself very soon loses its initial value, because it owes this, to a large extent, to public confidence.

It is not only because imports become dearer that the local currency loses value. One might well suppose that the rise in internal prices would be localized in the international sector, while the domestic sector remained unaffected. This is what usually happens in relations between advanced countries when exchange rates are readjusted. Here we have an apparently paradoxical situation: in the advanced countries, in which all the sectors of activity hold together, a price rise can be restricted to a single sector, whereas in the underdeveloped countries, where two sectors coexist without interpenetrating, and the economy does not form an integral unity, a rise in prices in the capitalist sector linked with the international market is passed on in full to the native sector which seems to be independent of it.

Perhaps the explanation of this phenomenon should be sought through analysis of forms of behavior in relation to money. There are some social categories whose behavior is "neutral": these persons seek to adapt their nominal income to the level of prices. They follow the economic movement. Others—and these are the economically dominant category—are constantly engaged in studying the future in order to know what the value of money is going to be be. These persons, who have at their disposal reserves of money intended for future use (which is not the case with the poorer categories), not only think about the

future value of money but also, because a large fiduciary element enters into the determination of this value, exert a serious influence on the way it evolves.

Let us take, for example, an underdeveloped country. Here the individual with a big income is often a landowner. He dreams of how he will spend his income; and he knows that he has to buy the luxury goods that he wants *from abroad.* The value of money means for him the value of the relevant foreign currency. In an advanced country, on the contrary, the individual with a big income is normally an entrepreneur. He dreams of investing his money, and he knows that most of his production expenses—purchase of machinery, payment of wages—will be paid out in the country where he is. The devaluation of a foreign currency does not devalue the local currency, to his way of thinking, except, and only except, insofar as foreign trade supplies his country's internal market.

An example that illustrates this view very well is given by Wallich. In Cuba all attempts to drive out the dollar by increasing the issue of pesos proved fruitless, because the peso circulated only in limited areas. An issue of pesos that exceeded the wants of these areas did not oust the dollar but merely resulted in devaluation of the peso. The dollar was still in demand in external relations. Wallich formulates very clearly the idea that the peso circulates wherever money is essentially a circulation medium, but wherever the use of money as a "store of value" has become established, there the dollar reigns. The existence of two parallel circulations determines variations in the internal exchange between the two currencies. If the peso has at some moments enjoyed a slight advantage, this was not because its future value was considered greater than that of the dollar, but for a secondary and practical reason, namely, a shortage of make-up money and small denominations in dollars.[67]

Condillac devoted a chapter of his *Essay on the Nature of Commerce in General* to studying the mechanisms by which the tastes of the ruling class determined all prices and the amounts in which different goods were produced. Since his time a similar role has been attributed, to an exaggerated degree, to the behavior of the working class ("wage inflation"). Flamant has revealed, however, that in France's postwar inflation we can discern vicious circles in which speculative profits are linked with prices.[68]

A very good example of this dependence is given by the devaluation of the Egyptian pound in 1949. In 1947 Egypt had left the sterling area. Nevertheless, Egyptian currency being still mainly backed by ster-

ling, Egypt was obliged to follow Britain when the latter devalued. This had to be done to prevent relations between Egypt and Britain, the dominant country, from deteriorating (increase in the price of Egyptian exports in British money terms), although it involved increased difficulties in relations between Egypt and other countries. Another factor was the economic bond between Britain and Egypt created by the sterling balances, which, if there were no Egyptian devaluation, would lose still more of their value. The most important consideration was that the Egyptian currency was secured upon sterling assets. F. Moursi invented the useful expression "flexible sterling standard" to describe the situation in which Egypt found itself—legally free to fix the rate of exchange, but economically forced to follow sterling. The Maghreb is today in this position in relation to France, as are several Commonwealth countries in relation to Britain.

Monetary independence does not emancipate the underdeveloped countries from the vicissitudes of the dominant currencies. There is, indeed, a curious possibility of influence by the value of the dominant currency through the external balance. Let us assume that the currency issued in the (independent) underdeveloped country is backed 75 percent by gold (75 millions) and 25 percent by foreign exchange (25 millions), and 100 millions are circulating in the country. Let us further assume that the external balance is in equilibrium. A price inflation now occurs in the dominant economies. The exports of the underdeveloped country increase; the balance becomes favorable, the surplus being paid in foreign exchange. It might be thought that the local currency would tend to rise in value. Yet this does not happen: paradoxically, Indeed, the contrary happens. The increase in the national income resulting from the new situation calls for an additional issue of money. This extra issue is backed not by gold, the stock of which has not changed, but by foreign exchange, the stock of which has increased. There are now 200 millions circulating in the country—75 millions backed by gold, and 125 millions backed by foreign exchange. The surplus of the balance being paid in a currency that has fallen in value, a psychological reason for an internal price increase is introduced into the underdeveloped economy.

As it falls, the value of the foreign currency drags down the local currency. The favorable external balance, while being constantly canceled out by devaluation of the local currency, is constantly put back as it was at the outset because, in the meantime, a new price increase has taken place at the center of the system. What makes the situation still worse is that when this rise comes to a halt for the time being at the

center (period of stabilization), the underdeveloped countries suddenly lose their "lead": exports fall, and a tendency for the local currency to lose value is observed (because, while foreign currency is always accepted in the underdeveloped countries when there is a surplus in the external balance, the local currency is not automatically accepted abroad when there is a deficit). Devaluation offers no prospect of restoring equilibrium in external relations. The price elasticities of exports are high, those of imports are low, and consequently a perverse effect is to be expected.

These cases are not imaginary. They correspond to the considerable difficulties experienced by the countries of Asia, Africa, and Latin America when, around 1925 and again around 1948, the European economies recovered comparative stability. After a euphoric period which, generally speaking, left the underdeveloped countries with an accumulation of debts due them that depreciated day by day, there followed a period of difficulties in selling and of pressure for lowering of the exchange rates in these countries.

Does this transmission cease to occur when the backing by foreign exchange and foreign securities is replaced by a backing of gold and national securities? When this happens, the separation between the two currencies, that of the dominant country and that of the dominated one, is absolute: "monetary independence" is complete.[69] It is a costly operation, for the high degree of sensitivity of the external balance of the underdeveloped countries to the international economic situation, their great dependence on foreign trade, means that they are obliged to maintain a gold cover proportionately much bigger than in the advanced countries. Gold alone is international money; the bonds issued by the local Treasury do not possess this virtue. If too large a proportion of the cover were composed of the latter, it would not enjoy the confidence of exporters in the poor country, who are its most dynamic economic elements.

Eventually the underdeveloped countries do indeed take the path of acquiring gold cover, when they are able. But they are not always in a position to do so. It often seems to them to be pointless; a composite backing of international reserves, made up partly of gold and partly of key foreign currency (dollars and sterling), or even of other hard currency of the advanced countries (marks, Swiss francs, etc.), seems equally effective.[70]

This reasoning by the underdeveloped countries is well founded. Experience shows that the mechanism of domination that makes the value of the currency of the dominant advanced center decisive in

appreciating the value of the currency of the underdeveloped periphery does indeed persist, even where the latter's backing consists entirely of gold. Devaluation of the dominant currency—the one the local ruling classes will use to obtain the goods they want—makes it necessary to devalue the local currency. The devaluations that followed that of the pound sterling in 1967 have proved the truth of this yet again.

On this plane too, then, the monetary illusion must be dispersed. Monetary structures are not the main thing in underdevelopment. Whatever these structures may be, the value of the currency in the periphery can only be that of the dominant currencies at the center. Furthermore, it is not merely the movement of the general price level that is thus transmitted from the center to the periphery, but the fundamental structure of relative prices, as will be seen later.

"Permanent Inflation" and Its Transmission to the Periphery

The nature of inflation.[71] The quantity theory claims that only an increase in the volume of money can bring about a general increase in prices. The facts of history, when hastily considered, seem to justify this theory—though it is the fall in the real cost of the production of gold due to the discovery of richer mines that provides the true explanation of the great price movements of the nineteenth century. After 1914, Aftalion was to show that the rate of exchange can also determine general price movements. Subsequent studies all emphasized that a general rise could be due to rigidity in supply caused by some bottleneck in relation to expanding overall monetary demand.

A situation like this is frequent in time of war, war preparation, or reconstruction, when the production of consumer goods is limited (or operates in conditions of increasing costs), while incomes to which there is no real equivalent are distributed by the state on a large scale. Finally, after the experiences of 1944-1948, economists have come to maintain that the struggle waged between social groups on the market, over their share of the national income, can in certain conditions, when the mechanisms of competition are functioning unsatisfactorily, create a general increase in prices. In all cases, monetary expansion followed the price rise and did not precede it.

This being so, economists, perhaps out of concern about seeming to break with the quantity theory, have managed to forget the only case that in former times had interested them, namely, that in which an

issue of money in excess of requirements choked the channels of circulation and brought about a price rise. Today economists give the name inflation to any fairly widespread rise in prices. It is hard to see what is gained by this terminology. The expression "rise in prices" is both clear and capable of rendering nuances like "uneven," "general," or "partial rise in prices," which the bare term "inflation" too often conceals. "Inflationary rise in prices" will be used here only to designate a general rise in prices due to "monetary causes." "Inflation" means the choking of the circulation channels through an issue of money out of proportion to the need for liquidities. Inflation can lead to a rise in prices, but it need not, if the additional money introduced into the economic circuit makes possible greater liveliness in economic activity, in which case the quantity of liquidities required by the working of the economic system soon increases. But the fact that money has made possible this greater liveliness does not mean that it is the cause of it. This is what normally happens in a period of prosperity, which is for this reason wrongly identified with inflation by economists who have adopted the terminology criticized above. The vital difference between genuine inflation, when economic liveliness is no greater than before, and prosperity, when the amount of money and the level of activity advance together, vanishes when this terminology is used. Inflation may not lead to an increase in prices if the surplus money does not appear on the market but is instead absorbed by hoarding.

Accordingly, it can be seen that true inflation is impossible within the framework of convertibility. There may well be a general increase in prices under this system, as the result of a fall in the relative cost of producing gold or a rise in the real cost of producing goods in general (in case of war or of shortage, for example), but it is impossible to conceive that the channels of circulation should ever be choked. Credits are granted by the banks in response to demand. These credits serve to finance either current production or new investment. In the latter case, either the investment creates its own outlet, and the borrower is able to pay back the banker (and when this is so there is no increase in prices, because production has grown in the same proportion as the income distributed), or else it does not, and there is a crisis. Insofar as the bank does not wish to suspend convertibility, it will avoid financing investment beyond a certain limit, because it knows that, for real reasons of imbalance between production and consumption, new investment beyond a certain point can no longer create its own outlet, even if the borrower were prepared to pay a high rate of interest. This is why

Hawtrey's doctrine of continuous inflation necessitates abandonment of the gold standard.

As for gold, this too is incapable of choking the channels of circulation. If the rate of production of new gold is high, this means either that the central bank, which buys this gold at a fixed price, sees its reserves increasing without any increase in the credit it makes available, or that hoarders buy this gold in order to meet their needs. In any case, gold is put into circuit by the producers who sell it and not by the state, which would regulate its issue like that of paper money.

There is thus in this case no problem of inflation, either in the advanced countries or in the underdeveloped ones. There are, however, general price movements (during the course of the economic cycle) the transmission of which deserves to be studied (but that is another problem). Things are not the same when convertibility is abolished.

The general climate of rising prices in the twentieth century.[72] If we are considering the transmission of inflation and the general increase in prices from the advanced to the underdeveloped countries, this is because history has shown the dominant role played by the former in determining the general economic climate on the world scale. There are indeed general movements of prices that are peculiar to particular countries, whether advanced or underdeveloped. These general movements brought about by special local causes certainly have an influence on the external relations of the country which is affected by these troubles. Besides these particular problems, there is a major problem of the twentieth century which is common to all the underdeveloped countries—the effects on accumulation in these countries produced by the atmosphere of continuous increase in prices that prevails throughout the world today.

This atmosphere in which "the economic system no longer functions otherwise than with rising prices" has its source, without any possible doubt, in the advanced countries as a whole.

Fundamentally, it is the substantial changes in the conditions of competition that have radically altered the course of the general movement. During the nineteenth century, insofar as competition constituted the rule and monopoly the very rare exception (confined in the main to public services, which were, moreover, controlled by the state), an entrepreneur was unable to increase his prices, because he would have lost all his customers. Under these conditions the banks could not issue "too much credit" because, on the one hand, since the entre-

preneurs did not expect an increase in prices they had no need of extra liquidities and, on the other, the central bank, concerned to safeguard convertibility, prevented the commercial banks from granting credits in excess of the need for liquidities. Convertibility could thus be suspended only in the very rare exceptional situation of wartime, when the state issued purchasing power in paper money without any real equivalent.

In addition to this, competition, by generalizing new techniques, brought about a fall in real costs that was reflected in a century-long tendency for prices to fall. This was offset by bouts of general price increase (which usually did not last very long) caused by sharp reductions in the cost of producing gold.

If we study the gross curve of wholesale prices between 1800 and 1900 in the United States, or in Britain or France, we do not observe any of those "long waves" that Kondratieff caused to emerge by means of skillful manipulation of statistics. This does not in the least mean that, in periods more frequently interrupted by wars, a certain tendency to increased prices (due to the increase in real costs that such situations usually engender) had the effect of offsetting the downward tendency of prices that marked the whole century. At other periods a mighty wave of innovations might, on the contrary, have served to intensify the downward movement. It is by means of concrete historical explanation that we must account for each period of price increase in the nineteenth century, and not by means of a general quantitativist explanation.

In the twentieth century, conditions have changed: monopolies dominate the main branches of production. Monopolies are not obliged to lower their prices. Competition between them proceeds by other methods.[73] In some situations they can easily *increase* their prices. The climate of increasing prices that has prevailed in the capitalist economies since 1914 has often been blamed on the rigidity of nominal wages. In reality, if today the trade unions concentrate their efforts on maintaining this wage level, it is because experience has shown them that the general price-level no longer diminishes. During the nineteenth century, despite opposition from the trade unions, nominal wages were often lowered. Falling prices sometimes came to the aid of employers' pressure in making such reductions possible. The struggle between social groups over the sharing of total income—a struggle that went on in the nineteenth century as well as the twentieth—has now taken the form of a fight to increase money income because it is proceeding in a climate of general price-increase which facilitates this increase in money in-

come. In the nineteenth century other methods were more effective, such as reductions in nominal wages or changes in relative prices through fiscal or tariff policy. This is why we must consider the change that occurred at the end of the nineteenth century in the conditions of competition as being fundamental in this connection.

Chamberlin criticizes the classical theory of the price mechanism and constructs a model of price determination which he considers more realistic, and which lies between competition and monopoly: each producer enjoys a certain monopoly, insofar as his product bears the maker's name, is aimed at a clientele used to buying from him, and so on, but at the same time he is subject to competition from products similar to his, so that the volume of his sales depends on his price (though to a lesser extent than in the case of the true monopolist). This analysis does not seem very realistic. What is true in it is situated at the level of retail trade; but while Lux soap may be replaced by Palmolive, it is a very different matter with steel, for example, which no substitute has come forward to compete with in the 1970s. No one can enter the production of steel without a substantial amount of capital, which cannot be obtained without the support of the banks. This, it seems, is the fundamental cause of monopoly. Competition has been relegated to spheres of activity where entry into production does not demand an amount of capital that forces one to resort to those all-powerful intermediaries, the banks.

It was thus the resistance of prices, in the new structural conditions, to any downward movement which made it impossible (or at least difficult) to get back to the gold standard after the First World War. The first wave of difficulties that occurred swept it clean away, and along with it went convertibility into gold.

Since then there has been no further barrier to the increase in prices. Does this mean that this increase will be continuous? No, for if entrepreneurs want to raise the price level they have to apply to the banks for increases in the credits that the latter allow to them. Since convertibility has been abolished, the central bank is free to agree or to refuse to follow such a policy. In this limited sense, management of money and credit has become a reality unknown to the previous century. It is remarkable that whereas this expression was not found in the theoretical thinking of the liberal century, the most liberal of modern economists (e.g., Hayek) consider that "neutral money" is the outcome of a monetary policy that it is difficult to carry out. This is why, although I upheld the basic theory that the quantity of money plays a passive role in the economy, in the sense that it adjusts itself to requirements, it has

been possible for me to speak of the impossibility of the central banks of the underdeveloped countries managing credit—in other words, refusing to follow the policy desired by the concerns connected with the foreign monopolies when the foreign commercial banks to which these enterprises apply grant them credits, or when there is simply no rigorous control of transfers.

But when the central bank follows a policy that accords with the wishes of the entrepreneurs, will the increase in prices be continuous? Actually, what should be asked is why the monopolies do not wish to raise prices indefinitely; why the increase has not been continuous since 1914; why periods of price stabilization succeed periods of sharp increase (apart, of course, from periods when the price increase is due not to the behavior of entrepreneurs but to real causes: increases in costs of production, or disproportion between money incomes distributed and actual production, such as occurs in wartime).

Niebyl gives a very illuminating explanation of this phenomenon. "If real incomes show a tendency to rise above the level that ensures the highest profit for industry, price increases intervene in order to effect that contraction in production that is the traditional accompaniment of monopolistic practices."[74] These practices were not possible in the nineteenth century. There is, then, a level of real income for workers that ensures the sale of a certain amount of production at a certain price, yielding the maximum profit. In the last century no such level existed: wages constituted a *donnée,* like prices, against which the entrepreneur, isolated from his competitors, could do nothing. Today the situation is not the same: the monopolist tries to influence these two formerly independent factors. To the extent that the workers refuse to allow their real income to be reduced so as to be adjusted to this level, wage inflation is inevitable. But who is to be blamed for the rise in prices? The workers, who refuse to let their wages be adjusted to the level that suits the entrepreneurs? Or the entrepreneurs, who refuse to adjust their profits to the level of wages acceptable to the workers?

A secondary influence is the general climate of war in which our century lives, and the splitting of the world into isolated economic and monetary systems (made possible, *inter alia,* by the abandonment of the gold standard), which have added historical causes to this structural cause of the increase in prices. Needless to say, monopolies, monetary decisions regarding convertibility, and world wars are all the responsibility of the great powers, not of the underdeveloped countries. This is why responsibility for the general climate of price increase prevailing in the twentieth century has been attributed to the great powers alone.

It needs to be added, for the sake of clarity, that this continuous inflationary tendency is not offset by the permanent deflationary tendency of the twentieth century: the imbalance between saving and investment in favor of the former, in other words, between supply and demand, between the capacity to produce and the capacity to consume. This reality (which I do not contest), linked with the "overdevelopment" of the "mature" economies, is a matter of the *real* equilibrium, whereas inflation relates to monetary equilibrium. The generalized use of the term inflation leads here, as elsewhere, to confusions that ought to be avoided.

The consequences to accumulation in the periphery. The development of capitalism in Europe and in the United States thus proceeded in a climate of monetary stability and declining prices (the fall in prices being brought about by development, which was reflected in a steady reduction in real costs). In the underdeveloped countries, however, the current development of peripheral capitalism is proceeding in a climate of price increase, and with price structures that are not basically due to the internal conditions of these countries' development, but are transmitted from outside.

In the developed countries, this steady increase in prices favors accumulation. By systematically reducing the value of sums hoarded in money form it encourages investment, since this provides a means, if not of gaining, then at least of not losing anything. True, hoarding may also take the form of the purchase of securities in the form of real values, the production of which requires a real expenditure of productive forces: gold, jewelry, etc. When this happens, hoarding, which then becomes comparable to luxury consumption, has no harmful effect on employment, though it does hold back the pace of development.

In the underdeveloped countries, free as they are from "overdevelopment," what is called inflation (it would be better to say the continuous increase in prices, regardless of whether this is due to monetary causes, when this increase is not determined by the internal necessities of the economic mechanism but is transmitted from outside) has a harmful effect on the mechanism of accumulation.[75]

In the first place, the orientation of saving toward the hoarding of real values which it determines results in raising the level of consumption at the expense of investment. In addition, the continuous rise in prices makes possible the transfer of income to the economically stronger elements, in the forefront of whom stand the big foreign-owned concerns. The price increase thus enables the re-exported profits

of the foreign monopolies to reduce the share taken by the profits of the (weaker) national sector of the economy, and so hinders the formation of local savings. Accordingly, to say that inflation, by making possible a reduction in the cost of borrowing foreign capital (interest being calculated on the nominal value of these loans), has a favorable effect on development is not true, for the rise in prices merely cuts down the share of interest paid on state loans and bonds, but not the much more considerable share represented by re-exported profits. This transfer is no mere theoretical mechanism. The Africanization of some sectors of activity (road transport, exploitation of forests, building, etc.), in the majority of the countries of Black Africa where it has taken place during the last twenty years, has been accompanied by marked lowering of the profitability of these activities, to the advantage of those, both upstream and downstream, which are controlled by foreign capital. This lowering of profitability has been considerably facilitated by the increase in prices, which has operated unevenly between the different sectors.[76]

The other powerful elements in an underdeveloped economy are often the landed proprietors. They spend their extra income—income they owe to inflation—on luxury imports. This fact, confirmed many times from the example of Latin America, causes Spiegel to declare that inflation has little influence on the rate of accumulation.

It has often been maintained that inflation favors forced saving at the expense of free saving. This is true only when the state, the promoter of inflation, uses the purchasing power it has created for productive investment. This case, however, remains exceptional, restricted to periods of reconstruction, for it is usually only in wartime that the state issues paper money without any real equivalent, and in this case the extra currency does not serve for productive investment but for the financing of war expenditure. Therefore, in the most common case, all that can be said is that the increase in prices is a form of redistribution of income. We need to know who gains and who loses in this redistribution if we are to know whether, ultimately, propensity to save has been increased. We have just seen that, in an underdeveloped economy, the categories that gain are probably the foreign enterprises and the landlords; and so, in the end, local saving is *reduced* by the increase in prices.

This is not, however, the main point. A general price increase has a very different effect on the relation between wages and profits in the advanced countries and in the underdeveloped ones. In the former, very broadly speaking, wages follow the increase in prices, and the gains

in productivity due to technical progress are thus constantly being shared out between wages and profits. Over a long period, experience shows that the share taken by wages remains more or less the same.[77] In the underdeveloped countries, however, wages follow much more slowly, for profound structural reasons, and in the first place because of the pressure of the excessive supply of labor resulting from the break-up of the precapitalist rural communities. At best, real wages are kept constant, despite the improvement in productivity. What is true of wages is here equally true of the incomes resulting from the work of the peasants producing for the market, and especially for export. The experience of the last fifteen years proves this, with a wealth of detail. On the basis of equal productivity, the rewards of labor are becoming more and more unequal. A massive transfer of income from the periphery to the center, which is what is meant by this worsening in the terms of trade, constitutes the essence of the phenomenon.[78] This transfer accelerates accumulation at the center and restricts it in the periphery.

Transmission to the Periphery of the Price Structures of the Center

I will touch on this problem here only in order to recall what I have written earlier.[79] Strictly speaking, the question of price structure is not really one of monetary theory, although this structure is, of course, expressed in money terms.

In the capitalist mode of production, the equilibrium prices that ensure the adaptation of supply to demand are prices of production, in the Marxist sense. These prices assume an equal reward of labor as between branches (a single labor market) and an equivalent rate of profit on capital (equalization of the rate of profit). Consequently, if the same fraction of profits has to be saved in order to ensure expanded reproduction in all branches (or, let us say, for simplicity's sake, if all profit is reinvested, ignoring consumption by the capitalists), then the structure of growth—the allocation of investment between the different branches—is determined by the structure of prices. If there were no capital market ensuring the circulation of capital from one branch to another, there would be no guarantee of coherence between the structure of growth and that of demand, which is modified in its proportions by this very growth. The circulation of capital is thus a necessary law of the functioning of the capitalist mode of production.

But this circulation comes up against a permanent obstacle: the

private ownership of capital. The enterprises and branches that are called upon to undergo more vigorous growth as a result of the evolution of demand are afraid—if, in order to finance their investments, they have to call in capital from abroad to an excessive extent—that they may lose control of their affairs. They therefore try to include in their prices a margin sufficient to allow an adequate amount of self-financing. The conditions of competition make this operation more or less possible. A price system that was rational from the standpoint of growth would imply—leaving out consumption by the capitalists—a price structure such that each branch could finance its own growth, in conformity with demand, without resorting to foreign capital: this would mean different rates of profit, or the same rate of profit with a free circulation of capital. The actual price system in the capitalist countries is in fact something in between; and the margins of self-financing are very variable, depending on many different elements (the degree of monopolization of the branch, etc.). This system has, then, nothing rational about it—the private ownership of capital constituting the real obstacle to all rationality. To this must be added the distortions that unequal indirect taxation contribute to the price system.

Productivity is measured within this price system: it is said that an enterprise or a branch has a productivity higher than others if it ensures (given equal rewards of labor) a higher rate of profit, and this is the actual tendency if the branch is to grow faster in order to cope with changes in demand.

Now, the price structure at the center is, broadly speaking, transmitted to the periphery for the same fundamental reasons that underlie the mechanisms of transmission of the value of the dominant currency: psychological mechanisms in connection with patterns of consumption, competition by imported products, and so on.

This transmission of the price structure of the center determines inequalities in productivity between different branches in the periphery that express the uneven degree of modernization—of penetration by the capitalist mode of production. These inequalities in productivity are often expressed in unequal rates of profit, but also very often in unequal rewards of labor, especially where what are involved are sectors that do not belong to the capitalist mode of production (as is often the case with rural production). This price structure has nothing rational about it from the standpoint of the requirements of growth organized to overcome the historical backwardness—uneven as between sectors—that is characteristic of the periphery. The needs of this growth—its

distribution between sectors—are necessarily different from those at the center. From this angle, therefore, the transmitted price system is doubly irrational.

Monetary Disorders in Underdeveloped Countries

We owe to Eli Löbel a systematic analysis of monetary disorders in the underdeveloped world of today.[80] This writer has shown that the analysis of these monetary disorders must be essentially concerned with the short run (in the long run an equilibrium is always established) and must be situated in a definite structural setting (that of the underdeveloped countries) marked by relatively low elasticities of response on the part of local production to demand, by small external reserves and slight possibilities of external aid "without strings," and by a weak prospect of effectiveness for any possible measures of strict control, especially in Africa (frontiers easily crossed, administrations lacking in experience and politically "committed," etc.).

He distinguishes between three types of disorder: the first two—disproportionate increase in consumption, public or private, and tensions connected with industrialization—originate within the economy and may have effects on the external balance, while the third originates in the external balance itself.

Increase in consumption, public or private, at a rate that exceeds the growth rate of the productive economy, with its manifestations—either in a budget deficit or in disproportionate increase in credits for consumption purposes, or to cover the structural deficits of enterprises—constitutes the most familiar example of disequilibrium of internal origin. In this case it may be necessary to devalue the currency: this will have effects comparable to an increase in the amount taken by taxes and the subsequent reduction in demand, although these effects will be less selective.

Some tensions can set off a price spiral, without total supply and demand being thrown off balance. This assumes a balanced budget, a neutral credit policy (the liquidities created not exceeding the desired increases in cash at hand), an equally neutral wage policy (wages rising in step with productivity), and no difficulties as regards the balance of payments. Nevertheless, a policy of accelerated industrialization may result in "inflationary tension" if the production of consumer goods (especially foodstuffs) develops more slowly than industrial employ-

ment, which risks bringing about an increase in the prices of agricultural products, and so an increase in wages and consequently of *all* prices, a subsequent deficit in the public finances caused by increased rewards together with delay in receipts, and tensions in the external balance because the price increase restricts export possibilities, and eventually has repercussions in the monetary sphere. There is no way of avoiding tensions of this kind, which necessarily accompany accelerated development: they can only be contained by means of constant readjustments (of the state's financial structures, etc.). It is clear that in this case inflation makes the situation worse.

Similarly, a policy of industrialization based on import substitution, even if we assume that the quantity of agricultural produce available keeps pace with industrial employment, may have the same effects if the infant industries produce at higher cost than the prices of imported goods. In such a case, the currency may have to be devalued, for this has the same effect as a protective tariff for the infant industries. It would have to be selective (through multiple exchange rates) if the aim were to avoid a general increase in internal prices.

Analysis of the imbalances originating in the external balance of payments starts from the case that is simplest but also certainly the most fundamental: the flooding-in of an external inflation, by way of a pilot currency. This is what happens to countries integrated in a currency area, or countries which have a bilateral foreign trade structure. Here the rigidity of the system does not allow of much adjustment. On the world scale, something like this happens when inflation spreads from countries whose national currency serves as reserve currency for others in the rest of the world.

The fall in the price of exports causes—quite apart from any action that may be taken to alter the rate of exchange, if this entails a disturbance in the external balance—a necessary contraction in imports which is not always parallel to the fall in the income of exporters, and, consequently, sectoral imbalances between the supply of and the demand for different products, and spiral increases similar to the preceding ones. What is essential here is to combat possible speculative movements by trying to maintain key supplies at a satisfactory level, but this cannot always be done.

The increase in export prices does not always produce symmetrical inverse effects. On the contrary, we see here a tendency for internal prices to become aligned with external ones, and a spiral of continuous increase may occur if the excess income comes up against a feeble elasticity of supply. This is how this situation, which theoretically pro-

vides the possibility of accelerated accumulation, often prevents this potential extra accumulation from being realized.

Accordingly, the structural conditions of underdevelopment reduce considerably the possibility of mastering external relations and putting them in the service of a development policy. The analysis of contemporary experience made by Löbel confirms my conclusions.

It should be added that achievement of monetary independence entails the risk that in the event of disequilibrium of the external balance the rate of exchange may go down. A fall in the rate of exchange under conditions of underdevelopment, even if it leads, very provisionally, to equilibrium being restored in the external balance (which is not at all likely, in view of perverse price elasticities), cannot in the long run solve the problem, owing to the increase in prices which it causes, and which cancels out its temporary effects. Should there be some real reason for the chronic imbalance in the external balance, then, whereas, with a foreign-exchange standard, the time needed for the income effect to complete its work of re-equilibrating the balance is allowed to the underdeveloped economy, if there is monetary independence the country is involved in an endless series of devaluations and price increases.

The assumption is not an arbitrary one. It corresponds to the monetary history of Latin America in the nineteenth century, as we see in the case of Brazil from 1840-1895.[81] Here we may note in passing the parallel evolution (down to 1940) of the circulation of money and of the total value of exports—which proves that currency is closely bound up with export activity, and does not circulate much elsewhere in the economy.

The history of underdevelopment is thus a history of "missed theoretical opportunities for accumulation." If, during the Second World War, prices increased despite the accumulation of foreign exchange and gold, as generally happened in Latin America and the Middle East, this occurred because of the inadequacy of supply, through the material difficulty in importing goods. Before that time it was the permanent disequilibrium in the external balance (the trade balance was favorable, but the burden of profits to be re-exported, allowing for imports of new capital, was extremely heavy) that forced down the rate of exchange, which resulted in a price increase in accordance with my schema. This increase was intensified, to be sure, by the frequent budget deficit and the inflationary issue of paper money. The cause of the deficit lies in the fact that the necessary expenditure of a modern administration has grown more rapidly than its revenue (as we see from

the historical example of Brazil). The case of Brazil is not unique. In Peru and China, the fall in prices between 1930 and 1938 was relatively greater than the increase between 1920 and 1930, so that over the period 1920-1938 as a whole a fall in prices took place.[82]

A general imbalance can thus exist between supply and demand with an independent monetary system for the same reasons as in the case of countries with a foreign-exchange standard. The case of Brazil during the Second World War is typical: the external balance is favorable, and yet prices rise. The rate of exchange remains stable, foreign countries paying for their deficit in accumulating foreign currency, but the imbalance between demand and supply, the latter being restricted owing to import difficulties, causes prices to rise. The rise is due to this real imbalance more than to the fact that the accumulating foreign exchange is depreciating—though this latter psychological factor has some responsibility for the rise. The stability of the rate of exchange in this situation reflects a reality that is important: the dominant economies can pay for their trade deficit by means of their own currency. This possibility, due to the fact the poor country always accepts this foreign currency which has an international purchasing power, prevents the exchange rates of the rich countries from depreciating. The poor countries, however, which have to pay in gold for any deficit they incur, since their currency is not acceptable, are more often subject to depreciation of their rate of exchange.

It remains true that in the case considered above (Latin America during the war) the increase in prices took place not merely without any fall in the rate of exchange, but *despite* the stability of this rate, which played a stabilizing role, the increase in prices in the dominant countries (and so in those of the goods they imported) having been less than the increase in the prices of goods of Latin American origin.

After the war, this fundamental mechanism, which continues to operate, has been sometimes supplemented by a mechanism which, though inverse (difficulties in the balance of payments creating internal disequilibrium between supply and demand) has a similar effect in increasing prices.[83] In addition, with monetary independence two traditional causes of increased prices make their appearance: inflation through the budget and through the credit policy of the central bank.

In the epoch of the foreign-exchange standard, a budget deficit was out of the question, as the central bank (or the currency board) gave no help to the local state. In the nineteenth century in Latin America, when a budget deficit occurred it was paid for by an issue of paper money by the treasury. This paper money was legal tender. But in the

French or British colonies this was not possible. Any deficit was met by a subsidy from the metropolitan treasury, which caused inflation throughout the whole currency area and not just in the colony. Given the small scale of the colonial budgets, this inflation could only be very slight. With the acquisition of monetary independence this possibility of resorting to the bank of issue becomes a serious cause of inflation.[84] Added to it is the new possibility of the central bank, which "manages credit," financing inflationary credit demands, following the example of the advanced countries of today.[85]

The effort now being made by some underdeveloped countries to escape from this dependence by developing bilateral agreements should not give rise to any illusions. Most of these agreements organize new relations between the underdeveloped world and part of the advanced world (the Eastern European countries), and merely reflect the appearance of these countries on the world market. Agreements made among underdeveloped countries themselves affect as yet only insignificant transactions. Here, too, dependence reflects the asymmetry and inequality that exist in reality. It cannot be avoided, or even reduced, by monetary means or the organizing of external exchanges so long as the real problems have not been solved. The currencies of the underdeveloped countries can in no case become international payment media.[86] This being so, we must not confuse development inflation, which has actually been practiced by some countries at certain periods, with the inflation without development that constitutes the experience of the underdeveloped countries.

Inflationary experiences in the Third World, which were practically confined to Latin America down to the Second World War, have become a common feature during the last twenty years. Some of these experiences, such as, in Africa, that of Congo-Kinshasa between 1960 and 1968, and, in Asia, that of Indonesia, have been thoroughly studied. The Congolese inflation, as Ryelandt has very clearly shown, results from the sudden coming to power of a new social class, the state bureaucracy, which sought to annex a part of the national income but was unable either to encroach seriously upon the share taken by foreign capital (owing to the outward orientation of some of the activities of this capital—the extraction industries of Katanga—or even, as regards the autocentric industrial groups of Kinshasa, because these foreign-owned enterprises were strong enough to be able to adapt to inflation) or to levy tribute directly from the peasant masses (who resisted by either open rebellion or passive resistance through ceasing production for export). With the aid of the United States and the International

Monetary Fund, an equilibrium was restored after eight years of inflation, marked by very considerable changes in relative prices and real incomes in Congo-Kinshasa as compared with the situation in 1960, reflecting a transfer of income from the peasants and lower-paid wage-earners (the real wages of the working class were cut by half) to the new ruling class. This "equilibrium" is rightly called retrogressive by Ryelandt, since its content is more biased toward consumption (by the new privileged strata), so that the equilibrium of the public finances and that of the balance of payments (on which the former is based) are extremely fragile.[87]

Most of the inflations in the Third World of today are of this type: in the Indonesia of Sukarno, in Mali, or in a number of countries of Latin America.[88] In some cases there is juxtaposed to this type of inflation a process of credit inflation associated with a disordered process of industrialization, mediocre in its effect, being carried out for the same social reasons of predominance by the new bureaucracy.[89]

These particular processes of adjustment lie behind the structuralist thesis of inflation.[90] But it is important to appreciate that the same results can be secured without inflation. Thus, in the former French colonies of Black Africa, where the monetary system forbids any budgetary inflation, a progressive increase in the tax burden, in the form of indirect taxes, has reduced the real income of the agricultural producers and the wage-earners in the towns for the benefit of the same social strata as in the previously mentioned cases. The new equilibria have the same retrogressive character as in Congo-Kinshasa and elsewhere. In the cases of Mali and Ghana, moreover, the regimes that have emerged after the fall of their predecessors have changed nothing from this point of view, expressing as they do an authority that is based on the same bureaucratic strata.

The experience of Japan.[91] In order to industrialize itself, Japan resorted to inflation on a number of occasions between 1868 and 1914. Between 1868 and 1873, inflation was caused by the budget deficit destined to finance the country's infant industry. Although the central banking system assumed its modern form only later (the Bank of Japan, which from its foundation was a real central bank, dates only from 1882), the Japan of 1860-1880 was not integrated by means of the banks. Nor was it subsequently integrated into the international finance market: very little appeal was made to foreign capital. The inflation of 1868–73 was thus purely national, in the sense that it was not transmitted from the outside world—which, in any case, was at that time in a

phase of monetary stability. As for the inflations of 1894-1904 and 1914, they were even more national, Japanese capitalism having grown stronger. The state's aid to the old merchant families who around 1870 became transformed into industrialists was effected by way of loans without security. These advances weighed heavily on the market, causing prices to rise, and thus made possible a transfer of purchasing power from the peasant masses to the new bourgeoisie, who used this purchasing power to pay for the machinery they imported.

The choking of the channels of circulation by excessive amounts of currency between 1877 and 1894 had a favorable effect on Japan's development. This deliberate inflation of credit made investment possible before real saving had been obtained from production. The issue of currency, always ahead of requirements, certainly entailed a secondary price increase, but basically it made possible an increase in the level of activity. Part of the purchasing power created by the state for the benefit of the entrepreneurs found its way onto the external market, as it was necessary to import large quantities of machinery. These imports were paid for by liquidating the nation's stocks of gold and silver. In the Japanese case, the surplus of imports over exports was due to a sudden increase in imports of investment goods, and *not* to an increase in imports of luxury goods resulting from a transfer of income to the rich classes, as happened with the underdeveloped countries which were subjected to the transmission of a price increase that was external to the mechanism of their economy. It was thus not external demand in general that had risen, but only the level of demand for investment goods.

The difficulties of the external balance were thus the *result* of the acceleration of growth through internal inflation, and not the *cause* of the increase in prices.

The experiences of the underdeveloped world. Does this mean that all "national" inflation, meaning inflation that is not transmitted by way of the involuntary channel of external payments, is favorable to development?

Okyar criticizes, on the basis of the Turkish experience, the Keynesian policy of systematic budget deficits, which claims that this creation of new demand can foster "blocked" development. In the period 1933–40, Turkey's development was financed through the budget, without deficit and without inflation: investment amounted to 9 percent of the national income every year. From 1940 onward the budget deficit created inflation. Investment took only 4 percent of the

annual national income, which fell between 1940 and 1948, whereas it had grown steadily between 1933 and 1940. The example is actually not very convincing, for the war period prevented the budget deficit from being used productively: current public expenditure, which amounted to 15 percent in the period 1933–40, rose to 22 percent in 1943–48. Okyar certainly shows that the Keynesian mechanism did not function, for it was not the absence of demand that blocked growth (otherwise the unproductive wartime expenditure by the state would have favored development, by creating multiplier effects), but he does not show that no deliberate inflation can be directed toward productive investment (the case of Japan) because it is *also* possible to carry out state investment without a budget deficit.[92]

Very different from these schemas are that of inflation and the increase in prices in the underdeveloped countries during the Second World War. Here the price increase, though internal in origin, was nevertheless closely bound up with the balance of payments. However, it occurred in a special war situation, so that some of its negative effects on accumulation were unable to take concrete form.

Indeed, since the demand of the European countries and the United States increased during the war, as in a period of prosperity, and since the need, as well as the possibility, for these countries to export manufactured goods declined during this period, these circumstances resulted in an improvement in the terms of trade for the overseas countries, which favored local accumulation. A large part of this surplus income realized through the improvement in the balance of payments would in normal times have been spent on luxury imports. This surplus income thus constituted in part a forced saving that soon found investment locally, all the more so because the lack of foreign competition and the acute reduction in imports favored the creation of local industries. It is true that some contrary forces worked against this development, such as the decline in the productivity of agriculture due to the impossibility of importing fertilizers, and the difficulty in getting machinery from Europe and America. Accordingly, part of this surplus income was directed onto the local market for luxury goods (building of villas, etc.), where it caused a price increase. This unrestrained consumption of luxury products resulted, moreover, in investment in milk bars, which served as a pole of development for local luxury expenditure. Part of the deficit in the balance of the Allied countries was paid for by liquidating gold reserves, and also—and especially—by transferring foreign investments of local ownership—starting, of course, with the least profitable of these investments. In this way the war contributed to the

formation of local capital, if only by this transfer of ownership, the consequence of which was that the profits subsequently realized would no longer be re-exported. Later, the deficit in the European balance was paid for either in depreciating currency or in war debts (sterling credits, for example), which also depreciated as the European countries were inflated. This European inflation was thus transmitted overseas, and was made worse by the expenditure of the foreign armies.

The final outcome, despite the particularly favorable conditions for local development, was meager. Inflation was reflected in increased gross investment, but at the same time the war involved such a squandering of capital (nonreplacement of worn-out equipment in railways, roads, ports, etc.) that it is very hard to know whether, ultimately, net investment was positive. In the end, this type of inflation seems to have been negative in effect. What did play a positive role was not the inflation itself but the momentary disappearance of foreign competition.

These last examples show how unfavorable the general climate of rising prices in which the world has lived since 1914 has been to accumulation in the underdeveloped countries. Even under the favorable conditions of the Second World War, development was restricted to a greater extent than it was favored by the transmission of price increases from without. In contrast, the Japanese example shows that a managed internal inflation can favor development. The example of inflation thus demonstrates how harmful it is to confuse the mechanisms of development within a national framework with the mechanisms of development within the framework of international integration. The same phenomena that in one case contribute to accelerating the accumulation of capital serve in the other to check this accumulation.

THE DISTANT PAST: THE INTEGRATION OF THE PERIPHERY INTO THE WORLD MARKET FOR PRECIOUS METALS

Some precapitalist economies were innocent of the use of money (as in certain regions of Africa) or were still lagging at the stage of the first appearance of money (use of shell, animals' teeth, etc.). In these cases it was the European merchant—usually following in the wake of the Arab or Indian merchant—who introduced metallic money. When he

bought export goods from the natives he injected Maria-Theresa dollars or Mexican piastres into the economic system. When he sold the native imported goods he withdrew these coins from local circulation. This is why, in North America and the West Indies, where the European settlers arrived as poor men, precious metals usually stayed only a very short time. It was necessary periodically to cope with the need for currency by issuing paper money. However, this is of secondary significance. These colonies remained in the main circulation area of precious metals, so that prices were determined by the relation between the cost of production of a commodity and that of the metal used for money.

The point is that this metal has an intrinsic value. The subjectivist conception of value has, of course, led to the statement that, since the utility of money arises from its use as money, gold already at that time owed its value to this particular use that was made of it, and that therefore the intrinsic value of the metal was a mere fancy. If one wants to go all the way with this idea, one has to deny that a system based on gold is basically different from a system based on paper money, which has no intrinsic value although it has value (since each note represents a certain amount of purchasing power). And yet it is clearly necessary to distinguish between these two systems. Metal coins are introduced into the economic circuit by the producers of gold. For these entrepreneurs the production of gold is a profitable activity, and, so long as a difference between the price of gold and its cost of production makes it possible to obtain a profit equivalent to that which other entrepreneurs derive from their production, new gold is introduced into the economy. But the extraction of gold involves a real cost in labor and in capital. The production of paper money, however, costs nothing. Paper money, moreover, is introduced into circulation through channels very different from those followed by gold—through the channel of state issues intended to cover governmental needs, or through the channel of short-term credit.

For Ricardo, who is wrongly charged with being the originator of the quantity theory of money, gold was a commodity the value of which was measured by the amount of labor congealed in its production. However, since the quantity of money needed was decided by the level of prices and economic activity and by habits of payment, the presence of a quantity of gold differing from this magnitude entailed a variation in the price of gold above or below its value, exactly in the same way as the overproduction or underproduction of any other commodity determined variations in its price. Marx criticized Ricardo by pointing out that he had forgotten the hoarding that absorbs the

extra gold, and thereby, through confusing the total quantity of money available with the quantity *in circulation,* had opened the way to the quantity theory. At all events, crude quantitativism is later than Ricardo. It dates from Walras. It was in fact the new economic doctrine based on the subjective theory of value that was to lead to quantitativism. By supposing that the utility of gold is due precisely to its function as money, economists fell into a vicious circle from which they could emerge only by adopting the quantity theory in a crude form. Nevertheless, even in a moderate marginalist view such as that of Nogaro, a monetary system made up of gold coins appears very different from monetary systems that use paper. Indeed, while, in the short run, utility directly determines the price of a commodity, in the long run the volume of production of this commodity is fixed at a level at which the price determined by utility leaves the entrepreneur with no more than a margin of "normal profit" over and above the cost of production. The production of gold undeniably does include such a cost, whereas the production of paper money does not. The mechanisms whereby currency penetrates the economy are therefore quite unlike in the two cases.

This being so, it is easily understood that the fact that the same metal is used in two areas of the world does not necessarily imply that these two areas belong to one and the same monetary system. Between one place and another the real cost of producing gold may differ. One may describe as a "currency area" the geographical area over which there is approximate uniformity in the cost of production of gold. If, more generally, an economic space is defined as the geographical area within which general economic conditions are the same—the prices of commodities as well as the rates of reward of the factors of production[93]—one has to observe that, down to comparatively recent times, "currency areas" coincided fairly closely with "economic areas." Precapitalist societies constitute, as a rule, entities (which are not merely economic but also political and social) that are turned in upon themselves. The absence of migration (except, of course, through conquest, which constitutes a different problem) and the relative slightness of relations between each of these entities and the outside world result in the division of the globe into heterogeneous economic and currency areas. The development of capitalism, on its "native" foundation in Europe, also allowed the coexistence of economically heterogeneous areas during the nineteenth century, although a single European gold market (the reserves of which lay outside Europe—in America, and later in Africa and Australia) had been in existence for about two centuries

already. We know that the general level of prices, for example, was never the same between any of the countries of Europe. Even at that time, however, the dependence of certain extra-European countries on certain European states had created economic areas of a new type, the metropolitan country and its colonies, in which some conditions, including monetary ones, had been rendered homogeneous, although others remained diverse.

The subsequent development of the export of capital conferred even greater importance on this new type of economic space—bringing out more clearly its nature and limits.

There then started to become apparent what might prove to be the significance under these conditions of the first forms of "monetary integration" of the underdeveloped countries. The precapitalist economies of the overseas countries possessed their own stock of metal. Their integration into the international market did not alter this (except, of course, through the plundering that occurred when these countries were conquered). But the contact established between two previously isolated societies brought about a modification in the value of precious metal—either through a fall in this value in the European countries as a result of the discovery in the Americas of mines where extraction was easier (which is what happened in the sixteenth century: there is no need to appeal to the quantity theory in order to explain the general increase in prices that occurred at that time), or through the opposite process, as when the relatively lower cost of silver in Europe caused changes in some general conditions in the countries of the Far East into which the Europeans introduced their silver.

In his analysis of international exchange, Ricardo started from the assumption of wages that were equal in terms of gold, and a scatter of prices in terms of gold similar to that of real costs, so as to produce equivalence in these prices. The assumption of equal gold-wages resulted from Ricardo's having previously assumed perfect integration of the two countries in a single gold market. This latter assumption was not merely dictated by logical necessity, it corresponded to reality when two independent monetary areas came into contact with each other: Europe and America in the sixteenth century, India and Britain in the eighteenth, and so on.

Here, then, is a specifically monetary phenomenon: a change in the value of money as a result of the integration of two economies is a wider sphere of exchange, which takes place alongside phenomena of a purely economic kind—changes in economic conditions as a result of the establishment of trade relations between the two systems.

India provides an excellent example of the phenomenon under consideration. That country's currency (the silver rupee) gradually declined in value during the nineteenth century. Its value in pence fell by 35 percent between 1850 and 1900. The result was an increase in prices in India (index 90 in 1861, 116 in 1900) which contrasted with the fall in prices in Britain in this period (from 135 to 105 between the same dates). The decline of the rupee was arrested, at the end of the century, by the introduction of the sterling exchange standard system: suspension of the free minting of rupees, exchange at a fixed rate and in unlimited quantities of rupees for sterling, and vice versa (so that the rupee became "a Bank of England note printed on silver").[94]

This fall in the price of silver resulted in serious losses for India; the government had to transfer to Britain annually, around 1880, about £16 million (interest on the public debt, maintenance of the army, etc.). It issued bills which it sold in London and which competed with the remittance of silver, so that the price of these bills varied with the market price of silver. Every year India lost about 25 percent of the amount of these bills and had to raise new taxes in order to compensate for this transfer of revenue to Britain. Another negative effect of the same kind, resulting from this, was the worsening of the terms of trade over a period of thirty years, from 1870 to 1898. Thus, 100 kilos of Indian wheat were sold for 19.22 francs in 1886 instead of 23.05 francs in 1870, owing to the fall in the price of silver. All the countries where silver circulated—that is, not merely India and the Far East but also Latin America, Persia, and others—suffered heavily from the devaluation of silver.

True, the advanced countries that were silver-monometallist or bimetallist also suffered from this process. These countries, however (such as Germany, Holland, Scandavia, Austria-Hungary, and Russia), were able to go over with ease at the end of the century to direct gold-monometallism (Germany, Holland, Scandinavia) or the gold-exchange standard (Russia in 1894, Austria-Hungary in 1891). Only the poorer countries of Europe, like Spain, had to go over to paper money. The underdeveloped countries, however, with the exception of Argentina, were unable to do this. They all eventually went over to the foreign-exchange standard, except in those cases, as in Latin America, where they retained the paper-money system that had been very widespread since the beginning of the nineteenth century.

It would be interesting to know the general effects of these changes in the value of metallic money in the peripheral capitalist economies in process of construction. Study of these effects cannot be undertaken in

terms sufficiently general to constitute a theory. Each distinct historical case needs to be looked at closely—the nature of the economic regimes that confronted each other, and also the policy followed by the conqueror.[95] The historical interest of such studies relates to a fairly short period, as integration of the underdeveloped countries through the banking system was very soon superimposed on their commercial integration, and this integration by the banks than became the main form of monetary integration.

PRESENT TIMES: THE INTERNATIONAL LIQUIDITY CRISIS AND THE UNDERDEVELOPED COUNTRIES

I take from Eli Löbel the actual terms, which are extremely clear, in which he analyzes the current crisis of international liquidity:[96]

"1. During the last fifteen years," writes Löbel, "an increase in international liquidities—or world reserves—slower than in the volume of international exchanges has been observed. In this connection I will quote the Annual Report for 1966 of the International Monetary Fund (pp. 12-13): 'World reserves, here defined as the reserves of countries other than the Soviet countries and Mainland China, may be estimated at close to $49 billion at the end of 1951, and at about $70 billion at the end of 1965.(Table 1). They rose at an annual rate of 2.6 percent during this period, but since world trade increased at an annual rate of about 6 percent, reserves as a percent of annual imports fell from 67 percent in 1951 to 43 percent in 1965 (Table 2).'

"This movement has been intensified during recent years: the increase in world trade was around 10 percent and 5 percent respectively during the years 1966 and 1967, whereas world reserves increased by an average of only 1.5 percent per year during this period (according to the IMF Annual Report, 1968).

"2. Such a tendency may at first sight appear disturbing. It needs to be stressed, however, that there is no reason to declare that the present level of world reserves is inadequate. Indeed, it can be claimed that the structure of international trade was especially disturbed just after the Second World War, and has now become more stable, so that the balances to be settled have grown smaller, thus requiring smaller reserves. Professor Triffin calculated that monetary reserves, essentially

composed of gold in 1913, then covered only 37 percent of world imports.[97] The ratio of reserves to imports, including in the numerator the reserve positions of the IMF, is even higher in 1965 than in 1913 (see Table 2).

"3. Furthermore, one ought to take into account not only the *stock* of international liquidities but also its *velocity of circulation.* This aspect of the matter has been overlooked up to now, though there have been some very thorough analyses of it so far as the internal monetary plane is concerned.[98]

"4. It is also established that adjustment mechanisms have made their appearance in recent years which may operate to bring about a reduction in the total level of reserves needed. On this point I will quote the IMF Annual Report mentioned above (1966, pp. 14 and 16): 'It is not impossible that improvements to be made in the international adjustment process may be such as to permit a reduction in the general level of reserves required in relation to trade and, therefore, to

Table 42
World Reserves: Growth, 1951–65

	Reserves at the end of 1951 (in billions of $ U.S.)	Reserves at the end of 1965 (in billions of $ U.S.)	Increase 1951–65	Increase in percentage per year
Gold	33.9	41.9	8.0	1.5
Reserve positions in IMF	1.7	5.4	3.7	8.6
Currencies *of which:*	13.7	22.9	9.2	3.7
Claims on U.S.*	4.2	14.8	10.6	9.4
Claims on U.K.†	8.2	6.7	−1.5	−1.5
Other	1.3	1.4	0.1	0.5
*Total***	49.3	70.2	20.9	2.6

Source: IMF Annual Report, 1966, table in Löbel, art. cit.

* Covers short-term liquid liabilities to central banks and governments; foreign official holdings of U.S. government marketable securities; and foreign official holdings of U.S. government nonmarketable securities for those countries that are believed to include such holdings in their reserves figures.

† Covers liabilities to foreign central monetary authorities, including inter-central-bank assistance.

** Countries of the Soviet bloc and the People's Republic of China excluded.

permit, for a time, a relatively low rate of growth in the need for reserves. Discussions to this end have been recently taking place within the framework of the Organization for Economic Cooperation and Development; and the Fund itself, in its relations with member countries, continues to promote such improvements wherever possible. Appropriate enlargements and extensions of bilateral swap arrangements can also reduce reserve requirements insofar as these arrangements add to confidence in currency stability and thus deter speculative movements.' This is true only provided that instruments of this kind are not multiplied to the point where they have the effect of unduly delaying the necessary adjustments. The financing of deficits by means of such arrangements can also reduce to some extent the need for reserves.

Table 43
Countries' Reserves as Percentage of Imports
(1951–65)

	1951	1960	1965
A. Developed countries			
(a) Group of ten (United States, U.K., W. Germany, Belgium, Canada, France, Italy, Japan, Holland, Sweden)	73	60	43
(b) Other developed countries	46	44	41
All developed countries	68	57	43
B. Less-developed countries			
(a) Major oil-exporters	60	49	64
(b) Countries with high initial reserves	118	41	22
(c) Other less-developed countries	41	44	42
All less-developed countries	64	44	42
Grand total	67	55	43
Grand total excluding U.S.	39	43	39

Source: IMF Annual Report, 1966, table in Löbel, art. cit.

"However, and this seems to me of vital importance, such mechanisms have functioned largely, if not exclusively, between the industrialized countries. I shall return to this point later.

"5. The crisis in the international payments system therefore does not lie in a world shortage of international liquidities, at least so far as the industrialized countries are concerned.

"It is much more a matter of their distribution, especially in the case of reserve currencies, first and foremost the dollar. The figures are known. In 1951 the gold reserves of the United States amounted to $24.3 billion, whereas in 1965 they came to not more than $14.7 billion. Corresponding to these diminished reserves we find an indebtedness of the United States to the rest of the world that grew steadily from $8.3 billion in 1951 to $25.2 billion in 1965. This last figure is made up of about $14.8 billion indebtedness to foreign public authorities, and about $10.4 billion indebtedness to foreign commercial banks, private persons, and various organizations. Nearly the whole of this external debt of the United States ($24.1 billion) is short-term indebtedness, as against $1.1 billion long-term. On the other hand, U.S. credits abroad amount to $12.2 billion, of which $7.7 billion are short-term and $4.5 billion long-term. The following table sums up the external situation of the United States, in billions of dollars:

Table 44

	1951	1965
Gold reserves	24.3	14.7
External debt,	8.3	25.2
of which, short-term	7.7	24.1
of which, long-term	0.6	1.1
External credit,	1.4	12.2
of which, short-term	1.0	7.7
of which, long-term	0.4	4.5

"6. The international crisis thus consists essentially of this situation in which U.S. gold reserves, amounting to $14. 7 billion, are too small to cover the country's external debts, whether we take the gross figure—$25.2 billion, or only $24.1 billion for the short-term debts—or the net figure—$13.0 billion for total net indebtedness, or $16.4 billion for short-term net indebtedness.

"By way of the world monetary system we have thus arrived at this

paradoxical situation that the whole world is lending considerable sums to the United States, mainly on a short-term basis. This situation, which has resulted from the strong position of the American economy at the end of the Second World War, is now all the more open to criticism because that strong position, while it has remained intact on the economic plane, has been gravely shaken on the financial and monetary plane, owing to the weakness of U.S. gold reserves in relation to its liabilities: hence the crisis.

"7. It is of little significance that the worsening in U.S. external finances is not due to a deficit in the trade balance, or in the total balance of goods and services (they both show a surplus). The worsening has its actual source in capital movements, including movements of publicly-owned capital. What signifies is that part of this capital has been retransferred by the world monetary system. If, as is currently agreed, the private investments of the United States abroad bring in a profit estimated at between 10 and 15 percent per year, while the short-term debts contracted by the U.S. through the monetary system cost that country only about 3 to 4 percent per year, this illustrates one of the aspects of the world monetary paradox, to the advantage of the United States, and correlatively, to the detriment of the rest of the world.

"But while it can be stated that there appears to be no real problem of shortage of international liquidities for the world as a whole, the situation is different where the underdeveloped countries are concerned."

Discussing the situation as regards Africa, Löbel writes:

"Taking the statistics for the twenty-eight African countries* for which we have a comparable series from 1960 onward, we perceive that their external reserves fell from $2.9 billion in 1960 to $2.2 billion in 1965. These are gross external reserves, that is, before deduction of short-term debts, these gross reserves including gold, foreign exchange and automatic drawing rights on the IMF (called 'reserve position' at the IMF, which is equivalent to these countries' 'gold tranche' at the IMF, that is, their gold subscription to this organization).

"Now, the imports of these countries increased substantially during the last five years, from $4 billion in 1960 to $5.9 billion in 1965. The movement in opposite directions of international liquidities and

* Algeria, Tunisia, Morocco, Libya, Egypt, Sudan, the thirteen states members of the franc area, Mali, Ghana, Nigeria, Ethiopia, Somalia, Congo-Kinshasa, the three states of former British East Africa.

imports caused the ratio of the former to the latter to decline from 72 percent in 1960 to 37 percent in 1965."

As regards the Asian countries, the gross reserves, so defined, of twelve non-oil-producing states* for which we have comparable statistics beginning in 1948 declined from $5.4 billion in 1948 to 3.7 in 1951 and 3.6 in 1966, whereas their imports rose from 4.4 to 5.1 and then to 9.5 billion for each of these dates. Asia, which possessed substantial reserves after the war, especially the Indian sterling balances (more than £1.2 billion for India and Pakistan), saw these reserves melt away—quickly between 1948 and 1951 (the ratio of reserves to imports fell from 122 percent to 73 percent), more slowly, but still steadily thereafter (the ratio stood at 38 percent in 1966). The reserves held by big countries like India and Pakistan are hardly sufficient to cover more than a quarter's imports. The fate of the reserves of smaller countries has been better, notably that of Thailand, whose reserves rose by $0.7 billion between 1948 and 1966. The reserves of the oil-producing countries of the Middle East increased greatly: those of Iran and Iraq from $0.3 billion in 1951 to 0.7 in 1966, while those of Kuwait (reserves of the Currency Board and of the Government) rose to $1.1 billion in 1966 and those of Saudi Arabia (Saudi Arabia Monetary Agency) to $0.8 billion.

As regards Latin America, my calculations based on sixteen countries for which we possess comparable statistics† show that the ratio of reserves to imports, which was about 50 percent in 1948 (reserves being $2.5 billion and imports $5.0 billion), remained the same down to 1953. By that date imports stood at $5.9 billion and reserves at $2.8 billion, Mexico having been responsible almost single-handed for effecting this improvement in reserves. From 1953 on, however, the situation was to get steadily worse. By 1962 reserves no longer exceeded $2.3 billion, while imports had risen to $7.9 billion (a ratio of reserves to imports of less than 30 percent). True, between 1962 and 1967 the situation seems to have improved, for while imports rose to $9.5 billion, reserves also rose, to $3.1 billion. This improvement came almost entirely from two sources: increase in the reserves of Venezuela, a

* Burma, Ceylon, India, Jordan, South Korea, Malaysia, Pakistan, Philippines, Syria, Taiwan, Thailand, Turkey. I have made these calculations on the basis of the IMF figures.

† Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, Mexico, Nicaragua, Peru, Salvador, Uruguay, Venezuela.

large oil-producer (increase of $254 million in five years), and, above all, the sharp increase in the reserves of Argentina (which rose from $132 million in 1966 to $625 million in 1967) as a result of that country's policy of deflation. If these two countries are excluded, however, the ratio of reserves to imports continued to fall, sinking from 30 percent in 1962 to 23 percent in 1967 (reserves $1.6 billion, imports $5.1 billion).

If we consider net instead of gross reserves we get similar results. Regarding Africa, Löbel writes: "It is interesting also to trace the evolution of the net external reserves of the African countries. In order to obtain this figure, we deduct from their international liquidities which, apart from the gold element in them, consist of these countries' claims payable at sight on the rest of the world (when you hold currency of a foreign country you have a claim on the latter), these countries' external liabilities payable at sight. Let it be kept in mind that what is involved is not long-term debt but only short-term debts that can, in principle, be called in at any moment. These external liabilities payable at sight include the debit balances of bilateral agreements (clearing accounts), when these sums were available. They amounted to about $0.5 billion in 1960, and increased to $0.8 billion in 1965. Thus, net external holdings which came to $2.4 (2.9-0.5) billion in 1960 had declined to $1.4 (2.2-0.8) billion in 1965. And the ratio of net external reserves to imports fell from 60 percent in 1960 to 23 percent in 1965." The same applies to Asia and Latin America, net reserves representing about two-thirds of gross reserves.

Continuing his analysis, Löbel writes: "It is usual to take into consideration also the conditional reserves, which are, in a sense, international liquidities that are at the country's disposal provided it obeys the rules laid down by whoever grants the liquid assets in question. Typical of these conditional international liquidities are drawing rights on the IMF . . . the blocks of credit at the disposal of the African countries, which stood at $0.2 billion in 1960, rose to $0.6 billion in 1965. This increase was due to the mass entry of the African states into the IMF. The fluctuations recorded for a certain number of these states (Ghana, Mali, Somalia, Sudan, Tunisia, UAR) resulted from the use by these states of the conditional credits granted by the IMF. They are conditional in that the IMF allows credit only on condition that the state receiving it takes steps to restore equilibrium to its external finances. By adding these conditional liquidities to the others, and relating the total to the volume of imports, we get higher percentages

than those shown above, namely, 78 percent in 1960 and 47 percent in 1965.

"There are other conditional liquidities besides those just mentioned. The French-speaking countries whose national currencies enjoy France's unlimited guarantee (West Africa—BCEAO; Equatorial Africa—BCEAEC; Madagascar) possess, thanks to this guarantee, conditional reserves equivalent to the whole wealth of France. This, of course, is a hypothetical notion and not reducible to figures. It remains the fact that for this group of African countries the concept of international liquidities has not the same significance as for the others, owing to their special links with France. It may even be said that their effective external reserves, which are held almost entirely in the form of French francs, are conditional. In return for her guarantee, France has been able to ensure that the receiving countries practice a credit policy such that their issuing institutions have no need to resort to the automatic credit facilities that France is obliged to accord them by virtue of this guarantee. In the issuing institutions of Equatorial Africa and Madagascar, the fifty-fifty composition of the boards of directors enables the representatives of France to prevent, if need be, a relative decline in external reserves that they may consider too acute. The board of the BCEAO, the issuing institution for West Africa, has a majority made up of representatives of the African member-states. France's safeguards in this case are a statutory and classical type: an increase in the discounting rate and a limitation in the credit ceiling in the event of a relative decline in external reserves. In any event, should the African states seek to depart from these statutory rules, they could not do so without the consent of the French administrators.

"While it is therefore not possible to include in the external reserves of the African countries this type of very special external facilities, one ought, on the other hand, to take into consideration the conditional external reserves resulting from bilateral agreements. These reserves are conditional in the sense that, in most cases, they cannot be used for purchasing goods or services except in the country with which the agreement has been signed. Furthermore, the list of goods that can be covered by these bilateral transactions is often subject to restrictions. Insofar as triangular or multilateral compensations are provided for, or simply practiced de facto, the external reserves in question become less 'conditional' in the sense I am here giving to this expression. It remains the fact that, just as the bilateral swap arrangements between central banks in the advanced countries can serve to 'finance deficit spending'

and reduce to some extent the 'need for reserves,' so do these agreements for payment by reciprocal credit play a similar role.

"The figures relating to these agreements have unfortunately not been published in continuous, comparable, and exhaustive form."

Eli Löbel has nevertheless provided a recapitulation of the bilateral payment agreements in Africa. Most of them—involving especially the UAR, Mali, Guinea, Ghana, and Morocco—have been signed with the countries of Eastern Europe, but a few have been made between African countries. The same is true as regards the bilateral agreements made by Asian countries (India, the Arab countries, etc.), which are very numerous, and some of the Latin American countries (apart from Cuba, of course).

"The bilateral agreements with payment facilities have certainly contributed to reorienting the external trade of the signatory countries in the direction of greater diversification as regards partners. However, the increase in imports coming from the group of countries that have bilateral agreements with the African countries is certainly due in large measure to the aid rendered by the latter to the African countries. The figures (quoted here) cover only the reciprocal commercial credits, which is quite logical in a study of international liquidities. In addition, numerous bilateral agreements on trade and payments provide that some goods and services that have especially 'appreciated' on the world markets shall be excluded from these agreements. Finally, it is current practice that even if the transactions proceed, in principle, by way of a bilateral account with a credit margin, part of the payment has to be effected, at the end of the transaction, in convertible currency. These two last clauses usually work to the advantage of the African countries.

"In fact, the statistical data that are of most interest in connection with a study of the monetary impact of the net work of bilateral payments are:

"a. the amounts of the reciprocal credit margins that the partners allow each other, and which constitute, in a way, 'conditional' international liquidities;

"b. the real movement of the bilateral accounts, which shows in whose favor the system has worked and answers the question whether it is the African countries that have lent, through the bilateral mechanism, to the rest of the world (mainly to the advanced countries), or vice versa. Since we are here studying monetary questions, the essential problem is indeed to discover who is lending to whom, on what conditions, and by what mechanism."

These observations, which are valid for all the underdeveloped countries, lead to a series of conclusions that apply with equal force to the countries of Asia and Latin America.

"The mechanism of bilateral payment agreements tends to compel the non-African partners, and in the first place the advanced ones, to grant automatic commercial credits to the African countries.

"All this shows that it is extremely difficult to state a view on the question whether there is a problem of external reserves for the African countries, despite the decline in the ratio of international liquidities to imports from 72 percent in 1960 to 37 percent in 1965. The ways of settling international transactions have evolved a great deal in recent years, in and for the continent of Africa. The make-up of the international transactions of these countries has also evolved, especially as regards imports. Strictly speaking, in order to form a judgment on the inadequacy of international liquidities, even in the context of a country fully integrated into the world monetary system, it would be necessary to compare these liquidities only with the imports that the African country concerned has to pay for out of its own funds (principally, private and public consumer goods and intermediate goods). Now, the share of equipment imported and financed from external resources has certainly increased in recent years. A detailed study of the statistics of external trade and of sources of finance is necessary. We also need to know the extent to which the official statistics include these imports of equipment goods financed from abroad. Finally, there must be taken into account, as an aggravating factor, the charges of the long-term external debt, which is the counterpart of external aid.[99]

"Nevertheless, it is possible to offer the following conclusions to this part of my survey:*

"The international monetary system contains, by its very nature, this distinctive feature, namely, that the African countries constantly lend to the advanced countries, by virtue of the fact that they hold the greater part of their reserves in foreign exchange, principally pounds sterling, French francs and U.S. dollars. And, in relation to what interests us here, it is of little significance whether external aid has or has not contributed to these reserves. Just as, on the world plane, the world at large, forming part of the international monetary system, lends through this system to the most powerful countries—the United States first and foremost—so, on the plane of Africa, the continent as a whole

* I.e., the survey by Löbel, art. cit.

lends to the advanced countries, primarily to the former colonizing powers. We have already seen that the amount of this loan came to 2.9 billions in 1960 and 2.2 billions in 1965 (in dollar units of account).

"In the setting of the international monetary system, and to the extent that the African countries form part of this system, as is the case, Africa has a problem as regards international liquidities, given that the ratio of external reserves to imports has dangerously declined in recent years.

"In contrast to what is happening on the world plane, where what is rather to be observed is a crisis of confidence in the reserve currencies, or in more political terms, resistance to the imposition of an international reserve currency issued on a national plane—that of the United States—the problem for Africa arises not so much at the level of the *composition* of external reserves as at that of their *total* amount. Whereas on the world plane it is the country which borrows on a short-term basis through the international monetary system (the United States) that is suffering from a deficit in its external balance, on the plane of Africa the deficit in external balances is found on the African side, that is, on the side of the lending countries.

"To continue the analogy, and due allowance being made for all differences, where the relations between Africa and the advanced countries are concerned, the nature of the problem is comparable to that which existed immediately after the war, when the countries that were lending through the international monetary system—the advanced countries as a whole—were also those that had a deficit in transactions with the countries to which the loans were made (primarily, the United States).

"Despite the recent tendency for a very marked fall in external reserves, their overall level still remains sufficiently high, at 37 percent, for Africa as a whole. Nevertheless, owing to the very uneven distribution of these reserves among the African countries, some of the latter possess 'surplus reserves' which they lend exclusively to the advanced countries, through the international monetary system. This is the case with Libya, Ethiopia, and, to a lesser extent, the ex-French West Africa group (BCEAO). Others, such as the UAR, Ghana, Tunisia, and Mali, are experiencing serious difficulties—still within the setting of an international monetary system—without being able to call on the facilities that exist elsewhere in Africa, or being able to do this only to a small extent. The currency unions (West Africa and Equatorial Africa) and payments agreements formed between African countries have brought about a certain degree of African solidarity.

"The system of reciprocal commercial credits, through a network of bilateral payment agreements, is, however, favorable to the African countries, on the purely monetary plane, which is all that concerns us here, in that it tends to bring about a situation in which the advanced countries lend to Africa. The system, though essentially bilateral, can be made multilateral to a considerable extent by means of clearing houses."

Summary of Conclusions

1. Monetary theory is the favored sphere of an economic science which, because it is given over to the major vice of economism, applies itself only to pseudo-problems. Money conceals the essential relations—the relations of production, scientific analysis of which requires that economic science be transcended in a total social science—and brings to the forefront relations that are superficial—exchange relations. This is why all non-Marxist monetary theories, old and new, are in the last analysis based on the false assumption of the quantity theory: the "refinements" of the Keynesian liquidity analysis and that of the neo-marginalists of Chicago have not succeeded in extricating monetary theory from this false basic framework. In reality the banking system fulfills only a passive function of adjusting the quantity of money to need. If it also fulfills an active function in the mechanism of accumulation (in the process of realizing surplus value), this is not suspected by current monetary theory.

2. Having been extended to the underdeveloped economies, monetary theory is said to have discovered there perverse monetary mechanisms of a special kind, which cause the supply of money to depend on the external balance and introduce specific disturbances into these economies. In fact, we have seen that the monetary mechanisms in the periphery of the system do not differ, despite appearances, from those operative at the center: the foreign-exchange standard fulfills these functions no worse than does the "managed national currency." The creation of a national currency confers on the local authorities no power of effective control so long as a country's inclusion in the world market is not challenged: even control of the exchange and of transfers does not prevent transmission to the periphery of fluctuations in the value of the dominant currencies of the center, nor does it prevent transmission to the periphery of the center's price structure. Money here constitutes the outward form of an essential relation of dominance, but it is not *responsible* for this relation.

3. The monetary problem therefore lies elsewhere, in the concrete working of the banking system of the preiphery. This is wholly at the service of the development of peripheral capitalism, whether foreign-owned or national, private or public—in other words, it exists in order to facilitate the growth of a capitalism ultimately based on the external market, which is the essential element in underdevelopment. Current theory turns its back on this real problem.

4. The world monetary system is an instrument in the service of the law of accumulation on a world scale: its function is to facilitate the centralizing of means of accumulation for the benefit of the center of the system (the advanced countries) and to the detriment of the periphery (the underdeveloped countries). This was so from the beginning, in the distant epoch of mercantile capitalism and of the integration of the periphery in formation into the world market of precious metals, and is so in our time, as is shown by study of the crisis of international liquidities from the standpoint of the Third World.

Chapter 4
The Role of the Periphery in the World Conjuncture

The cyclical form assumed by accumulation became very early on the subject of economic studies. For a long time, however, because current economic theory had made the "law of markets" an article of faith, the cause of the cycle was sought in money, in the psychology of the entrepreneur, or in the technical conditions of production: in other words, in what have been called external or independent variables. Such a view of the matter was inevitably superficial. The actual mechanism of the economic dynamic of the process was not investigated. This approach gave rise to a remarkable efflorescence of theories about the cycle. To be sure, Malthus, Sismondi, and then (and above all) Marx, were three impressive exceptions. But the validity of the law of markets was so little questioned that Marx's analyses remained uncomprehended, wrongly interpreted, and rejected without real examination by marginalist critics.

At the end of the last century, Wicksell was obliged to challenge the dogmatic status of the law of markets, as a result of his study of the causes of general price movements and his attempt to discover both the reasons why total supply and total demand can be unequal and the mechanisms that operate to readjust the balance between these two quantities. Myrdal, from 1930 onward, and Keynes, already from 1928 onward but especially after 1936, carried further this critique of the law of markets. Thereafter, study of the cycle could rise above psychological and monetary commonplaces, to engage in a more thorough study of the mechanisms that adjust the saving derived from total income to the investment required for economic growth.

Today it is generally accepted that the cycle manifests itself through an imbalance between saving and investment—which is only the form of a more fundamental imbalance between society's capacities to produce

and to consume. Ironically, the rehabilitated theory of the cycle, which was to include certain analyses of Marx's, was worked out during and after the Second World War, that is, just when the mechanism of accumulation was losing its cyclical form. The monopolization of the capitalist economies, and the intervention by the state made possible, and even necessary, by this monopolization, which are typical of present-day capitalism, have done away with the regular cyclical pattern that was characteristic of the century extending from 1825 to 1940. The fluctuations of the conjuncture have replaced the elemental cycle. At the same time, because state policies operate in the spheres of money and finance, the theory of the conjuncture constitutes a step backward in comparison with that of the cycle: "monetarist" illusions arise again, and the empirical pragmatism of "income policies" prevails.

The theses of the 1940s, inspired by Keynes, on "stagnation," "overdevelopment," and "maturity," tended the same way as the theory of the cycle or of the conjuncture, in that they concentrated on analyzing the possible imbalance between saving and investment.

The crisis of 1929 had been so violent that all purely monetary, psychological, or technological theories, both of the cycle and of the long-term tendency, were inevitably discredited. Subsequent theories of growth attempted a deeper analysis of the dynamic mechanisms by which production, saving, and investment balanced each other along a more or less upward-moving line that extended over a century. The progress achieved by Western capitalism after the Second World War caused these theories of maturity, which had again come too late, to be forgotten. Theoretical study of the problems of the dynamic equilibrium of growth in our epoch, which is not only that of monopoly and state intervention but also that of a profound technical and scientific revolution, and of the great changes in political relationships that have marked the last forty years, is only now beginning.

In all these cases, theoretical research took the capitalist mode of production as its frame of argument. Study of the specific forms of the cycle and the conjuncture in the peripheral economies integrated into the world market has come later. This study has therefore lagged behind, and so its formulations are still often very superficial. Analysis of the "cycle" and of the conjuncture in the underdeveloped countries is still often closer to the old monetary and psychological theories than to modern theories of the dynamics of growth.

As for the study of international monetary mechanisms, this advanced both as a result of the new theoretical efforts arising from criticism of the quantity theory and also because of observation of the

special situations engendered, after abandonment of the universal gold standard, by the monetary disorders of the 1930s. As the question of economic relations with the rest of the world is especially important for the countries of the periphery, investigators were to some degree led to conceive of the cycle and the conjuncture in these countries as merely dependent on fluctuations in the balance of payments. The determining role played by the developed countries of the center in these fluctuations, and, correlatively with this, the passive role played by the underdeveloped economies, were sufficient, at least in appearance, for those who renounced a specific analysis of the inner mechanisms of the dynamics of accumulation in the countries of the periphery. Accordingly, the cycle in the underdeveloped countries was spoken of as a phenomenon that was transmitted from outside by the movement of the balance of payments. Is it correct to speak in this connection of a cycle or a conjuncture (even "transmitted" ones), or of simultaneous fluctuations in supply and demand?

Finally, the whole of this problematic ignores the essential aspect of the matter where the periphery is concerned. For there *is* an international cycle, that is, a cycle of capitalist economy as a whole. The countries of the periphery have their place in this general movement, just as they have their place in the mechanism of accumulation on a world scale.

I will consider first the theory of the cycle and of the conjuncture in the capitalist mode of production, then that of the cycle and the conjuncture transmitted from the center to the periphery, and, finally, that of the conjuncture on the world scale and the representative roles of the center and the periphery in this conjuncture.

THE THEORY OF THE CYCLE AND OF THE CONJUNCTURE IN THE CAPITALIST MODE OF PRODUCTION

Capitalist development has not proceeded along a continuous and regular upward path without fluctuation. Rather, growth has followed a series of cyclical fluctuations accompanying a general upward tendency. Investment's capacity to create its own market accounts for the upward trend, while the relative regularity of the imbalance between the total volume of production and consumption, or of saving and investment, accounts for the sinuosity of the movement.

The possibility of continuous growth in a capitalist economy without an external outlet (meaning external to the capitalist mode of production) was proved by Marx, and then again by Lenin, arguing against Luxemburg. The saving derived from the income of a previous period can quite well be invested and so create its own market during a second period, deepening the capitalist market without "extending" it. In this sense, the "law of markets" is valid. This validity is, of course, only relative, in that the capitalist form of development implies a dissociation in time between the act of saving and the act of investment. Credit, and the momentary advantage constituted by the conquest of new external markets, facilitate the fundamental operation: the real investment of money saving. Real saving derived from income during the previous period must, before being invested, assume the form of money. The production of gold in the nineteenth century and the banking system today make possible the carrying out of this preliminary operation.

The essential claim made by the law of markets, namely, that investment of saving that has succeeded in assuming the money form through which it has to pass is effected automatically thanks to the finance market, is profoundly mistaken. Investment can create its own outlet—but it can also fail to create it. The special function of the theory of the cycle is, precisely, to determine the conditions under which investment does *not* succeed in creating its own outlet.

Money certainly confers flexibility on the economic system; but it also makes it possible for the system to break down owing to an imbalance between total supply and total demand. By enabling the act of saving to be separated from the act of investment, money creates the possibility of crises. Does this mean that it is ultimately responsible for them? If this were so, it would have to be explained why this imbalance is a periodic and not a chronic phenomenon, why it is periodically overcome, and, especially, why the phenomenon of the cycle is characteristic of the capitalist mode of production alone, and not of simple commodity economy.

Insofar as accumulation is inherent in the capitalist mode of production, in contrast to precapitalist modes, the problem of the cycle appears as a problem distinctive of capitalism. This is why, in economies in which, though they are precapitalist, the use of money is widespread, and where "liquidity preference," or, more precisely, preference for hoarding, forms a strong motive for saving, there is nevertheless no economic cycle or "endogenous" growth. What we observe in these modes of production is a slow growth dependent on demographic devel-

opment and technical progress; but this growth takes place in a setting in which the functioning of economic mechanisms is profoundly different from that which is characteristic of capitalism. In these economies there is no dichotomy between saving and investment: investment is carried out simultaneously with saving. The motive for saving and the motive for investment are the same. The categories "saving" and "investment" are, indeed, distinctive of the capitalist mode of production. This is why the cycle remains unknown to all precapitalist economies.

If, then, the cycle is a monetary phenomenon in the capitalist mode of production, it is so no more and no less than all the other economic phenomena. This is why all theories of the cycle based fundamentally on a study of credit mechanisms deal only superficially with the problem. Money does not play an active role in exchange; the outlet—the market—has to exist already: money on its own cannot create it. All money can do is facilitate a transition in time. This is why all modern theories have ultimately adopted the view that the cycle was the specific form of development by which the regular imbalance between saving and investment was regularly overcome—the conception set out in Marx's analysis.

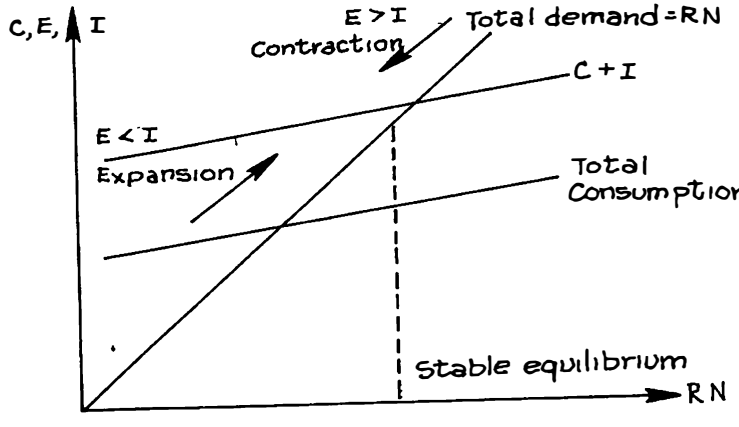
As, however, the cycle is grafted on to a more general tendency of long duration, analysis of the regular imbalances between supply and demand must be complemented by analysis of the long-term tendencies to equilibrium or disequilibrium between saving and investment. In this analysis post-Keynesian theory has allotted a more active role to money.

The "Pure" Theory of the Cycle: The Monetary Illusion.[1]

Keynes's analysis was described by Lutfalla as "metastatic." In *The General Theory,* the volume of investment determines, through the multiplier, the level of national income. The volume of this investment itself depends on two independent variables: the rate of interest, on the one hand, and the marginal efficiency of capital, on the other. There is no reaction from income on to investment—or, more precisely, investment is proportional only to income, not to the growth of income. The result is that the equilibrium which is established at the level of the national income at which saving and investment are equal is a stable equilibrium.

Klein schematized Keynes's analysis in *The General Theory* in a

series of equivalent diagrams the most characteristic of which is certainly the following:



[FIGURE 6]

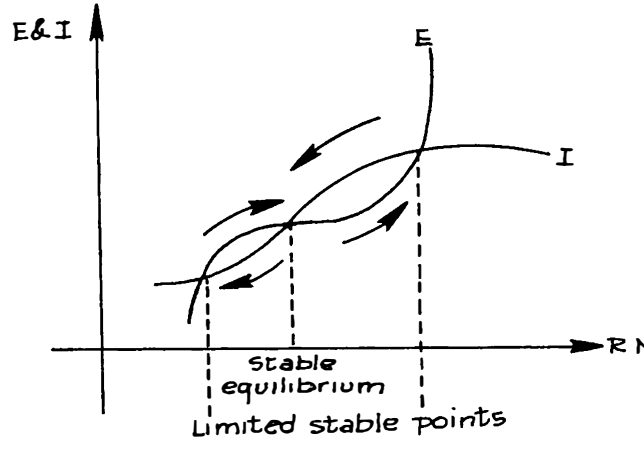
The General Theory does indeed contain a sketch for a theory of the cycle. A sudden fall in the marginal efficiency of capital is accompanied by a rise in the rate of interest, because it leads to an increase in liquidity preference. Investment suddenly slumps, and with it total demand: the national income shrinks to the point at which the amount of saving derived from this income no longer exceeds the diminished amount of investment. Basically, however, this analysis of Keynes's did not take the theory of the cycle any further than before, because the sudden fall in the efficiency of capital was left unexplained.

Keynes turns to human psychology, implying the impossibility of men entertaining indefinitely optimistic expectations of the future return on capital. It is clear, however, that if there were no objective reason why the level of this return should fall at a certain point in the development, such expectations would conform to a real state of affairs. At most, accidental historical causes might from time to time produce a psychological crisis, and so a contraction in total income. But the *regularity* of the cycle demands an explanation well rooted in the mechanism of the economic dynamic itself, not an explanation that is external to the phenomenon.

A bridge might then be thrown between this Keynesian conception and the theories of Lescure and Aftalion. The increase in production during a period of prosperity entails a general reduction in prices

(because requirements are increasingly well satisfied), whereas costs of production increase, by virtue of the law of diminishing returns. One would, of course, still have to explain why it is possible for prices to fall while production is increasing, if incomes are increasing at the same time, and to reconcile the thesis of diminishing returns with the technical progress connected with the advance of industry. It appears that, on the contrary, the full utilization of production capacity during a period of prosperity makes it possible for costs to be reduced. Recourse to outside variables, whether psychological or technological, thus deprives the analysis found in *The General Theory* of a truly dynamic internal aspect.

It was by abandoning Keynes's assumption of stable values of the propensities to save and to invest that Kaldor gave the Keynesian analysis a real bearing on the cycle. Kaldor's schema assumes that propensity to invest is weak, both when the level of national income is low (owing to unused production capacity) and when it is high (owing to increasing building costs in a period of full employment). On the other hand, propensity to save will be high both when income is high and when it is low. The cycle is then clearly described by the schema outlined below:



[FIGURE 7]

However, not only does Kaldor fail to explain why propensity to save is high when total income is low (logically, one would assume that this propensity rises regularly with income), but it still needs to be explained why the evolution of building costs can constitute a cause of

downturn. So long as *any* labor remains unemployed, the possibility of additional construction is present. Let it not be argued that this work requires, in addition, to labor, raw material, machinery, power, etc., for it is precisely the utilizing of this labor that would make possible the production of all these goods necessitated by development. Recourse to this external factor—full employment—may well explain why the speed of development cannot be accelerated indefinitely, but it does not explain the downturn that has occurred historically when full employment was far from being realized when the crisis broke out.

Kalecki gives an equally rounded Keynesian description of the cycle: income determines investment, in the first place, and then, in its turn, investment determines income. But, in proportion as the level of total investment rises, the value of the propensity to invest diminishes. The cycle is then inevitable. Here, too, endogenous economic reasons are needed to explain the diminishing relation between propensity to invest and total investment. Unfortunately, it is to an exogenous psychological reason that Angell appeals: the gap between anticipations (form of the propensity to invest) and investment is due to the fact that the anticipations depend not on the investment itself but on its velocity. But why is this so?

Harrod has perhaps best analyzed the logical sequence linking all the factors that connect national income with investment, and vice versa. His description seems very complete. The imbalance in economic growth arises from the basic antinomy between actual saving, which essentially depends on the *level* of real incomes, and desirable saving, which essentially depends on the *rate of growth* of real income.

The balanced growth that is reflected in a stable value of G demands, in fact, stability in the ratio between investment ex post facto and the increase in the national income that it entails. The following equation shows that, if average propensity to save (s) is constant, growth (G) will not be regular unless the value of the coefficient (C) remains stable. In this equation:

$$GC = \frac{\Delta Y}{Y} \frac{I}{\Delta Y} = \frac{I}{Y} = \frac{S}{Y} = s$$

G represents rate of growth, C the capital-output ratio (the ratio between an investment and the income that this makes it possible to distribute), Y income, ΔY increase in income, I investment, S saving, and s average propensity to save.

Now it is just the value of C, which measures the combined result of the phenomena of multiplication and acceleration, that cannot be con-

stant, because acceleration (which Harrod calls "the Relation") calls for new investments that are *more than* proportionate to the increase in ultimate demand, and because, in its turn, the multiplier causes the increase in the volume of investment to bring about a more than proportionate increase in national income. In *The Trade Cycle* Harrod has constructed a model of the cycle by making the multiplier and the accelerator function in this way: an initial investment engenders an increase in national income, which itself determines a secondary investment (acceleration). The boom continues until the multiplier has lost magnitude sufficiently to annul the accelerating action of "the Relation." This is indeed what happens during prosperity, for propensity to consume diminishes in proportion as income increases, since the share of this income taken by profit increases faster than the share taken by wages.

Harrod is thus the writer who has come closest to Marx. There is no special chapter in *Capital* that brings together all the elements of a theory of the cycle, but nevertheless Marx revealed the essence of the process through his examination of the phenomenon known today as the multiplier and the accelerator. In the well-known chapter 21 of volume 2, which has caused so much ink to flow, Marx showed that it was possible for investment to create its own market, through the spreading and deepening of capitalism. In this same chapter, however, he analyzed the mechanisms by which what is today known as propensity to save was linked with total income. In proportion as income increases, so does the share taken by profit (the income essentially destined to saving and investment) relatively increase. This phenomenon corresponds perfectly to the diminution of the multiplier in Harrod's account. The multiplier is, indeed, merely the ratio between investment and that part of the income the distribution of which is connected with it which is spent (and so, the whole of this income less what is saved). When the volume of the national income increases, as the share taken by profits increases more rapidly than that taken by wages, the amount of expenditure engendered by a given investment diminishes. Accordingly, the ratio $\Delta Y / I$ falls.

If Marx considered that this diminution of the multiplier (in *Capital* this is expressed in the form of an imbalance between incomes spent, the source of ultimate demand, and production supplied, the source of this distribution of income) did not block development from the very outset, this was because he had previously analyzed what has subsequently become known as the accelerator.

When examining the replacement of fixed capital, he had suggested

that an increase in ultimate demand might in some circumstances (those that are found together precisely at the end of a depression) engender a sudden investment which in turn, through the distribution of income it entailed, would create new possibilities for the investment of fixed capital. But Marx immediately denied that this phenomenon of replacement of fixed capital, analogous to the accelerator, owes its existence to the technical requirements of production: the need to build a machine that will last a long time, in order to respond to any increase, even a temporary one, in ultimate production. He ascribed this phenomenon to the most essential laws of the capitalist mode of production. An increase in demand, even a slight one, due to the opening up of a new market (internal, in the case of a demand connected with technical progress, or else external) at the end of the depression, causes a possible investment in fixed capital to seem a profitable prospect once again. All hoarded saving therefore suddenly moves into such investment. The new production engenders a distribution of income that makes this investment profitable indeed.

Marx thought that in a planned economy these constraints on technique would be reflected in fluctuations in the amount of reserve stocks, but that they would in no way determine the level of investment, which would be freed from its present dependence on immediate profitability.

Marx's analysis is in reality more complex in that, parallel with the analysis of the antinomy between multiplier and accelerator, it deals with the secondary problem of the cyclical fluctuations in wages, and is based on the theory of the tendency of the rate of profit to fall. During prosperity the amount of unemployment declines, real wages rise, and more intensive use is made of machinery. During depression an opposite movement takes place. These two mechanisms intensify the duration of both depression and prosperity. Dobb attaches an importance to this phenomenon, examined in volume I of *Capital,* which, in my opinion, is false to Marx's thinking.

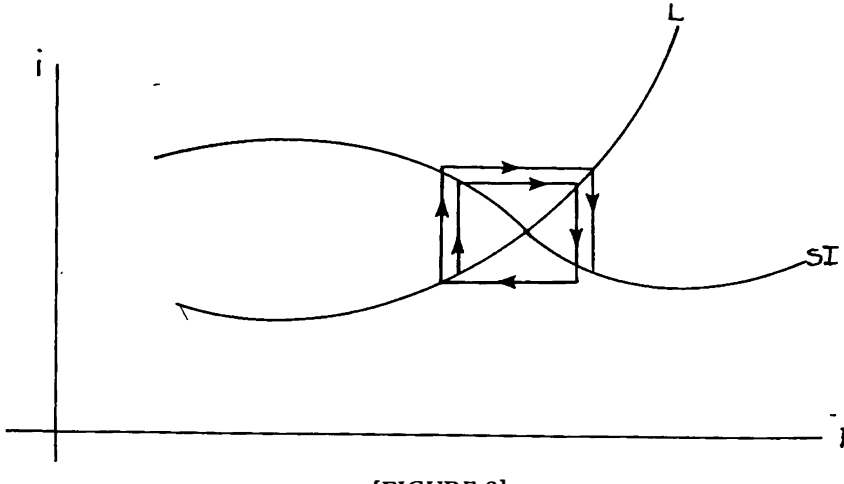
The tendency of the rate of profit to fall shows itself by way of the cycle. At the beginning of the period of prosperity the countertendencies are stronger than the general tendency. At the end of this period the countertendencies are exhausted: the increase in the rate of surplus value which conceals the effect of the increase in the organic composition of capital comes to a stop. The rate of profit falls. But although this law manifests itself through the cycle, it is not the cause of the cycle. The cause lies in the combined working of the accelerator and the multiplier, that is, in the combined effect of the evolution of

the capacity to consume, which does not increase as does the capacity to produce (owing to the increasing share taken by profit, and destined to saving) and of the immediate prospect of profitability which guides investment and which, thanks to the accelerator, delays the baneful effect of the diminution of the multiplier.

The Marxist formulations that come closest to this are those of Léon Sartre, Duret, and Paul Sweezy.

If Harrod arrives, in his study of the cycle, at a description that seems correct, this is because he breaks with the Keynesian analysis on an essential point. Harrod has linked propensity to invest directly to income, without going through the double intermediary of the marginal efficiency of capital and the rate of interest. He has thus taken as his starting point the antinomy between capacity to produce (linked with the saving derived from previous production) and capacity to consume (linked with the distribution of income that production engenders). He completely ignores interest, which he sensibly considers incapable of seriously affecting investment. He also ignores psychological phenomena, which he considers (again very sensibly) dependent, and not independent, variables.

Hicks—like Harrod a post-Keynesian, but much more attached to the traditional rate of interest—has sought to construct a bridge between Harrod's analysis based on the mechanism that links propensity to invest with total income, and the Keynesian analysis based on the antinomy between interest and the marginal efficiency of capital.



[FIGURE 8]

When he discusses the monetary aspect of the cycle, Hicks argues in Keynesian terms: a fall in the level of interest (if the marginal efficiency of capital remains stable) entails an increase in investment and thereby in income. But an increase in income increases the volume of money required for transactions. If the supply of money remains fixed, and if liquidity preference remains unchanged, the increase in the demand for money for transactions will in its turn bring about a rise in the level of interest. The development of these mechanisms, schematized by the two curves—liquidity (L) and saving-investment (SI)—is nothing other than the cycle.

Are we not here back in Hawtrey's utopia? An adequate injection of money, parallel to the increase in income, would make it possible, allowing for the stable level of liquidity preference, to satisfy the growing need for money for transactions without raising the rate of interest. Prosperity would be continuous, unless, of course, the efficiency of capital were to fall—something that would then have to be explained, as Harrod and Marx have explained it, by an imbalance between capacity to produce and capacity to consume.

Hicks clearly accepts the Keynesian hypothesis, namely that the point has been reached at which, whatever the amount of money injected, the rate of interest is already at such a low level that it cannot sink any further. No monetary measures can then avert the crisis. This analysis can be criticized for its inability to account for the cycle in the more general case, that of the nineteenth century, when the average rate of interest stood at a higher level than it does now. It can also be criticized for its static character: at best it might explain a permanent stagnation, but not the cycle. One could always go back to the marginal efficiency of capital: the cycle would then be seen as engendered by the independent movement of this variable, with the level of interest remaining at its lowest point throughout the whole process. Here, however, one would stumble over that very difficulty from which one had started out: what is the origin of the sinusoidal "psychological" movement?

The Theory of "Maturity"[2] and the Theory of the Surplus in Contemporary Monopoly Capitalism

For a century the cycle thus constituted the necessary form assumed by the development of capitalism. The cyclical imbalance between investment and saving was dictated by the very mechanism of growth, by the actual functioning of the accumulation of saving, which periodically

becomes too plentiful in relation to possibilities for investment. The very outcome of cyclical development *is* growth. There is no superimposition of one phenomenon on another different in kind—the cycle on the one hand and the tendency over a century on the other. Construction of a pure model of the cycle in which the end point would be exactly the same as the starting point is a fantasy. The starting point of the movement—the sudden investment in fixed capital—is impossible to grasp apart from technical progress.

In the absence of the opening of an external market, only the introduction of new techniques enables the market to expand. The conquest of an external outlet does not resolve the imbalance between supply and demand on the world scale. It does, partly, resolve it for the economy that opens this outlet for itself; but only partly, for sooner or later it will have to import. This is why this solution is similar to that offered by credit. It is a temporary means only, and does not constitute the essential way of expanding the market.

In order to explain world recovery, all that remains is to analyze the effects of new techniques. This form of expansion of the market is absolutely necessary. In a period of depression the general stagnation furnishes a strong motive for technical improvements. The enterprise which succeeds in improving its technique recovers its lost profitability. The new method comes into general use and, since progress is usually expressed in more intense employment of machinery, a new demand appears inside the system. Production starts up again, thanks to the sudden investment called for by the construction of new machines. The subsequent development then takes cyclical form, but at the end of this movement the national income stands at a higher level. Something new has happened: a new technique has become general. Consequently, the volume of production has increased. The capitalist market is constantly expanding by this very means. *The cycle is thus inevitably a feature that runs all the way through an upward trend.* A stationary capitalism is pure fantasy. The long-term tendency, for its part, has no reality independent of the cycle: it is merely a useful abstraction derived by means of statistics and theoretical analysis.

Independent, however, of the mechanism of cyclical imbalance between saving and investment, there are real causes that tend to make these two overall quantities more or less easily "adjustable" in the long run. In this sense, the tendency over a century retains a reality of its own. But this reality manifests itself only through the cycle. If the imbalance between saving and investment becomes chronic, this is reflected, during the cycle, in a longer period of depression and a shorter

period of prosperity. If, on the contrary, equilibrium becomes easier to achieve, for the real reasons mentioned, this is reflected, during the cycle, in a shorter period of depression and a longer one of prosperity.

What are these real reasons that cause equilibrium between saving and investment to be either easier or less easy?

Much was said in the years following the Great Crisis about "chronic stagnation," about the "maturity" of capitalism, and about "overdevelopment." Keynes discovered at that time the possibility of chronic underemployment. In fact, the analysis of maturity made from a Keynesian standpoint is ultimately monetary in character. I have already criticized the quantitativism that is the foundation of Keynes's thinking. It is therefore impossible to accept the thesis of the blocking of growth for purely monetary reasons. Even if one were to accept the thesis according to which, when the rate of interest has fallen to a certain level, no additional injection of money can cause this rate to fall any further, it would still be necessary to discover why the marginal efficiency of capital can be reduced to such a remarkable extent as to be comparable to the lowest rates of interest. If we say, with Keynes, that the low level of this marginal efficiency is due to the fact that past investments weigh heavily on expectations of profitability, which become chronically pessimistic, is this not an evasion of the difficulty?

This being so, must it be acknowledged that, since Ricardo and Marx, study of the development of capitalism has been given up for good? Ricardo thought he could prophesy a "stationary era" on the basis of diminishing returns operating on a historical scale.

Any conception of a stationary state is entirely alien to Marxism. The law of the tendency of the rate of profit to fall merely signifies that the contradiction between the capacity to produce and the capacity to consume must necessarily get worse and worse.

The ultimate reason for any overall imbalance remains the contradiction between the division of income between wages and profit, on the one hand (and thereby the division of income between consumption and saving), and, on the other, the division of production between equipment goods and consumer goods. A certain volume of ultimate production necessitates a certain volume of intermediate production. This latter quantity is merely a way of looking at the volume of investment required to produce the desired volume of ultimate goods. Harrod, by abandoning monetary analyses of the rate of interest and psychological analyses of the marginal efficiency of capital, in order to concentrate directly on the capital-output ratio, on the one hand—the ratio that measures the capital-intensity of production, that is, the ratio

between the production of equipment goods and that of ultimate goods—and, on the other, on the division of total income between consumption and saving, comes remarkably close to Marx's analyses.

The relative strength of the century-long tendency to imbalance between total supply and total demand exerts a profound influence on the cycle. Superimposing the "pure" theory of the cycle (analysis of the multiplier and the accelerator) on the theory of the century-long tendency to imbalance between saving and investment reveals these effects clearly. Harrod's equation expressing the equivalence of actual saving, proportionate to income, and desired saving, proportionate to the growth of income, namely:

$$c(R_t - R_{t-1}) = sR_t$$

in which R_t represents income in time and R_{t-1} represents income in time $t-1$—the first member the desired saving, the second the actual saving, s the propensity to save, and c a coefficient measuring the effects of the multiplier-accelerator tandem—can be expressed in the differential form:

$$c\frac{dR}{dt} = sR$$

Its integration gives:

$$R = R_o e^{\frac{s}{c}t}$$

This shows that income increases in geometric progression.

Insofar as the cyclical tendency to imbalance between the two quantities, actual saving and desired saving (investment), is aggravated by a tendency to imbalance over the century, the ratio of this geometrical progression is lower.

It appears that this is what actually happened. In the nineteenth century, the youth of capitalism, the huge possibilities offered by the break-up of the precapitalist economies were reflected in a tendency favorable to adjustment between saving and investment. Depressions were then less deep-going and less prolonged than the one that occurred in the 1930s.

But then, just at the very moment when the theory of "maturity" was forecasting the "end of capitalism" and "permanent stagnation"; at the very moment when a simplified version of Marxism was adopting, under the title the "general crisis of capitalism" (an apocalyptic vision alien to Marxism), the rate of growth of Western capitalism became faster and growth lost its cyclical character.

Marxist analysis brought up-to-date provides the only explanation of

this development. We have already seen how Baran and Sweezy analyzed in new terms the "law of the increase of the surplus" and the forms of absorption of this surplus. At the same time, their theory of monopoly capitalism explains the disappearance of the cycle. The latter is due only to capitalism's inability to plan investment. Monopoly capitalism can do this, in a certain sense and within certain limits, given the active help of the state. As soon as capitalism escapes from the uncontrolled effects of acceleration, the cycle is no more, and all that remains is a conjuncture that is followed and observed, with the action taken by the state and the monopolies (the former in the service of the latter) to mitigate its fluctuations.

It may be asked why the cycle in its classical form should disappear, to give place to conjunctural oscillations that are close together, irregular, and of smaller amplitude, only after the Second World War, whereas the monopolies came into being at the end of the last century. It may also be asked why the crisis of the 1930s was the most violent in the history of capitalism, if the capitalism of the monopolies—which had already been formed—is capable of planning investment better than competitive capitalism.

The answer, I believe, must be sought in the way the international system functions. Monopolies are indeed able to plan investment up to a certain point: on condition, as we have seen, that the monetary system lends itself to this, which presumes that gold convertibility has been abandoned[3] and that the monetary authorities, together with the entire economic policy of the state, work in this direction. The "concerted economy"—planning, Western-style—means nothing more than awareness of this new possibility. Now, not only has this awareness, like all awareness, lagged behind reality, but also, and above all, the framework within which it can be translated into action is *national.* The international system has remained, long after the formation of the monopolies, regulated by automatic mechanisms. On the international plane, therefore, no "concertation" is possible. The attempt made by Great Britain (and France), after the war of 1914–1918, to re-establish the gold standard in external relations, although it had been finally abandoned internally, reflected this hiatus between the internal and the international orders. By making practically impossible any concerted internal policy, the international automatisms were, in my view, largely responsible for the exceptional gravity of the crisis of the 1930s. The monopolies, which make possible a conjunctural economic policy on the national plane, also cause the cycle to be aggravated if this policy is not followed. Keynes understood this. The maintenance of external

controls after the Second World War was to make national economic policies effective for the first time; and it was at that time that there began, for example, France's "concerted planning."[4] The subsequent prosperity, with the Common Market and the liberalizing of external relations which has accompanied this prosperity, bring a serious threat to the effectiveness of these policies.

This is why the question of an international order is again on the agenda. The "order" that was established after the war, symbolized by the International Monetary Fund, is not order at all, for it remains based on confidence in automatic mechanisms. This confidence plays into the hands of the most powerful country, the United States. This is why, as I see it, a world economic policy is almost impossible. This flaw in the system expresses a new contradiction that has matured between the demands of the economic order, which can no longer be secured by national economic policy alone (because capitalism now has an essential *world* dimension) and the still national character of institutions and structures. If this contradiction is not overcome it is impossible to rule out the possibility of extremely grave "conjunctural accidents."

THE CONJUNCTURE OF THE SYSTEM IN THE PERIPHERY

Current economic theory is without the concept of social formation: it identifies the underdeveloped countries with the developed countries as they were at an earlier stage. To start with, then, current theory simply proceeds to apply to these young capitalist countries (in course of development) the schemas worked out for the capitalist mode of production, which are regarded as capable of explaining everything.

What results follow from the application of general considerations about the conjuncture and the century-long tendency to the underdeveloped economies? If the underdeveloped countries are regarded as countries where the capitalist economy is "young," where saving is always inadequate in comparison with possibilities, the conclusion should be that crises ought to be less serious in these countries than in the developed countries. The idea that the developed countries are marked by a chronic excess of saving, balanced by export of capital, whereas the underdeveloped ones are marked by a chronic inadequacy of saving, which makes possible continuous importing of capital, is a

commonplace frequently encountered, though it is, strictly speaking, meaningless.

In identifying the underdeveloped countries with young capitalist economies similar to the European economies of the nineteenth century, one ought logically to conclude that the national income should grow at increasing rates in these countries, and that, consequently, consumption, as Harrod and Sweezy have shown, should progress at a pace that would ensure an increasing rate of investment.

In actual fact, fluctuations do seem to have been less pronounced in the underdeveloped countries *as a whole* than in the developed ones, at least in the twentieth century (meaning here fluctuations in total real income, not income in money terms). This does not exclude the possibility that they may have been more pronounced in *some* underdeveloped countries, as we shall see. But the growth of these countries' real income has not been fast but, on the contrary, slower than in the developed countries as a whole. Further, while the magnitude of conjunctural fluctuations is comparable in the different developed countries, there is a very wide scatter in the case of the underdeveloped ones. These fluctuations are the more violent the more closely the given country is integrated into the international market. In a well-integrated case they may be no less violent than in the most highly developed countries. This totally contradicts the theory which claims to apply mechanically to the underdeveloped countries a schema based on study of the capitalist economies.

The General Theory of the Cycle and of the Conjuncture Applied to the Underdeveloped Countries

The general theory of the cycle and of the conjuncture that has been outlined leads to the conclusion that fluctuations are more violent in proportion to the more pronounced character of the century-long tendency for saving to exceed investment. In the young capitalist economies in course of development, the oscillations of the cycle were therefore not very marked, but in economically mature countries they become increasingly so. The facts do seem to confirm the validity of this assumption.

When, however, we consider matters in the underdeveloped countries, it seems at first that the observations we are able to make refute the theoretical thesis worked out on the basis of the European model. What we find are cyclical oscillations that tend to become *bigger* than

in the developed countries. Already in the nineteenth century the most advanced colonies—those that were best integrated into the international market—seemed to suffer worse during the depression periods than the European countries. In the 1930s, some countries of Asia, Africa, and Latin American again experienced difficulties at least as serious as those that shook the capitalist countries. Yet the degree of disturbance suffered in their cases cannot be attributed, as in those of the advanced economies, to "overdevelopment."

Nevertheless, an attempt has been made to account for the gravity of the fluctuations in the underdeveloped economies on the basis of theoretical generalities that are alleged to be universally valid.[5] Keynes noted that when propensity to consume is high, the multiplier mechanism is such that slight variations in investment give rise to very marked fluctuations in income and employment. In the underdeveloped economies, in which saving is relatively slight, the sinusoidal curve ought therefore to show greater width than in the developed economies, which enjoy greater stability (although the average level of employment may be lower).

This thesis, which is very popular in post-Keynesian writing because it seems to explain a fact, lies open to criticism. The Keynesian mechanism of the multiplier is not universally applicable. It is valid only in the mature economies, where saving is chronically greater than investment, and where, consequently, forced hoarding (which cannot be sterilized by an adequate monetary policy) results in a certain stagnation relative to possibilites of development. In this case, and in this alone, calculation of the value of the multiplier has meaning. It enables us to compare the overdeveloped countries one with another. Those that have attained a relatively more advanced degree of maturity (and where, therefore, propensity to consume is weakest) enjoy greater stability (because the value of the multiplier is lower) at a lower average level of activity: stagnation is quasi-chronic in these countries. But when the volume of saving does *not* tend to be chronically greater than that of investment, the Keynesian analysis ceases to be valid. In these conditions it is pointless to calculate the value of the multiplier because, whatever the level of saving, over the average duration of a cycle, investment is equal to it. The law of markets recovers its validity, over this average duration: here it is supply that limits demand, and not the other way round. The level of average propensity to consume is therefore incapable of accounting for the comparative degree of stability of these economies.

Closer attention to the facts leads one to reject this mechanistic

application of the Keynesian schema to the underdeveloped countries. Actually, in nineteenth-century Europe propensity to consume was greater than it is today, and yet depression was less pronounced than it was to be in the 1930s. The fact is that the seriousness of the fluctuations depends not on the value of saving (in other words, the "size" of propensity to consume) but on its size in relation to profitable investment, which itself depends on the level of profits.

Subsequent rejection of the application of the same schema to developed and underdeveloped countries alike has led economic theory to take a different attitude. It is said that an independent cycle does not exist in the underdeveloped economies. These "dualistic" economies are said to be marked by juxtaposition of two sectors that differ in their economic nature. The native sector makes little use of money. It consists of a "wants" economy which is quite free from capitalist development through the investment of previously accumulated saving. The capitalist sector consists of a series of enterprises, usually foreign-owned, which are not integrated with one another, each of them being directly linked with the dominant capitalist economy. In this profit economy of a very special type, fluctuations are not engendered by mechanisms of the internal dynamic of development, but are transmitted by the fluctuations of external demand. The rate of development of the capitalist enterprises in these countries is itself dictated by the pace of the cycle in the dominant countries, to a much greater extent than by the internal requirements of accumulation in the economy in which the foreign firm is located.

In fact, the so-called dualism of the underdeveloped countries does not consist of simple juxtaposition of two sectors that turn their backs on each other: it is not a matter of a geographical extension of a capitalist country which possesses a few enterprises on foreign soil. In most cases an original local economy exists: an agriculture producing for export derives its income from external demand. In turn, this income impinges on the market for imports and on the local market. Through this channel an internal movement may occur. The cycle of external demand should thus engender in the underdeveloped economy a cycle of its own, even though this will be transmitted rather than autonomous.

The Theories of Transmitted Conjuncture

Haberler and the monetary transmission of the cycle through the balance of payments. Haberler argues in favor of three propositions, basing the distinctions he makes on the monetary systems of the partners brought into relationship.[6]

First of all, in the case in which two countries which are brought into contact with each other are subject to the gold-standard system, the transmission of fluctuations from one country to the other is perfectly symmetrical. This transmission reduces the intensity of the fluctuations in the originating countries by spreading wider the area over which the cycle exerts its effects. In a period of prosperity in country A, its imports develop more rapidly than its exports. This country has to face a drain of gold that reduces inflationary tendencies within it, while reinforcing them in country B.

Second, if country B has adopted the foreign-exchange standard, the cycle will not be propagated from the dominated country to the dominant one, but in the opposite direction this effect is reinforced. In a period of prosperity in the country that is dominated monetarily, this country pays for the deficit in its balance of payments in the currency of country A. The volume of credit exerts no stimulating influence in the dominant country because no transfer of gold, the ultimate form of money, has taken place. On the other hand, the natural development of prosperity in the dominant economy is not checked by a drain of gold, whereas the influx of foreign currency into the dominated country is reflected in a real increase in advances of credit.

Third, when each of the two countries has an independent managed currency, cyclical fluctuations are no longer transmitted at all. A boom in one of the two economies in contact entails a disturbance in the balance of payments which, since it cannot be adjusted by an export of gold or foreign currency, has to be adjusted by an alteration in the rate of exchange. This adjustment reduces excessive imports to the level of possible exports.

This is certainly a narrowly monetarist analysis.

In the nineteenth century, colonies and metropolitan countries used the same metallic currency. Yet the direction in which the cyclical movement was transmitted seems always to have been from metropolis to colony. On the other hand, the intensity of the fluctuations was not always greater in the originating country than in the dominated one. However, the adoption, during the twentieth century, of the foreign-exchange standard by the majority of the underdeveloped countries

would certainly explain, from Haberler's point of view, the recent worsening of economic oscillations in the dominated country.

In fact, the *rapporteur* of the League of Nations used a mechanistic quantity-theory method without any scientific value. In his analysis, fluctuations in the volume of credit are mechanically linked with the volume of ultimate reserves of the monetary system, in gold or foreign exchange. Everything happens as though the ratio of money in circulation to reserves in ultimate money were rigid. In reality this is not so, for the ratio itself undergoes cyclical oscillation.

The post-Keynesians and the foreign-trade multiplier. Although this mechanistic outlook has generally been abandoned, the tendency to see in the economic cycle of the underdeveloped countries an original phenomenon, intrinsically cyclical although having its source outside the given country, an external phenomenon transmitted by the balance of payments, is still a tenacious one.[7] Haberler's thesis is now expressed not indirectly, through monetary quantitativism, but directly. It is said that the fluctuations are trasmitted *not* through the channel of the flow of gold and foreign exchange that they engender, but directly, through the channel of commodity movements. The cyclical oscillations in the dominant countries are reflected, in fact, in a real movement of exports and imports. Prosperity in some, by resulting in imports that are greater than exports, directly fosters the development in others of the inflationary tendencies characteristic of economic euphoria. The deficit in the balance is settled by way of foreign credits alone. No movement of gold or foreign exchange is necessary. No alteration in the rate of exchange takes place. Under these conditions, the quantity-theory mechanism does not function.

This new way of looking at the matter has enjoyed a great vogue, thanks to the elaborated form given to it by the theory of the foreign-trade multiplier. C. Clark's study of the Australian cycle is typical. The theory of the foreign-trade multiplier declares that a favorable trade balance (a surplus of exports) plays the same role as an investment: it sets going a process of induced growth. Thus, the deficit in the balance of the developed countries during a period of prosperity—that is, the surplus in the balance of the underdeveloped countries—is said to induce in these latter countries phenomena of "secondary" growth. Conversely, in a period of depression, the unfavorable trade balance of the underdeveloped countries brings about depression. There is indeed a cycle of the underdeveloped countries—a transmitted one, in the sense that its source is the cycle in other countries, but a true cycle never-

theless, with the trade balance playing exactly the same role as is played by investment elsewhere.

However, the theory of the foreign-trade multiplier is not valid for the underdeveloped countries—for the same reasons that cause the Keynesian theory of the multiplier, from which it is derived, to be false in the context of underdevelopment. A favorable trade balance has beneficial effects only if saving tends to be superabundant, in a context of overdevelopment. The surplus of exports then engenders a secondary demand, which creates its own supply. Apart from this, the theory lacks validity, and neither a favorable nor an unfavorable trade balance entails secondary effects.

Moreover, the state of the conjuncture has no absolutely definite effect on the trade balance. Prosperity brings about a parallel growth of exports and imports. Its effect on the balance varies: sometimes it causes improvement, at other times deterioration. While it is true that the balance of payments (not that of goods) tends to be favorable for the developed countries in a depression period, this is due to the cessation of the export of capital far more than to improvement in the trade balance. Similarly, for the underdeveloped countries, it is this cessation of the flow of capital, not the worsening of the trade balance, that causes the balance of external payments to show a deficit. It is for this reason that the alteration in the twentieth century, between a deficit balance and a surplus balance, depending on the state of the conjuncture, did not exist in the nineteenth century—that is, before the movement of capital had assumed the dimensions to which it later grew. Even at that time, however, it was never observed that a period of prosperity in Europe produced, through the appearance of a favorable balance for Europe (a "perverse" effect, but a frequent one), a depression elsewhere—or vice versa.

The nonexistence of a distinct cycle in the underdeveloped countries. The most general criticism to be made of all the theories of the transmitted cycle is that they have overlooked the fundamentally different character of the structures that are typical of the developed and the underdeveloped countries. When this essential reality is taken account of, a schema emerges that is profoundly different from those of Haberler and Clark.

The economic oscillations experienced by the underdeveloped countries are then seen to bear very little resemblance to a true cycle. When the conjuncture in the developed countries is favorable, the level of exports from the underdeveloped countries goes up. The incomes that

benefit first and foremost in these countries consist mainly of ground-rent. Most of the profits of capitalist enterprises, which we will assume to be foreign-owned, are exported, and wages remain fairly stable. The elasticity of the rents drawn by the landowners, however, enables *this* income to absorb the supplement engendered by the increased price and volume of exports of agricultural produce. The small peasants also benefit to some extent from this prosperity (though less than the landowners, because they have to deal through intermediaries, merchants who absorb part of the extra income). This prosperity of ground-rents is reflected in a marked increase in imports of luxury goods, and a noticeable increase in imports of cheap manufactured goods that the small peasants buy.

Conversely, if the conjuncture is unfavorable in the developed countries, primary products are sold in smaller quantities and at lower prices. The whole economy of the underdeveloped countries suffers from this, but wages, being relatively rigid, are less affected than rents. As for profits, the volume of which also diminishes, they are still, by definition, exported, and therefore do not affect the situation in the underdeveloped countries. If, however, exports have declined, and with them ground-rents, then imports of luxury goods and goods for consumption by the peasantry will soon suffer the same fate.

The cycle therefore does not seem in the least to have been transmitted by way of the balance of payments. The latter continues to be kept even, in periods of prosperity and depression alike, since exports, rents, and imports all vary together in the same direction. Haberler's analysis, which might have some validity in relations among countries with a central capitalist structure (without prejudice to fundamental criticism of this theory on the grounds of its dependence on the formalism of quantitativist monetary relations), has none in the case of relations between countries with such profoundly different structures as those of the center and the periphery.

Can we at least say that the cycle is transmitted directly through the channel of fluctuations in the volume of exchanges? We cannot. The special role of the analysis of the foreign-trade multiplier is to show that the "primary" fluctuations of the volume of external exchanges (fluctuations due to the state of the conjuncture abroad, constituting an independent factor about which nothing can be done) give rise to "secondary" internal fluctuations. This theory serves to analyze the effects of the cycle of external exchanges on the internal mechanism of accumulation. Here, however, we have nothing of that kind. It is in this sense that there is no true cycle in the underdeveloped economies.

The fact that rent constitutes the elastic income in the underdeveloped economies means, quite simply, that the multiplier does not function there. The increased purchasing-power available in the underdeveloped country as a result of the increase in the value of exports is not mainly spent and partly saved—it is spent *in its entirety.* The increased demand does not give rise to induced investments. The accelerator is transferred abroad, as I have shown; the investments take place abroad and not in the underdeveloped economy. There is thus no true cycle, not even a "transmitted" one, but only a sinusoidal oscillation of total income.

Economic writing has emphasized heavily (and in my opinion wrongly) the negative effects of this "conjunctural instability" of the underdeveloped economies. This thesis of the negative effects of instability is based on the following three arguments:

1. In itself, the cyclical dependence of total local income on the conjuncture abroad means that, with every depression in the dominant economy, the capacity of the underdeveloped countries to save goes down, without this being necessitated by any internal mechanism of the economy.[8]

The instability of the export markets of the underdeveloped countries, it is said, has very harmful effects on local saving. The variations in the volume of exports from these countries are not compensated by the inverse variations in their prices. While foodstuffs like tea, coffee, cocoa, sugar, etc.—consumption of which is relatively stable in the developed countries—enjoy relatively rigid prices, this is not so in the case of industrial raw materials—minerals, textile fibres, rubber, etc.—variations in the prices of which tend rather to aggravate the fluctuations in the volume of exports. Depression in the developed world is therefore reflected in a serious loss for the underdeveloped economies.

This problem has been studied in detail by a commission of the United Nations. The published summary of their conclusions shows that fluctuations in the annual unit values of prices for primary products exported have varied from 5 to 21 percent, depending on the products. The magnitude of these fluctuations has grown in successive stages during three periods of peace: 11 percent per year in 1901–13, 13–15 percent in 1920–39, and 18 percent in 1946–50. Cyclical fluctuations of prices have averaged 27 percent. Annual fluctuations in the volume of exports averaged 19 percent. Since 1945 they have been 24 percent. Cyclical fluctuations in the volume of exports have been, on average, of the same magnitude as those of prices. Finally, fluctuations in receipts from exports (cumulative effects of fluctuations in prices

and in volume) have amounted to 22 percent, both annually and cyclically. This magnitude gets bigger as time goes by: 19 percent in 1901–13, 21 percent in 1920–39, and 30 percent in 1946–50. The variations in real values (obtained by dividing these variations in nominal values by the index of prices in British manufactured exports) show that the variations in real value (13.5 percent for the period 1901–50) have been the same as the variations in nominal values (13.7 percent).

2. These flucutations in the value of exports are not compensated by equal and inverse fluctuations in the movement of capital. On the contrary, these oscillations reinforce the first-mentioned ones. It is during periods of depression that the least foreign capital flows in. While, therefore, the fluctuations in the total value of exports are compensated by equal fluctuations in imports (connected with the movement of ground rent), the oscillations in the movement of capital, which reinforce the terms of the trade balance, periodically upset the balance of external payments, in one direction or the other. True, the outward movement of the exported profits of foreign capital reduces this disturbance. In fact, it is in a period of prosperity, when foreign capital is flowing in, that the volume of profits exported is also greatest. However, the magnitude of the fluctuation in capital movements often proves greater than that in the movement of profits. Normally, moreover, fluctuations in imports are less great than those in exports, because the "flywheel" of hoarding mitigates the intensity of oscillations in consumption by the rich, just as that of reserve saving does in relation to consumption by the peasantry.

Does this cyclical disequilibrium in the external balance of the underdeveloped countries, first one way and then another, bring us back to Haberler's thesis? Not at all, since this movement of the external balance is not here the cause of the transmission of the cycle, but, on the contrary, a *consequence* of it.

Nevertheless, it is said, this imbalance—induced, not inducing—favors, under the conditions of the underdeveloped countries, a permanent tendency for prices to rise. This increase in prices has, under these conditions, a harmful effect on the formation of local saving. During periods of prosperity, the surplus in the external balance, paid for by foreigners with their own currency, facilitates excessive issue of credit. This credit, being unable to affect production, the volume of which is determined more by the inflow of foreign capital destined for long-term real investment than by that of short-term capital, will go to feed speculative circuits that will bring about artificial price increases. The

banks, to be sure, cannot feed speculation unless this continues to be profitable to those who engage in it. This is why all the foreign short-term capital that enters the country via the surplus in the balance of payments is not poured back into the economic circuit. A considerable part of it is "sterilized." This sterilization is expressed in an increase of the ratio of ultimate monetary reserves to credits allowed. During depression periods, however, the external deficit presses heavily on the rate of exchange. Clearly, when the underdeveloped country is completely integrated as regards money, there is no alteration in a rate of exchange that does not in fact exist. The balance of payments can go on being negative for an indefinite time without any mechanism operating to affect the price level. When, however, the underdeveloped country possesses an independent currency, devaluation eventually has to be introduced. This devaluation will generally bring about a general increase in prices, not only because imported goods cost the economy more but also because foreign currency constitutes the backing for local currency. But this devaluation does not, in general, restore external equilibrium, because the price elasticities of the exports and imports of the underdeveloped countries are such that "perverse" effects are more to be feared from devaluation than "normal" corrective effects are to be hoped for.

3. The consequences that the transmission of fluctuations has for accumulation in the underdeveloped countries are all the more serious because no anti-cyclical policy can be pursued in these conditions.[9] The heart of an anti-cyclical policy (leaving aside here the question of the effectiveness of such a policy) is the exertion of influence on investment, the "dynamic" factor par excellence. In the underdeveloped countries, it is said, the dynamic factor is external trade. Now, exports cannot be regulated, because they depend not on the situation in the underdeveloped countries but on that in the developed ones. Further, it is not possible to make up for the oscillations in exports by a policy of major public works—first, because the depression does not release many productive forces in the underdeveloped countries, and it is not easy to transfer agricultural labor, engaged in producing primary products for export, to industrial tasks, and second, because such works necessitate large-scale imports of equipment, and the balance of payments would therefore be subject to too serious a deficit. These two reasons, it is said, render any anti-cyclical policy difficult and even ineffective under conditions of underdevelopment. Prebisch attributes the frustration of such a policy to the fact that large-scale public works, by distributing

income, would (owing to the high propensity to import) cause too serious a deficit in the external balance, since exports would remain held down at a very low level.

In reality, if the transfer of labor power from export agriculture to the public works sector were possible, no difficulty need be feared from that quarter. It would not be ground-rent, the connection between which and luxury imports is obvious (and which is reflected in the high propensity to import), that would annex the increased income. Wages and profits would gain from it, in the first place. It is true that an increased need to import equipment would then be felt. But part of the labor released from export agriculture could be devoted to producing this equipment locally. The country would then be launched, on the pretext of combating the cycle, on a real policy of conscious and planned independent development.

In the case where, to some extent, recourse was had to the external market, the cycle could then be transmitted in the opposite direction, from the underdeveloped country in course of development to the dominant country. The new activity in the underdeveloped country would be reflected in an increased demand for equipment produced in the developed countries, and prosperity would thus be spread to these countries. However, development taking place within the framework of international integration cannot lead to reversing the direction of the transmission of fluctuations. The point is that, so long as this framework is retained, industrialization of the underdeveloped countries remains bound up with the export of capital from the developed countries. It therefore takes place only during periods of prosperity in the latter. The underdeveloped countries import equipment only during those periods—at the very time when these countries can find markets for their exports. Demand for equipment cannot constitute a cause of transmission of prosperity from the underdeveloped countries to the developed ones.

THE CONJUNCTURE AS A WORLD PHENOMENON: THE ROLES OF THE CENTER AND THE PERIPHERY

Although a mechanistic application of the theory of the cycle and of the conjuncture to the underdeveloped countries turns out to be unhelpful, because the conjuncture is not, in these countries, an inde-

pendent phenomenon, it nevertheless remains true that the view according to which the conjuncture appears a transmitted phenomenon, in which the underdeveloped countries play a purely passive role, is superficial. In reality, the conjuncture is not a phenomenon distinctive of the developed countries taken separately, and transmitted by them to the underdeveloped ones, but a phenomenon that is bound up with the actual functioning of capitalism on the world scale. The underdeveloped countries form an integral part of this world capitalist market. There is therefore only one true cycle, the world cycle in which the underdeveloped countries play an active role but one that is different from that played by the capitalist economies of the developed center.

A Short History of the World Conjuncture

Analysis of the respective roles played by center and periphery in the unfolding of the cycle, or, more generally, of the oscillations of the conjuncture, has to begin with observation of how external trade and the other elements in the balance of payments react to fluctuations in the level of activity. Although facts concerning this aspect of the underdeveloped economies are difficult to amass and to interpret, I have tried to trace the history of the international conjuncture, with special emphasis on relations between the center and the periphery in the course of this history.[10]

As regards the cyclical behavior of external trade, this seems to have been different during the nineteenth century from what it was during the crisis of the 1930s and during the "minor" fluctuations since the Second World War.

During the crisis of the 1930s, fluctuations in the trade of the periphery were more extensive than those in the center. The same applies to the post-1945 period. The "minor recessions" of 1949–50, 1954, 1958, and 1961 were more pronounced in the trade of the underdeveloped countries than in that of the developed centers.[11] For the world as a whole, the value of exports of manufactured goods fell from $12.4 billion in 1921–29 to $5.13 billion in 1931–35, a fall of 58 percent. In constant prices of 1913 the fall was less: from 7.688 to 5.591, which means that the volume of these exports fell by 27 percent. As for imports of these products, they were likewise reduced in value by 58 percent and in quantity by 26 percent. Total exports of primary products, however, fell in value by 58 percent (from $19.12

billion to $7.93 billion) and in volume by only 5 percent (from 13.447 to 12.767, in 1913 prices).

If we identify the developed countries with the exporters of manufactures and the underdeveloped countries with the exporters of primary products, we observe a substantial worsening in the terms of trade for the latter during the period of depression, with a fall in their import capacity, while the trade balance of the developed countries is comparatively stable, because most of their trade is done with other industrial countries, and consequently the total volume and value of their imports and exports vary in the same direction and in similar proportions. If, therefore, the terms of trade improve for the developed countries, this can occur only because exchanges take place between these countries and the underdeveloped ones, not because of relations among the developed countries themselves. Similarly, if the trade balance of these countries tends to improve, this is due to a worsening of the trade balance of the underdeveloped countries, resulting from a fall in their exports greater than the fall in their imports, and not to exchanges among developed countries.

The fact that the decline in the exports of the underdeveloped countries is greater than the decline in their imports is easily explained, through the effect of dishoarding in periods of difficult conjuncture. It remains secondary, however, in relation to the general movement, which is marked by a parallel fall in exports and imports, in not very different proportions.

Thus, when prosperity gives way to depression (the converse happens when depression gives way to prosperity), the trade balance of the developed countries, taken as a whole, improves, and that of the underdeveloped countries worsens. Further, the magnitude of the variation in the trade balance of the underdeveloped countries is usually greater than in the developed ones.

The experience of the nineteenth century shows rather different results, at least as regards the comparative experiences of the United States, Great Britain, France, and Egypt in connection with the four cycles covering the period 1880–1914 (recessions of 1886, 1894, 1901, and 1908).[12]

For Great Britain, during these cycles the decline in the value of exports was 15 percent, 17 percent, 2 percent and 12 percent, respectively, giving an average of 11 percent. The decline in the value of imports was 18 percent, 5 percent, 0 and 8 percent, thus appearing smaller (an average of 8 percent). Only twice did the volume of exports decline (once by 6 percent and once by 8 percent), and on the other

two occasions it increased. Similarly, on only two occasions did the volume of imports decline (once by 4 percent and once by 3 percent). As for the terms of trade, not only did they improve continuously throughout the period, they seem to have improved in each depression. It is impossible to say, however, whether this improvement resulted from the general trend or from the conjuncture.

The experience of France leads to similar conclusions. Total value of exports declined successively by 11 percent, 19 percent, 2 percent and 9 percent (average, 10 percent), while that of imports declined by 17 percent, 14.6 percent, and 9 percent, in other words, in very much the same way, though slightly less (average, 9 percent). On three occasions the volume of exports fell: once by 3 percent, the second time by 13 percent, the third time by 3 percent (average, 5 percent). The volume of imports fell only once, by 8 percent. Here, too, the terms of trade improve in every crisis. The result is all the more convincing because over the whole period the terms of trade very slightly worsened.

The experience of the United States in 1907–08 was no different. The value of exports declined slightly (1 percent), that of imports to a greater extent (16 percent). The volume of exports rose, that of imports fell by 5 percent, and the terms of trade improved.

One would thus be tempted to draw the following conclusions: (1) the fluctuations in the value of foreign trade were fairly slight, and not to be compared to those of the period 1929–1932; (2) the slightness of these fluctuations was due both to the relative stability of prices and to the slightness of the fluctuations in the quantities exchanged. Very often, indeed, the volume of exports increased during the depression, which suggests that the crisis was to some extent overcome by conquest of new outlets abroad.

If we now consider the progress of the cycle in the underdeveloped countries—for example, Egypt between 1880 and 1914—we see that the phenomena to be observed here are typical: the fluctuations in the price of exports, while less violent than in the twentieth century, are nevertheless much greater than those affecting the exports of the industrial countries: 33 percent, 10 percent, and 20 percent (an average of 20 percent), as against, respectively, 13 percent, 12.5 percent, and 4 percent (an average of 9 percent), for the price of British exports. As for the total value of exports, it falls only once (by 30 percent) and increases three times (by 6 percent, 1 percent, and 1 percent). This is due to the obvious upward trend in the quantities exported. Despite the crisis and the worsening of the terms of trade, the upward trend in the volume of exports is so strong that the volume of imports increases too.

From these comparative experiences one would be tempted to conclude that the pattern is quite different from that of the twentieth century. Here we have the impression that each crisis at the center is overcome, in part, by the conquest of fresh outlets abroad, in the colonies. The parallel decline in the imports of the developed countries gives us reason to think that the outlets are not to be found in *those* countries. On the other hand, the increase in the imports of the underdeveloped countries during crises shows that the precapitalist markets are broken into all the faster during a depression period. As the expansion of exports follows that of imports, we rediscover the upward trend of the external trade of the underdeveloped countries, which proceeds faster than that of the developed countries.

Data for the earlier part of the century, between 1830 and 1880, are harder to come by, and are practically nonexistent for the underdeveloped countries.[13]

For Great Britain, during the crises of 1857, 1866, and 1875, the total value of exports declined successively by 5 percent, 5 percent, and 9 percent, that of imports by 12 percent, 6 percent, and 0. These figures, lower than those of the period 1880–1914, are accounted for by the competition that began to manifest itself after 1880 (France, Germany, the United States), depriving Britain of her privileged position on the world market. However, the fact that, from that period onward, trade with, and especially exports to, the colonies suffered less from crises than did trade with foreign countries shows the role played by the colonies in the mechanism of recovery. Imports from foreign countries fell by 11 percent, those from the colonies by 16 percent; exports to foreign countries fell by 8 percent, those to the colonies increased by 6 percent.

In the case of France, examination of the crises of 1825, 1836, 1847, 1857, 1866, and 1875 gives revealing results. The value of exports fell successively by 11 percent, 16 percent, 19 percent, 16 percent, 12 percent, and 18 percent (average 15 percent) between 1828 and 1830, 1836 and 1837, 1846 and 1848, 1860 and 1861, 1866 and 1868, and 1875 and 1878. The cycle of the balance seems therefore to have been more serious for France at this period than at the end of the century. It will be recalled that at this period France had no colonies. Perhaps this provides additional proof of the role played by the underdeveloped countries in the mechanism of recovery in the economies dominating them.

While the movement of the trade balance seems to have altered in the course of time, and to be different in the twentieth century from

what it was in the nineteenth, the movement of capital and of the backflow of profits further complicate the matter. As regards the experience of the 1930s, the picture of a cycle in which the balance of the underdeveloped countries is positive and negative by turns, whereas that of the developed countries is, correspondingly, by turns negative and positive, fails to match up with reality.[14]

For Britain, for example, if we compare the periods 1925–29 and 1930–34, the balance of the main real flows (trade balance, long-term exports of capital, repatriation of profits) improved during the depression period, owing to the reduction in the surplus of imports over exports and the cessation of export of capital, these two factors being greater than the fall in income from investments abroad. This being so, we should not be surprised to find that a period when less gold was imported than was exported (the prosperity period of 1926–29: net exports of 21 million) was followed by one of net imports of gold (313 million between 1930 and 1934). The difference was also paid for through short-term movement of capital (increasing from 4 millions to over 21 millions), which did not have a disturbing effect, as had often been the case, but rather a stabilizing one.

For the United States in the same periods, this same real balance was improved during the depression due to the cessation of long-term capital export and despite the slight worsening of the trade balance, which remained favorable. This being so, the United States received gold during the depression and exported it during prosperity. It should be added that in this case the short-term capital movements do seem to have had a disturbing effect.

In France, however, in these same two periods, the balance worsened during the depression (almost in equilibrium during the first period, with the first four entries showing a deficit of 0.6 billions, and with a pronounced deficit—19 billions—in the second period). Thus, export of gold apparently made up for the deficit. The considerable size of the influx of floating capital both in the first period (movements of repatriation of French capital which had previously gone out of the country) and in the second (influx of short-term capital from abroad) made possible the steady and increasing import of gold that is a well-established feature of both periods.

For the developed countries generally, if the trade balance improves in a period of depression and, further, in accordance with the traditional schemas, the long-term export of capital ceases, then the total balance should improve, with gold and foreign exchange flowing in (the case of Britain). If, however, the trade balance worsens and the export

of capital ceases, the total balance either improves or worsens, depending on the comparative strength of these two movements. In fact, it has almost always improved (as is shown by the examples we have already looked at, those of the United States and France, and by those of Holland, Switzerland, and Canada). By way of exception, persisting export of capital during a period of depression causes the balance to worsen, as we see from the example of Sweden. In any case the movement of capital prevails over that of goods. If, therefore, the balance of the developed countries improves in a period of depression, this is because of the cessation of exports of capital (the general phenomenon), and not because of the (exceptional) improvement in the balance of trade.

For the underdeveloped countries, the general worsening of the balance of payments in a period of depression is likewise more attributable to the cessation of imports of capital than to the worsening of the balance of goods. The latter often improves, but even so the cessation of the inflow of capital prevails heavily over this movement, as is shown by the examples of China and Chile between the two world wars. The situation is aggravated, of course, when to the stoppage of capital inflow is added a worsening of the current balance (as in the cases of India or Cuba). Sometimes, however, the sharp fall in interest to be paid has more than made up for the worsening of the balance (the case of Cuba).

When foreign capital has continued to flow in, it has generally not done so in proportions sufficient to make up for the worsening in the current balance (see, e.g., the experiences of the Dutch East Indies and Argentina during the 1930s). The reason is that the inflow of capital often entails an outflow of profits, which is extremely rapid—almost simultaneous when this inflow goes to finance large-scale infrastructural works.

Thus, it is the movement of capital that is mainly responsible for the worsening of the balance of the underdeveloped countries. This movement is subject to marked cyclical fluctuations. Nor is this situation peculiar to underdeveloped countries. A similar phenomenon is found in the developed countries that are debtors, i.e., that receive foreign capital. Not only do the examples of Denmark and Australia between the wars confirm this analysis, but also the examples of Germany and Japan, two big capitalist countries (and which do not specialize in export agriculture, as Denmark and Australia do). Having temporarily become debtors, these two countries, despite the marked improvement

in their trade balance, found themselves in the position of countries whose balance was moving unfavorably.

Thus, it is *debtor* countries that are badly placed during cyclical depressions, not underdeveloped countries as such. True, all the latter countries are debtors. But it is to this feature—to the movement of foreign capital, and not because of a disparity between the movement of exports and that of imports—that the evolution of their situation is due. Everywhere, exports and imports evolve parallel, as explained by the theory of the transfer of purchasing power. It should finally be added that the short-term movement of capital, which was very often perverse, intensified the situation, as in the United States, France, and Canada (in the positive direction) or in Sweden, India, the Dutch East Indies, Germany, and Japan (in the negative direction). The movement was "normal" in three cases only: Britain (positive), and Denmark and Australia (negative).

The consequence is that the balance improves for the developed countries, taken as a whole, and worsens for the underdeveloped countries, in a period of depression. Thus, between 1929 and 1932 the reserves in gold and foreign currency held by six large creditor countries increased, and those held by eighteen debtor countries decreased. Similarly, in the sterling area, the sterling holdings of the central banks of fifteen countries were subject to an obvious cyclical movement. As for the holdings of the commercial banks, they showed the same movement, as was apparent from the evolution of the funds held in London by these banks. Now, this cyclical movement of the balance cannot be ascribed to the movement of goods, which improved for these fifteen countries between 1929 and 1931. The responsibility lies exclusively with the stoppage of capital exports from the developed countries, as is shown by the statistics of the balance of payments of ten countries of this area.

Regarding the nineteenth century, no details of balances of payments are available, but only the net results (surplus or deficit). The movement of these net results has been studied for each of the alternating periods of prosperity and depression (four cycle) that occupy the period 1880-1914.[15]

For France, in general, during depressions gold flows at a higher rate than in the previous or subsequent period of prosperity: it seems that the balance is therefore better in each depression, as it was after 1930. As for the trade balance for these different periods, it shows the following deficits (in billions): 1.5, 0.8, 0.6, 0.5, 0.3, 0.3, 0.6, 1.5. No

definite conclusion can be drawn from these figures: on moving from depression into prosperity the balance twice improves and once worsens. Here, then, we again see the pattern of the twentieth century: whatever the evolution of the trade balance during the cycle, the movement of capital is strong enough to cause it always to be better in a depression period, through the slowing-down in the export of capital. Except for the crisis of 1901–03 and the prosperity of 1910–13, exports are greater during prosperity than during depression. It should be noted, however, that the fact that export of capital, though during a depression it usually goes on at a slower rate, nevertheless does go on, suggests that the crisis is partly overcome by the export of saving—sometimes at an increased rate (1901–03). In any case, this maintenance of the flow of capital during depression renders the total fluctuations in the balance rather slight.

For Britain, on the contrary, the external balance appears to have worsened in each depression period in the nineteenth century. The trade balance, which shows an increasing deficit—which reflects the fact that the country is becoming a more and more "mature" lender country—conceals the cyclical phenomenon. Here, too, however, the movement of capital largely depends on the level of activity. There are two exceptions: when depression gives way to prosperity in 1897, the flow of capital diminishes, whereas when prosperity gives way to depression in 1908, it increases. In this case also the conquest of external outlets for local saving may have helped to overcome the crisis. In Britain, then, in general, the worsening of the balance in each depression takes place despite the slowing down in the export of capital. The trade balance worsens rather severely, as I have already had occasion to mention (on the average, exports fell by 11 percent, as against a 7 percent fall in imports, whereas for France these two percentages are 10 percent for exports and 9 percent for imports). This may have been due to the special difficulties encountered by Britain at the end of the century as a result of the appearance of new competitors.

The schema of the nineteenth century is thus rather different from that of the twentieth. One cannot speak with certainty of an improvement in the balance of the developed countries during depressions. It must be added that the gold movements do not in themselves constitute very reliable barometers of the evolution of the balance, the net result of which was largely decided by the short-term capital movements for which we unfortunately possess no statistics.

There are virtually no statistics for the movement of the balances of the underdeveloped countries. Nevertheless, the case of Argentina has

been studied for this period. In each depression the balance worsens. But the movement seems attributable to the cessation of the flow of foreign investment in 1891, rather than to the movement of the trade balance, which, adapting itself to the capital balance, seems not very regular: the flow of capital, slight during the years 1883-86 (depression), becomes greater between 1887 and 1891, stops completely from 1891 to 1896, and then picks up again, weakly (this balance of capital does not altogether reflect the phenomenon, owing to the backflow of profits which it includes).

There are no other studies available on the balance of the underdeveloped countries in the nineteenth century. One could, however, refer to those devoted to the debtor countries (Canada, Australia, the United States), whose behavior was similar from this standpoint—all the more so in that they were exporters of primary products—and one would arrive at the same conclusions.

Is it possible to carry the historical analysis further and to measure directly the magnitude of the fluctuations in income? There is an index of manufacturing activity, year by year from 1875 to 1939, for the principal countries.[16]

In the nineteenth century the oscillations on the world scale were, successively, 3,4, 3, 0, and 8 percent (crises of 1874, 1883, 1892, 1900, 1907), giving an average of 4 percent. They averaged 5 percent for Britain (3, 9, 5, 2, 6 percent). There is no comparison between these figures and those for the twentieth century, which have been, for the world as a whole, 13, 30, and 7 percent (crises of 1920, 1929, and 1937), giving an average of 17 percent, and for Britain 40, 12, and 8 percent (average 20 percent). Generally speaking, during the nineteenth century the average of the indices of the depression years was higher than that of the years of prosperity immediately preceding them. The development of capitalism was proceeding rapidly.

For India the cyclical oscillations were less marked. Between 1896 and 1914 production did not stop increasing, except during the minor recession of 1910 (3 percent). In 1920 the recession did not exceed 5 percent, and in 1930, 8 percent. What is noticeable here is the effect of craft production, less subject than industrial production to the rhythm of the cycle. For Chile the crisis of 1929 seems to have been very grave (index moving from 156.7 to 116.3, a fall of 26 percent): this was a mineral-producing country heavily dependent on world demand.

Comparison between these series suggests the following schema: in the developed countries, the cycle of industrial production oscillated about 5 percent during the nineteenth century, but between the wars

the oscillation was considerably greater (30 percent for the world as a whole in 1930). In the underdeveloped countries, insofar as their industrial production is intended for export (mining), the cycle is at least as pronounced as in the developed ones. When this production is destined for the local market, the magnitude of its oscillations depends on the relative importance of foreign trade as an element in the country's income. If this importance is high as in Egypt, the fluctuations in purchasing power resulting from exports affect internal demand. If, however, it is not very high, as in India, the fluctuations in exports have very little effect on the demand of the millions of peasants—who, moreover, buy from craftsmen rather than from manufacturing production.

The lack of statistical information prevents me from undertaking a systematic inquiry into this matter. Nevertheless, a few facts are available which support my analysis.

In the first place, there is the evolution of unemployment among the nonagricultural population, the fluctuations in which seem to be of the same order of magnitude for the developed countries and for the countries that export primary products (for lack of examples from the underdeveloped countries one may refer to those countries whose behavior is fairly similar from this standpoint). And the evolution of total profits is fairly typical.

In France, between 1929 and 1935, total profit (income from stocks and shares and income of industrial and commercial enterprises) decreased from 57 billions (23 percent of the national income) to 36 billions (21 percent), a reduction of 36 percent. In Germany between 1929 and 1932 the total income from industrial and commercial enterprises and from dividends and interest (total profits) decreased from 14.9 billions (20 percent of the national income) to 8.2 billions (18 percent), a reduction of 44 percent. In Britain the national income fell from £4,384 billion to £3,844 billion between 1929 and 1932, that is, by 12 percent, the share taken by wages increasing slightly (from 76.9 to 80.4 percent) and that of profit therefore falling a little more than 12 percent. In the United States the contraction in total income was 51 percent (from 81.92 billions to 39.49 billions between 1929 and 1930), the share taken by wages rising from 68.3 to 85.4 percent. The reduction in profit was thus about 75 percent. The profits index of sixty-five Egyptian companies (total capital, £E 31 million) shows a violent fluctuation, from 130 in 1929 ("100" being the period 1929-38) to 89 in 1933, thus falling by 31 percent. The profits index in India similarly shows a big fluctuation, from 100 in 1928 to 27.8 in 1931, a decrease of 72 percent. The size of this fluctuation, in contrast to the slightness

of that for manufacturing activity, tends to show that in the foreign-owned industrial sector (the profits index is calculated on the basis of large enterprises which are frequently engaged in export), the oscillations are very wide, whereas in the sector of petty production destined for the local market (crafts and small-scale industry) this is not so.

Furthermore, the fluctuations in agricultural income in the underdeveloped countries depend on the nature of agricultural production. When what is involved is production for export, the oscillations are great, as we see from the example of Egypt, where the gross value of the harvests fell from an average of 145 in the years 1924-28 ("100" being 1939) to 75 in 1931, a reduction of 48 percent. If we assume that agriculture constituted 50 percent of the country's income, and that other activities did not suffer from the crisis, the national income must have suffered a contraction of 24 percent from this cause alone, that is, a contraction greater than that suffered by Great Britain, and close to what happened in the other big industrial countries (Germany, etc.).

This being so, one would be tempted to say that fluctuations in income are more violent in the underdeveloped than in the developed countries, at least as regards the countries that are integrated internationally, that is, those the volume of whose exports constitutes a high percentage of the gross national product. One would be tempted to measure these fluctuations by those of the country's exports.

We possess direct evaluations of the fluctuations of national income in some underdeveloped countries (India, Chile) and some countries which, though not underdeveloped, are producers of primary products (Australia, etc.). These direct evaluations do indeed tend to show that the magnitude of the cyclical oscillation of the national income of the underdeveloped countries depends on the degree to which they are integrated internationally (as measured by the importance of exports in their gross production). For Chile, a country closely integrated into the international market (as for Australia, a country which, though not underdeveloped, specializes in the export of primary products, and from this standpoint behaves like an underdeveloped country), the contraction was at least as great as in the developed countries where it was greatest. For India, a less integrated country, the contraction was only slight.

This result, which could be foreseen, leaves us to conclude that the cycle of the developed countries and that of the underdeveloped ones are profoundly different. The magnitude of the oscillation of the real income of the industrial countries was in 1930 about 25 percent. In the nineteenth century the corresponding figure seems to have been about

5 percent, as is shown by the cyclical evolution of the index of industrial production in Britain, France, Germany, and the United States. This oscillation could in no case be attributed to a shrinkage in exports. In a country where about a quarter of the national income is derived from exports, a reduction in the volume of the latter by 10 percent produces a reduction of only 2 percent in total real income. Yet, in 1929, the volume of the world's exports of manufactured goods (broadly equivalent to the volume of the total exports of the developed countries) fell by only 27 percent, which could have brought a reduction of only around 7 percent of real income—not 25 percent. In the nineteenth century the volume of exports seems to have remained stable all through the cycles, with only total value varying—and that not very much—as a result of price fluctuations. The crisis was thus caused essentially by the contraction of *internal* demand, and not by that of external demand, even though the latter might, in a given instance, aggravate the collapse of total demand.

Responsibility for the cycle lies with internal investment. The primary contraction of demand constituted by the reduction in the volume of investment and that of exports entails a secondary contraction, and so on.

Let me try to give figures for this movement in the case of the United States. Net investment represents about 10 percent of income in that country during prosperity periods. Its collapse there means a primary contraction in demand by 10 percent. A reduction of 50 percent of the volume of exports means another primary contraction of demand, of about 2.5 percent of the national income (since the share of exports in the national income comes to about 5 percent in the case of the United States). The primary contraction is thus, in all, of the order of 12.5 percent of income. As the ultimate contraction is 25 percent, the value of the real demand multiplier can be estimated at 2.

Toward a Theory of the Cycle and of the World Conjuncture

The experience of history leads us to the following seven conclusions:

1. There are no very precise rules for the way the trade balance behaves, in either the developed or the underdeveloped countries, because exports and imports vary in the same direction and in similar proportions. Even so, there is a certain tendency for the imports of the

underdeveloped countries to shrink less violently than their exports.

2. The shrinkage in the trade of the developed countries is due above all to that in the *volume* of their exports and imports. The shrinkage in the trade of the underdeveloped countries is due mainly to the fall in the *prices* of their exports, the worsening of the terms of trade that this reflects, and the decline in real import capacity that follows from it.

3. The undoubted cyclical movement of the balance of payments is due to that of *capital* far more than to that of the trade balance.

4. Fluctuations in national income became suddenly greater after 1914, both in the developed and in the underdeveloped countries, as did fluctuations in exports and imports, and in prices. After the Second World War these fluctuations lost their cyclical character, giving place to a shifting conjuncture, with movements of limited magnitude.

5. Fluctuations in industrial production in the underdeveloped countries depend on the destination of this production, and on the degree of the country's dependence on external trade.

6. Fluctuations in agricultural income in the underdeveloped countries depend on the same factors.

7. Fluctuations in the total real income of the underdeveloped countries are often smaller than those characteristic of the developed ones. Fluctuations in income *in current prices* are, however, notably greater, owing to the great volatility of prices in these countries.

From these conclusions I derive the following four theses:

1. The cycle does not seem to be transmitted through the channel of fluctuations in the quantity of money. Although it is true that, the balance of payments being favorable for the underdeveloped countries in a prosperity period and unfavorable in one of depression, these countries see their resources in international liquidities increase and decrease by turns, internal circulation remains "neutral," that is, proportional to monetary income (real income x level of prices).[17]

2. The cycle does not seem to be transmitted via the trade balance, either, through the working of the multiplier. The behavior of the trade balance is indeed extremely variable, as we have seen, both in different periods and in different countries. It is to be added that even when the balance is favorable in an underdeveloped country we do not observe a wave of "induced," "secondary" investments engendered by this net surplus.

3. The cycle seems then to be quite simply the cyclical aspect of the movement of the income of agriculturists living by exports, which takes the form of a cyclical worsening of the terms of trade for their

exported produce. This oscillation has secondary effects on industrial production destined for the local market, on services as a whole, and so on, but these effects are much reduced. The cycle of the underdeveloped countries is merely the cycle of their capacity to import.

4. In the international cycle, the underdeveloped countries play an important role at the moment of recovery by providing additional outlets for the exports of the developed countries, through the possible break-up of precapitalist societies. During recession, trade between developed and underdeveloped countries often declines less than that among the developed countries themselves, and very often, in fact, the volume of imports of the developed countries increases during depression (a very general case in the nineteenth century).

It is on the basis of these theses that it is possible to work out a theory of the international conjuncture that assigns a specific role to the periphery in the mechanism of accumulation. This specific role is especially visible when recovery takes place, but it is also apparent during the other phases of the movement of the conjuncture at the center.

The Role of the Periphery in the Mechanism of Recovery

The periphery plays a role that is far from negligible in the mechanism of international recovery.[18] The point is, however deep a depression may be, it can come to an end sooner in the underdeveloped countries than in the central capitalist economies, because it is more superficial in the former. During a depression in the developed countries a considerable mass of labor is thrown out of employment. All incomes contract—profits first and foremost, but also wages as a whole. During the preceding period of prosperity new enterprises were set up which are now reduced to idleness. The burden of unutilized productive capacity weighs heavily, making recovery all the more difficult.

In the underdeveloped countries, on the other hand, while oscillations in the predominant form of income, ground-rent, are considerable, this is not true of the mixed incomes of the bulk of the population. True, the craftsmen and peasants suffer from the unfavorable world conjuncture. A certain number of them are ruined, lose their economic footing, and are cast into unemployment. But the great mass of these social classes do not suffer from this misfortune to the same degree as the mass of the workers in the developed countries. The entire sector producing foodstuffs for consumption by the producers remains

outside the sweep of the depression's effect, just as it was outside the influence of prosperity.

Moreover, in these countries, while during prosperity foreign capital flowed in and made possible the equipment of new enterprises, such development is less permanent than it is in the developed countries. In the countries of the periphery, capital shows a marked preference for investment in the tertiary sector, and for light investment.[19] Tertiary investment is often purely financial—purchase of buildings for resale, purchase of goods for export, securities, etc. This huge mass of capital which is not materially productive is destroyed by the depression without leaving behind it any productive capacity to weigh heavily and thus delay recovery. This destruction of fictitious capital impoverishes the country for the benefit of foreigners, leaving it with a financial burden that corresponds to nothing concrete. At the same time, all other things being equal, light investment leaves behind it unutilized productive capacity which is relatively less bulky and therefore less of a burden on the market than heavy investment.

If, then, the crisis is reflected in the collapse of the level of the external exchanges of the underdeveloped countries, this happens only insofar as, exports having dragged ground-rent down in their decline, luxury imports then cease. However, once these export activities have become dormant, the level of exchanges with the outside world is stabilized, because the income of the indigenous sector has been only slightly affected by the fluctuations caused by the capitalist mode of production. But in the developed countries the depression may get even worse. After making inroads on profits, it attacks wages. This is why, during depression, the volume of exchanges among the developed countries themselves generally declines proportionately more than the volume of exchanges between the developed and the underdeveloped countries.

After a certain moment, the relative rigidity of the underdeveloped markets may thus constitute a factor of recovery. The existence of exchange relations between the periphery and the center enables the latter to find new external markets in the disintegration of the indigenous craft sector. The foreign capital which, during the prosperity phase, found more lucrative investment in other activities, is now content with this outlet. Capital has better opportunities at the center during the prosperity phase than to establish enterprises in the periphery to compete with craft production there. In fact, during the course of development of the cycle, the rate of reward of capital shows more violent fluctuations in the developed countries than in the under-

developed ones. Stock-exchange activity, and the very wide fluctuations in stocks and shares, by turns devalued and overvalued, which this speculative activity inevitably engenders, have the effect, in the advanced capitalist countries, of amplifying both the fall and the rise in the marginal efficiency of capital. The violence of these fluctuations in the profitability of capital in the developed countries thus enables certain activities to become lucrative enough in a period of depression.

The further disintegration of primitive indigenous production at the end of the depression is reflected in a new wave of exports from the developed countries. The mechanisms of monetarization start to work. The increase in money incomes in the underdeveloped countries resulting from this further disintegration of the wants economy is reflected in the formation of local saving which finds its way at once into the speculation circuits, revival of which is all the easier because they have left behind them no unutilized production capacity that would weigh heavily on the recovery of accumulation.

These multiplier phenomena in the underdeveloped economy are profoundly different from those characteristic of the way the mechanisms of prosperity operate in the developed countries. All that is involved is a development of money incomes in the underdeveloped countries. Generally speaking, this development is effected merely by reducing income in kind. This accelerated disintegration of primitive economies as a result of external trade worsens the situation in these countries, where an additional mass of ruined craftsmen become victims of permanent unemployment.[20] However, this disintegration, which is reflected in a fresh development of capitalism in these countries, makes possible the quicker formation of incomes of the capitalist type, and so the formation of a new element contributing to saving in money form. It is this saving that goes to feed the speculation circuits I have mentioned. Furthermore, this deeper disintegration of the native economy is reflected in reinforcement of the position of ground-rent. It therefore harbors in germ a future increase in imports. This is why the opening of new external outlets does not constitute a *final* solution of the problem. In theory, it is not needed in order that recovery may take place in the developed countries.[21] This recovery is indeed due very largely to a deepening of the *internal* market due to the generalizing of a new, more capital-intensive technique. Nevertheless, we observe, after each depression at the center, the opening of new outlets in the periphery. The countries of the Third World thus play an active role in the mechanism of international recovery.

Structural Adjustments of the Periphery to the Requirements of the Center

But it is not only in relation to the mechanism of international recovery that the underdeveloped countries play an active role in the international cycle. Throughout the cumulative process that characterizes prosperity they also play an active role that is far from negligible.

The development of prosperity, marked by the growth of total income, is reflected in an increase in the share of profits and consequently in an increase in the relative volume of saving accumulated. The relative share taken by wages decreases. Accordingly, capacity to consume falls further and further behind capacity to produce. Before long, the new equipment created by investment of the additional saving puts on the market a mass of consumer goods that cannot be absorbed. The working of the accelerator for a time maintains the illusion of the profitability of the new equipment made necessary by the increase in the *absolute* volume of consumption. There is thus overproduction of consumer goods, since the purchasing power distributed and destined for purchase of these goods (mainly wages) is less than the total value of this production. This overproduction, reflected, in Harrod's account, in the diminution of the multiplier (growth in propensity to save), is for a long time concealed by the working of the accelerator, with its inverse effects.

It must be pointed out that this overproduction is not due to a propensity to save that is too great, on the average. Whatever the level of this propensity, it is possible to imagine a division of total production between a production of equipment goods and a production of consumer goods corresponding to it, given which all saving could therefore be invested. This possibility constitutes, indeed, the very meaning of economic growth (if we ignore the cycle): when total income increases, the level of saving rises, and this makes possible a development of production of equipment goods which is faster than that of consumer goods. This more rapid development of the production of equipment goods, reflecting the rise in the level of productivity, in turn makes possible the subsequent growth of total income.

If this development has to take the form of a sine curve around an upward trend, this is because the propensity to save, whatever its average amount over an entire cycle, rises *too quickly*. The mechanism "bolts." It is this bolting, due essentially to the great elasticity of profits, that gives rise to the cycle. This does not in the least mean that

the propensity to save ought to remain stable. On the contrary, development demands that this propensity rise, and at the same time makes it possible for it to rise. All that is needed is that this propensity should rise more slowly (or less quickly).

The point is that the overproduction of consumer goods is confronted with a real *under*production of equipment goods: a relatively increasing purchasing power (saved profits) is applied to the purchase of equipment goods the production of which seems constantly to be inadequate. In other words, prosperity is marked by an increasing imbalance between production of equipment goods and production of consumer goods. This increasing imbalance is concealed for a time, as has been said, by the antagonistic working of the accelerator and the multiplier.

Trade between the developed and underdeveloped countries also continues to conceal this imbalance—in other words, to prolong the periods of prosperity. Exchange between developed and underdeveloped countries in no way constitutes the solution to overproduction by the capitalist countries. Development of the capitalist countries is perfectly possible even when there are no precapitalist societies to be disintegrated. If external trade expands parallel with the development of capitalism, it is not, therefore, for this reason, but simply because the tendency to expand markets is inherent in capitalism.

Nevertheless, trade between developed and underdeveloped countries does play an active role in capitalist development.

The developed countries, which are always ahead of their backward partners in exchange, take the offensive, so to speak, by exporting to them.[22] Only later does the structure of the underdeveloped countries become modified, adapting itself to the evolution of production in the advanced countries so as to make possible the export of primary products to them. Imbalance is therefore a permanent feature of trade relations between the center and the periphery of the system. This permanent imbalance is, however, always being corrected, and so it plays, in the development of the most advanced countries, only the modest role of a catalyst, comparable to credit.

Here we need to go further, to grasp the mechanism by which the structure of the underdeveloped countries is adjusted to the requirements of the evolution of production in the developed countries. The latter have the advantage in all branches of production. It is therefore the products that tend to be overproduced during the prosperity phase that are the first to seek (and so to find) an outlet in the economies of the periphery. Manufactured consumer goods, which become more and

more plentiful during this period, are those that are exported on the largest scale. Conversely, the growing demand of the developed countries, during the prosperity phase, for those products that are relatively least plentiful leads to adjustment of the structure of the underdeveloped countries to the needs of the more advanced countries. The underdeveloped countries specialize in producing goods the supply of which tends to be less than the demand for them in the developed countries during the prosperity phase: they specialize in producing primary products that contribute to the equipment of the developed countries—in the main, agricultural raw materials and mineral products.

Exchange of consumer goods—in respect of which supply is greater than demand—for intermediate goods—in respect of which, on the contrary, demand is greater than supply—facilitates that upward trend in the developed countries. To the same degree this exchange intensifies, where the capitalist sector of production in the underdeveloped countries is concerned, the inbalance between production of consumer goods and production of intermediate goods. This is why these countries, where the production of raw materials develops faster than the production of the manufacturing industries that use these raw materials, find themselves increasingly tied to external trade as the cycle develops. Once again, international specialization is seen to have nothing rational from the standpoint of society.

We can now appreciate better the real place occupied by the periphery in the world conjuncture. Although the extension of the capitalist mode of production to the periphery is not essential to the working of the mechanism of accumulation, this extension plays the role of a catalyst and an accelerator of growth at the center. It may therefore be important. But it is not the only force that works in this direction of accelerating growth at the center. It may even be only a secondary factor in this regard.

This is so, for example, in the present period, since 1945.[23] Since the end of the Second World War capitalism has been experiencing an extremely brilliant period of growth. In this phenomenon the extension of the capitalist mode of production to the Third World has played only a very secondary, almost negligible, part. It is the modernization of Western Europe—its Americanization—that has been the essential factor in this "miracle." Modernization means deepening (not spreading) the capitalist market, a solution that, always possible (as Marx and Lenin always said), has become real through the conjunction of elements situated on different planes (including the political plane: fear of communism, etc.), which rules out any mechanistic "economist" inter-

pretation. The European Common Market and the influx of American capital into Europe constitute the most obvious expressions of this phenomenon.

Nevertheless, although during this period the extension of capitalism to the periphery has not played an important role, this does not mean that it has always been so, or that it will always be so in the future. In the past, the extraordinary wave of extension of the capitalist market to the colonies during the nineteenth century certainly played an important part in the relatively peaceful course taken by accumulation at the center. This first wave determined a first series of forms of specialization between center and periphery—the periphery, of course, adapting itself to the requirements of the center. These forms of adaptation implied, after a certain level had been reached, a relative blocking of the mechanism of the extension of capitalism: the extension of capitalism to the periphery in these forms therefore began to exhaust its possibilities—whence the special violence of the crisis of 1930.

It seems that the type of growth that the capitalist world has known since 1945, based on the Americanization of Western Europe, is tending in its turn to exhaust its possibilities. The world monetary crisis and the reappearance of chronic "deflationary tendencies" are perhaps symptoms of this. What may take over the role of ensuring the growth of capitalism?

I see three possibilities. First, progressive integration of the countries of Eastern Europe (Russia and its satellites) in the world market, and *their* modernization. Second, the contemporary scientific and technical revolution, which, along with automation, the conquest of the atom, and the conquest of space, may open up substantial possibilities for deepening the market. Third, and last, a new wave of extension of capitalism to the Third World, based on a new type of international specialization made possible by the technical revolution of our time. In this context, the countries of the center would "specialize" in ultramodern activities, while forms of classical industry hitherto reserved for them would be transferred to the periphery.

Once again, by "adapting" themselves to the requirements of the center, the countries of the periphery will have played an important role in the mechanism of accumulation on a world scale.

Summary of Conclusions

1. The fluctuations of the conjuncture—whether they assume a regular cyclical form (as was the case down to the Second World War) or not (as has been the case since then)—are manifestations of the internal contradiction between the capacity to produce and the capacity to consume which is distinctive of the capitalist mode of production, a contradiction that is constantly overcome by the deepening and spreading of the capitalist market. Current economic theory, by way of exception, explains this dynamic of the contradiction (though in economistic terms of the combined working of the multiplier and the accelerator which conceal the origin of the contradiction of the system), when this theory is able to raise itself above the monetary appearances of phenomena. It thus reformulates, though in mechanistic and oversimplified form, the analysis already made by Marx.

2. The historical law of this inherent contradiction of the capitalist mode of production is that it tends to *intensify* (as shown in the exceptional dimensions of the crisis of 1930). But this tendency/law does not lead to a "spontaneous catastrophic collapse," because the system can always respond by organizing monopolies and bringing about state intervention so as to absorb the increasing surplus. The historical conditions in the context of which accumulation on a world scale is proceeding are of vital significance in this connection. The scientific and technical revolution of our time, together with the progressive integration of Eastern Europe into the world capitalist system, will probably alter to a considerable extent, in the foreseeable future, the conditions of accumulation on a world scale. The spread of capitalism to the periphery, the adjustment of the structure of the periphery to the requirements of accumulation at the center (in other words, the forms of international specialization between the center and the periphery), must also occupy an important place in analysis of the conjuncture.

3. Current economic theory, which compares the underdeveloped countries to the developed ones as they were at an earlier stage of their development, does not succeed in accounting for the conjunctural phenomena distinctive of the periphery. It takes refuge in a mechanistic theory of the conjuncture being "transmitted" from the developed countries to the underdeveloped ones, either through monetary mechanisms or through the foreign-trade multiplier. In reality the economies of the periphery of the system do not experience true conjunctural phenomena distinctive to themselves, even "transmitted" from without, for they have no internal dynamism of their own.

4. The periphery nevertheless occupies a place that may be important in the course taken by the cycle—or by the fluctuations of the conjuncture—on the world scale. It provides a sphere of possible extension of the capitalist mode of production, at the expense of "pre-capitalist *milieux*." Although such an extension of the capitalist mode of production is not *essential* to the working of the mechanism of accumulation, it plays the role of a catalyst and an accelerator of growth at the center. It certainly fulfilled an important function of that order in the first phases of colonial expansion. It seems to have lost this importance during the present period. But it may recover it in the future, in the context of a new structure of "international specialization."

Chapter 5
The Adjustment of the Periphery's Balance of External Payments

From a glance at the manuals of "international economics" that are widely used in the universities we learn that what is taught is that any disequilibrium that may occur in a country's balance of external payments should be automatically reabsorbed—just as the courses on "development policies" or "projects analysis" advise the underdeveloped countries to adopt, when calculating the "social profitability" of projects, an "equilibrium rate of exchange."

I propose to show in this chapter that the theory of the mechanisms of readjustment of the external balance, in its successive variants—the classical theory of price effects, the post-Keynesian theory of income effects, the theory of exchange—is always based either on unsound foundations, which nevertheless survive tenaciously in current theory (just as the quantity theory of money does), because it is not known what to put in their place without giving up the sacrosanct subjective theory of value, or else on cursory and superficial analyses derived from an empirical method. Present-day theory gets bogged down more and more hopelessly in a series of pseudo-problems or in a search for impossible answers to problems that are wrongly presented (because of an unwillingness to go beyond empiricism), and closes its eyes to what is essential. What is essential is that the equilibrium in the balance of payments, which at best is only a tendency, depends on a permanent adjustment of the international structures. The latter are, so far as relations between the developed and underdeveloped worlds are concerned, structures of asymmetrical domination by the center of the world system over its periphery. External equilibrium, international order, is possible only because the structures of the periphery have been shaped to conform to the requirements of accumulation at the center. In other words, equilibrium is possible only if development at the

center causes and maintains underdevelopment in the periphery. This refusal to see what is vital exposes the ideological character of current economic theory, which is entirely based on the religiously held postulate of a universal harmony that must not be questioned and which therefore cannot be the subject of scientific criticism. Only in this way can theory perceive the appearances of things without perceiving what is essential. The result is that theory dooms itself to failure to understand either the nature of underdevelopment, or the dynamics of accumulation on a world scale, or the dynamics of the balance of payments, especially as regards relations between the developed and underdeveloped worlds.

This chapter will undertake, first, an external criticism of the theories in question that deal with the "spontaneous" adjustment of the external balance—after briefly reviewing what the constituent elements of this balance consist of—and then an attempt to make progress toward a theory of the structural adjustment of the periphery of the world capitalist system to the requirements of accumulation at the center (which is the direction in which the answer to the real question is to be sought), and to bring these elements of an answer to that question into confrontation with the history of the external relations of the underdeveloped world.

THE CONSTITUENT ELEMENTS OF THE EXTERNAL BALANCE

When we speak of the balance of payments, a certain ambiguity hovers over the expression we use. What, in fact, ought to be included in the balance of payments?

There are some elements that must obviously be included. These are the monetary equivalents of current transactions of a strictly commercial kind: export and import of goods, payment for commercial services (freight and insurance). Also to be included are the expenditures of visiting tourists, the remittances sent home by emigrants, and other such movements of funds. But should *all* capital movements be included in the balance of payments?

The objection to the inclusion of all these elements is that the totality of the balance of current transactions and that of the balance

of capital transactions are always, by definition, in equilibrium with each other. All transactions must indeed be paid for. The debt that may appear to arise from consideration of the balance of voluntary transactions is offset by an equivalent amount of credit. This credit from abroad may itself, moreover, be either voluntary or forced. Must we then *exclude* all capital movements from the balance of payments?

The interest and profits on foreign capital invested in the country make up a mass that is fundamentally distinct from the other elements in the movement of capital. These payments arise from previous foreign investments. This is why there can be no argument about this matter. The inclusion of these sums in the balance of accounts is so little disputed that the movement of interest is classified among current transactions. Among the other elements that make up the balance of capital transactions, a special place must be given to long-term investment. Here, the exchange operation is merely a necessary means and not the essential content of the operation of capital transfer.

Short-term capital movements and short-term "forced" loans are of a profoundly different character. Under the one heading of "short-term capital movements" many operations which are different in their economic significance are all grouped together. We find here, side by side, purchases and sales of foreign currency motivated by the intention of making a profit from variations in the rate of exchange itself; momentary transfers that are basically due to movements of the discounting rate (the capitalists who have momentary liquidities at their disposal try to find short-term investment outlets for them in countries where the rate of money is highest); and, finally, those notorious erratic movements ("hot money") which are dictated by extra-economic considerations, usually political in character. All these movements have the distinctive feature of being *voluntary*. In contrast to this, the institutions that centralize holdings of foreign currency are sometimes obliged, in the absence of a "natural" equilibrium between voluntary movements inward and outward, to grant short-term credit to foreigners. Such credit is clearly "forced." When complete freedom prevailed in international relations this obligation did not exist, because it was always possible to find foreign currency, if one was prepared to pay the price. Today, the exchange control has to balance entries and exits of funds within a short period. If it is short of funds all it can do is refuse to hand over foreign currency to the trader who needs it. The foreign correspondent will then apply, in his own country, to an organ providing guarantees for foreign trade, such as has now been set up almost

everywhere. This organ will settle the debt in its own currency. It thus acquires a claim on the trader in the country which is short of foreign currency, and so grants, perforce, short-term credit abroad.

Where there is no control over the exchange, abandonment of flexible exchange rates in favor of a system characterized, since the creation of the International Monetary Fund in 1945, by rigid rates, makes the purchase of foreign currency (purchase inevitably at a relatively fixed rate) not always possible, since at this rate there may not be a supply of foreign currency sufficient to meet the deficit.

Transfers of gold do not constitute, either, a homogeneous category within the balance of capital operations. Gold is accepted as a means of settling a debt, and it is also bought in order to speculate on fluctuations in its value, or to satisfy a need for long-term hoarding. This last requirement is sometimes what lies behind a substantial import of gold in the underdeveloped countries, as well as in the developed ones.

The elements that need to be taken into consideration in order to form an idea of the balance of payments are, therefore: commercial transactions and comparable transfers of income, repatriation of profits, long-term capital movements, and, finally, transfers of gold destined to satisfy the needs of local hoarding.[1] It is these items that in fact exhaust the list of elements corresponding to real economic forces. Short-term movements, even if "willed," reflect the working of momentary forces only. Although these movements have a certain influence on the rate of exchange, and thereby on general economic conditions, their evolution over a long period does not show any tendency that is sufficiently general for it to be taken into consideration.

It should be added that we need to distinguish between the balance of real payments, thus defined, and the balance of movements of bank capital. This distinction is necessitated by the fact that branches of foreign commercial banks often function in underdeveloped countries to which they supply monetary liquidities. Imports and exports of funds by these banks must be carefully distinguished from imports and exports of capital destined for investment, although their effect on the rate of exchange, if there is one, may be similar. This distinction is vital in the case of the underdeveloped countries which are integrated in highly centralized currency areas (such as, today, the franc area and the escudo area). Here the entire banking system consists of agencies or branches of big banks centered in the metropolitan countries, and the absolute freedom of transfer, guaranteed at a fixed rate, enables the banks to import or export liquidities in accordance with the local economy's requirement of monetrary instruments.[2]

Aftalion declines to include long-term international investments in the balance of payments because, "if new investments are to be brought into the picture it is hard to say how distinctions could be made among them, and all would have to be included. From the balance of payments one would go over to the balance of *settlements,* which is, by definition, always in equilibrium."[3] However, the reason he gives does not seem convincing. What has to be done here is to engage not in a *statistical* but in a *theoretical* investigation, which requires that we distinguish clearly between international investment and "erratic" transfers of funds. It should be added, moreover, that the figures of the entries in the balance of commercial operations are, from the statistical standpoint, sometimes just as inexact as those for capital operations. Aftalion points to the inaccuracy of customs documents which, ignoring the fluctuations in the rate of exchange in the course of the year, show only an average figure that distorts reality.[4] It is true that the balance of international indebtedness has only financial, and not real, significance.[5] It is impossible to know statistically to what extent the equivalent of claims on foreign countries is made up of real investment and to what extent it consists of what is called "liquid capital," that is, a sum of money kept abroad. Besides, the value of the investment abroad, as it emerges from this balance, is itself largely fictitious, since the portfolio of foreign securities is subject to fluctuations connected with the conjuncture. Furthermore, the external financial accounts themselves do not reveal all capital movements: they ignore profits reinvested on the spot, and undistributed reserves. It would therefore be naive to seek to draw valid conclusions regarding international investment on the basis of a mere examination of the external balance.

The fact remains that the balance of payments is an economic reality. This balance is usually regarded as being even when the net difference between the entries corresponding to real economic forces is nil.

The questions to be asked are these: (1) Is there a mechanism that causes the "real" balance (that is, excluding movements of monetary gold, foreign currency and "compensatory" credits, and also, where the given country's banking system consists of agencies of metropolitan banks, including movements that correspond to the flows of liquidities necessitated by the functioning of the monetary system) to tend toward spontaneous equilibrium? (2) If such a mechanism exists, and consequently a rate of exchange called an "equilibrium" rate (one could also call it a "natural" rate) likewise exists, what is the nature of

the structural equilibrium corresponding to this? (3) Specifically in relations between the developed centers and the underdeveloped periphery, what is the nature of this "structural adjustment"?

THE THEORY OF MECHANISMS OF "SPONTANEOUS READJUSTMENT" OF THE EXTERNAL BALANCE

Is a momentary deficit in a country's balance of payments, whatever its cause, whether transient or structural, capable of becoming reabsorbed on its own, by influencing the level of the rate of exchange, if this is appropriate, or else by influencing prices and economic activity? Economic theory still answers this question in the affirmative, although analysis of the readjustment mechanism has been revolutionized by recent work.

Adam Smith allowed only the price mechanism to enter into the construction of international equilibrium. In this he was following the very old, mercantilist tradition of Bodin, Petty, Locke, and Cantillon, who had observed that disequilibrium in the trade balance was compensated by movements of gold. He was also following the quantitativist tradition, according to which the movement of gold in turn determined the general price level. The disequilibrium should therefore become reabsorbed on its own. It was only one step from there to declaring that the only possible cause of external imbalance was "internal inflation"—a step that the bullionists were to take, under Ricardo's leadership, at the beginning of the nineteenth century. The arguments of Bosanquet, who attributed the disequilibrium of the balance to nonmonetary causes (export difficulties due to war, together with the payment of subsidies to foreign countries), failed to convince contemporaries despite their high degree of logicality. It happened in this case as in the controversy about the quantity theory which was, a little later, to set Tooke against Ricardo: Ricardo's theory was demolished without anything positive being put in its place.

It was Wicksell who brought out, at the end of the nineteenth century, the role played by changes in demand in the mechanism of international equilibrium. A deficit in the balance was analyzed as a transfer of purchasing power. This extra purchasing power would enable the foreign country sooner or later to increase its imports, while the defici-

tary country would sooner or later be obliged to reduce its imports. International equilibrium would be achieved without any alteration in prices. This profoundly revolutionary contribution was taken up by Ohlin, who claimed, on this basis, that it was possible for German reparations to be paid. The extent to which the classical theory of price effects (connected with the quantity theory) continued to be influential, however, can be appreciated from the fact that so eminent a thinker as Keynes refused to give up the old outlook. If he alleged that it was impossible for Germany to pay reparations, this was exclusively because he believed that the working of the price elasticities of German exports and imports would bring about a "perverse" rather than a "normal" effect. It was a long time before the "income" view of the matter was accepted. It was not Keynes himself but only the post-Keynesians who incorporated in the theory of international equilibrium the essence of the method inaugurated by Bosanquet and taken up by Wicksell and Ohlin.

These two views—the "price" view and the "income" view—are often presented as being mutually exclusive. Chang's study, for example, leaves the reader to conclude that analysis of the responses of foreign trade to variations in incomes is enough to describe and explain the state of international exchanges.[6] The critical reply made by Viner, declaring that, the longer the period of observation, the greater seems the price elasticity, so that Chang's pessimistic calculations are ill-founded, is still too firmly attached to the tradition that declines to see demand as dependent on anything but price.[7]

Yet these are unquestionably two aspects of the same phenomenon, namely, demand. Does demand depend on price, or on income? A long controversy has produced a number of econometrical calculations.[8] The entire construction of Walras's general equilibrium remains based on the law of supply and demand. It was with the intention of replacing the labor theory of value by the utility theory that the first analysts of the market, Say, in particular, put forward the law of demand. The responses of demand and supply to variations in prices are then explained by the diminishing marginal utility of goods. Equilibrium is obtained without any elements other than these responses playing a part. In reality, however, this construction remains very fragile, incapable of replacing the whole content of the Ricardian and Marxist analyses. This weakness is due to the fact that Say and Walras overlook the fundamental element in demand that is constituted by *income*. They make the law of supply and demand contribute more than it is capable of contributing. The law of the diminishing utility of goods may well

explain that demand falls when prices rise, but only provided that the level of incomes remains unaltered. Now, the distribution of incomes is, in the theory of general equilibrium, dependent on the relative prices of goods. Any change in prices alters incomes. Recourse has then been had to periodic analysis, in order to escape from the marginalist vicious circle. Today's prices depend on yesterday's incomes, and yesterday's incomes depend on the prices of the day before yesterday. This resort to history constitutes a real theoretical act of surrender, an admission of the fundamental impotence of marginalism. Analyses of the price elasticities of external trade are of the same order. They assume that the natural incomes of the partners in exchange are stable, and they thus lose all power to explain the real movements of international trade.

The introduction of the responses of supply and demand to variations in income in general, and of the responses of external trade to variations in the national income in particular, was a veritable revolution.[9] But the *descriptive* nature of these studies must be emphasized. It is noted that the level of incomes being so much at a certain period, the level of exchanges of a certain product was so much; at a later period the incomes, prices, and quantities exchanged were different. The assumption is then made that demand depends on price and on income. This assumption is expressed by a linear equation with three variables: two of these, price and income, are independent, and the third, demand, is bound. Partial correlation analysis enables us to determine the respective role played by the two independent variables in the determination of the dependent variable. This is Chang's method. It is based on analysis of variability. In economics one can always express a quantity in a linear relation with two others, and coefficients will always be found that render this relation statistically significant. What can be concluded from this is that the three magnitudes are indeed bound together, but not that the supposed connection is the only possible one, or even the most interesting. This method provides a more or less adequate description, but nothing more.

This is the weakness of a method that enables one to check the plausibility of an assumption but not to choose between assumptions that are equally plausible. To make that choice, the only valid method remains abstract economic analysis. And *that* requires that the fundamental problems of economics—the nature of value, the nature of money, and so on—be tackled directly: problems that no inductive statistical method can enable one to dodge.

The Classical Theory of Price Effects[10]

This theory was worked out at the beginning of the nineteenth century within its context of assumptions that corresponded to the reality of that time (the gold standard) and on the basis of the quantity theory of money. Since any importer has a choice between buying foreign currency (foreign gold coins) and sending gold abroad (in the form of ingots), a deficit in the balance of payments cannot bring down the national rate of exchange to a sufficient extent to influence the terms of trade and to favor exports. Therefore, disequilibrium can ultimately find reflection only in a drain of gold. The general decline in internal prices resulting from this drain, and consequently the decline in the prices of exports, as compared with the stability of foreign prices, and consequently the stability of the prices of imports, discourages the latter, favors the former, and enables equilibrium to be restored. It is the worsening of the terms of trade that reestablishes equilibrium.

The quantity-theory analysis of international relations was refined during the nineteenth century, notably by Goschen, who claimed that the natural reaction of the central bank when faced with a threat of diminution of its gold cash-in-hand was sufficient to restore equilibrium to the external balance.[11] By raising the discounting rate, this organ attracts short-term capital from abroad, and thereby covers the deficit in foreign exchange. Here we are in the realm of that ideology of universal harmonies that blinds the analyst to the point of making him commit elementary faults of reasoning. For Goschen is here going too far. Any rise in the discounting rate can attract short-term foreign capital only so long as it lasts. At the end of a certain time, when the gold cash-in-hand has been reconstituted, the central bank will lower this rate, and consequently the disequilibrium in the balance of payments is certain to reappear.

Though constructed on the assumption of the gold standard, this theory can easily be extended to the underdeveloped countries with a stable exchange, that is, the countries on a foreign-exchange standard. This is precisely what recent writers have done. In this case, disequilibrium in the balance of payments entails an outflow of foreign exchange. The deflation of internal credit that follows affects prices in a way that enables equilibrium to be restored. Where these countries are integrated through the banking system as well as through the currency, it is the totality of the balance of real payments and of bank transactions that tends to re-equilibrate from this standpoint. An outflow of foreign exchange, whether due to a disequilibrium in real payments (cessation

of the flow of investments, bigger deficit in the trade balance, etc.) or to export of surplus liquidities by the expatriate banks; affects credit and prices in the same way. In the end it is this equilibrium of the overall balance that prompts the conclusion that the internal circulation is paid for by exports,[12] just as in a country on the gold standard, where the importing of gold for the needs of circulation has to be paid for in exports.

The logical link between this classical theory of price effects and the quantity theory of money is fundamental. The theory makes sense only if the quantity of money determines the level of prices. In the case of a country integrated through the banking system, it obliges one to suppose that the flows of banking liquidities must also be included in the balance that is in "spontaneous" equilibrium. This affirmation being necessary in order to save the theory, no further attempt is made to examine *why* it should be so: it is merely said that, since it *is* so, the real balance determines the volume of internal circulation of money. Here once again we are in the realm of the ideology of necessary universal harmonies.[13]

Only if the underdeveloped country is in a state of monetary independence (paper-money standard) is the theory held to be no longer valid, as in relations among developed countries—for then the disequilibrium of the balance affects the rate of exchange to an extent sufficient to alter the conditions of international exchange.

Price elasticities.[14] Only recently has it been perceived that the alteration in the terms of trade—attributed, rightly or wrongly, either to the internal movement of prices due to the flow of gold or of foreign currency, or to the rise and fall of the rate of exchange, effects that are similar from this standpoint—which on the one hand favored (or disfavored) exports, also lowered (or raised) their unit prices. An internal increase in prices, or an improvement in the rate of exchange—like a fall in these prices, or a decline in the rate of exchange—may affect the state of the balance for better or for worse, depending on the level of elasticities. The same is true, but the other way round, where imports are concerned.

Analysis of the effects of different combinations of price elasticities has become commonplace nowadays. The best formulation is given by Joan Robinson, who takes account of these four elasticities: that of the national export supply, that of the foreign import supply, that of the national import demand, and that of the foreign export demand. To be fair, it should be recalled that, long before the Keynesians, Nogaro had

seriously criticized Augustin Cournot's theory of the exchange. This theory assumed what had to be proved, namely, that price elasticities are such that devaluation makes it possible to reabsorb the deficit.

Influence of prices of imports on prices of home-produced products. If the economy is perfectly integrated, a change in the price of imports must entail a proportional change in all internal prices, and, consequently, in the price of exports. Here, too, criticism has been made on the basis of the effects of alterations in the rate of exchange (and thereby in the price of imports) on internal prices. But it is the same when a change occurs in internal prices with a stable rate of exchange assured (when there is a fall in internal prices, for instance). Is not the relatively higher price of imports bound to influence all prices in an upward direction?

Aftalion showed that the level of the exchange itself had an effect, in some cases, on the internal price level. It ought not to be assumed that the rate of exchange affects only the prices of imported goods, through variations in cost, and that devaluation ultimately affects the price of goods only insofar as imported goods enter into their manufacture. Aftalion demonstrates, by means of historical examples, that the rate of exchange does sometimes influence all prices, through an increase in money incomes.[15] Will the influence of an alteration in the rate of exchange on the income of importers (through stocks of goods that have been acquired and paid for previously), on the income of holders of foreign shares, and on the income of exporters and producers for export, always be capable of determining a general increase or decrease in prices proportional to this alteration in the rate of exchange? If the influence goes far enough, if the fluctuations in money income are not compensated by fluctuations in hoarding, and if, finally, the whole of money income comes on to the demand market, then this will probably happen. In that case, the situation of the balance of payments, after devaluation has exhausted its effects, will be exactly the same as the situation of the external balance previous to this devaluation. The chronic disequilibrium, which had been temporarily reabsorbed, now reappears: there is no tendency to long-term equilibrium.

Numerous mechanisms of this type are to be found, especially in the monetary history of Latin America. In the nineteenth century successive devaluations took place there, particularly in Argentina. These devaluations were inoperative in the long run because they were followed by a general and proportionate increase in prices. I have shown how the mechanism of this general increase was closely linked with the

behavior of the predominant income, namely, ground-rent.[16] These experiences prove that it is not possible to resolve a real disequilibrium of the external balance, due to profound structural maladjustment, by currency manipulations. They also show that the internal and external values of money cannot long remain different from each other. Despite the existence of home-produced goods which do not figure in international exchange, the domestic sector does eventually become subject to the influence of foreign prices. This influence is exerted through the channel of incomes. More recent experiences broadly confirm these views. For example, the devaluation of the Malian franc in 1967, which, according to the French experts, would restore equilibrium to Mali's external balance, in fact resulted in a proportionate and almost immediate increase in all prices, despite the freezing of wages. This is but an extreme example of how the structure of the dominant country's prices imposes itself on a dominated economy—an example that deserves to be thought about.

True, one might point out that, during the nineteenth century in Europe, the gold standard and the compensatory monetary policy of manipulating discount rates, a policy based on Goschen's theory, proved to be effective. But was this not merely because in the long run the balance of payments was in equilibrium, with disequilibria never more than momentary, conjunctural incidents? If disequilibrium had been structural and persistent, would not this method have failed sooner than it did?[17]

The Theory of Exchange Effects[18]

Direct price effect is based on the quantity theory, and this is the root of the error here.

Given the assumption of inconvertible currencies, the existence of a rate of exchange can vary widely at the whim of the balance of payments (that is, of the balance of real payments together with the balance of bank transactions, if we assume an underdeveloped country where expatriate commercial banks are functioning), does this not bring us back to the price effect without the quantity theory coming into the argument? In this case, indeed, the alteration in the rate of exchange entails an alteration in the price of imports, but there is no reason why the price of home-produced goods and the price of exports, which must relate to internal prices, should alter. Because the quantity of money continues to be stationary, say the quantitativists. Because the rate of

exchange does not always necessarily influence internal prices, say others. Here, too, the analysis must be completed in the same way as before. On the one hand, depending on price elasticities, the alteration in the rate of exchange may have "normal" effects or "perverse" ones. On the other hand, the price of imports may, here too, influence the level of internal prices, and thereby that of exports, and in the same way: via costs, via the behavior of the dominant income, and via the transmission of price structures.

Here, too, short-term capital movement may prevent alteration in the rate of exchange (and in prices) just as formerly it prevented the movement of gold (and of prices). If the central bank raises the interest rate, it attracts foreign short-term capital, just as under a gold system, and for the same reason. In the event of a temporary deficit in the balance it can thus prevent devaluation (and the resultant increase in prices), just as under a gold system it could prevent a drain of gold (and the resultant decrease in prices). But this effect comes up against the same limit as before. If the deficit is structural, chronic, and profound, the inflow of foreign capital will not succeed in neutralizing it—all the less because the prospect of losing on the exchange in the event of devaluation is unattractive to speculators in search of a profit that is in any case rather slight, owing to an increase in the interest rate. At all events, once the rate of interest has been raised, the inflow of short-term capital will eventually come to an end.

Finally, what are we to conclude from the analysis of price effects? First, that there are no price effects, but only an exchange effect. Disequilibrium in the external balance does not influence prices directly, through the quantity of money. It affects the rate of exchange, and this in turn affects all prices. It follows from this that alterations in the rate of exchange can never, whatever the price elasticities may be, resolve the difficulties of a structural disequilibrium, since at the end of a certain period things go back as they were at the start. Second, even in the transition period, fluctuations in the exchange do not necessarily improve the situation of the external balance, owing to the existence of critical price elasticities.

If we consider that, in the countries of the periphery, the elasticity of demand for imports is particularly slight, owing to the lack of possible substitution of local production for foreign production; that in these countries the incomes of exporters are all the more important in proportion as the country's degree of international integration is high; that the influence of these incomes on demand is supplemented by decisive psychological considerations which link the internal value of

the currency to its external value; and that there is a mechanism whereby the price structure of the dominant economy is transmitted to the dominated one—then we may conclude that, in nine cases out of ten, devaluation will in no way resolve the chronic disequilibrium of the balance of payments, either in the short run or, *a fortiori*, in the long; on the contrary, this devaluation will worsen the external situation in the short run.

The Theory of Income Effects

The new theory as presented by Ohlin. Wicksell and Ohlin presented the mechanism of the income effect in a very simple form. The deficit in the external balance is, as we know, settled by a transfer abroad of purchasing power. This new purchasing power must enable the economy that benefits from it to import more. On the other hand, the transfer obliges the deficit economy to reduce its demand for imports. Ohlin thus starts from a fundamentally correct position, whereas the price-effects analysis started from a quantity-theory position—in other words, it constructed its schema on a fundamentally mistaken basis.

As for the transfer of gold that takes place under the gold-standard system, this provides support for the transfer of purchasing power, and nothing more. Obviously, if we assume that convertibility and flexible exchange have been abandoned, then disequilibrium, which is on the one hand a transfer of purchasing power, and on the other has an effect on the rate of exchange (when disequilibrium has not been compensated by a transfer of some international money, either gold or foreign exchange—that is to say, after stocks of this money have been exhausted). These secondary effects of disequilibrium on the rate of exchange may obstruct the working of the re-equilibration mechanism, e.g., canceling out the transfer of purchasing power through a price increase. But the mechanism remains essentially of the same nature as before.

The superiority of Ohlin's theory in comparison with the former theory is that it enables us to explain the re-equilibration that takes place in the balance, however, the terms of trade may evolve. In the classical theory it is the alteration of these terms in a certain direction that reestablishes equilibrium. Now, experience has proved that re-equilibration takes place despite a perverse evolution of the terms of trade. This is easily explained from an income standpoint—the deficit is

a transfer of income to foreign countries, which results in an increase in "their" imports ("our" exports), regardless of the terms of trade, whether better (the normal effect) or worse (the perverse effect).

The theory of transfer of purchasing power also has the merit of bringing out the point that there is only a *tendency* to restoration of equilibrium. Nothing is less certain than that the increase in purchasing power resulting from a surplus in the external balance should be wholly concentrated on demand for imports. Taking a Keynesian standpoint, Federici claims that an income paid to a foreign country not only transfers purchasing power to it but also automatically creates additional income and production in the paying country, through the mechanism of the multiplier.[19] When Britain buys from Argentina, it supplies pounds sterling to the latter. These pounds sterling can only serve, after a more or less lengthy circuit, to buy goods in Britain. This criticism assumes the problem solved. But what is not certain is that those who possess pounds sterling *want*, given the relevant prices, to buy goods in Britain.

This tendency to equilibrium is valid in all cases, whether the currency be stable (gold standard, gold-exchange standard, foreign-exchange standard) or not (paper-money standard), although in the latter case there is the further addition of an exchange effect. Besides, what tends to equilibrium is the balance of real payments, not the sum of the balances of real payments and of the flow of bank capital.

An import of capital destined for investment increases the country's income, whereas an import of liquidities by an expatriate bank in order to meet an increased need for currency does not increase any income. This being so, it is understandable why the underdeveloped countries have not paid in real exports for the increase in their circulation of money.[20]

The new theory as presented by the post-Keynesians.[21] Keynesian thinking, by putting in the forefront the multiplier effects of a primary increase in incomes, was to make possible the final perfecting of the theory, which was achieved by Metzler and Machlup.

Reduced to its simplest terms, the mechanism is as follows. A positive net result of the external balance operates like an independent investment; it determines, through the working of the multiplier mechanism, a greater increase in the national income, which, given the propensity to import, makes possible a readjustment of the external balance. Conversely, a negative net result of the external balance deter-

mines a shrinkage of total income which facilitates a reduction in imports that contributes to bringing the external balance back to equilibrium.

The simplest example of how the mechanism functions is given by Haberler. The factors that can cause disturbance (independent investment I, and net result of the external balance X - M) constitute the multiplicand. The multiplier is merely the converse of the propensity to save (c measures the propensity to consume). We thus have:

$$Y = (I + X - M) \frac{1}{1 - c}$$

Subsequently, attempts have been made to improve the formula by making more precise the independent factors and the induced factors distinctive of external exchange. This later work has not, however, altered the essence of the reasoning.

Colin Clark's initial formula:

$$Y = (I + X) \frac{1}{1 - c + m}$$

increases the multiplicand by deleting (- M) but decreases the multiplier by the propensity to import (m). It makes it possible to distinguish to some extent between the induced effects and the independent ones. Harrod's formula brings in a real element by distinguishing between imports on the basis of their real destination: imports destined for internal investment, or for production of goods for subsequent export. Clark's other formulae make possible a more exact distinction between induced effects and independent ones (his second formula appeared in the *Economic Journal* in 1938) and bring the time element into the scheme (Clark's dynamicized multiplier).

The model put forward by Machlup (a model with successive injections) enables one to take account simultaneously of the effects of variations in country A's balance on country B and of the reciprocal effects of B's balance on that of A. The same is true of Metzler's horizontal multiplier model. It must be said that Metzler draws attention to a very interesting case, namely, that in which the fall in the national income in the paying country and in the receiving country is such that the debtor country is unable to settle its debt. The possibility of internal equilibrium thus depends on the values of the propensities to consume and to invest in the two countries. This case is particularly interesting, for it ought to enable us to put our finger on the problem: it shows, indeed, that the equilibrium of the external balance reflects

only a structural adjustment of the economies involved, the requirements for which it makes clear.

These post-Keynesian theories have been subjected to much criticism. The symmetrical character they attribute to increase and reduction in income has been questioned. Kindleberger has noted that, in an underdeveloped country, Duesenberry's "demonstration effect" is reflected in the fact that the extra imports that result from prosperity become permanent requirements that cannot be reduced when exports collapse during a period of depression.[22] These theories have also been criticized for assuming stable marginal propensities and rigorously stable prices, rate of exchange, and rate of interest.

These are, in fact, only secondary criticisms. The crucial criticism to be leveled at all the formulas of the foreign-trade multiplier is similar to that which multiplier analyses in general are subject.[23] If demand creates its own supply, this takes place, here as before, through the intermediary of production, the development of which calls for the investment of saving. What has to be taken into consideration is thus not the propensity to save but the propensity to hoard (Keynes's "forced" hoarding, not the precapitalist hoarding of real values). What then becomes of Haberler's formula of the foreign-trade multiplier?

In the developed countries, where the Keynesian propensity to hoard is *not* nil, this formula has some meaning, as has, along with it, that of the foreign-trade multiplier. Here, a surplus in the balance does indeed behave like an investment. A "gift," even a temporary one, to foreign countries contributes a certain animation to economic activity. This Keynesian propensity to hoard is merely a recognition of the contradiction between producing and consuming capacity that is characteristic of developed capitalist society.[24]

In the underdeveloped countries, however, where this propensity *is* nil, the value of the second member of the formula becomes infinite. The multiplier loses its distinctive significance. While in the underdeveloped countries a really productive investment does increase total income and so make possible subsequent additional imports, a mere surplus is not productive; as production in the underdeveloped countries is limited not by capacity to consume but by capacity to produce, a "gift" does nothing to enable society to become richer. On the contrary, this gift constitutes a loss, diminishing the national income by the corresponding amount.

Furthermore, the question of what the various "propensities" are—the answer to the question about the stability of propensities to import or what the alterations are that affect it—is not one of empirical fact

but a basic theoretical question. For what is meant by the structural adjustment that is a condition of equilibrium in external payments? This adjustment is expressed precisely by alterations in propensities, including the propensity to import. We are therefore not entitled to imagine a variety of models, each characterized by different variations in these propensities. This empiricist attitude gets us no further. For propensities do change; furthermore, we need to know how and why they change. Models constructed on these income effects of the external disequilibrium are therefore incapable of throwing light on the problem of the external balances of the countries of the periphery.

From observation of the volatility of prices in the underdeveloped countries, which is incompatible with the foreign-trade multiplier analysis, the income effect has been rejected as a means of restoring equilibrium in these countries. Ohlin was overtaken by the post-Keynesians, and the modern theory has become that of the multiplier, and no longer that of *International and Inter-Regional Trade.* This was going too far, however. I reject the multiplier analysis for basic reasons which I have already explained; but I consider that Ohlin's analysis remains valid.

In rejecting the multiplier analysis, some contemporary authors have mostly gone back to the traditional price effect. They rejected the income effect because of the "low propensity to save" of the underdeveloped countries and the weakness of the multiplier that follows from this, owing to the volatility of prices in these countries. And as price fluctuations are observed in these countries that are independent of the rate of exchange, they revert to the crude price-effect.[25] During depression, the prices of exports fall, even though the local currency stands firm (monetary integration). In a period of prosperity these prices rise, with the local currency still stable. Should it not be concluded from this that the analysis made previously, in which direct effects by the external balance upon prices were rejected, retaining only the immediate effects of this balance upon prices through the rate of exchange, is incorrect? Should one not be convinced that the underdeveloped countries prove the possibility of a direct price effect? That in these countries the fluctuations in the balance of payments entail fluctuations in prices through the intermediary of international currency movements?

Not at all. Prices fluctuate at the mercy of demand in the underdeveloped countries just as in the developed ones. If the export prices of the underdeveloped countries fall in a depression period, this is due not to the deficit in the external balance but to a decline in the demand

for these goods, a demand mainly from abroad. The volume and the price of exports fall together and for the same reason. The deficit in the balance has nothing to do with *causing* this fall: on the contrary, it results from it. Moreover, the quantity-theory schema is here caught red-handed, so to speak. The deficit in the external balance ought, according to the classical theory, to entail a drain of payment media that would itself bring about a fall in prices (a cumulative process). In a case where the local currency is independent, the exhaustion of local stocks of foreign exchange and gold is not the cause of the fall in prices but the consequence of this fall, which has contributed, along with the fall in the volume of exports, to make the external balance unfavorable. This exhaustion leads not to a subsequent fall in internal prices but to devaluation, and thereby to an increase in the price level. This general and proportional increase cancels out the effects of devaluation. These temporary effects have, in the circumstances, no positive significance. Devaluation under depression conditions does not in fact make possible an increase in the volume of exports. The external deficit is therefore temporarily worsened, since unit price in foreign currency has fallen.

The conclusions at which we arrive, where the theory of the readjustment of the balance of payments is concerned, are thus wholly negative. In the first place, despite appearances, the so-called price effect no more functions in the underdeveloped countries than it does in the developed ones. Second, the "exchange" effect does not tend to restore equilibrium. Alterations in the rate of exchange are often, especially in the underdeveloped countries, effective only for a limited period (until the internal increase in prices has become general and proportional to the fall in the rate of exchange), and are often effective in a perverse direction (owing to the price elasticities). Third, the "income" effect is only a tendency, and implies the pressure of structural adjustment that constitutes the very essence of the problem.

There is, then, no mechanism that automatically re-equilibrates the external balance. All that can be said for certain is that imports, in general, transfer purchasing power abroad in a precise monetary form, and that this transfer naturally tends to make possible subsequent exports. This tendency is a very general one. It is similar to that by which, in a market economy, any purchase makes possible a subsequent sale, provided some other conditions are fulfilled. But just as the existence of this profound tendency does not justify the "law of markets," so it does not justify the construction of a theory of automatic international equilibrium.

Yet the external balance was, broadly speaking, kept in equilibrium

for a whole century. It must be concluded from this that the structure of the underdeveloped countries was at that time perfectly in conformity with the requirements of the dominant countries. The whole problem results from the fact that this "structural harmony" is not exempt from internal contradictions. On the contrary, these contradictions become more acute, because "equilibrium" corresponds, for the dominated periphery of the system, to a "blocked transition." Its true nature then becomes apparent, and the international specialization on which it is based is found unbearable. External disequilibrium becomes manifest and forces its victims to react. This reaction, if it does not go so far as to challenge the foundations of the system of international specialization, shows itself on secondary, nonessential levels—leading, for example, to changes in the monetary system. This is how the underdeveloped countries have often broken through the rigid monetary dependence which, by preventing the momentary fluctuations in the external balance from altering the internal conditions of the underdeveloped economy, facilitated the structural adjustment that was capable, broadly speaking, of establishing equilibrium in this balance. Today, when these temporary fluctuations in the external balance cause changes in the internal conditions of the underdeveloped economy, structural adjustment has become more difficult.

The new policy of capital export reflects awareness of this situation in the developed countries. The World Bank and the financial consortiums are not ignorant of the fact that "natural" structural readjustment no longer functions as it did in the nineteenth century. They rightly deduce from this that capital can be invested only where its utilization will immediately give rise to a surplus of foreign currency that can provide the means of exporting the profits. Chronic disequilibrium is thus resolved by reducing the degree of international integration, reducing the flow of foreign capital. But the underdeveloped economy remains basically what it was before: a peripheral capitalist economy, that is, one where the process of capitalist accumulation has been based from the start not on expansion of the internal market but on external demand. Since external demand and the flow of foreign capital continue to be the essential source of the development of capitalism in the underdeveloped economies, this development is itself held back by the external disequilibrium. This is the phenomenon of blocked transition.

Conditions and Significance of the "Natural Equilibrium Rate of Exchange"

Par as equilibrium exchange rate between convertible currencies. We have just seen that the real features of the two economic systems in contact with each other may be such that the balance of payments cannot be equilibrated in the context of free exchange. Since the automatic mechanisms do not function, it seems that in this situation there is no equilibrium rate of exchange. The structural disequilibrium goes so deep that, whatever the rate of exchange may be, the external balance remains unfavorable to one partner and favorable to the other.

What is called the equilibrium exchange rate is in fact a rate that ensures equilibrium in the balance of payments without restrictions affecting imports and the "natural" movement of long-term capital. If it be said that the mechanisms that readjust incomes have only a *tendency* to operate, this amounts merely to saying that such a rate does not always exist. To put it more precisely, as the mechanisms of the exchanges belong to the short term, whereas structural readjustment is a long-term matter, there is not always an equilibrium rate of exchange, and still less a "natural" or "spontaneous" one.

Yet it appears that an equilibrium rate did exist throughout the nineteenth century. Par was certainly at that time, from one point of view, the "normal" rate of exchange between two currencies that were both convertible into gold. Purchase and sale of gold by the banks of issue, at a fixed price and in unlimited amounts, confined the fluctuations of the exchange rate between the narrow limits of the gold points. Does this mean that par was a rate toward which the market rate actually tended? Aftalion showed that the mechanisms of the exchange do not differ in kind whether currencies are convertible or not. In both cases, variations in the exchange are determined by the same forces: the state of the balance of payments, how the future value of a currency is estimated within the given economy, and the speculative movements of capital. The only difference—which is here a substantial one, to be sure—is that the system of convertibility kept exchange fluctuations within narrow limits.

If there were international structural disequilibrium, the balance of payments of one of the partners would be constantly unfavorable and that of the other constantly favorable. The rate of exchange would be kept stable at the level of the outgoing gold point. This rate would entail a steady drain of gold from the country with the unfavorable balance toward the country with the favorable one. Such a state of

affairs certainly could not last. The central bank would combat the gold drain by raising the discount rate. If the structural disequilibrium went too deep, this policy would soon be found ineffective.

Nevertheless, par would, in this case, have constituted an equilibrium rate. Chronic disequilibrium of the balance means that there is a tendency to import too much; in other words, that total demand is focused excessively on imports and not enough on home-produced goods. A price distortion is bound to appear eventually, with a decline in the prices of home-produced goods. Does this bring us back, then, to the price effect? Not at all. What we have here is not an influence by the quantity of money upon the general level of prices, but an influence by income upon relative prices. The decline in internal prices, and so in the prices of exports, means a worsening of the terms of trade and a decline in the income of local exporters, that is, in the country's income, which will bring about a decline in imports. The mechanism will continue to function so long as equilibrium has not been reestablished. Convertibility gives the system sufficient solidity for the income mechanism to be able to exhaust its effects, that is, eventually to re-equilibrate the balance.

What happens, though, if convertibility is suspended? What then happens to the theory of the exchange?

Disappearance of the "normal" rate of exchange when inconvertibility prevails. As the purpose of the theory of the exchange is to explain the ratio that obtains between the values of two currencies, it is plain that one's general conception regarding the value of money is what ultimately determines one's conception of the fundamental nature of the exchange. This is why marginalism, which defined the value of money as its purchasing power, arrived at the theory, on the question of the exchange, of the parity of purchasing powers. And just as it landed up with the quantity theory in the internal domain, so also was it to land up with an international quantity theory, determining an international distribution of gold that would ensure equilibrium of the exchanges at the level of purchasing powers.[26]

According to my analysis in which I reject the quantity theory, it is necessary, when determining the internal value of money, to distinguish the case of convertibility from that of inconvertibility.[27] In the former, the real cost of gold production is what ultimately sets limits to variations in the value of money. In *this* sense, par did indeed constitute the normal rate of exchange. When convertibility is abandoned, so that the central bank is no longer buying and selling gold in unlimited

amounts and at a fixed price, this price may itself be drawn into the general upward movement, so that sight is lost of the concatenation of mechanisms that now seem to be perfectly reversible. Just as there is no longer a normal price level, so there is no longer a normal rate of exchange.

Aftalion studied exchange variations in situations of this kind (in the Europe of 1914–1925) and defined the way this mechanism works. Closely examining events in France and other countries, Aftalion showed that while, on the one hand, the purchasing power of a currency did indeed form an element in the demand for it, on the other, fluctuations in the rate of exchange could themselves, in a world where inconvertibility prevailed, draw prices along with them (through the two channels of costs and incomes), so that the theory of parity of purchasing power lost its reality. In his book, Aftalion undertook a minute study of the psychological mechanisms of speculation. Since the "safety-rail" of convertibility has gone, speculation drags the rate of exchange along with it, and this rate determines the level of internal prices and of the price of gold. In the end, the very expression "normal rate of exchange" loses all meaning. The existence of too great a gap, over a long period, between the official exchange rate and the purchasing capacity of a currency, whittled away by inflation, makes export difficult and increases the debit side of the balance. Economies finding themselves in this situation are then obliged to take the step of devaluing their currency in order to adapt its external value to its internal purchasing power. This devaluation may in turn give rise to a new wave of inflation that cancels out all its effects. There is no need to bring in the factor of speculation. Speculation is, indeed, in these circumstances based on reality. People speculate on a fall because experience has proved that such a situation contains the germ of a future devaluation. It is this actual situation that is the cause of devaluation, and not the speculation that precipitates these events.

All the conditions needed for a situation like this to develop are present in international structural disequilibrium. The chronic deficit in the balance of payments that reflects this profound structural disequilibrium compels states to devalue their currency. The devaluation of inconvertible money gives rise in its turn to a wave of inflation that brings the situation back to where it was before. Once again it becomes clear that chronic disequilibrium cannot be avoided except by way of control over external trade and capital movements, by direct influence on real movements. When the currency has become inconvertible the system no longer possesses the solidity it needs in order to wait for the

income effect to exhaust its consequences and for equilibrium to be restored. The tendency to disequilibrium entails permanent instability.

The equilibrium exchange rate and full employment. Modern economists—in particular, Nurkse—lay down an additional condition when defining the equilibrium exchange rate, namely, that it must ensure full employment.[28]

It was Robinson who established a connection between the level of employment and the rate of exchange.[29] This connection is, at bottom, extremely artificial. It follows from an almost caricatural simplification of the Keynesian analysis. Robinson links the level of the national income to the rate of interest in a mechanical way, so that there is always a level of interest that ensures full employment—whereas Keynes rightly insisted on showing that it was possible for unemployment to become an insoluble problem. Robinson then links, in an equally artificial way, the international movements of capital with the rate of interest—whereas these movements are dictated by the absolute and relative volume of incomes from property in the developed countries and prospects of profitability of investment both in these countries and in the periphery (prospects that are largely independent of fluctuations in the rate of interest). Equipped with these mechanistic and artificial relations, she shows how to each level of interest (and therefore of employment) there corresponds a level of the exchange which equilibrates the balance of payments. This way of considering that one of a group of variables can always be fixed arbitrarily because the others then adjust themselves to this arbitrary value is typical of the method employed by the analysts of "general equilibrium." It is liable to all the criticisms that can be made of the empiricist method in economics. It is thoroughly formalist. It denies the existence of fundamentally irreversible causal relations. This is why the equilibrium rate of exchange cannot be connected with the problem of the volume of employment other than in an artificial and unrealistic way.

The equilibrium exchange rate as the rate of domination of the periphery by the center. In reality, this exchange rate may very well be—and even certainly is, in relations between developed and underdeveloped countries—an exchange rate of domination. To each level of the exchange there corresponds a certain distribution of relative profitability of investments in the different sectors. But it is not the exchange that determines the volume of absorption of foreign capital by the underdeveloped country. Precisely the contrary is true. Capital flows in

to the extent that the developed countries have free capital to dispose of and that conditions make these external investments profitable; and by weighing upon the balance of payments, they determine an equilibrium level of the exchange—in other words, a level that makes possible payment of interest on imported capital and payment for the volume of imports determined by the degree to which the underdeveloped countries are integrated into the international market: that is, determined by the demand for foreign goods that the volume of exports (bound up with this degree of integration) makes possible. In other words, the mechanism of the exchange enables the structure of the underdeveloped country to be adjusted to that of the dominant country. In this sense, a "better" equilibrium, meaning one that makes possible an alteration of this structure, necessitates restrictions on imports. Clearly, in this case too, when the protection constituted by the gold standard has been removed, a passing change in conditions of trade or movement of capital entails an alteration in the rate of exchange which, by bringing about a different distribution of relative profitability between different sectors of the underdeveloped economy, influences the orientation of foreign investments and, consequently, the conditions of domination. But what always happens is an adjustment by the underdeveloped structure to the developed one.

STRUCTURAL ADJUSTMENT OF THE PERIPHERY OF THE WORLD CAPITALIST SYSTEM TO THE REQUIREMENTS OF ACCUMULATION AT THE CENTER

The Theory of International Structural Adjustment

The underdeveloped economies are not precapitalist economies or even dualistic economies characterized by the juxtaposition of two independent systems, one capitalist and the other not.[30] They are *peripheral capitalist* economies. That is, they are dominated by the talist mode of production, but this mode of production, which in their case is based on the external market, does not tend to become exclusive, as it does where it is based from the outset on the internal market, in countries where the break-up of precapitalist modes of production has preceded its victory.

It is therefore not surprising that when we deal with any large econo-

mic problem relating to these countries we always find ourselves considering the external balance. All the important economic changes that may occur during the development of these countries influence the different elements in the balance of payments. Can the same be said of the developed countries? Here, too, it is not possible to conceive of any big change that would not affect the conditions governing relations between the national economy and foreign countries. In fact, however, the two problems are different in kind. It is possible to construct a valid model of development of a capitalist economy without bringing international relations into it. This theoretical model is perfectly correct because capitalist economy forms a coherent whole which is logically self-sufficient. A model like this is out of the question for an underdeveloped country, which, by definition, cannot be isolated from the international market. The forms of its international integration condition the pace and direction of its development. The underdeveloped economy does not constitute a coherent whole in itself. It does not make sense apart from the world capitalist market which shapes it.

The problem is therefore not whether there are mechanisms that ensure "spontaneous" equilibrium of the external balance in general, and in particular in relations between the dominant developed center and the dominated underdeveloped periphery. It is clear that no such mechanisms exist, at least in a form that would ensure "automatic" equilibrium. It is only the ideological character of current economic science, its will to discover at any price the mechanisms of "universal harmony," that enables it to state the contrary, making use of anything and everything: a fundamentally mistaken theory (the quantity theory of money); an inadequate analysis of elasticities, full of errors; and recourse to empiricism and refusal to analyze—notably as regards the significance of "propensities."

The problem is, why, despite the absence of such mechanisms, the system does function, ensuring relative equilibrium in relations among developed capitalist countries and between them and the countries of the periphery. While, as regards relations among developed countries, the system certainly functions, this happens by way of repeated crises, which make up the history of the development of capitalism: the classical cyclical crises of the nineteenth century and the first third of the twentieth century, the crisis in states' monetary affairs and foreign relations, and, most recently, the "dollar-famine" crisis of the postwar period, followed by the present crisis of the international monetary system. Permanent structural adjustment constitutes the background to

this story—an adjustment always marked by inequality, asymmetry, and domination, yesterday by Great Britain and today by the United States.

In respect to relations between the center and the periphery, which is what most concerns us here, the (fundamentally unequal) adjustment takes place through a permanent tendency to external deficit on the part of the underdeveloped countries, a tendency marked by increasingly chronic "difficulties" in their external payments.

This profound tendency is nothing other than an expression of the forces that make the exports of the capitalist countries more "necessary" (inherent tendency to export) than for the underdeveloped economies and that at the same time facilitate their sale. The dynamism of the capitalist economies and the growing absolute advantage that is the reflection of this in industrial production enables the exports of these countries to be always ahead of those of the underdeveloped countries. This constant tendency, reinforced when the capitalist economies become overdeveloped, is still further strengthened when, during the cycle, the moment of recovery arrives. In contrast to this, the development of peripheral capitalism, based on expansion of external exchange and investment of foreign capital, continues to be impelled from the outside. It therefore lacks an aggressive dynamism of its own that would oblige it to open new markets for itself. It merely adapts itself to the market that is opened to it by the dynamism of the capitalist center.

True, this chronic disequilibrium is continually overcome through adaptation of the underdeveloped structure to the requirements of the developed countries. This structural readjustment is effected thanks to readjustment of the structure of relative prices, which is such that the export products that interest the center are at every stage the most profitable ones. The generalizing of money circuits within the wants economy enables local production to be given a new direction dependent on capitalist profitability. This reorientation enables export activity to be developed further. Foreign capital itself, when it comes on the scene, moves, in accordance with immediate profitability, into activities that are bound up with the external market.

But this international specialization establishes itself only through a permanent struggle against increasing obstacles. Peripheral capitalism does not radically destroy precapitalist modes of production. On the contrary, it reinforces the precapitalist structures. This happens with the strengthening of the agrarian capitalism that is characteristic of underdevelopment.

In nearly all the underdeveloped countries, agrarian capitalism has constituted the principal form of capitalist development. On this basis, social classes of landed proprietors have come into being—latifundia-owners in some countries, rich peasants elsewhere—which have played a determining role in history.[31] This type of development has reinforced the dominant position of ground-rents—a reinforcement that is reflected in a high propensity to import luxury goods made in the most advanced countries.[32] These imports are larger in proportion as the conjuncture is favorable. This reinforcement of rent is also reflected in intensified hoarding, which calls for increased imports of gold (bought abroad). The specific character of this development, putting ground-rent in a dominant position, causes the investment of capital, both foreign and national, to be in part directed toward tertiary production, which is by definition unexportable. This exceptional profitability of unproductive activities attracts foreign capital into sectors that cannot give rise to the surplus of exports needed to pay the profits on investments.

The very mechanism of international specialization bears within itself its own contradiction. It means for the underdeveloped country a narrowing of the range of goods it produces (that it can supply) at the very moment when its demand is increasing (as a result of the growth of income that colonial opening-up implies), in other words, when it is demanding a more varied range of goods. The equilibrium of supply and demand is then possible only on condition that imports are able to grow very fast, faster than production. This is what is meant by "increased propensity to import." Such a mechanism can function only if exports are also able to grow very fast, that is, when the system of international specialization is being installed. For the periphery as a whole, and over a large period, the center's demand for products of the periphery can only grow at the pace of the center's own growth. Thus, the history of the periphery necessarily appears as an endless series of "miracles"—brief periods of very rapid growth when the system is being installed—followed by blockage, stagnations, even retrogressions: "miracles without a morrow," "failures to take off."

Specialization itself must constantly assume new forms. During its long history—three centuries in the case of Latin America, over a century for Asia and North Africa, eighty years for Black Africa—the periphery has successively fulfilled a variety of functions in this specialization in the service of capitalist accumulation at the center. In the period of mercantilist capitalism it provided superprofits for large-scale

maritime trade: Africa supplied the labor (slave trade), America the product (sugar, etc.), the "feudal" consumer in Europe the means of realizing this superprofit. In the period of industrial capitalism international specialization at first took the form, principally, of commercial exchanges—the *économie de traite*, characterized by the exchange of agricultural products (the development of which gave rise to peripheral agrarian capitalism) for manufactured consumer goods. Then, with the investment of foreign capital, from the end of the nineteenth century onward, came mining activity and, after that, the establishment by this capital of light industry. The international specialization that obliges the underdeveloped countries to specialize in light production also necessitates that they import heavy goods. Through this channel the level of the propensity to import is raised.

At the present time the outlines of a new kind of international specialization are emerging: the developed center will specialize in automated forms of production requiring very highly skilled labor, the periphery will specialize in the classical (including heavy) forms of production of the industrial epoch, requiring only unskilled labor.

Upon this permanent and growing basic contradiction of specialization is superimposed that of the dynamic of foreign investment. The integration of the underdeveloped countries into the capital market weighs directly upon the balance of payments, owing to the outflow of funds to which it leads. The payment to foreigners of profits on previously invested capital increases very rapidly. The backflow of profits tends to become greater than the inflow of new capital. A very simple reckoning of compound interest shows that—whatever the rate of growth of the inflow of new foreign investment—the backflow of profits must very soon surpass it. Thus, the periphery moves from the stage of being a young borrower to that of being an old one. The monopoly character of the foreign capital invested in the periphery causes this "tribute" to be still greater. At the same time, the export of the profits of foreign capital annuls the multiplier effects of acceleration. Transfer abroad of the field of operation of the accelerator is itself reflected in a rise in the level of the propensity to import.[33]

The monetary and banking integration that has accompanied this hierarchical organization of international specialization facilitates the flight of local saving and its investment at the center. The mechanism functions as a powerful centralizer of capital at the center. The underdeveloped countries are not, as the false image of current theory presents them, countries that receive capital because they are lacking it,

but, on the contrary, countries that *supply* capital to the center.

In the present period the increasing difficulties of international specialization cause a crisis of public finance to be general throughout the periphery. The state has to bear the social costs of this specialization—in particular the costs of infrastructures, which require very heavy recurrent expenditure. In its turn, public expenditure, growing both absolutely and relatively, entails an increase in propensity to import, for this expenditure has, directly and indirectly, a very high import content.[34]

The chronic deficit was continually overcome during the nineteenth century by a structural adjustment of this type which was greatly helped by the solidity of the metallic standard. For the countries with independent currencies (especially in Latin America), the cycles of repeated devaluation did not hinder their structural readaptation. Today this devaluation is done without. A rigid exchange rate, officially fixed, tends to become the rule. This rigidity has the result that the entry of foreign currency is inadequate to meet requirements. The foreign capitalists are thus always in danger of seeing their profits blocked. The risk element in foreign investment becomes greater. The intensity of the flow of new foreign capital declines or becomes irregular. This decline in the import of foreign capital worsens the situation, since it reduces one of the two main sources of foreign currency. Sooner or later the authorities have to adopt the only possible solution, a cut in imports.

For their part, the institutions of the center concern themselves with directing investment into the sectors that are immediately profitable, that is to say, those which produce a surplus of currency in the course of their activity—for example, raw materials. Foreign investors have no fear, in this connection, of any measure that may be taken by the public authority, since the product itself is wholly destined for export. Even if the local government were to decide that the profits of foreign investment should remain frozen, the foreign capitalists would still be able to repatriate their gains. All that would be needed would be to sell the raw materials to a daughter-concern at a slightly lower price. Whatever local legislation might be regarding exchange and the export of profits, the enterprise would continue to be profitable. This does not apply where capital is invested in other types of activity, such as those which dispose of their products inside the country itself. Activities of this order are in jeopardy from the measures that the local authorities may be led to adopt in order to deal with their external deficit.

The equilibrium secured in this way by the state authorities of the

periphery—through measures of control which leave fundamental orientation of the economy (international specialization) unchallenged—amounts in fact to an adjustment *downward,* by checking the process of integration into the world market.

Thus, structural adjustment of the periphery to the requirements of accumulation at the center means above all an increasing transfer of capital from the periphery to the center. Unequal exchange, that is, the worsening of the terms of trade over a whole century, involving the exchange of increasingly unequal quantities of total labor (direct and indirect), has assumed extraordinary proportions.[35] Following Emmanuel, I have shown how unequal reward of labor (the different proportions of the value of labor power ranging from 1 to 20, whereas the relevant differences in productivity range only from 1 to 5), together with the law of the international equilization of profit, could signify a transfer of value of the order to $22 billion. If the trade of the periphery represents 20 percent of its total product, that means that 15 percent of this product is transferred in this way.

It is absurd, in these circumstances, to ascribe any natural value to the equilibrium exchange rate that facilitates the working of these mechanisms which centralize wealth on the world scale. Only the ideology of universal harmony prevents one from seeing the true nature of this structural adjustment. Development policies that recommend the adoption of a "realistic rate of exchange" that would ensure this equilibrium of the external balance, at least as a rate for calculating the social profitability of projects (a reference exchange rate), are, in fact, policies for the development of underdevelopment.[36]

This mechanism of structural adjustment has never been studied systematically by current economic theory. The crisis, manifesting itself through the crisis of external payments experienced by an increasing number of underdeveloped countries, is nevertheless impossible to ignore. Current economic theory therefore seeks to account for it, not as the outcome of a fundamental mechanism of the world market, but as a phenomenon peculiar to our time.

Prebisch and Kindleberger analyze the matter in this way. The former considers that it is a new phenomenon of the twentieth century, due to continuous decline in the propensity to import of the new center (the United States). The latter attributes the phenomenon to the "maturity" of the industrial countries. Both writers remain at the level of description, without analyzing the phenomenon as a symptom of blocked transition.

The Thesis of R. Prebisch[37]

The thesis maintained by Raul Prebisch as an explanation of the chronic deficit of the underdeveloped countries (the tendency for gold to leave these countries) is bound up with the decreasing propensity to import of the center of the twentieth-century world, the United States.

Fluctuations in income are assumed to have been greater in the nineteenth century in the developed countries (mainly Britain) than in the underdeveloped ones. During depression periods the fall in the national income, which was relatively more serious in Britain than in the countries of the periphery, entailed a fall in the imports of the dominant center which was relatively greater than the fall in the imports of the peripheral countries. Britain then attracted the gold of these countries to itself, since the balance (assumed to be in equilibrium throughout the cycle as a whole) was unfavorable to the underdeveloped countries. Conversely, during periods of prosperity, gold flowed back to the underdeveloped countries: the relatively greater expansion of the national income of Great Britain entailed an increase in the level of British imports that was relatively greater than that of imports into the underdeveloped countries.

In the twentieth century, Prebisch maintains, the phenomenon has lost its symmetry because the propensity to import of the United States is continually falling, while that of Great Britain remains stable. For the phenomenon to continue to be symmetrical it would have been necessary for the ratio of fluctuation at the center to fluctuation in the periphery to increase regularly in proportion to the decline in the center's propensity to import. But this is not the case. The result is that the volume of gold that leaves the underdeveloped countries for the developed ones during depression exceeds the volume that moves in the opposite direction during prosperity.

It is to be noted that Prebisch's proposition, namely, that the balance of the underdeveloped countries was in equilibrium over a long period in the nineteenth century and is now chronically unfavorable, is based not on the relative *size* of the fluctuations at the center and in the periphery, or on the absolute size of the propensities to import, but exclusively on the *movement* of the center's propensity to import.

To clarify this matter, let us assume that the world is divided into two countries: the developed center and the underdeveloped periphery. Let us then assume that fluctuations are greater at the center. In a period of depression the center's imports fall by 50 percent, say, and those of the periphery (which are the center's exports) by 10 percent.

The balance worsens for the periphery and improves for the center. The opposite occurs during a period of prosperity. Over a complete cycle, the external balance is in equilibrium. One might have assumed the opposite—that is, bigger fluctuations, or equally big ones, in the periphery—and the result would have been the same. The relative size of the fluctuations explains who gains in prosperity—the center or the periphery—and who suffers in depression. It does *not* explain any asymmetry that may show itself in the balance, with a chronic deficit for one of the partners.

Propensities to import explain the relative size of the fluctuations. Let us assume that propensity to import is low at the center and high in the periphery. A certain fluctuation, one way or another, in the income of the center causes a more or less pronounced fluctuation in the periphery, depending on the relative size of the two incomes. Here, a slight fluctuation at the center causes a more pronounced fluctuation in the periphery. Conversely, a pronounced fluctuation in the periphery has only a slight effect at the center. The fluctuations at the center are slighter than those in the periphery. Normally, it must be so because, the world being divided into two countries, their propensities to import are inverse to their incomes (the imports of the two countries being equal), and the income of the center must be the greater.

Let us now bring in a movement in the center's propensity to import. During a depression period the center's imports, the fluctuations in which we are assuming to be greater, fall by 50 percent, those of the periphery by 10 percent. The center has a surplus in its balance, the periphery a deficit. Prosperity arrives. Meanwhile, the center's propensity to import having decreased, its imports increase by only 20 percent instead of 50 percent. Those of the periphery increase by 10 percent. The balance of the periphery is favorable, but to a lesser extent than it was unfavorable during depression. There is a chronic deficit. It would be the same if the fluctuations were greater in the periphery. During depression the center's imports fall by 10 percent, those of the periphery by 50 percent. There is a surplus in the periphery's balance. During the prosperity period that follows, the center's imports increase by 20 percent, those of the periphery by 50 percent. There is a deficit bigger than the periphery's surplus had been.

Therefore, whether one accepts or rejects Prebisch's assumption (greater fluctuations at the center in the nineteenth century), his reasoning remains sound either way: if the center's propensity to import declines regularly, it is necessary, in order that the phenomenon may remain symmetrical, that, parallel with this, the quotient of fluctuation

at the center by fluctuation in the periphery shall increase in the same proportion as propensity to import declines.

I think that, in the nineteenth century, fluctuations were approximately the same in size at the center and in the periphery—indeed, my calculations show that they were possibly even a little larger at the center. In the twentieth century, at least down to the Second World War, they seem to have been larger both at the center and in the periphery, but especially in the periphery. The quotient in question has therefore probably declined, which has aggravated the effect of the decline in propensity to import.

This is the essential point. What Prebisch can be criticized for is having chosen, as proof of the decline in the propensity of the developed countries to import from the underdeveloped ones, the figure for the general propensity of the United States to import (declining from 5.9 percent in 1919 to 3.0 percent in 1948). What in reality accounts for the phenomenon is not the evolution undergone by the propensity to import in general, but the evolution of the propensity of the developed countries, taken together, to import from the underdeveloped ones, also taken together. The general propensity of the developed countries to import increases regularly owing to the increasing trade of these countries among themselves. The propensity to import of the underdeveloped countries—and as these countries do not trade with each other, this propensity is equivalent to their propensity to import from the developed countries—has also increased. Altogether, the propensity of the underdeveloped countries to import from the developed ones has increased more than that of the developed countries to import from the underdeveloped ones, which simply reflects the fact that the ratio of the center's income to the periphery's has increased.

It is therefore not because the center's propensity to import has fallen that these difficulties have occurred, but because it has increased less rapidly than that of the periphery. This propensity seems to have diminished for the United States, since that country's general propensity to import has fallen, although it may be that its propensity to import from the underdeveloped countries has increased. But for the developed world as a whole this is not true.

It is true that, alongside this process, the size of the relative fluctuations in the periphery has increased, at least down to the Second World War—but by very little. On the other hand, the propensity of the underdeveloped countries to import from the developed ones has advanced from zero to about 30 percent (a little less than their general propensity

to import). The propensity of the developed countries to import from the underdeveloped ones has advanced from zero to about 7.5 percent (three-tenths of their general propensity to import). The ratio of the center's propensity to import from the periphery to the periphery's propensity to import from the center, which was about unity at start, is today 7.5:30, or 25 percent (the inverse proportion is about 4).

Thus, the propensity to import of the developed countries as a whole has indeed increased less than that of the underdeveloped countries as a whole.

What does Prebisch's thesis mean, then? Quite simply, that the center's development is based on the home market (the market of all the developed countries taken together), whereas that off the periphery is based on the external market (the market of the developed countries). It is this fundamental asymmetry that accounts for the evolution of the ratio of propensities to import. But this movement is not new, not something special to the twentieth century. It has been permanent ever since the periphery was integrated into the world market. How, then, are we to explain the fact that the chronic deficitary tendency in the external balance of the periphery seems to have appeared only late in the day? By bringing in the factor that Prebisch neglects in his analysis: the movement of capital.

Prebisch takes into account only the trade balance, ignoring the other items in the balance of payments. The chronic tendency of the trade balance of the underdeveloped countries to be unfavorable can be offset by the influx of foreign capital. This influx, at certain periods of the cycle (prosperity), may indeed cause the fluctuations in the balance of these countries to be greater, but it nevertheless contributes to equalizing the surpluses and deficits over the cycle as a whole. It is true that this inflow carries the implication of an eventual backflow of profits that must exceed it in volume. It will be this backflow of profits, growing bigger and bigger, that in the end will become responsible, together with the movement of the trade balance already analyzed, for the chronic deficit in the balance of the underdeveloped countries in our time. During the nineteenth century the increasing flow of foreign capital, greater than the backflow of profits, made up for the progressive worsening in the trade balance. In the twentieth century the increasing backflow of profits, greater than the inflow of new capital, is added to the progressive worsening of the trade balance, and so makes the overall balance of payments even less favorable. These and other factors were brought by Kindleberger into *his* schema.

Kindleberger's Analysis [38]

It was not on the basis of the problem of relations between the underdeveloped countries and the developed ones that Charles Kindleberger made his analysis, but in connection with the problem of the "dollar famine" and the relations between Europe and the United States in the years following the Second World War. This problem gave rise to an economic discussion in which the chief participants were Harrod and Kindleberger.

Harrod, defending British interests, blamed the dollar famine on the policy of the United States, and in particular on the overvaluation of the dollar in relation to gold, together with the American customs tariff, which he considered too high. Kindleberger answered the British economist in the terms of a general theory. He began with the observation that the mechanism that causes the underdeveloped countries to be victims of the conjuncture in all its phases is similar to the mechanism that now operates in relations between Europe and the United States. In 1949 a minor recession in the United States resulted in European exports to that country falling by about 50 percent. Kindleberger considers that, for the effects of a variation in the national income in the United States and in Europe on international economic relations to be symmetrical, five conditions need to be fulfilled: (1) the degree of dependence by one region upon another (measured by the ratio of exports to national income in each of the two countries) must be of the same order of magnitude; (2) inflationary and deflationary pressures must work in the same direction in both countries; (3) price elasticities must be the same for the exports of both countries; (4) innovations must not always originate in the same country; and (5) in both countries the response of supply to demand must be identical.

Now, in the relations between the United States and Europe, just as in the relations between the developed countries in general and the underdeveloped countries, these five conditions are not present. There is therefore asymmetry in the balance of payments.

On the first point the same comment must be made as for Prebisch's analysis: the degree of dependence as regards external trade determines the direction in which fluctuations are transmitted, but cannot explain a chronic deficit. Thus, the heavy dependence of the underdeveloped countries upon their exports to the developed countries, and, conversely, the slight dependence of the developed countries on *their* exports to the underdeveloped ones, simply means that a slight fluctuation at the center produces a pronounced fluctuation in the periphery,

whereas a pronounced fluctuation in the periphery is incapable of producing any great effect at the center. What counts is not the level of the propensities but the way they move. Let it be noted in passing that this does not mean that fluctuations are less pronounced at the center than in the periphery. The size of fluctuations depends not only on the size of exports and the share of the latter in the national income: it also depends on fluctuations in internal demand (on investment). The importance of this last factor is so decisive that, in fact, fluctuations at the center have often been greater than those in the periphery.[39]

The second point in Kindleberger's analysis deserves more attention, for it is new and opens up an interesting line of thought. By a deflationary tendency, Kindleberger means a tendency for saving to be overabundant. The deflationary tendency that prevails at the center in our time thus reflects a situation of "maturity." Kindleberger counterposes to this the inflationary tendency of the periphery, where saving is inadequate. There is a regrettable confusion here between investment that is desirable from the point of view of society and investment required by the system. True, saving is inadequate in the underdeveloped countries if our standpoint is the desirable development of these countries. But saving cannot be inadequate from the standpoint of the functioning of the present system. The fact remains that it is not overabundant. I do not agree with the use of the terms inflationary and deflationary, since the tendency called deflationary in the highly developed countries is in fact accompanied by a genuinely inflationary tendency (that is, by a tendency for the issue of currency to be excessive and consequently, by a tendency for prices to keep on rising). The road opened by Kindleberger is nevertheless a useful one. This tendency which he calls deflationary signifies that depression is more pronounced at the highly developed center than elsewhere, and prosperity less so.[40]

Thus, in a depression period the center's imports decline by, say, 50 percent, whereas those of the periphery decline by only 10 percent. The periphery's external balance is unfavorable. But when prosperity arrives, the center's imports do not increase by 50 percent above the average, but by only, say, 20 percent, whereas those of the periphery increase by 50 percent. The periphery's external balance continues to be unfavorable, and this situation becomes chronic.

As for price elasticities, these reinforce the tendency to chronic deficit. The prices of the developed countries are inelastic, those of the underdeveloped ones are hyperelastic. In a depression period, when the center's volume of imports falls by 50 percent, the prices of these exports from the periphery also fall (by, say, 50 percent). The value of

the center's imports declines by 125 percent altogether. The periphery's imports, however, which diminish in volume by 10 percent, do not change in price. The surplus of the center's balance is greater in value than in volume. Conversely, in a prosperity period the price and the volume of the center's imports increase, the former by 50 percent, the latter by 20 percent, so that the value of these imports increases by 80 percent. The surplus in volume terms of the center's balance has become a deficit in value terms. However, the compensation is only partial. The great elasticity of the exports of the underdeveloped countries intensifies the chronic deficit. In volume terms the deficit of the periphery's balance was 70 percent of the average total trade of this part of the world (during the depression the periphery's deficit was 40 percent—fall in exports by 50 percent, and in imports by 10 percent, and during prosperity it was 30 percent—increase in exports by 20 percent, and in imports by 50 percent: a total of 70 percent). In value terms, however, the deficit becomes in a depression period 125 - 10 = 115 percent, the surplus in a prosperity period 80 - 50 = 30 percent, the total deficit being 85 percent.

Kindleberger's analysis, though interesting, nevertheless remains restricted to the sphere of the trade balance, and therefore needs to be completed in the same way as Prebisch's. Furthermore, this analysis remains, like Prebisch's, purely descriptive. *Why* is the propensity to import of the developed countries what it is, and that of the underdeveloped countries what it is; *why* are the price elasticities and the responses of supply to the pressure of demand, etc., what they are?

The answer is forced upon us: the place of the external market in the development of peripheral capitalism explains the way these propensities move. It is thus that the degree of dependence on external trade is the product of a historical movement the stages of which we have traced: what are called "deflationary" pressures are accounted for by the state of "maturity," the price elasticities by the degree of monopolization of the economy—monopolized industrial production resists a fall in prices more firmly than agricultural production which has remained competitive. As for innovations, obviously they must come from the developed countries, not the underdeveloped ones. These innovations and the "demonstration effects" they engender in the underdeveloped countries reinforce the propensity to import by diverting demand from local goods toward imports. Finally, supply is markedly elastic in a capitalist structure in which the dynamic entrepreneur runs ahead of demand, but not very elastic in a structure in which the enterprise follows demand (itself external). This situation

intensifies the effect of the difference in the degree of monopolization of production on the relative elasticity of prices.

Neither Prebisch's analysis nor Kindleberger's can therefore take the place of the theory of the structural adjustment of the periphery to the requirements of accumulation at the center.

BALANCE OF PAYMENTS OF THE CAPITALIST COUNTRIES OF THE PERIPHERY

The balance of payments may thus be in chronic disequilibrium when there is profound international structural maladjustment. This chronic disequilibrium is always eventually overcome by the income effect, but over a period of time that may be quite long. It would therefore be more precise to describe the phenomenon as a *tendency* to disequilibrium.

Assuming a stable exchange (gold standard or foreign-exchange standard), the tendency to deficit is continually overcome by a slowing-down in potential growth. It is very difficult to trace statistically this phenomenon, which operates as a deep tendency and is not revealed by overt symptoms. When, however, the exchange is allowed to fluctuate freely, the tendency to disequilibrium is constantly reflected in devaluation of the currency. It is therefore easier to trace the phenomenon, although devaluation may have been caused by internal inflation rather than by the disequilibrium in the external balance. Knowledge of the history of the issue of currency enables us, however, to determine more surely where the responsibility lies. It is also possible to try and trace the phenomenon through the movement of the international reserves (gold and foreign currency) held by the underdeveloped countries.

Hoarding and the Balance of Payments

It remains true that it is dangerous to imagine that one can reveal a profound tendency in a system, such as the tendency to deficit in the balance of payments of the periphery, merely through observation of the movement of its international reserves. Once again, though empiricism enables one to discover the superficial appearance of things, it cannot do away with the need for analysis.

The point is that the movement of international money is not automatically determined by the balance of payments, which is in its turn determined by real forces. This movement is not merely "induced," it is also sometimes "inducing." International money is not only international money, it is also a means of hoarding (in gold and foreign currency), the backing for local currency, and a commodity (industrial gold). Now, hoarding and internal monetary requirements are determined by real forces, not by the state of the balance.[41] Hoarded international money passes in its turn from private persons into the banks and back again, which means that the movement of the reserves of the central bank is determined by forces other than those that have been analyzed up to now as determining the balance of payments.

What are the forces that ultimately determine the international movement of gold? On the one hand, the balance of real payments, and, on the other, the need for gold for internal monetary circulation and hoarding. In order to prove this I will argue in two stages: first, the balances, thus defined, of the two countries between which we assume the world to be divided (the developed center and the underdeveloped periphery) are assumed to be in equilibrium; second, disequilibrium in these balances is assumed.

It is easy to show in the first stage of my argument that gold is distributed between the center and the periphery in accordance with the need for money and the real need for hoarding. Let us ignore industrial gold, which is a true commodity like any other. Let us first consider the internal need for money. To begin with, imagine that gold constitutes the only form of internal money. There is a mechanism by which gold makes its way from the producing to the non-producing countries. In A the production of gold is expensive in real terms (gold prices are low). In B, however, gold is cheap (gold prices are high). A exports goods and B imports them. Gold moves from B to A. Nevertheless, B, the producer of gold (South Africa, for instance), does not import goods from every country in the world. Among the non-producers of gold, it applies to the most highly developed countries that are capable of supplying what it wants. Will there be a bad distribution of gold between Britain and India, for instance? Britain exports to South Africa, but India does not, although it needs gold for its monetary circulation. Is the balance between Britain and India equilibrated, then, without any movement of gold? Not at all, for the banks come into the process. They issue convertible notes in India in order to satisfy that country's need for currency. To obtain an adequate backing of gold it is enough for the central bank of India to buy gold from

South Africa, that is, to provide the gold producers with (convertible) Indian notes. Equipped with this purchasing power transferred from India to South Africa, the latter will eventually be able to import more goods. The income effect will re-equilibrate the Indian balance of payments, in which the entry of gold is not induced but inducing. Abolition of convertibility does not alter the schema, except that, under the influence of the initial disequilibrium of the balance following the importation of gold, the rate of exchange will fluctuate.

Let us now bring in the need for gold for hoarding. The Indian hoarder sells without buying, steadily withdrawing gold from circulation. This causes the need for money to be felt ever more strongly. The bank imports gold in order to make up for this constant hemorrhage. For its part, finally, the balance of payments brings about an induced movement of gold. The deficit in this balance means that the Indians are buying from other countries more than they are selling to them. They pay with their gold, which is being drained away from India. The bank serves as intermediary in this, but the departing gold is not the bank's, it belongs to private persons. Inconvertibility makes no change in this process except that the country's need for gold is now essentially determined by that of the hoarders, who buy from the bank the gold they desire. The bank, which has to ensure payment in gold of the country's debts abroad, imports gold in order to make up for the hoarders' withdrawals.

In all the foregoing arguments it would be possible to replace the word "gold" with "gold and foreign exchange." Besides, the foreign banks can always freely import their currency, or export it, by varying the state of their account with their head office.

International movements of gold and currency are thus not necessarily regular as the movements of the balance of payments are. Let us take an underdeveloped country whose balance worsens in a period of depression. A parallel dishoarding process intensifies the outward movement of gold (a mere cessation of hoarding itself, accompanied by cessation of imports of gold for this purpose, plays the same relative role). If, however, the balance improves during depression, the two movements in opposite directions may cancel each other out, partly or wholly. It should be added that the internal monetary need for gold and currency, which is less in a period of depression (contraction of income and prices), intensifies the outward movement of gold, or at least checks its inward movement. The opposite happens during a period of prosperity.

It is not helpful, when attempting to estimate hoarding, to examine

the evolution of the world distribution of gold. India may have absorbed less gold, relatively, than Britain, and yet, the need for monetary gold being greater in Britain, this may be compatible with a high degree of hoarding in India and a low degree in Britain.

Finally, it is better to measure the evolution of the balance of payments on the basis of statistics of real flows (goods, long-term capital, repatriated profits, commercial services), rather than on the movement of international monetary reserves. Unfortunately, however, this is not always possible in practice.

Nevertheless, hoarding and the need for money intensify the tendency of the balance of payments of the underdeveloped countries to be unfavorable. The argument that follows is devoted to the question of measuring these two new real forces which have not been considered up to now.

The hoarding of gold and currency, insofar as hoarding in prosperity periods is greater than dishoarding in depression periods, constitutes a real disequilibrating force.

The growing need for money is itself the second force making for disequilibrium. This need, which increases in a period of prosperity and decreases in a period of depression, also increases over a long period of time. It is usual to distinguish between the internal need for money and the need for international money. The latter itself increases over a long period, so far as the underdeveloped countries are concerned, owing to the ever greater fluctuations in their external balance.

The internal need for money is satisfied by importing gold (the gold standard) or by local issue, without cover (independent currency) or wholly covered by gold and foreign currency (foreign-exchange standard). Only to the extent that internal circulation is covered by international currency does the need for money affect the balance. Again it must be emphasized that it affects the balance only if the *local* banks have to import this cover, that is, to pay for it (in local currency, which becomes additional purchasing power in the hands of foreign countries). If it is the expatriate banks that import these funds—in other words, transfer them from their head office—then there is in reality no purchase, no transfer of income, but a mere transfer of liquidities.[42] The same applied to the need for international currency.

I have tried to evaluate this independent movement of gold (and currency) for hoarding and monetary need (internal and external, since the two needs cannot be dissociated in practice, although conceptually they have to be) over a long period, for some of the underdeveloped countries: India, Egypt, and China.

Between 1835 and 1913, India absorbed an annual net average of £4.1 million of gold. This figure measures both the independent need for gold and the movement induced by the balance of payments after 1898. The independent movement was determined solely by the need for hoarding, since there was no internal circulation of gold in India. It was silver alone (between 1835 and 1884, £257 million was imported, and £270 million minted, the reminting of old coins accounting for the differing) that circulated in the country (silver monometallism). As for international money, there was no need for any down to the end of the nineteenth century. Until 1898 silver was exchanged for gold as a means of paying for the deficit (so that it is the fluctuations in the import of *silver* that reveal the state of the balance). After that date, the Indian importer paid silver rupees into the central bank, which paid out gold in London. In the event of a chronic deficit, this bank had to buy gold: there was therefore a monetary need for gold for external use. In passing, let it be noted that this system was unfavorable to India. When suffering from a deficit, that country had to buy gold on the international market with its own currency, that is, with depreciated silver coins. It is easy to see why the British commercial banks declined to finance so costly as operation, and why it was the Indian government that had to bear the cost of keeping its rate of exchange stable. Statistics show that dependence of the movement upon the cycle was not clear-cut. Before 1898 the movement represented merely the fluctuation in the independent need for hoarding. There was a certain tendency for fluctuations to follow the course of the cycle but nevertheless the upward trend often concealed this tendency for hoarding in depression periods to be less than in prosperity periods. After 1898 the upward trend became notably faster: to the independent need for hoarding there was now added the need for a gold reserve for external exchange purposes. The trend completely concealed any dependence on the cycle there may have been. [43]

For Egypt and China, which absorbed an annual average of £2.7 million of gold between 1890 and 1913, the rising trend concealed the cycle, which nevertheless was there: imports in a depression year were less than in the prosperity year that followed, not less in that which preceded it. For China, the movement reflected only the movement of hoarding (internal circulation being silver); in the case of Egypt, there was both the independent movement of hoarding and of the internal need for money and also the movement induced by the balance of payments.[44]

As regards Egypt, the rising trend shown by the movement of total

gold imports (for the internal monetary need was covered by the gold imported and then re-exported) is quite clear. The cycle of net imports is equally clear. Here too we see the independent movement of hoarding and the movement induced by the balance. After 1914 the trend slackened, owing to the cessation of the internal need for gold. Nevertheless, hoarding continued to be very substantial, and eventually became greater than the former need of gold for internal circulation (after 1945). Also notable was the great dishoarding that occurred in the 1930s. Eventually a correlation becomes apparent between net imports of gold and the level of ground-rent as a whole. The latter constitutes a relatively stable percentage of the country's export. The fact is that rent and total exports vary with the quantity and price of cotton exported. My calculations show that this relation is a relatively stable one. This assumption enables us to calculate the proportion of ground-rent that was hoarded in gold between 1887 and 1950. The evolution of this proportion is typical. Before 1914 its steady rise reflects the enrichment of the landowners. After the First World War, modern practices largely replace hoarding in gold with hoarding in notes and bank deposits. Nevertheless, the cyclical dependence of hoarding remains clear. The increase in the percentage after the Second World War reflects both the continued enrichment of the landowners and the partial resumption of hoarding of gold, persistent inflation having to some degree deprived hoarding in the form of notes and bank deposits of the vogue it had enjoyed between 1920 and 1940.[45]

The hoarding of gold in the underdeveloped countries thus constitutes a considerable force, pressing hard upon the balance of payments. The general conclusion is well established. Kitchin estimates that 25 percent of the gold newly mined between 1920 and 1929 was absorbed by Indian hoarding, 50 percent having been devoted to monetary use and 21 percent to industrial purposes.[46] It is true that all through the nineteenth century it was above all the developed countries that absorbed gold. Between 1835 and 1889 hoarding in India absorbed no more than 13 percent of gold production, as compared with 16 percent between 1890 and 1929. It is also true that the absorption of gold by the developed central countries was substantial between 1870 and 1913. In the case of Britain, which absorbed £3.2 million a year at this time, the fact that dependence on the cycle does not emerge very sharply may be due to the strong upward trend of the internal need for money. France, between 1880 and 1913, absorbed 5.564 billion gold francs, or 163 million per year—more than India, in absolute terms. Britain took about half of the amount that India imported, and so a

great deal more in relative terms (per capita, for example). But this was not gold for hoarding: it was the need for money that was increasing at this pace. This need was considerably greater than that of the underdeveloped economies. It is noteworthy that France, where the use of checks was less widespread, had to import more gold than Britain.[47]

Hoarding actually made its appearance in the West as something endemic only after 1929 (it had occurred episodically between 1914 and 1929). Gold began to be accumulated when the gold value of the currency was abandoned. Along with this, the depth of the depression of 1929 brought about dishoarding in the periphery—for the first time: during the nineteenth century, though hoarding diminished during depressions, it rarely became negative. In the course of the 1930s the landowners and the peasants of India, Egypt, etc., liquidated their hoarded resources. They sold their gold to the banks, which exchanged it in London against (devalued) pounds sterling, and it was this that enabled Britain to maintain the rate of exchange of her currency. This movement was a very extensive one, as can be seen from the table showing the sources of gold and the uses to which it was put between December 1930 and September 1937.[48] After the Second World War the practice of hoarding gold was reinforced in the developed countries, especially in France, owing to miscellaneous causes, mainly political in character.

Reduction of the External Assets of the Periphery and Devaluation Cycles[49]

At what date, approximately, did the balance of payments of the periphery become chronically unfavorable? This question is very difficult to answer, for the situation seems to have taken this turn at different periods in different countries. It appears that the balance of real payments of Cuba and of the French and British colonies in Africa, for example, was chronically unfavorable from an early date, so that some observers said, wrongly, that their imports of monetary liquidities must be paid for with real exports. Already in the nineteenth century, however, the rate of exchange in nearly all the states of Latin America was regularly falling. In Brazil the deficit in the external balance was as much responsible for this as the inflationary issue of paper money. It was the same in Argentina between 1880 and 1900. In other words, the external balance of these countries—the major suppliers of primary products in that period, which were already more closely integrated

into the international market than the countries of Africa and Asia which had only recently been reduced to colonial status—was already chronically unfavorable in the nineteenth century.

For the twentieth century there can be no doubt about it. The gold value of the different currencies had fallen everywhere between 1929 and 1937 (on the eve of the crisis). Nevertheless, it declined to a noticeably greater extent in the underdeveloped countries than in the developed ones. If some of the former kept unaltered their rate of exchange with the metropolitan country (French, Belgian, Portuguese, Spanish, and British colonies, and colonial members of the sterling area), this was not because they experienced no difficulties in equilibrating their external balance. It was rather in spite of these difficulties that the metropolitan countries acted in this way, so as to allow the income mechanism to exhaust its effects, just as previously. Their reserves in foreign currency (which took the place of gold as international currency for these countries) were less in 1937 than they had been in 1929, which shows that there was a chronic tendency toward deficit in their balance of payments. (Latin America also reflects this chronic deficit.) Even at the depreciated rates which those countries adopted, the deficit persisted, as is proved by the fall in central reserves of monetary gold between 1927 and 1937 (an entire cycle), as in all their monetary reserves. In the developed countries all these reserves *increased* during the same period.

After the Second World War a system of relatively rigid rates replaced the fluctuating exchange rates of former times. Devaluations nevertheless occurred very frequently in the underdeveloped countries, with the consent and on the recommendation of the International Monetary Fund. These devaluations were sometimes made necessary by previous internal inflation; often, however, they were "necessitated" by the chronic external deficit, which had merely been reinforced by inflation.[50] Along with this, the international reserves of the periphery diminished.[51] It is true that the immediate postwar period was also marked by external deficits in several of the developed countries (Western Europe): the system was functioning at that time, the reconstruction period, almost exclusively for the benefit of the United States. The center (the United States, Europe, Japan) was to resume as a whole its traditional place in the world economy only after this first stage had been left behind (the stage of the "world dollar shortage"), though not without creating serious problems of readjustment among the advanced countries themselves (the present crisis of international liquidity).

The Lesson of History: From the Foreign-Exchange Standard to the Illusion of Monetary Independence

The historical functioning of the foreign-exchange standard. At the outset the precapitalist economies possessed a stock of money adapted to their needs. Their integration into the world market was reflected in the growing development of external exchange relations—first commercial, later financial. The external balance of payments, a new reality, had a constant tendency toward deficit, for the profound reasons already analyzed.

If these economies had possessed a well-developed financial organization, their central bank would first of all have tried to combat the draining away of gold by raising the discount rate and by a policy of gold-buying. Finding these measures ineffective, the central authorities would eventually have been led to establish a system of quantitative control over the real movements of goods and capital . . . unless, of course, they bowed to the "natural" evolution of things. They would then have allowed the gold reserves of the banking system to become exhausted, after which the gold standard would have been abandoned in favor of a system of inconvertibility and an unstable rate of exchange: or else growth would have been allowed to slow down until equilibrium was reestablished.

But is it not utopian to talk of underdeveloped countries possessing a well-developed financial organization? The precapitalist economies, which managed without credit and banks, were ignorant of modern financial organization. To the extent that the external balance, that new reality, showed itself constantly unfavorable, with the development of international relations, gold migrated from these countries to the developed countries, simply in order to pay for the deficit.

When the local economy, which at the outset had possessed adequate stocks of precious metal, had been stripped of its monetary reserves, how were internal commercial operations financed? Through the importing of gold coins by the foreign-owned banking system. The banks made a profit on the transaction, of course: this imported gold currency was lent to individuals, in return for interest. Thus, the foreign banks in Egypt imported from Europe each year sovereigns and gold francs which they lent at interest to Egyptian traders. In this sense the disequilibrium of the external balance imposed extra costs upon the local economy. The latter was no longer able to use local monetary

reserves, which had been wholly liquidated, in order to obtain means of payment, but had to rely on credit from abroad.

This situation did not last. It was generally followed by complete monetary integration of the underdeveloped countries. This new system deprived the balance of payments of some of its reality. The rigid and unlimited exchange enabled the underdeveloped economy to obtain the foreign currency it needed to pay for any external deficit.

The complete monetary integration of certain underdeveloped countries eliminates the difficulties that can arise from disequilibrium in the balance of payments, even if this disequilibrium is persistent.[52] In the long run, however, this disequilibrium has to be absorbed through the functioning of the income mechanism. The balance of real payments tends to become even. In this sense the underdeveloped countries do not have to pay for their imported monetary circulation with a surplus of exports, though they do have to pay in real terms for the use of this money.

Adoption of the foreign-exchange standard thus allows the system to regain equilibrium by slowing down the growth of the underdeveloped country, thanks to a dominated exchange rate that facilitates structural readjustment. There is no need to stress the extent to which this mode of readjustment of the external balance is negative in its consequences for local capital formation—directly, since the restoration of equilibrium is effected by reducing local income (worsening of the terms of trade), and indirectly, since this mechanism facilitates structural readjustment in a way that conforms to increasing specialization, to the detriment of autocentric growth.

The alternative solution: monetary independence. The original draining away of stocks of money from an underdeveloped country is very awkward in its consequences if this country is politically independent. Only with increasing difficulty can the state meet its needs. This was why the states of Latin America had recourse to inconvertible paper money. At that time the very possibility of exchange control was not appreciated. This is undoubtedly why the system that was established more or less everywhere was that of freedom of the exchanges, which meant permanent devaluation of the local currencies.

Thus, already in the nineteenth century, certain independent states decline to adopt the technique of complete monetary integration offered by the Currency Boards system, with exchange at a fixed rate and in unlimited amount. They would certainly have liked to establish a convertible system, but they were unable to do this. Is this not a

further proof of the correctness of the theory of international disequilibrium set out above? If Argentina had from the outset regulated its relations with other countries, would it not have succeeded in establishing a stable monetary system? Did it not prefer to sacrifice the advantages of this system to those of the absolute freedom of international trade and capital movements? Argentina paid for this freedom, first by the exhaustion of its initial stocks of international means of payment, and then by the institution of a local currency that was always unstable and continually depreciating. The instability of the inconvertible local currency simply reflects the permanent disequilibrium of the country's external balance.

There are thus in the end only two solutions open to these countries with independent currencies. They can either prefer to retain the "advantages" of freedom of international exchanges—which means sacrificing monetary equilibrium—or they can give up freedom in relations with the outside world—which ensures monetary equilibrium, but only at the price of a reduction in the growth of external exchanges.

The "liberal" choice facilitates the mechanisms of increasing international specialization with perhaps the investment of foreign capital and the development of peripheral capitalism, both foreign and national. But it provides no guarantee of stability of the rate of exchange, for in this case, as has already been mentioned, the value of the dominant foreign currency determines the value of the local currency backed by this foreign currency. This direct influence operates through the appreciation that the dominant economic categories confer upon the future of the value of the currency concerned. The wished-for rise in prices is made possible precisely by the absence of convertibility and the accommodating attitude of the banks. This mechanism is independent of the state of the external balance. Juxtaposed with it is that by which fluctuations in the balance of payments—by determining, independently of the rate of exchange, the volume of monetary reserves—influence production, prices, and accumulation. Furthermore, the deficit in the external balance affects the rate of exchange and this in turn affects prices and accumulation. We have already seen that the underdeveloped economies were especially susceptible to this mechanism, described by Aftalion.

There is thus an additional reason for the permanent increase in prices and continuous inflation in the underdeveloped countries. This continuous price rise, which is determined not by the functioning of the economy's internal mechanisms but by the state of external relations, may well favor accumulation in the mature developed countries.

It offers only disadvantages, however, in economies that suffer not from chronic inadequacy of demand in relation to production but from inadequacy of production itself.

Indeed, the accumulation of local capital is considerably hindered by monetary disorders of this kind. Absolute freedom of relations with the outside world thus checks the development of indigenous capitalism, even in peripheral form.

The fact remains that this freedom may facilitate the importing of foreign capital. The latter is not affected by the risk of devaluation. Foreign capital in search of a temporary refuge, speculators' capital, does certainly run the risk of grave losses on the exchange, and so this sort of capital avoids such countries. But capital destined for long-term investment has nothing to fear on that score. It does not come with the intention of leaving again: it comes to stay. What *will* leave the country are the profits on this capital, and there are no grounds for misgiving on their account: profits are proportional to the real value of the investment, not to its subsequent financial value, and so they evolve along with the rate of exchange.[53]

This imported foreign capital constitutes, nevertheless, an essential source of the development of peripheral capitalism within the underdeveloped economy, and around this development a local capital may also come into being. Although the multiplier mechanisms, under conditions of underdevelopment, operate only to a slight extent, it is clear that the rapidity of local capitalist accumulation depends, given conditions of structural stability, on the amount of foreign capital that flows in, on the degree of international integration.

However, capitalist development under these conditions remains peripheral. It occurs within the setting of intensified international specialization. It does not radically destroy the indigenous precapitalist structure. On the contrary, it reinforces the underdeveloped structure, its position as a dominated economy. The variable rate of exchange, constantly falling, continues here to be just as fundamentally a dominated exchange-rate, even though its position is unstable and permanently in jeopardy.

It is therefore proper to distinguish between two possibilities here. Either the surplus of the balance, during a period of prosperity, is equivalent to the deficit of the difficult years (a tendency for the balance to be equilibrated), or it is not (a state of chronic disequilibrium).

In the first case the exchange remains stable—or, more precisely, it is

alternately devalued and revalued.[54] This was what happened with the exchange in Argentina, Bolivia, Colombia, and Peru, which went down in 1920 with the fall in prices of raw materials and the consequent deficit in the balance, only to rise again between 1922 and 1925. This phenomenon is fairly widespread. There is a close correlation between the price of oil, coffee, and tin and the state of exchange in Venezuela, in Brazil and Colombia, and in Bolivia. In this case it is possible that the underdeveloped country may possess a reserve supply of international money sufficient to avoid these fluctuations in the exchange. State intervention to avert them is a possibility. The system is in any case a costly one, since this stock of money has to be proportionate in amount to the size of the fluctuations in the balance.

If, however, there is a definite tendency toward deficit—in other words, for the deficit during depression to be bigger than the surplus during prosperity—then devaluation is inevitable. This is what happened in 1920, as in 1929: the revaluation of the years 1922–25 was at a lower level than the devaluation of 1920, and that of 1929 was not followed by any revaluation between 1935 and 1937. An exchange stablization fund, which is incapable in a developed country (its reserves having been exhausted) of combating the basic tendency, is even less capable of doing this is an underdeveloped one, as is shown by the example of Bolivia in 1941.

This is why the underdeveloped countries are moving more and more toward the other solution. Increasingly they are being led to consider exchange control as the only solution to the difficulties of the external exchange.[55]

If this control is seen, as is very commonly the case, as a makeshift, a "regrettable necessity," if the basic orientation of the type of development contemplated is not called in question, if this development is still conceived in terms of increasing international specialization, that is, of priority development of production for export on the world market, then it is quite clear that external equilibrium is being obtained only at the price of putting a brake on development, even in the peripheral form. This braking can provide no final solution, even to the problem of external equilibrium taken by itself. The profound tendencies to disequilibrium continue to operate, and the control eventually proves ineffective, so that the currency has to be devalued. The recent history of the underdeveloped countries is full of experiences of this kind. They show that "monetary independence," even when accompanied by the most effective controls over external relations, is illusory unless the

strategy of integration in the world market be challenged and withdrawal from this market—the condition for development that shall be no longer peripheral but autocentric—seriously undertaken.

Summary of Conclusions

1. The mechanisms that are alleged to ensure automatic external equilibrium are of the same order as the Law of Markets—either an empty tautology or a false theory. The claim that such mechanisms exist (price effect, exchange effect, foreign-trade multiplier) is based, moreover, on a false theory of money (the quantity theory) and on a short-sighted analysis of "elasticities" and "propensities" which implicitly presupposes that which it endeavors to prove. Current economic theory thus evades the real problem, namely, why "elasticities" and "propensities" are what they are—different at the center and in the periphery of the system—and how they evolve. It is impossible not to see in this orientation of current economic theory a preoccupation with apologetics which, as in the case of the Law of Markets, is bound up with the ideology of universal harmony. As in relation to the Law of Markets, it is not possible here to speak of a general tendency to equilibrium.

2. But this tendency to equilibrium reflects a mechanism of structural adjustment. This is the heart of the problem, which current economic theory evades. In the relations between the center and the periphery of the system this structural adjustment is asymmetrical: it is the periphery that is shaped in conformity with the center's requirements for accumulation, the price structures and the distribution of relative profitabilities being shaped so as to ensure that the development of capitalism in the periphery remains peripheral—that is, based essentially on the external market. Adjustment is therefore inevitably accompanied by a chronic tendency to deficit in the external balance of the periphery. Attempts to account for these phenomena of asymmetry of the balance of payments without referring to structural adjustment (in other words, to the mechanism of international speculation) can at best be only partial and descriptive. This is the case with explanations such as those offered by Prebisch and Kindleberger, which describe the state and the movement of "elasticities" and "propensities"—states and movements which are as they are precisely because they express the most fundamental mechanisms of structural adjustment.

3. The history of the periphery's balance payments shows two phases in rapid succession: a first phase which is characterized by surplus in this balance (corresponding to the opening up of the colonies, the installation of the underdeveloped economy, the "development of underdevelopment"), followed by a second phase in which there is a chronic tendency to deficit (corresponding to the crisis of this system, the blocking of growth based on external demand). The foreign-exchange standard conceals for a certain time this tendency to external deficit; sooner or later, however, this deficit constrains the underdeveloped countries to opt for monetary independence. This, however, is an independence that cannot provide a real solution of the problem—a problem which is rooted elsewhere, in the most basic mechanisms of integration into the world market—and so cannot but give rise to further monetary disorders.

Afterword to the Second Edition

The first edition of this book was sold out in less than a year, and my desire that the book provoke discussion and criticism has been amply fulfilled. I have learned a lot from this discussion, and if I were to rewrite the book I would certainly not do it in exactly the same way. On the one hand, some of the shortcomings are now more clearly apparent to me; on the other, some attitudes that I continue to reject have been reformulated since I wrote, and this invites me, in my turn, to push my argument further.

Two questions have provided the principal themes for discussion: unequal exchange, and the future of the formations of peripheral capitalism. Although the former is the one that has caused most ink to flow in France, it seems to me the less important, and subordinate to the latter question. Elsewhere, particularly in Latin America, where analysis has gone much deeper, attention has been focused on the major question: Why has accumulation in the periphery not yet led to the development of completely autocentric capitalism? What are the prospects before the world system: is it moving toward an increasing dichotomy between center and periphery—or is this only a stage in evolution, with the system now tending toward a kind of homogeneous capitalist formation on the world scale?

This is clearly the context in which *all* the problems of the world today need to be placed, those of the class struggle as well as "national" problems—all of which, for this reason, are so closely intertwined that they form only a single question, the different aspects of which cannot be dissociated from each other.

I intend to present my opinion on these questions in this Afterword. First, however, I must clear up some aspects of the problem of method.

1. History did not stop in 1880, or in 1917, or in 1945. In each decade new facts appear which express new developments that had not been suspected in the previous phases. History is no more linear today than it was five centuries ago. Just as the pseudo-Marxist schema of the "five stages" (primitive communism, slave-owning society, feudalism, capitalism, socialism) results from a mechanistic outlook (similar, in its way, to that of Rostow), so is every attempt to reduce present-day developments to so-called "forecasts" made by Marx, Lenin, Trotsky, a result of religious dogmatism.

Uneven development continues to be the only rule, which always baffles the soothsayers. Besides, the outcome of political struggles determines at every moment new alternatives that were previously unforeseen and unforeseeable.

It is therefore necessary, at each stage, to integrate the new facts into one's analysis. This seems obvious, and yet there are always some in search of absolute certainties who refuse to do this, and are consequently forced either to ignore the new facts or else try and fit them at all costs into a schema that had not allowed for them.

A clear instance of the fundamental divergence between *that* way of analyzing reality and my own is furnished by the discussion that has gone on around the book by Baran and Sweezy.[1] It is still my view that this work is an important contribution which integrates vital new facts relative to the way in which, in our own time, the system overcomes at its center the fundamental, permanent, and growing contradiction between capacity to produce and capacity to consume. I have shown that the law of the tendency for the surplus to increase, which results from the policy of the state and the monopolies in the present epoch of monopoly capitalism, does not in the least contradict the law of the tendency for the rate of profit to fall; on the contrary, it is the way in which the latter law is expressed in the system in our time. And yet some commentators have reacted vigorously against this contribution by Baran and Sweezy. Why? Because it is awkward for them, since it shows that the system *can* function (and yet what is more obvious than that?). They prefer the religious and reassuring vision of an apocalyptic catastrophe, of a golden age realized miraculously at one blow, to the disturbing vision of perpetually changing conditions which oblige one to constantly bring oneself up to date.

Moreover, the method used by Ernest Mandel to refute Baran and Sweezy is typical. Instead of undertaking an internal analysis of the system being criticized, so as to expose any incoherences it may contain, Mandel is content to describe Baran and Sweezy as "Keynesians"![2]

And this he does because they take the criticism of Keynes seriously, because they see that Keynes's emergence reflected the necessity for current theory to find an explanation of some important facts. It is precisely by undertaking a thorough critique of Keynes (which, following the example of Baran and Sweezy, I have done in numerous pages of this book) that we reveal both the problem (that of the absorption of surplus in the age of monopoly) and the answer to it: we discover that the Keynesian liquidity theory conceals the real problem, that of the contradiction between capacity to produce and capacity to consume, which can be grasped only on the basis of the theory of the capitalist mode of production; and that it is therefore necessary to look in a different direction from the one taken by Keynes if we are to find out how the system overcomes this contradiction. This is what Baran and Sweezy have done and what has led them to analyze the methods whereby the surplus is absorbed. By declining to undertake this type of critique, Mandel condemns himself to become quite uninteresting: he is reduced, having dodged the *new* problems that arise, to merely popularizing Marx. This is undoubtedly why his *Marxist Economic Theory* resembles so closely the textbook of political economy published by the U.S.S.R. Academy of Sciences: the only difference between them is that Mandel places alongside a popularization of *Capital* a diatribe against the Soviet bureaucracy, whereas the Russian textbook-writers place alongside a similar populatization an apologia for the Soviet system. Trotskyism is rich in attitudes of this kind, which make it a real twin of Soviet official ideology, both being equally dogmatic.

2. There is therefore still a great deal to learn through criticism of current theory. This is indeed the only scientific method that enables one to make real progress. Economism as an ideology constitutes a permanent threat, because the evolution of the economic system recreates at each stage the conditions for new economistic illusions which penetrate the mode of thinking in a new and subtle way. It is therefore not enough just to proclaim one's rejection of economism. Slackness in criticism in this domain nearly always leads to a pendulum movement that oscillates continually between an insipid economism and a voluntaristic idealism that proclaims, absurdly, that "economics does not matter"—thus preparing a reversion to economism. We have, alas, all too many examples of this kind of thing—notably in one of the important fields dealt with in this book, that of the choice of branches and techniques of industry.

Ten years ago, progressives lined up unhesitantly with supporters of the systematic choice of modern-based industries, whereas liberals and

conservative paternalists advocated choice by the underdeveloped countries of light techniques and industries. Today it is clear that both groups stood on the same basis of economism: either search for maximum acceleration of growth, or search for immediate individual profitability.

The search for maximum growth at any price finds expression in the slogan of the Stalin period: "overtake and surpass the United States in all fields of production." Formulated like that, both on the theoretical and on the practical plane this aim deliberately ignores the *content* of this measurable economic growth. Critique of the concepts of national accounting teaches us that the aggregates measured grasp only the commodity magnitudes, those that interest the capitalist mode of production. With one's mind focused on the gross internal product one forgets that the growth of this magnitude may in the last resort be achieved by the destruction of productive forces, namely, human and natural resources. These latter are merely *means* in the capitalist mode of production, whose only aim is maximization of profit. In economic jargon, "calculation of the profitability of the firm internalizes the external economies"—those external economies that arise precisely from the destruction of human forces and natural resources. It is for this reason that the capitalist mode of production possesses a capacity for growth—growth in the economistic sense that defines it, that is, in a relative and limited sense—greater not merely than that of all previous modes of production, but also, no doubt, than that of socialism as well, insofar as the latter makes man its objective instead of profit.

The discovery of the "problems of the environment"—even though the expression is a wretched one, compelling us to distinguish between the human environment and the physical environment—which is so fashionable at the moment, reflects this awareness of the *relative* character of economic magnitudes. It leads to fundamental criticism of calculations of profitability; it reminds us of the very short time-horizon of commercial calculation—twenty years at most[3]—a horizon that is very much lower than that of any society that controls its own fate; and it brings out the artificiality of attempts to broaden the calculation of profitability which do not go beyond the sphere of economism (as is shown by cost-benefit analysis carried out in so-called "social terms"[4]). By making the maximization of growth the ultimate objective, an absolute value, one reduces social science to economism. However, the discovery in recent years, in connection with criticism of the Soviet experience, that the maximum rate of growth ought not to be sought *regardless of cost* has suddenly rendered labor-intensive tech-

niques attractive, thanks to a medley of hippie ideology, return to the myth of the golden age and the noble savage, and criticism of the reality of the capitalist world. It is on these mistaken foundations that some people have interpreted some aspects of Chinese policy, isolated from their general context and the line of development in which they have occurred.

A socialist plan is certainly not defined in economistic terms, but it includes the economic element and does not reject this: if it did, it would be ineffective. Complete socialism will necessarily be based on a modern high-productivity economy. There is no conflict between modernity and socialism: on the contrary, socialism cannot but be more modern than capitalism. To suppose the contrary is to believe that what is wrong is due to technique and not to the social system within which this technique expresses itself. On the contrary, it is the capitalist mode of production that conflicts with modernization and distorts its potentialities. A great deal has been written about the destructive effects of fragmented, monotonous industrial work *whatever the social system.* Unfortunately, the correctness of these observations has led to a loss of perspective. As time goes by this fragmented type of labor will be seen as characteristic of the capitalist mode of production, which will have fulfilled a historical function—that of accumulation—and so prepared the way for itself to be surpassed. The technical revolution of our time, which I have deliberately emphasized in this work, will replace unskilled detail work, which has been the chief form of labor since the beginning of machinofacture, by automation. It will make possible both an increase in disposable time not devoted to labor, and new, highly skilled forms of labor itself.

How does the present system react to this prospect? It does not see it the dawn of mankind's liberation, but the threat of mass unemployment, the "marginalizing" to an increasing extent of a whole section of mankind (especially in the periphery) in relation to a system that will include only a minority. This is the natural tendency of a calculation of profitability based on profit as the ultimate aim, of the economistic alienation that sees in men only manpower. This is the context to which, in my view, the present wave of neo-Malthusianism on population questions belongs. The racialist nature of this attitude should also be noted: it is forgotten that in 1800 the peoples who today make up the developed world formed an even smaller proportion of the world's total population than in 1970. The problem is misplaced, by treating a real but subordinate question, that of the ratio of demographic growth to economic growth in the accumulation phase, which is a transition

phase, as though it were a primary absolute. It is by ridding society of the limits that the capitalist mode of production imposes on it that mankind can emerge from economic alienation, simultaneously freeing the productive forces. There is no conflict between the growth and development of consciously socialist forces and the creation of a world-wide socialist civilization. Whenever there seems to be such a conflict it is because the problem has been wrongly presented, whether this be done in economistic terms or by negation of economics—which is merely the other side of the same coin.

This vitally important way of seeing the line of future development must not be confused with the problem of the stages and strategy of *transition*. Where *this* sphere is concerned I want to emphasize here the theses I have defended in my book. For, if there is a problem, it is indeed a problem of *transition* and not one of the ultimate prospect. It is insofar as the political changes that make the socialist cohesion of the nation as a whole. If it is really a matter of transition to socialism, the end (socialism) cannot be sacrificed to the means (accumulation). The success of a system of transition is therefore not to be measured merely by the rate of growth realized but by its capacity to take upon itself *simultaneously* accumulation *and* progress in the forms of organization and consciousness appropriate to the socialist plan. If this aim is abandoned, then the transition is no longer a transition: it becomes instead the establishment of a capitalist economy, even if this be of a type different from the historical precedents.

This requirement does not rule out the establishment of modern industries, contrary to what is sometimes too hastily asserted. It rules out *confining* oneself to the establishment of these industries, doing this in the same way as capitalism would have done it, that is, subjecting the other sectors of society to this task, reducing them to the passive role of suppliers of cheap labor power, which is what economism or respect for the "laws of the market" dictates. The policy now being carried out in China is an attempt to solve this problem in a practical way.

In a case of a socialist policy of transition, establishment of modern industries does not have the same consequences as in the formations of peripheral capitalism. Here, what has to be challenged is not the choice of modern industries but (1) the exclusively extraverted character of the sectors in which this choice is made and (2) the subjection of the other sectors to the requirements of accumulation in this setting, which is that of the world system. Unless a general policy challenges the types of relations characteristic of capitalism, in which the rest of society is

subordinated to the autocentric modern sector that is to be established, the "poles of development" become "poles of development of underdevelopment." This is the thesis that I have emphasized in this book.

My analysis has made some progress since it first appeared, where a few aspects of this problem are concerned. Latin American writing on the subject of marginality, which is the consequence of this establishment of modern sectors in conditions of peripheral capitalism, has begun to attract notice. The rapid rise in unemployment in the Third World is due to the interaction between this choosing of modern techniques and the low level of wages. My theory of the blocking of growth, like the critique of the policy of import-substitution which has been developed in Latin America, obviously has a bearing on this problem. Yet the solution of this difficulty does not consist in renouncing modernization or raising some idyllic plea in favor of agriculture or the inefficient craft techniques of the past. The answer is to organize in a different way the articulation between the modern sector and the less modernized sectors. This important aspect of the problem, on which I have not dwelt sufficiently (it is only outlined), brings up, moreover, the problematic of the prospects of peripheral capitalism, to which I shall return.

China's Cultural Revolution has put its finger on these problems—in the first place on the political aspects of this new articulation that has to be worked out (but also on other aspects that had escaped my attention) and in particular on the absolute necessity of an independent approach to scientific and technological research in the countries of the periphery such as may enable them to break out of the false dilemma: modern techniques copied from the West of today, or old techniques corresponding to conditions in the West a century ago, which are not those of the periphery today. This theme, on which the Chinese alone are giving proof of practical imagination, deserves to be emphasized.

I did not pay enough attention to this theme, for I tended to see technology as a factor external to the problem, an independent variable. Within this narrow context it is clear that the (obligatory) choice of modern industries amounts merely to copying the technology of the West of today, following the example set in their time by Japan and Russia. However, we are beginning to see that technological research follows a direction that accords with the requirements of the system, and, therefore, that technique is not an external factor. Here, too, it is analysis of the problems of underdevelopment that has constituted the starting point for a critique of general economic theory. The domination exercised by the center over the periphery through its techno-

logical monopoly, which has been brought out, especially in works on Latin America, by study of the problems of "transfer of technology," has enabled us to see that the economistic assumption of the independence of technology served the function of evading this problem. What is necessary is to direct research toward the invention of *modern* techniques that are better adapted to the problems. It is not, therefore, a question, where the underdeveloped countries are concerned, of "cutting the pear in half," by choosing "intermediate techniques" that are already known, situated halfway between the out-of-date technology of the Europe of 1840 and the ultramodern technology of the United States of 1970, but of defining the economic characteristics of a third, *modern* technique.[5]

3. I therefore still think that it is necessary to start, in any scientific analysis of these problems, not from the exegesis of sacred texts but from reality, and from the way in which reality finds reflection in the theory and ideology of society. It is, accordingly, on the basis of this attitude that I take up discussion of the two fundamental questions set out above.

Analyzing in this way, I began with a critique of the theory of international exchange, pointing out that "a critique of the theory of international exchange, which is the necessary starting-point for formulating the problem, inevitably leads us to go beyond its terms of reference."[6] I am not unaware that, if unequal exchange exists, this is because the social formations of the center and those of the periphery are different. I show with some precision that this is so. But the problems are revealed much more clearly if we start from an analysis of the relations of domination—of inequality—that obtain between these two types of formation integrated in one and the same world system.

The thesis of unequal exchange has provoked widespread indignation against its author, Arghiri Emmanuel.[7] This is not at all a matter for surprise. Emmanuel has been subjected to three types of criticism. The first, made by Bettelheim, has remained within the framework of Emmanuel's argument. But Bettelheim fails to draw the logical conclusion from the extension (which he accepts) of Marx's models of the transformation of values into prices of production to the sphere of international relations, and of his own (incorrect) assumption that the rate of surplus value is higher at the center—for this conclusion would be that it is the developed countries that are the victims of unequal exchange! A second series of critics have claimed that wages are higher at the center because the productivity of labor is higher there, which would "justify" this inequality. Do I need to repeat here, following

Emmanuel, that these commentators are accepting marginalist tautology as their basis, forgetting that, for Marx, the value of labor is independent of its productivity? Outwardly more subtle is the attitude of the third set of critics, who try to deny that the expression "unequal exchange" makes sense, by refusing to allow Emmanuel the right to make use of Marx's models of the transformation of value. These models, according to them, are meaningless outside the context of the capitalist mode of production, and cannot be extended to relations between different formations.[8] This declaration, they suppose, must render their criticism immune to attack. But at what price? At the price of denying that a *single* world capitalist system exists—that is, in fact, of denying the existence of imperialism itself! True, the transformation models cannot be extended so as to apply to *every* situation. For example, there can be no question of using them to analyze trade relations between ancient Greece and Persia. Only marginalist economics, with its striving to create a universal system, can allow itself to indulge in fantasies of that sort. But this is not what we are concerned with here, for center and periphery do form parts of one and the same world capitalist system.

Marx constructed the theory of the capitalist mode of production and defined in abstract terms three conditions of this mode of production: generalization of the commodity form of products (generalized market relations); generalization of the commodity form of labor power (the existence of a—single—labor market); generalization of competition between capitals (the existence of a market—again, a single market—for capital, which is expressed in the equalization of the rate of profit). These three conditions did not fall from the heaven of imagination: they express in abstract terms the reality of the capitalist mode of production, which Marx studied and of which mid-nineteenth-century England provided the concrete model. The world capitalist system is another plane of reality, which also needs to be defined in abstract terms if it is to be analyzed theoretically. Now, at this level of legitimate abstraction, the world system is expressed in the existence of a world market for commodities and of international mobility of capital. Since there is a world commodity market, *there is a problem of values on the international scale.* And since this problem exists, one not only can but *must* use the models of transformation of values. The only question that arises is whether they are used correctly (soundness of the underlying assumptions, etc.). On this plane, I refer my readers to the arguments developed in this book, to which I have nothing to add.

It is certainly not unequal exchange that is the *cause* of inequality in

wage levels: quite the contrary. Why are wages higher at the center? Because the social formations there are different from those in the periphery, of course. But saying that only amounts to repeating the same proposition in a different form, without advancing one inch. It is clear that in a closed capitalist economy (the autocentric, central capitalist mode of production that Marx studied) there is a relation between the overall level of productivity (the level of development of the productive forces) and that of wages. If wages fall below a certain level, the system's capacity to produce exceeds its capacity to consume, and production must contract (the phenomenon is a little more complicated if the decline in wages induces a retreat to less efficient techniques). I have devoted many pages of my book to showing this relation, criticizing as necessary the marginalist theory of general equilibrium and of the rate of interest. It is in these terms that it is possible to establish the theoretical reason why the rate of surplus value, in the pure model of the capitalist mode of production, cannot rise indefinitely; it is in this way alone that it is possible to establish the scientific validity of the law of the tendency of the rate of profit to fall, since it is *in this way alone* that one can show that the tendency necessarily gets the better of the countertendencies.

This proof, which is of fundamental importance, accounts for the observed fact that the share taken by wages and by profits in the national income is relatively stable. This fact, which Robinson tries to explain in a different way (by bringing in the rate of interest), remains ultimately unexplained by the marginalist theory of general equilibrium.[9] Obviously, this becomes apparent only if one studies "bourgeois economics" seriously and tries to criticize it in a thorough way, for such a criticism makes it possible to perceive problems that remain unperceived if one remains content merely to repeat that the value of labor-power is not independent of the level of development of the productive forces. Criticism of the theory of general equilibrium enables one to grasp the significance of this relation, by forcing one to retrace the path that Marx followed from concrete reality to theoretical abstraction. Mental laziness, expressed in repetitious enunciation of these theoretical abstractions, leads to Marxism being turned into a dogmatic philosophy, whereas in fact it is a *method.*

I have shown however, along with the foregoing, that for the extraverted capitalist economies of the periphery this necessary link is absent. Wages in the periphery can therefore be frozen at very low levels without extraverted development being hindered. This is the centerpiece of my demonstration that if the capitalist mode of production is

autocentric it tends to become exclusive, whereas extraversion blocks its development and so prevents it from becoming exclusive. This explains why the world system does not give rise in the periphery to the same formations as at the center. On this plane, the contributions from Latin America made in recent years coincide completely with my thesis.

What, then, is the significance of the pair constituted by the autocentric economy and the extraverted economy? It means that, in an autocentric economy, there is an organic relation between the two terms of the social contradiction—bourgeoisie and proletariat—that they are both *integrated* into a single *reality*, the *nation*. In an extraverted economy, this unity of opposites is not to be grasped within the national context—this unity is broken, and can be rediscovered only on the world scale.

Differentiated analysis of the essential laws whereby the world system and the capitalist mode of production function thus inevitably leads to important results. Is it surprising that these results call into question the whole problematic of the future of capitalism? The implications of these results cannot be reduced to the economic domain alone, deprived of any political meaning, without thereby abandoning the *ultimate* determining role of the structure of production-relations in order to fall into positivist or structuralist eclecticism. This calling into question is disagreeable only for those who seek unchanging certainties.

The first of these results, which belongs to the plane of immediate economic reality, is unequal exchange—which means transfer of value, nothing more and nothing less. To say that this is meaningless because it concerns relations between different formations would imply that Marx's analysis of primitive accumulation is absurd, because this, too, is concerned with relations between different formations. To say that the theory of unequal exchange means that "the workers of the center exploit those of the periphery" is really to go off the rails, for it is only ownership of capital that makes exploitation possible. This sort of nonsense proves nothing, either for or against unequal exchange. It also means accepting a mechanistic relation between standard of life and political attitudes, thus reducing in childish fashion the dialectic of infrastructure and superstructure to immediate economistic determinations. To say that this theory of unequal exchange also means that the bourgeoisie of the periphery shares the interest of the proletariat of the periphery in winning freedom from domination by the center is to forget that this bourgeoisie was formed from the outset in the wake of the bourgeoisie of the center, and once more to reduce social life to a

few simplistic economistic propositions. The purpose of my work is not to discuss all these problems, and I will leave it to lovers of futile polemics to pursue this sort of controversy.

Going deeper, unequal exchange means that the problem of the class struggle must necessarily be considered *on the world scale,* and that national problems cannot be seen as epiphenomena juxtaposed with the essential problem of the "pure" class struggle. At bottom, this is why the theory in question causes so much irritation. It shows that the bourgeoisie (of the center, the only bourgeoisie that exists at the level of the world system) exploits the proletarian and proletarianized masses everywhere, at the center and in the periphery alike, but that it exploits those of the periphery more violently and brutally, and that this can happen because the objective mechanism which is the basis for the unity that links the bourgeoisie with its own proletariat (owing to the autocentric character of the national economy from which it arises), a mechanism that limits exploitation at the center, does not function in the extraverted periphery.

My analysis stops at this point because it does not aim to write the concrete history of the periphery during the last two centuries, and still less to provide prophesies for the future. The world system as I have analyzed it shows that it contains, *at the center just as in the periphery,* both the elements of a socialist challenge to this system and the contrasting elements that oppose such a challenge. No "prophecy," even though it be attributed to Marx, Lenin, or Trotsky, can take the place of the real dialectic of history.

The formation of a world system such as we have today has not merely made possible the development of socialist movements in the periphery. *Up to now* it has led to the shifting of the *principal* nucleus of the forces of socialism from the center to the periphery. This is not an expression of any "Third-World-ist theory" but a plain recognition of the fact that transformations toward socialism have *up to now* broken through nowhere except in the periphery of the system. This fact needs to be explained, like any other—and it can be explained. One way of dodging the question is to deny the socialist character of the transformations in question, either by seeing the revolutions of the periphery as "historical accidents" or by reducing them to "peasant revolts" (as the Trotskyists try to do). This way of denying changes in the system on the world scale—ultimately, of denying the existence of a world system—serves the purpose of safeguarding the sacred character accorded to Marx's analysis of the capitalist mode of production, making of this, instead of the point of departure for analysis, the entirety of

a finished body of knowledge. It means forgetting that, as integrated into the world system, the periphery is very largely *proletarianized,* a vital phenomenon that I have stressed in this book.

Can one go on considering the developed world in isolation from its periphery? This means forgetting that the third biggest economic power in the world is made up of American corporations operating outside the United States, so that the proletarians who produce surplus value for U.S. capital are to be found outside the United States to no less an extent than within. Noting this fact, Bettelheim recently arrived at a correct formulation of the problem which coincides almost literally with my own. He wrote:

> I think it very important to draw a sharp line of demarcation, as is done in the article, between Mao Tse-tung's ideas and the Third-World-ist tendencies which see in what are called the underdeveloped countries those that have been left behind by development, or backward countries, whereas they are the *product* of imperialist domination, which has *transformed* them and *integrated* them into the world imperialist system, in which they fulfill a well-defined function, that of a reserve of raw materials and cheap labor power. It is this function that renders the *masses* of these countries ripe for revolution, whether they be *proletarian* masses, in the strict sense of the word, or masses that are *proletarianized* and thereby capable of serving as agents of a proletarian policy.[10]

With this formulation Bettelheim abandons the confused attitudes, which I described as "pre-Leninist," that he had adopted in his dispute with Emmanuel, when he denied the existence of unequal exchange.

It is true, of course, that the mechanisms of proletarianization in the periphery have not worked through to completion, precisely because of thy extroverted character of development in the periphery. A fact of this scope has serious consequences. In the periphery the movement loses its pseudo-"purity": it is both anticapitalist and national. The only successes won by socialism so far have occurred precisely where this merging of socialist and national aims has been most complete (in China and Vietnam). The semi-proletarianized situation of very great masses of the population does, of course, give rise to all sorts of spontaneous tendencies and possible deviations: revival of agrarian capitalism, establishment of state capitalism, or "nationalism." This analysis has nothing in common with that of Frantz Fanon and his followers—who deny that the proletarianized masses of the periphery are capable of fighting for socialism (owing to their alleged material advantages), and

who interest themselves exclusively in the peasantry—and only a muddled approach to the controversy can result in these two analyses being confused. The only people who can take offense at this are those who would have preferred history to remain "pure," in accordance with a schema laid down for all time by the "sacred revelation" of 1867. The inability to act upon and transform reality which is characteristic of Trotskyism is what underlies this vain protest against reality.

The distinction I draw between masses that are proletarian, semi-proletarianized, proletarianized, and in course of proletarianization, the emphasis which I put on the need for precise analysis of the mechanisms of proletarianization in the periphery, and the awareness I show of the incomplete stage reached by these processes, all answer *in advance* those hair-splitters who, in the last analysis, are satisfied with recalling that the capitalist mode of production is defined at the level of relations of production, not of exchange. This recalling ad nauseam of a platitude is beside the point, since what is under consideration is the world capitalist system, not the capitalist mode of production. Such analyses, which are incapable of accounting for the *fact* that breaches in the system have so far been effected only in the periphery, are therefore utterly sterile.

We need to go further even than this. The "nationalism" of the East is not a product of its "immaturity" but is the echo of the setbacks suffered in the West, the postponement of the socialist solution in the developed countries. If this delay in the West should continue for a long time—a historical possibility—it is not out of the question that socialism (even if only partial) may coexist for a long time yet with nationalism (even if this be "proletarian" in character).

But the line of development that has been indicated so far is certainly not the only one possible. There is no reason not to expect socialist transformations at the center, and no simplistic economistic argument about the integration of the working-class masses in the system seems to be decisive, for this integration, even if it be a (partial) fact, is not an irreversible one (as it would be if it were total). There is no question of denying this fact of (partial) integration, without which the postponement of the socialist solution in the West would be incomprehensible, except by resorting to subjectivist and anecdotal arguments (about the attitude of the leaders of the trade unions and workers' parties, etc.). This fact also explains why socialist challenging of the system has moved away from the traditional proletariat to the marginal elements of society, and the reflection of this shift in ideology, as we see in the writings of Marcuse. Is it necessary to make

clear here, so as to avert further misplaced polemical interpretations, that the alternative line of development, that of social transformations in the West, requires that the system be challenged by more than these marginal elements—that great masses be brought into action, not only the traditional proletariat but also the new proletarianized strata, in particular the white-collar workers and technicians whose numerical importance is growing and will grow more with automation?

Between these two possible lines of development, with their infinite combinations, history alone will decide, and any prophecy must remain illusory.

Finally, the criticism to which the idea of unequal exchange has been subjected has revealed the amazing power of "Europocentrism." People would have liked the proletariat of the center to inherit from its bourgeoisie the leading role in history—that it should inherit the positive aspects of capitalist development without having to inherit its negative aspects. Unfortunately, development is uneven, and this implies transference of the leading role in history from one civilization to another. Greek civilization did not survive the end of slavery. Capitalism will not give way to socialism unless European civilization gives way to a truly worldwide civilization. The vision of the "advanced" proletariat of the West bringing socialism as a "gift" to the "backward" masses of the periphery is not "intolerable"—it is merely refuted by history.

Unequal exchange also draws our attention to the very important fact that the dominant role in the world capitalist system is shifting to *politics*. I make only a brief allusion to this; but it is of vital importance when we tackle the main aspect of the problem, namely, the dynamics and prospects of the peripheral formations.

4. I agree fundamentally with the whole current of thinking which analyzes the origins of underdevelopment as a consequence of the development of capitalism on the world scale, and thereby rejects all the rubbish produced by identifying the concept of underdevelopment with that of "traditionality." For me, development and underdevelopment are the two opposite poles of a dialectical unity. This type of analysis is now that followed by the entire Latin American school (or schools), to which contemporary theory owes its essential conclusions. The differences within this current seem to me to be only minor, and to reflect the commonplace fact that different groups stress different aspects of a problem, depending on the national reality they are concerned with (and these realities are extremely varied)—rarely are they the result of fundamental theoretical divergences.

It is in this way that I, being an Egyptian, have emphasized the role of ground-rent—taken by a class of landowners who are the "beneficiaries" of their country's integration into the international capitalist system—in the genesis of the agrarian crisis in the countries of the periphery, and of the freezing at a very low level of wages and the rewarding of the labor of the small peasants in those countries. Many Latin American writers have pointed out that it is the external character of the market that is responsible for keeping wages down. I agree with them on this point and have in several places in my work shown the close connection between all these phenomena. The critique of the results of the policy of import-substitution which has been also carried out most systematically by Latin Americans, in particular by Raul Prebisch, Celso Furtado, and Maria Conceição Tavarès, likewise coincides with my own."[11]

The problem of the future continues to be the subject of discussions that are not merely possible but also necessary. It is not a taste for futurology that causes me to say this, nor is it my intention to take on the role of the prophets I have criticized. If we have to study what is developing, we must do so with the modesty that is necessary in order to revise our analyses at every stage in the light of the evolution of reality itself.

In recent years, stress has been placed upon the increasing role played by big multinational corporations in the shaping of the world system, and my own analysis is inadequate and out-of-date where this subject is concerned.[12] Nevertheless, I wonder whether the role of these enterprises is not being exaggerated when they are seen as the beginning of a *world capitalist production process.* If one were to anticipate reality, where would the development of this world process lead? I have questioned in this book Marx's analysis of the prospect before the colonies in his day, without the slightest fear of committing "heretical sacrilege," horror of which I leave to the dogmatists. In my turn, however, I must admit that my own view is based on present tendencies, and may also lose its validity as the future unfolds. If a socialist solution is not provided for the increasing contradiction revealed by present tendencies toward the polarization of developed and underdeveloped countries, the world system will itself provide its own solution by evolving in unforeseen directions.

From this angle, is it out of place to ask some questions regarding the semi-industrialized countries of Latin America, notably Brazil and Mexico? In these countries, with the *effect of size* as a factor (which needs to be studied much more systematically, and is practically left

out of account in my work), is the possibility of autocentric capitalist development to be altogether ruled out? This prospect must not be reduced to the old problem of national capitalism. Like Canada, could not Mexico (or Brazil?) gradually become a fully developed province of the United States, in the sense that the phenomena of *marginality* that are now apparent would diminish to the point of disappearance? This autocentric development would be undertaken not by national capital but by the capital of the United States, with which the former would of course be associated in a junior capacity (as in Canada). If this should happen, it is clear that the contradiction would shift from the economic sphere to that of culture and politics. Here again we come upon the problem of the shifting of dominance in the system from economics to politics, a matter to which I have already referred.

There is no question of attempting to deal with this problem here, which would require considerable additional work. But it must make us reflect; for I have defined in this book three *symptoms* of underdevelopment (what I have called its "structural characteristics"): unevenness of productivity between sectors, disarticulation, and domination.

It is already clear that disarticulation does not present itself in the same way in Brazil as in tropical Africa. In the case of the semi-industrialized countries of Latin America (Brazil, Mexico, Argentina), there is already an integrated industrial group. This group even tends to become *autocentric,* though in a special way, for it is based not on a large internal market, embracing the whole population, as in the developed countries, but only on a partial internal market, composed of the "rich" and "integrated" fraction of the population. In this way the integrated autocentric industry of these countries leaves out of account a *marginal* population which it does not integrate, and which makes up the bulk of the rural population together with its extension, the inhabitants of the shantytowns. This phenomenon is due to the fact that agriculture, opened up at an earlier stage of the country's integration into the world system, continues to be extraverted and, for this reason, suffers from a very low and stagnant reward for its labor. Disarticulation, which does not appear at the level of industry, is expressed at the national level between agriculture and industry. As we see clearly in the case of Brazil, this phenomenon is expressed in a special structure of external trade, with exports appearing as those of a classical underdeveloped country (predominance of primary products, especially agricultural produce) and imports as those of a developed country (predominance of power, semi-finished goods, equipment goods, and food-

stuffs, and not of manufactured consumer goods). This observation leads us to consider more deeply the problem of the relations between agriculture and industry in development. It also leads us to ask whether the "classical" form of disarticulation, which I have described in my book (mainly with Asia and Africa in mind) formed merely a first stage of underdevelopment, or whether the semi-industrialized countries presented from the start specific features that have made this type of solution possible.

Proceeding further, we must ask whether, if disarticulation were to be progressively eliminated through integration of the sectors that are still marginal, underdevelopment would disappear. These are only suppositions, but it is still to be feared that domination will persist, expressing itself particularly in the field of technological initiative. It remains true that, even given this assumption, underdevelopment would look very different from the way it does at present. The fact that Latin American writers stress *dependence* rather than *disarticulation* reflects these preoccupations.

I would suggest, however, that there is nothing to show that the present tendency is for a progressive reduction of the marginal sectors, and their integration. In Mexico, for instance, the marginal population still makes up half of the total, and economic growth is already slowing down—at a level lower than $300 per capita! It seems to me that the prodigious modernization process that this country underwent between 1910 and 1960, and which has nourished this illusion of the progressive absorption of the marginal sectors, was possible owing to the agrarian revolution of 1910 and to the nationalism of the period of Cardenas' presidency (1939-1940). The latter was the first appearance of a current that later developed extensively in other parts of the Third World (India, Egypt, etc.). Until proof appears to the contrary, this type of bourgeois (or petty-bourgeois) nationalism cannot succeed in advancing any further, because it cannot break with the world system. Is it not significant that the pursuit of economic growth in Mexico is based more and more on the export of manpower to the United States (already more than seven million seasonal workers, out of a total population of fifty million), and on tourism—witnessing to other tendencies for the future, characteristic of new forms of dependence and underdevelopment?

The interest offered by analyzing future prospects ought not, therefore, to make us forget present reality. Up to now, the dominant tendency in the world system is for the gulf between center and periphery to get wider, not narrower. In this sense, *imperialism* continues to be

the only real problem. The prospect set out in the Pearson Report testifies eloquently to this.[13] And any attempt to hide this basic reality deprives analysis of its scientific character, in order to descend into apologetic ideology, of one sort or another, however subtle. The ultra-modern tendencies to a new kind of *unequal* international specialization, however embryonic, seem to me to be a more important field for future research, which is why I have laid much stress on these tendencies. Under the present system, in any case, as in this new system which is beginning to appear, the question of unequal exchange remains, since what is involved is an unequal international division of labor (and so of exchanges). The position occupied by this question is not essential, since exchange continues to be the phenomenon whereby inequality shows itself on the plane of immediate appearances. The essence of the problem lies, as I have emphasized in this book, in the dialectically contradictory pair: *autocentric/extraverted (or developed/underdeveloped).*

It is usual when one confines oneself to the plane of appearances, instead of regarding this as merely the starting-point for analysis, to incur the risk of slipping into positivistic empiricism. In this connection can be mentioned the discussions on the equalization of the rate of profit on the world scale, which is only a tendency, coming up against a countertendency (inequality between monopolies, interference by the national policies of states, and so on). There is also the discussion about the dynamic of the labor market. The fact that the rate of surplus value is higher in the periphery, for reasons I have examined in this book, means that there is transfer of value to the advantage of the center. Along with this, however, a *world labor market,* as yet only embryonic, is coming into existence. Migrations from one continent to another are the beginning of this development. The "brain-drain" after the Second World War was the first sign of this tendency, at that stage affecting only the higher grades of skilled personnel. As always, labor is put at the disposal of capital where the latter wants it, and not vice versa. If, however, these migrations were to become an essential feature of this prospect, then cultural and national differences could be exploited by capital, as can be plainly seen from current experience of the unequal status of immigrant workers in the developed world. In extreme cases, this mass transfer of labor power entails the danger of creating a sort of internal colonial system, as contrasted with the external colonialism that now exists. The model that was once presented by Latin America, and which is today that of the United States and South Africa, where blacks constitute an internal colony, reminds us that this possibility of

racism and generalized apartheid needs to be taken seriously. Here, too, politics becomes dominant, and unequal exchange, becoming internal to "developed" society, disappears as a form of *international* exchange.

5. This second edition includes only minor corrections to the original. The style, sometimes too heavy, has not been altered, and reflects the fact that the book was based on a course of lectures: the lengthy expositions have their justification in pedagogical method and in the author's desire to be understood by the mass of social science students, even those not specifically economists. It has seemed to me, for example, more explicit to speak of the comparative evolution of net barter terms of trade and productivities rather than to tackle this problem directly in economistic jargon by analyzing the evolution of the double factoral terms of trade. It did not seem necessary to bring up-to-date my references, often quite old, since many of the ideas set forth here had already been expressed by me as many as fifteen years ago. This is not laziness or affected preference for the old, but is merely due to the fact that more recent texts dealing with the subjects dealt with seem not to contribute anything new. It may be thought that it is useless to criticize the "stages of growth" that were in fashion ten years ago, since Rostow is no longer taken seriously. But it still remains true that he was adviser to a President of the United States, and that the economic policy of many governments continues to be based on the assumptions of the pseudo-theory of stages. The cultural poverty of the technocrats is content with this sort of "social science." Besides, the intellectuals and professors who now smile when mentioning Rostow took him seriously not so long ago, and in most cases have not yet dared to go beyond negative criticism, to work out the theory of the development of underdevelopment. The great period of contemporary university economics seems to me to have been centered on Keynes and the Keynesianism of the 1940s and 1950s. Subsequently, the triumphant technocratic-econometric-positivistic current has merely translated Keynesian and post-Keynesian ideas into the field of practical application. This current, despite the apparent updatings that changing fashion dictates—in this sphere as in that of consumer goods—has now exhausted its potentialities. A genuine bringing up-to-date of this economic theory must start from criticism of the ideas that provided its foundation.

This is why a fundamental criticism of the bases of the marginalist-subjectivist economic theory seemed, and still seems, essential. Piero Sraffa's critique of marginalism has sounded the knell of the subjective theory of value.[14] Sraffa shows again, after Ricardo and Marx, that the

macro-economy is fundamental, that the social relations of strength that determine the class sharing of income between the proletariat and the bourgeoisie determine all the conditions of general economic equilibrium, and that calculation of profitability possesses no rationality outside this social relationship of strength. It therefore seems to me that it is necessary, whenever one deals with the theory of underdevelopment, to go to the sources of the ideology of universal harmonies, by carrying out a critique of the subjectivist theory of value. Experience of university teaching has in any case convinced me of the need for this. The crucial role of the rate of surplus value, and consequently the limited and subordinate role of the rate of interest, is of vital significance in the sphere of the economics of development and underdevelopment. This theoretical emphasis has caused me to refer several times to the decisive importance of the contradiction between capacity to produce and capacity to consume: transfers of multiplier mechanisms from the periphery to the center would not be understood without this analysis. However, I stopped at that level. A different book, with a different aim—to give a fundamental critique of the subjective theory—would, needless to say, have had to deal with other problems, in particular those of the transformation of values into prices.[15]

This fundamental criticism having been made, I had to come to grips in this spirit with problems which, though secondary in the theoretical sense, are not less important in practice. The illusions regarding "monetary independence," the ambiguities regarding changes in the conjuncture and the prospect in this connection, especially in the sphere of international relations, positivist empiricism in the outlook on theories and manipulations of the exchange—all need to be examined afresh on the basis of the critique of the theory of development and underdevelopment and of the subjective theory of value that underlies it. This is why I have continually come back to this critique, even at the cost of some repetition. Naturally, a work that criticizes a theory—here, the theory of the economics of development and underdevelopment—demands to be completed by a positive work, which the reader will not find here: a theory of the social formations of capitalism, which is barely sketched out, and even a more general theory of the precapitalist formations and the "facts of civilization."[16]

One final word needs to be said. There can be no doubt that the first edition did not do justice to the debt that I owe, along with all concerned with nonapologetic study of underdevelopment, to the Latin American writers on the subject.[17] Raul Prebisch took the lead in this

field, and I have shown in this book that the theory of unequal exchange was founded by him, even if the conjunctural context in which he set it, in his first version, has lost its significance. It is also to the United Nations Economic Commission for Latin America, of which he was the moving spirit, that I owe the essence of the critical theory to which I adhere, for it was this Commission that led the way in the reflections from which all the present currents in Latin American thinking on these matters have developed—criticism of the policy of import-substitution and also theory of dependence.

The amazing theoretical backwardness in Asia, and above all in Africa, where confusion between growth and development still reigns, testifies by contrast to the importance of the contribution from Latin America. When we seek to discover the reasons for this backwardness we are led at once to consider the role of the universities. Since the 1920s the universities of Latin America have been open to the middle classes on a very large scale—sometimes larger than in the developed countries. The old patrician culture, legalistic and positivist, has been subjected to the onslaughts of social science. While in the United States an expansion like this has taken place without serious consequences, thanks to the country's economic dynamism, the European countries which are only now reaching this stage are having difficulty in overcoming the crisis (as is shown by the example of France). In Latin America, where the system was always incapable of digesting this transformation, which peripheral capitalism did not need, a prolonged incubation has helped to create a genuine intelligentsia and resulted in a theoretical harvest of exceptional quality. In Asia and Africa the system of direct colonial rule has prevented this *propulsive contradiction* from arising. It is in this context that the present policy of *systematic destruction* of the universities in the Third World must be seen, especially in the French-speaking countries of Africa, which serves the aim of reducing education to the formation of executive technicians and stifling the formation of real intellectuals capable of reflecting on underdevelopment.

The critique of underdevelopment is thus called upon to play an important part in the bringing up-to-date not only of economics but of social science. The "first decade of development" (the 1960s), in which emphasis was laid on economic growth, with all its illusions of "profitability" and "econometry," ended in obvious defeat—so obvious that the United Nations Organization itself has recognized, at the outset of the "second decade," that "growth is not development." The critique of economism is now subject to the risks of becoming fashionable, that is,

of getting diluted in pseudo-synthetical—but really muddled—soothing-syrup. *Structuralism,* by declining to look for the propulsive contradiction within systems, facilitates this process.[18] The fact is that criticism of the theory of underdevelopment leads to criticism of the system, and there is no room for diplomacy in social research.[19]

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177. See the essential work on these structures and this history: Frank, *Capitalism and Underdevelopment in Latin America,* and its very full bibliography of Latin American writings on these problems. See also Gutelman, *L'agriculture socialiste à Cuba,* chapter 1.

178. See Riad, *L'Egypte nassérienne,* and Issawi, ed., *Economic History of the Middle East, 1800-1914.*

179. Rodney, "African Slavery and Other Forms of Social Oppression," points out that the building up of "stocks" of slaves among the inhabitants of the coastal areas led to the formation of new types of slave-owning organization among these peoples. See also Coquery-Vidrovitch, "De la traite négrière à l'exploitation des palmistes du Dahomey," and Dike, *Trade and Politics in the Niger Delta.*

180. Native traders involved in the *economie de traite.* See Dike, op. cit.; Ranger, ed., *Aspects of Central African History;* Oliver and Matew, eds., *History of East Africa.* See also the communication to the IAI Colloquy at Freetown, December 1969.

181. Lacroix, *Industrialisation au Congo.*

182. Amin, "Le développement du capitalisme en Afrique noire."

183. See my book, *Le développement du capitalisme en Côte d'Ivoire.*

184. In six years, from 1960 to 1966, production of foodstuffs for the market multiplied by four in the Lower Congo. For the first time on a big scale the process of capitalist development has been based not on export crops but on food crops, stimulated by the demand of the town of Kinshasa.

185. To use Albert Meister's expressions.

186. See the case of the Ivory Coast, in Amin, *Le développement du capitalisme en Côte d'Ivoire.* See also that of the Gold Coast, which between 1890 and 1914 experienced a "miracle" of the same sort, in Szereszewski, *Structural Changes in the Economy of Ghana.*

187. Examples of such superficial conclusions are not hard to find. It is enough to glance almost at random at the reports produced by the organizations in question. The "green revolution" carried out in some Asian countries (India, Pakistan, Thailand) reflects, as far as certain areas are concerned, the equally rapid progress of "kulakization" among the peasantry.

188. Egypt provides a typical example. See Riad, *L'Egypte nassérienne.*

189. A stimulant that figures in a large-scale traditional trade.

190. Saint-Louis and Gorée were among the earliest European establishments on the African coast.

191. See on this subject the remarkable work by Verhaegen on *Les rébellions au Congo.*

192. Formerly Italian Eritrea experienced a development of capitalism from which the rest of the Ethiopian Empire was immune.

193. Arrighi has correctly emphasized this point. See his communication to the Congress on African Studies (1969).

194. Dobb (*Studies in the Development of Capitalism,* pp. 19-20) also draws attention to the transitional period which in Europe separated the feudal period from that of the Industrial Revolution, and which was marked by an extraordinary development of the simple commodity mode of production.

195. Dobb, op. cit., pp. 3 et seq., rightly emphasizes that capitalism is not synonymous with laissez-faire—that, whenever labor power is lacking, capitalism calls on the state to intervene in order to make labor power available and reduce it to submission.

196. Unpublished study by Samir Amin on the changes in social structure in the Sudan under Mahdi; the author's own observations regarding the Murids. See also Donal O'Brien's research on the Murids (to be published).

197. Studied by Raulin, *La dynamique des techniques agraires.* See also Raulin's communication to the Montreal Congress, October 1969.

198. Delbard, "Les dynamismes sociaux au Sénégal."

199. Amin, *Le monde des affaires sénégalais;* "La bourgeoisie d'affaires sénégalais"; "La politique coloniale francaise."

200. See Amin and Coquery-Vidrovitch, *Du Congo français à l'UDEAC.*

201. Communication to the Congress of African Studies, Montreal, October 1969.

202. When what are involved are important industries, and not mere extensions of commercial activity, as is often the case with light industries producing goods to replace imports—industries that are, moreover, often controlled by the colonial commercial firms themselves.

203. This is the case in Morocco (communication by Abdel Aziz Belal to the Congress of African Studies, Montreal, October 1969) and in Congo-Kinshasa (with the nationalization of the mining companies in Katanga).

204. The expression is from Belal's communication. See also Amin, "Sous-développement et marché international."

205. Aron, *La lutte des classes;* Burnham, *The Managerial Revolution;* Galbraith, *The New Industrial State* and *The Affluent Society.*

206. Hence the decline of parliamentarism in the West. This analysis has been carried out by Edgard Faure, for example, as regards France.

207. A point to which Arrighi has directed our attention (communication to the Montreal Congress, October 1969).

208. See the striking evidence for this in Lacroix, *Industrialisation au Congo.*

209. See the important work on the political and social implications of these changes in Arrighi and Saul, "Nationalism and Revolution in Sub-Saharan Africa"; Arrighi, "The International Corporation"; Arrighi and Saul, "Socialism and Economic Development in Tropical Africa"; also Arrighi's writings on Rhodesia (op. cit.).

210. See Bézy, "La situation économique et sociale du Congo-Kinshasa"; IRES, *Indépendance, inflation, développement;* Ryelandt, *L'inflation congolaise, 1960-1968* (to be published by Mouton), which provides a striking demonstration of this process. It should be mentioned that Ryelandt shows how the intervention of the International Monetary Fund—for the creation of Zaire—has made this retrogression possible: IRES, *Lettre mensuelle,* no. 1, 1967 (on the Union Minière du Katanga).

211. See Amin and Coquery-Vidrovitch, *Du Congo français à l'UDEAC;* Amin, *Trois expériences africaines;* and, bringing these matters up to date, my articles "Ghana," "Guinée," and "Mali" in *Encyclopaedia Universalis,* 1969-70.

Notes to Chapter 3

1. Viner, *Studies in the Theory of International Trade;* Friedman, *Studies in the Quantity Theory of Money;* Von Mises, *Theory of Money and Credit;* Robertson, *Money;* Rist, *Qu'est-ce que la monnaie?;* Nogaro, *La monnaie et les systèmes monétaires;* Marx, *Critique of Political Economy* and *Capital* 1; Schumpeter, *Théorie de l'évolution économique;* Lindhal, *Etudes sur la théorie de la monnaie et du capital;* Myrdal, *L'équilibre monétaire;* Harrod, *Economic Essays;* Keynes, *A Treatise on Money* and *The General Theory;* Hicks, *Value and Capital.* For a general account of monetary theories, see Marchal and Lecaillon, *Les flux monétaires,* and Liau, *La détermination des taux d'intérêt,* which also contain very full bibliographies.

2. Keynes, *The General Theory,* pp. 178-85.

3. Wicksell, *Interest and Prices;* Myrdal, *L'équilibre monétaire;* Keynes, *A Treatise on Money;* Cassel, "The Rate of Interest, the Bank Rate and the Stabilisation of Prices."

4. Robertson, *Money,* pp. 84-107.

5. Don Patinkin, "Price Flexibility and Full Employment"; Courtin, "L'intérêt."

6. Keynes, "The Theory of the Rate of Interest," in *Readings in the Theory of Income Distribution,* p. 418: "Interest . . . is simply the premium obtainable on current cash over deferred cash . . ."

7. Hicks, "Mr. Keynes and the Classics."

8. Keynes, *The General Theory,* pp. 135-64.

9. Robertson, "Mr. Keynes and the Rate of Interest."

10. Denis, *La monnaie.*

11. This is where Gruson finds himself, in *Esquisse d'une théorie générale,* by ultimately identifying saving with amount of money; he is correctly criticized on this point by Courtin (op. cit.).

12. Warburton, "Contemporary Business Fluctuation Theory," p. 284.

13. Harrod, *Towards a Dynamic Economics,* p. 119.

14. Rist, *Histoire des doctrines relatives au crédit et à la monnaie,* pp. 215-18, 404-21.

15. Von Mises, *Theory of Money and Credit.*

16. Hicks, "Simplifying the Theory of Money"; Cannan, "The Theoretical Apparatus of Supply and Demand"; Ellis, "Some Fundamentals in the Theory of Velocity."

17. Modigliana, "Liquidity Preference"; Nogaro, *La méthode de l'économie politique,* pp. 196-245.

18. Friedman, *Studies in the Quantity Theory of Money.*

19. Marjolin, *Prix, monnaie et production,* p. 129; Wicksell, *Interest and Prices,* p. 33; Paish, "Causes of a Change in Gold Supply"; Robertson, *Money,* pp. 82-84.

20. Denis, *La monnaie.*

21. Hicks, *Value and Capital;* Lange, *Price Flexibility and Equilibrium.*

22. Marx, *Capital* 2, ch. 21 ("Accumulation and Reproduction on an Extended Scale").

23. Schumpeter, *Théorie de l'évolution économique.*

24. Perronière, *Les opérations du banque,* pp. 150-70.

25. United Africa Co., Ltd., "The West African Currency Board." Dates of establishment of the other currency boards: East Africa, 1919; Cyprus, 1928; Mauritius, Seychelles, West Indies, 1930; Rhodesia, Malaya, 1938; Central Africa, 1950.

26. See the statistics in Newlyn and Rowan, *Money and Banking in British Colonial Africa,* pp. 51 (West Africa), 64, and 71 (other African colonies); and Greaves, *Colonial Monetary Conditions,* pp. 16, 17, 18 (Malaya and British West Indies).

27. Statistics in Newlyn and Rowan, op. cit., p. 50; the assets represented a percentage of the liabilities varying between 97.2 and 109.4, between 1923 and 1950.

28. Newlyn and Rowan, op. cit., p. 27.

29. Thus, between 1919 and 1942 East Africa gradually built up its reserves, which in 1925 stood at only 43.6 percent of circulation (27.9 in 1930) and eventually, in 1943, attained the figure of 86 percent (Newlyn and Rowan, op. cit., p. 59).

30. "Monetary Systems of the Colonies"; Clausen, "The British Colonial Currency System"; Malkani, "Post-war Currency System in India"; Mikesell, "Financial Problems of the Middle East"; Muhlenfeld, "The Netherlands West Indies"; Shannon, "Evolution of the Colonial Sterling Exchange Standard" and "The Modern Colonial Sterling Exchange Standard"; Vinelli, "The Currency and Exchange System of Honduras."

31. Wallich, *Monetary Problems of an Export Economy,* especially pp. 38, 76, 330.

32. Blöch Lainé, *La zone franc.*

33. Ibid., p. 70.

34. Moursi, *Iqtisadiat al nouqoud,* pp. 184-85.

35. See Brown, *Economic Problems of a Tropical Dependency;* Exter, *The Establishment of a Central Bank in Ceylon;* Frankel, "The

Situation in South Africa"; Shency, "The Currency, Banking and Exchange System of Thailand"; Wallich, "Underdeveloped Countries and the International Monetary Mechanism"; Wallich, *Monetary Problems of an Export Economy,* pp. 40-45; and Chabért, *Structure économique et théorie monétaire,* from which I have taken all the statistics that follow.

36. Newlyn and Rowan, op. cit., pp. 169-76.

37. This distinction is rarely made. The following writers have emphasized its importance: Greaves, "The Sterling Balances of Colonial Territories"; Wightman, "The Sterling Area"; Newlyn, *Money in an African Context.*

38. Figures from the *Annuaires statistiques égyptiens* and the *Annuaire de la SDN* (for Britain). See *Thesis,* p. 407.

39. Chabert, op. cit., pp. 136-39. See also, for the American economy (1800-1945), Warburton, "The Secular Trend in Monetary Velocity" and Hansen, *Monetary Theory and Fiscal Policy.*

40. Bloch Lainé, op. cit., pp. 35, 261, 276, 382; Niveau, "L'organisation de la zone sterling." The figures are taken from Bloch Lainé's book (pp. 488-89) and from *Economie appliquée,* January-March 1953 (p. 189).

41. Fitch and Oppenheimer, *Ghana: End of an Illusion.*

42. Nogaro, *La monnaie et les systèmes monétaires,* p. 153.

43. Spiegel, *Brazil,* pp. 42 et seq.

44. "Ceylon's Central Banking Experiment"; Macrae, "Experiment in Central Banking"; Mikesell, "Sterling Area Currencies of the Middle East"; Newlyn and Rowan, op. cit., ch. 13; Plumptre, *Central Banking in the British Dominions;* Raj, *The Monetary System of Egypt;* Rosenberg, "Banking in a Dependent Economy"; Sayers, ed., *Banking in the British Commonwealth;* Sen, *Central Banking in Undeveloped Money Markets;* Triffin, "Monetary Development in Latin America."

45. Here, too, it is necessary to avoid identifying the relations between the expatriate commercial banks and the central bank in the periphery with the relations maintained by these expatriate banks with the central banks at the center. The spreading network of American banks in Europe (the "only truly European banks," as Kindleberger strikingly puts it in *European Economic Integration* in *Weltwirtschaftliches Archiv,* 1963) raises problems of a different order.

46. Wallich, *Monetary Problems of an Export Economy,* pp. 52–58.

47. Ibid., pp. 256-59.

48. See the special issue of *Revue économique* on "Distribution et

contrôle du crédit" (1951); also Bettelheim, *Problèmes théoriques et pratiques de la planification.*

49. This is the case, for example, in the African countries of the franc area. The history of the (peripheral) bourgeoisie of Senegal, who played an important historical role in the first phase of colonization until they were swept away by this very process, provides an instance (see Amin, *Le monde des affaires sénégalais,* pp. 11-29 and 172-79). Policies of discrimination in the allocation of credit obviously had a lot do with the course taken by this historical development.

50. See the example, in Senegal, of the meat salesmen as compared with the general merchants and *traitants,* which is examined in Amin, op. cit., pp. 97 et seq.

51. There are plenty of well-known facts in this sphere. See, in my work mentioned above, the case of Senegal, pp. 97 et seq. I have given many examples (*Thesis,* ch. 8, pp. 429 et seq.): former French West Africa, Algeria, British colonies in Africa, Cuba, Egypt, South Asia, etc. For a description of the banking system, with in some cases statistics of its functioning, see: Baster, *The Imperial Bank;* Muranjan, *Modern Banking in India;* Mireaux, *L'organisation du crédit dans les territoires d'Outre-Mer;* Newlyn, "The Colonial Banks," in *Banking in the British Commonwealth;* Forté, *Les Banques en Egypte;* UNO, "On the Establishment of Certain Small Loan Banks by Government"; Rowan, "The Native Banking Boom in Nigeria"; "Banking in Nigeria"; "Banking Adaptation in the Gold Coast"; Sayers, ed., *Banking in the British Commonwealth;* Tamagna, *Banking and Finance in China;* Bloch Lainé, *La zone franc,* pp. 234, 241, 242 (for the French Union); Newlyn and Rowan, *Money and Banking in British Colonial Africa,* pp. 79-88 (for the British colonies); Wallich, op. cit., p. 173 (Cuba); Issawi, op. cit., p. 217 (Egypt); UNO, *De la mobilisation des capitaux nationaux en Asie du Sud-Est;* Booker, "Debt in Africa."

52. Chalmers, *History of Currency in the British Colonies;* Crouchley, *Foreign Capital in Egyptian Companies;* Colon Torrès, "Agricultural Credit in the Caribbean"; Dantzala, "Agricultural Credit in India"; FAO, *Agricultural Credit for Small Farmers;* Wallich, op. cit., p. 175.

53. Amin, *Le monde des affaires sénégalais,* pp. 91 et seq.

54. See *Thesis,* pp. 435 et seq., giving examples from the British colonies in Africa and from Egypt, Latin America, and Southeast Asia. Statistical sources taken from Newlyn and Rowan, op. cit., pp. 84, 87, 92 (British Africa); Wallich, op. cit., p. 187 (Cuba); Issawi, op. cit.,

p. 220 (Egypt); League of Nations, *Mémorandum sur les banques commerciales,* p. 57; Jayawardena, "Liquidity in an Underdeveloped Economy"; Newlyn and Rowan, op. cit., p. 79; Moursi, op. cit., p. 258; Amin, *L'utilisation des revenus susceptibles d'épargne.*

55. This is the case of Egypt, for example, for which I have endeavored to measure the (very substantial) volume of hoarding of the income of the large landowners (see Amin, ibid.)

56. Greaves, op. cit., p. 58; Newlyn and Rowan, op. cit., pp. 80, 90, 92.

57. I give some examples in *Thesis,* pp. 445-46, the sources being: UNO, *Mission to Haiti;* Wallich, op. cit., pp. 191-92 (Cuba); Spiegel, op. cit., p. 151 (Brazil); Hazlewood, "Sterling Balances and the Colonial Currency System"; Mars, "The Monetary and Banking System and Loan Market of Nigeria" in *Mining, Commerce and Finance in Nigeria;* Amin, op. cit.

58. Bloch Lainé, op. cit., p. 216; Issawi, op. cit., pp. 222-26.

59. See, e.g., in *Thesis,* the Asian examples quoted from UNO, *De la mobilisation des capitaux nationaux en Asie du Sud-Est et en Extrême-Orient.*

60. Wallich, op. cit., p. 56; Newlyn and Rowan, op. cit., pp. 102-13; Issawi, op. cit., p. 217.

61. Newlyn and Rowan, op. cit., pp. 148, 124; Issawi, op. cit., pp. 216, 221; James, "L'organisation du crédit en Egypte"; UNO, *De la mobilisation des capitaux nationaux;* UNO, *The Economic Development of the Middle East,* p. 41.

62. Described as "rampant" inflation. See, e.g., Biacabe, *Analyses contemporaines de l'inflation* and Bienaymé, *Croissance et monnaie en plein emploi.* Both works contain full bibliographies.

63. Bloch Lainé, op. cit., p. 39.

64. See *Thesis,* p. 453.

65. Nasr, *Essai sur la notion d'inflation;* UNO, *The Economic Development of the Middle East,* p. 20.

66. Durand, *Essai sur la conjoncture de l'Afrique noire,* pp. 53-70.

67. Wallich, op. cit., pp. 87-88, 139-45.

68. Flamant, *Théorie de l'inflation.*

69. Singh, "Monetary Standard in India"; Triffin, "Monetary Development in Latin America."

70. UNO, *The Economic Development of the Middle East,* p. 17; Iversen, *Monetary Policy in Iraq;* International Monetary Fund (IMF), Annual Reports (recent years).

71. Aftalion, *Monnaie, prix et change;* Bresciani-Turoni, *The Eco-*

nomics of Inflation; "Les problèmes monétaires contemporains," *Revue économique,* 1950; Aujac, "L'inflation"; Mikhailevsky, "Le système inflationniste de financement des guerres"; Breguel, "La croissance du fardeau fiscal et l'inflation"; bibliographies in Biacabe and Bienaymé (see note 62).

72. Kondratieff, "The Long Waves in Economic Life"; Nogaro, *La monnaie et les systèmes monétaires;* Akerman, "Discontinuities of Employment Cycles"; "Structural Limits in Economic Development"; Marjolin, *Monnaie, prix et production;* Lescure, *Hausse et baisse des prix de longue durée;* Chamberlin, *The Theory of Monopolistic Competition;* Niebyl, "What Rights Should the Holder of Money Have?" The relation that exists between the monopolistic structure and the steady increase in prices has been the subject of two studies: Abdallah, *Monnaie et structure économique,* and Wilff, "Liaison entre prix et monnaie." A concrete example of how the system works to bring about a price increase is given by Barret, *L'évolution du capitalisme japonais,* vol. 3, pp. 117 et seq. Finally, among studies of the flexibility of prices under a monopoly regime, let me refer to: Backman, *Price Flexibility and Inflexibility;* Burns, "The Organization of Industry and the Theory of Prices"; Dunlop, "Price Flexibility and the Degree of Monopoly"; Galbraith, "Monopoly Power and Price Rigidities"; Hall and Hitch, "Price Theory and Business Behaviour"; Humphrey, "The Nature and Meaning of Rigid Prices"; Robinson, "Imperfect Competition and Falling Supply Price"; Robinson, *The Economics of Imperfect Competition;* Saxton, *The Economics of Price Determination;* Wallace, "Monopoly Prices and Depression," in *Explorations . . . in Honour of Taussig;* Wodd, "Dr. Tucker's Reasons for Price Rigidity."

73. See, e.g., Baran and Sweezy, *Monopoly Capital.*

74. K. Niebyl, quoted in Denis, *La monnaie.*

75. Bernstein and Patel, "Inflation in Relation to Economic Development"; Bronfenbrenner, "The High Cost of Economic Development"; Horsefield, "Inflation in Latin America"; Mendershausen, "Overseas Economic Development in World War II"; UNO, *Courants inflationnistes et déflationnistes actuels* 2, no. 5, 1947; *Les courants inflationnistes et déflationnistes en 1946–48* 2, no. A1; *Report of the U.N. Mission to Chile, 1949–50* 2, no. B6, 1951; Pazos, "Economic Development and Financial Stability"; Prest, *War Economics of Primary Producing Countries;* Rao, "Deficit Financing Capital Formation and Price Behaviour"; League of Nations, *L'inflation, son évolution;* Speigel, op. cit., p. 45; Scheffer, "La banca nei paesi sottosviluppati."

76. See, in my book, *Le monde des affaires sénégalais,* the example of transport (pp. 118 et seq.).

77. See the important studies on this subject in *Income and Wealth,* by Kuznets and others.

78. Emmanuel, *Unequal Exchange.* See also my examination of this problem, in chapter 1.

79. See chapter 2.

80. Lectures given at the Institute of Economic Development and Planning, Dakar, by Eli Löbel in 1966 (duplicated). I here follow this systematic exposition very closely.

81. Spiegel, op. cit., pp. 43, 49, 65; *Thesis,* p. 460.

82. See also the example of the Iranian rial, worth $ .084 in 1928 and $ .018 in 1954, and that of the Mexican peso: the dollar was worth 0.964 pesos in 1823, 0.954 in 1870, 2.062 in 1900, and 5.181 in 1939.

83. I have examined this experience in detail in my *Thesis,* pp. 459 et seq. Sources: Chabert, op. cit., pp. 152, 220, 221.

84. Many examples are available. See, e.g., UNO, *The Economic Development of the Middle East, 1945–54.* This type of inflation has recurred in African countries (Mali, Guinea, Ghana, Egypt, etc.).

85. Grove, "The Role of the Banking System in the Chilean Inflation"; Schloss, "Banking Without a Central Bank." I have studied the case of Egypt in "L'évolution des structures de financement du développement économique en Egypte de 1952 à 1967," in *Studies in the Economic History of the Middle East.*

86. There have been many such experiences, e.g., in Egypt. See UNO, *The Economic Development of the Middle East, 1945–54.*

87. Ryelandt, *L'inflation en pays sous-développés.*

88. Schmitt, *Monetary Policy and Social Conflict in Indonesia;* Amin, *Trois expériences africaines de développement.* Inflation in Latin America has been studied by the Latin American structuralist school. See Félix, "Structural Imbalances, Social Conflict and Inflation"; Furtado, *The Economic Growth of Brazil;* Sears, "Inflation and Growth in Underdeveloped Economies"; Lambert, *Les inflations sud-américaines;* A. Pinto, A. Ferrer, O. Sunkel, etc.

89. The case studied by Calso Furtado in relation to Brazil. See also Amin, "L'évolution des structures de financement," for the sharing of responsibility for the inflation in Egypt.

90. See also Nicolai, *Comportement économique et structures sociales.*

91. Barret, *L'évolution du capitalisme japonais,* vol. 1, pp. 17–23, and vol. 3, pp. 18–60; Allen, *A Short Economic History of Modern Japan.*

92. Okyar, "La théorie keynésienne et les pays sous-développés"; see also Mendershaussen, op. cit.

93. Dobretsberger, "Théorie des territoires économiques," and Perroux, "Les espaces économiques."

94. Anstey, *The Economic Development of India,* p. 412; Jathar and Beri, *Elements of Indian Economics,* p. 129; Haupt, *L'histoire monétaire de notre temps,* pp. 254, 261. See also, in the last-mentioned work, the effects of the devaluation of silver in Java (pp. 236–237).

95. See, e.g., the studies of Fouad Sultan (*La monnaie égyptienne,* 1914) and A. Awad (*L'évolution de la monnaie en Egypte et l'avenir de la livre égyptienne,* 1942). Also: Blowers and Macleod, "Currency Unification in Libya"; Malhotra, *History and Problems of India's Currency;* Mikesell, "Monetary Problems of Saudi Arabia"; Young, "Saudi Arabian Currency and Finance."

96. Löbel, "Liquidités internationales et éléments d'une politique monétaire de l'Afrique."

97. Triffin, *Gold and the Dollar Crisis,* p. 40. (Professor Triffin's "36 percent" appears to be a misprint.—Trans.)

98. See, for recent studies and a bibliography, *A Demand for Money: An International Comparison,* prepared by J. O. Adekunle, Research and Statistics Department, International Monetary Fund, 1965; *Essai d'interprétation de la demande de monnaie,* Paris, Ministry of Finance and Economic Affairs, 1965.

99. The long-term public external debt of the African countries was estimated at the end of 1965 at $5.0 billions units of account (see IBRD Annual Report 1965–66). As this figure did not include the U.A.R., which was included in the Middle East, at least $1.0 billion must be added, given that the external debt of the U.A.R. at the end of 1962 was already $968 million (see Dragoslav Abramović and associates, *Economic Growth and External Debt,* IBRD, 1964).

Notes to Chapter 4

1. Here, in the order in which I discuss them, are the principal writings analyzed: Lutfalla, "Communication to the Washington Meeting"; Lescure, *Les crises générales et périodiques de surproduction;*

Aftalion, *Les crises périodiques de surproduction;* Kaldor, "A Model of the Trade Cycle"; Kalecki, *Studies in Economic Dynamics;* Angell, *Investment and the Business Cycle;* Harrod, *Towards a Dynamic Economics;* Marx, *Capital,* vol. 3, chapter 21 ("Accumulation and Reproduction on an Extended Scale") and chapter 20, sect. 11 ("Replacement of the Fixed Capital"); Dobb, *Political Economy and Capitalism;* Sartre, *Esquisse d'une théorie marxiste des crises périodiques;* Duret, *Le marxisme et les crises;* Sweezy, *The Theory of Capitalist Development;* Hicks, *The Trade Cycle.* See also the articles devoted to these writers in *Les fluctuations économiques* (*La théorie économique du temps présent,* Paris, 1950) and Guitton, *Les fluctuations économiques.*

2. For the theory of maturity see chapter 1. Also, Baran and Sweezy, *Monopoly Capital.*

3. See chapter 3.

4. See Gruson, *Origines et espoirs de la planification française.*

5. Barrère, *Théorie économique et impulsion keynésienne,* p. 86.

6. Haberler, *Prospérité et dépression.*

7. Belshaw, "Stabilization in a Dependent Economy"; Byé, *La transmission internationale des fluctuations économiques;* Clark and Crawford, *The National Income of Australia,* p. 93; UNO, *Mesures pour assurer la stabilité économique internationale;* League of Nations, *Economic Stabilization in the Post-War World;* Prou, *La théorie du multiplicateur d'investissement;* Thomas, "India in the World Depression."

8. Bauer and Paish, "The Reduction of Fluctuations"; Belshaw, "Stabilization in a Dependent Economy"; Black and Tsou, "International Commodity Arrangements"; Brown, "Should Commodity Prices Be Stabilized?"; Davis, "Intergovernmental Commodity Agreements"; FAO, *The Economics of the International Wheat Agreement;* Johnson, "International Commodity Agreements"; Morgan, "International Commodity Problems"; UNO, *Instabilité des marchés d'exportation des pays insuffisamment développés;* Porter, "Buffer Stocks and Economic Stability"; Rieffer, "An International Buffer Stock Agency"; Rowe, *Markets and Men;* Schumann, "Full Employment in South Africa"; League of Nations, *Economic Stabilization in the Post-War World;* Tyszynski, "Economics of the Wheat Agreement"; Whittlesey, "The Stevenson Plan"; Yates and Lamartine, *Commodity Control.*

9. Corea, "Overall Budgetary Policy in an Export Economy"; UNO (Prebisch), *The Economic Development of Latin America,* chapter 7.

10. See *Thesis,* pp. 514–37.

11. The statistics used have been taken from the following works: League of Nations, *Industrialisation et commerce extérieur,* pp. 187–88; UNO, *Commerce des produits de base et développement économique,* p. 11; League of Nations, *L'expérience monétaire internationale,* p. 103. See also: Visine, *La transmission des fluctuations économiques*—the writer reproduces the *Tableaux du commerce international de 1890 à 1938* of Bunle and Rist; League of Nations, *Aperçu du commerce mondial.* For Britain, between 1920 and 1932 the trade balance improved (from a deficit of £391 million to one of £215 million), for France between these dates it worsened (from a deficit of 1 billion francs to one of 10 billion francs) as it did also for the United States, between 1929 and 1933 (from a surplus of $819 million to one of $214 million). For Egypt, however, it improved (from a deficit of £E .3 million in 1929 to zero in 1932), and worsened for India, where the surplus declined from 1.01 billion rupees in 1928–29 to 370 million in 1933–34 (Anstey, op. cit., p. 330). There are thus no precise rules regarding the behavior of the trade balance; imports and exports underwent fluctuations of the same order of magnitude. What is certain is that the price of the exports of the underdeveloped countries fell more than that of the exports of the developed ones. See, for example: Iversen, op. cit., pp. 413, 379. On the evolution of the terms of trade during the cycle, see: League of Nations, *L'expérience monétaire internationale,* p. 234 (the price of exports from Argentina fell by 40 percent, but that of imports by only 3 percent between 1928 and 1932); UNO, *The Economic Development of the Middle East, 1945–54,* pp. 13–15 (improvement in the terms of trade during the Korean War boom); Royal Institute of International Affairs, *The Problem of International Investment,* p. 288 (decline in the gold prices of exports of various commodities, 1929–34). It is the decline in the *prices* of the exports of the underdeveloped countries that is responsible, to a much greater extent than that of their *volume,* for the decline in the import capacity of the underdeveloped countries. See UNO, *Méthodes et problèmes de l'industrialisation des pays sous-développés,* pp. 130–32 (volume of exports and imports of Argentina, Brazil, and Mexico, 1925–29 to 1930–34); Durand, *Essai sur la conjoncture de l'Afrique noire;* Triantis, "Cyclical Changes in the Balance of Merchandise Trade"; Chang, op. cit., chapters devoted to the external balance of Chile and Australia.

12. The statistics relating to Britain, France, and the United States have been constructed on the basis of figures given in the *Annuaire statistique de France* (for the value of exports and imports) and by Iversen (op. cit., pp. 365, 355, 421). The Egyptian figures are taken

from Barrawi, as regards exports, and, for imports, have been worked out with the help of the figures in the *Annuaire statistique de France* and Iversen. My argument can also be checked from the *Tableaux* of Bunle and Rist, for the period 1897–1914, which show the evolution of the indices of the value and volume of exports and imports by continents. It is to be observed that the behavior of the trade balance is not very clear: in 1900 the balances of Britain and China tend toward deficit when the crisis begins, whereas those of Germany, the United States, France, Argentina, and India tend toward surplus. Again, in 1907, those of Britain and India tend toward deficit, those of China, Argentina, the United States, and France toward surplus (Visine, op. cit., p. 127). My argument can also be checked against the example of Algeria. The volume of imports (obtained by dividing the value of imports by the index of French wholesale prices, given in the *Annuaire statistique de France*) increased by 7 percent at the time of the crisis of 1900, and by 21 percent during that of 1907. Similarly, Indonesia's imports increased steadily between 1876 and 1914, as did those of India. This contrasts with the period 1918–38 (Boeke, op. cit., p. 199, for Indonesia; for India, Anstey, op. cit., p. 330, and Jathar and Beri, op. cit., p. 129). See also Tinbergen, *Business Cycles in the United Kingdom;* Tsuru, "Economic Fluctuations in Japan"; Barret, op. cit., vol. 3; Simkin, *The Instability of a Dependent Economy.*

13. The statistics are calculated from the figures given in the *Annuaires statistiques de France* and the *Statistical Abstracts of the United Kingdom.* See also: Legoyt, *La France et l'étranger;* vol. 1, p. 156 (for trade between Britain and the colonies in 1857–58); Matthews, *A Study in Trade Cycle History;* Gayer, Rostow, and Schwarz, *The Growth and Fluctuations of the British Economy.*

14. Sources: Chang, op. cit. (for Britain, Canada, Chile, and Australia); UNO, *Les mouvements internationaux de capitaux entre les deux guerres,* pp. 26 et seq. and pp. 46 et seq. (for Holland, Switzerland, Sweden, China, India, the Dutch East Indies, Argentina, Denmark, Germany, Japan); Wallich, op. cit., pp. 330 et seq. (Cuba), Royal Institute for International Affairs, op. cit., pp. 174 (United States), 200 (France), and 282 (new foreign investments); League of Nations, *L'expérience monétaire internationale,* p. 45 (monetary reserves of creditors and debtors), and pp. 62–67 (sterling balances, etc.).

15. Sources: for France and Britain, Iversen, op. cit., pp. 71, 350, 361; Cairncross, *Home and Foreign Investment,* p. 180; for Argentina, Australia, Canada, and the United States, Iversen, op. cit., pp. 427, 402, 382, 441 (based on Williams, Wood, Viner, and Graham). As regards

Australia between 1883 and 1913, the behavior of the trade balance (annual average for each period of prosperity and depression) does not follow very precise rules. But the close link between the inflow of foreign capital and the conjuncture (except for the prosperity period 1905–1907 the inflow of capital is greater during periods of heightened conjuncture) determines a perfect alternation in the external balance: surplus in a boom, deficit in a depression. For Canada between 1900 and 1913 the upward trend of the inflow of foreign capital conceals the cyclical phenomenon. Nevertheless, the balance (reduced to the trade balance and that of transactions in capital and interest) worsens in 1904, and then again in 1908 and 1909, and improves during the other periods (when the conjuncture is better). It is the same for the United States between 1866 and 1878: the inflow of foreign capital, which was very strong between 1869 and 1873, decreased severely with the crisis of 1873 and the depression that followed, between 1874 and 1876.

16. Sources: League of Nations, *Industrialisation et commerce extérieur,* pp. 158 et seq.; C. Clark, op. cit., p. 70 (industrial unemployment). For calculation of the fluctuations in profits: France and Germany—figures in "L'application du concept de revenu national," *L'actualité économique et financière à l'étranger,* June 1946; Great Britain—C. Clark, op. cit., pp. 497, 412, 397; United States—ibid., p. 48 (figures from Kuznets); Egypt—Issawi, op. cit., p. 80; India—Anstey, op. cit., pp. 420, 637; C. Clark, op. cit., p. 397; Kuznets, *National Income and Its Composition,* vol. 1, p. 269.

17. See chapter 3.

18. Blanchard, "La crise en Egypte" and "La deuxième phase de la crise en Egypte"; Ellsworth, *Chile, An Economy in Transition;* Gayer, Homan, and James, *The Sugar Economy of Puerto Rico;* Ghaleb, *Les capitaux étrangers en Egypte* (see his study of the crisis of 1907).

19. See chapter 2.

20. See chapter 2.

21. See *supra.*

22. See chapter 1.

23. See Luas, "Problèmes actuels du marchè capitaliste."

Notes to Chapter 5

1. Meade, *The Balance of Payments.*

2. See chapter 3.

3. Aftalion, *Monnaie, prix et change,* p. 256.

4. Ibid., pp. 253–55.

5. Byé, *Les structures nationales et l'investissement international.*

6. Chang, *Cyclical Movements of the Balance of Payments.*

7. Viner, *International Trade and Economic Development,* pp. 24–27.

8. Chang, op. cit., and "International Comparisons of Demand for Imports"; "A Statistical Note on World Demand for Imports"; "The British Demand for Imports in the Inter-war Period"; "A Further Note on the British Balance"; Tinbergen, "Some Measurements of Elasticities of Substitution"; "The Problem of Dollar Scarcity"; Machlup, "Elasticity Pessimism in International Trade"; Malinvaud, "Les élasticites prix."

9. Ohlin, *International and Inter-regional Trade;* and, earlier, Longfield, Torrens, and Joplin, quoted by Viner, *Studies in the Theory of International Trade,* p. 297.

10. Mosak, *General Equilibrium Theory in International Trade;* Schiff, "Direct Investment, the Terms of Trade, and the Balance of Payments." Several attempts have been made at a statistical verification of the theory. See, *inter alia:* Bresciani-Turroni, *Theory of International Payments;* Chang, "The British Balance, 1924–1938"; Duncan, "South African Capital Imports"; MacDougal, "Britain's Foreign Trade Problem"; Pandit, *India's Balance of Indebtedness;* Phelps, *The International Economic Position of Argentina.* Iversen (*Aspects of the Theory of International Capital Movements,* Part II-B: Facts) concentrated on criticizing the "classical" explanation. Studying the example of Canada, Viner (*Canada's Balance of International Indebtedness*) thought he had observed an elastic response by the banking system to the influx of gold determining the internal increase in prices and the improvement in the terms of trade that enables the balance to be restored. Iversen explains the course taken by the process by reference to the theory of income. The example of Australia, studied by Wood (*Borrowing and Business in Australia*) and Wilson ("Australian Capital Imports, 1871–1930," and *Capital Imports and the Terms of Trade*) is frankly negative: the terms of trade did not behave in accordance with the classical theory. The history of the United States between 1880 and 1914 (Taussig, *International Trade,* pp. 284 et seq.) is no better. Nor are the experiences of

the big creditor countries: France (White, *The French International Accounts*), where there is no correlation between the situation of the balance and the movement of gold, or between the latter and the movement of credit, or between the movement of credit and the terms of trade; Great Britain (Taussig, op. cit., pp. 236 et seq., and "Great Britain's Foreign Terms of Trade After 1900"); the United States after 1920 (Taussig, op. cit., pp. 318 et seq.).

11. Goschen, *Foreign Exchanges.*

12. A conclusion I have rejected (see chapter 3).

13. This is not the place to discuss why I reject the quantity theory: see chapter 3.

14. See the articles mentioned *supra.* Also: Robinson, "The Foreign Exchange," in *Essays in the Theory of Employment;* Nogaro, *La valeur logique des théories économiques,* chapter 6.

15. Aftalion, *Monnaie, prix et change,* pp. 152–53.

16. See my *Thesis,* chapter 1.

17. Marco Fanno, *Transferimenti anormali dei capitali;* Kindleberger, *International Short-Term Capital Movements.* To these three criticisms —price elasticity, influence of the price of imports on that of home-produced goods, effect of short-term capital movements—must be added the fundamental criticism to which the quantity theory is liable. It is because the quantity of money in circulation depends on what is required, and not on the will of the central bank, that there has never been any correlation between the movement of the international assets of the central bank (gold and foreign currency) and that of national assets, as is shown by Nurkse's statistics, constructed on the basis of 26 countries between 1922 and 1938 (League of Nations, *L'équilibre monétaire international,* pp. 77 et seq.): out of 382 observations, only 121 conform to the classical theory.

18. Boudeville, "Commerce extérieur, revenu national et dévaluation"; Day, "Devaluation and the Balance of Payments"; Hirschman, "Devaluation and Trade Balance"; Polak and Chang, "Effects of Exchange Depreciation"; Zakaria, *Change, commerce extérieur et équilibre économique interne.* Here, too, Iversen has shown how the income effect is superimposed on the exchange effect. The experience of Argentina between 1880 and 1900 has been studied by Williams (*Argentine International Trade Under Inconvertibility*). If we eliminate the upward trend of the gold premium due to internal inflation, we find a good correlation between the price of gold (which functions as the rate of exchange) and the state of the external balance. We also observe that not only does the price of exports (no figure is available for that of

imports) fluctuate with the rate of exchange, but also wages are linked with it. This suggests that all prices, including those of home-produced goods (with which wages are linked), are fixed in accordance with the level of the exchange, which plays a decisive part. For the United States, 1860–1879, see Graham, "International Trade Under Depreciated Paper." Here, too, the state of the balance explains the fluctuations of the price of gold around a downward trend (deflation). In contrast to Argentina, however, the evolution of internal prices (wholesale prices, wages, domestic prices) is regular, independent of the evolution of the rate of exchange. Only the price of imports depends on the rate of exchange: the latter affects internal prices only slightly. These prices depend mainly on the level of the internal equilibrium.

19. Federici, "On the Validity of the Principle of Foreign-trade Multiplier."

20. See chapter 3.

21. Metzler, "The Transfer Problem Reconsidered"; Machlup, *International Trade and the National Income Multiplier;* Gendarme, "Le multiplicateur du commerce extériuer"; Barnerias, *La théorie de l'équilibre international;* Enke and Salera, *International Economics,* chapter 12; Haberler, *Prospérité et dépression;* Clark and Crawford, *The National Income of Australia;* "Determination of the Multiplier"; Harrod, *International Economics;* Byé, *La transmission internationale des fluctuations.*

22. Kindleberger, "International Monetary Stabilization," in *Postwar Economic Problems;* "Foreign Trade Multiplier and Balance Equilibrium"; Duesenberry, "Income Saving, and Consumer Behaviour," in *Essays in Honour of Hansen.*

23. See chapter 2.

24. See Sweezy, *The Theory of Capitalist Development,* and Baran and Sweezy, *Monopoly Capital.*

25. Wallich, *Monetary Problems of an Export Economy,* pp. 210–11, 198.

26. Aftalion, *L'or et sa distribution mondiale.*

27. See my chapter 3; also, Denis, *La monnaie,* from which I have taken my critique of the quantity theory.

28. Nurkse, "International Monetary Equilibrium," in *Essays in International Finance.*

29. Robinson, "The Foreign Exchange," in *Essays in the Theory of Employment.*

30. This is not the place to develop these fundamental ideas, on which see chapter 1. On this subject see, *inter alia,* Frank, *Capitalism*

and Underdevelopment in Latin America. Current non-Marxist writing avoids this subject except in some of its most secondary aspects. As examples, see, *inter alia:* Akerman, "Le problème de l'équilibre international"; Balogh, "Static Models and Current Problems in International Economics"; "The International Equilibrium and U.S. Private Investments"; "South Africa's Hot Money Problem"; Bruton, "Growth Models and Underdeveloped Countries"; Buchanan, *International Investment and Domestic Welfare;* Domar, "Foreign Investment and Underdeveloped Countries"; Institut International de Finances Publiques, *Aspects financiers, fiscaux et budgétaires du développement des pays sous-développés;* Marquez, "Balance of Payments Problems in Latin America"; Saccheti, "Bilancia dei pagamenti dei paesi in sviluppo"; Salant, "Capital Export Under the Point Four Program"; Singer, "The Distribution of Gains Between Investing and Borrowing Countries."

31. See Amin, "Le développement du capitalisme en Afrique noire."

32. See chapter 2.

33. See chapter 2.

34. As an example, see the case of the African countries of the franc area, which are analyzed, so far as former French Equatorial Africa and Cameroon between 1960 and 1968 are concerned, in Amin, "Pour un aménagement du système monétaire des pays africains."

35. See chapter 1. The crucial work on this question is Emmanuel, *Unequal Exchange.*

36. See on this subject the numerous publications of the International Bank for Reconstruction and Development (World Bank), especially the *Cours d'analyse de projets* of its Institute.

37. In UNO, *The Economic Development of Latin America and Its Problems,* chapter 4.

38. Kindleberger, *The Dollar Shortage; International Economics,* 1953; "L'asymètrie dans la balance des paiements"; Harrod, *The Dollar.*

39. See chapter 4.

40. The phenomenon is more complex. See on this question the discussion of the dynamic of the surplus in our time, in Baran and Sweezy, op. cit.

41. See chapter 3.

42. See chapter 3.

43. Sources: League of Nations, *Documents sélectionnés sur la distribution de l'or,* and Haupt, *L'histoire monétaire de notre temps,* pp. 249–53, 243 et seq. (for silver).

44. League of Nations, *Documents sélectionnés.*

45. *Annuaire du commerce extérieur de l'Egypte,* and my own calculations in *L'utilisation des revenus susceptibles d'épargne.*

46. League of Nations, *Rapport provisoire de la délégation de l'or,* Annexe 7, p. 59.

47. League of Nations, *Rapport provisoire de la délégation de l'or* (India); Cairncross, *Home and Foreign Investments* (Britain); Iversen, op. cit., p. 350 (France).

48. League of Nations, *L'expérience monétaire internationale,* pp. 10 et seq.; *Aperçu de la situation monétaire 1937–1938,* vol. 1, p. 14.

49. See on this subject, League of Nations, *Memorandum sur les banques commerciales,* p. 119; *L'expérience monétaire internationale,* pp. 57–62, and Annexe IV, pp. 270–71; UNO, *The Economic Development of Latin America,* p. 31; Spiegel, *Brazil;* Bower, *The Balance of Payments of Nigeria;* Bresciani-Turroni, "Egypt's Balance of Trade"; Central African Statistical Office, *The Balance of Payments of Southern Rhodesia;* Conan, "Balance of Payments of the Colonies"; "India's Balance of Payments Problem"; Franklin, "South Africa's Balance of Payments"; Sweezy, "Mexican Balance of Payments"; Brown, *The International Gold Standard Reinterpreted;* Einzig, *International Gold Movements;* Lambert, *Les inflations sud-américaines.* Details of the facts outlined above will be found in my *Thesis,* chapter 10.

50. De Vries, "The Magnitudes of Exchange Devaluations." Between 1948 and 1967 the European currencies lost 5.2 percent of their value in relation to the dollar; those of the Middle Eastern countries lost 38.4 percent, the rest of Asia (excluding Japan) 46.1 percent, the rest of Africa 47.6 percent, and Latin America 62.2 percent.

51. See, for example, Löbel's study of developments in Africa, 1958–65, "Liquidités internationales et éléments d'une politique monétaire de l'Afrique." Exceptions to this rule are very few, apart from the oil-producing countries, which are exceptional in the other continents too.

52. Theoretically, at least; in practice the persistence of a deficit would cause the metropolitan country to take the initiative in revising the foreign-exchange-standard system. See on this, for the African countries of the franc area, Amin, art. cit. in *Le Mois en Afrique,* May 1969.

53. League of Nations, *L'expérience monétaire internationale,* p. 151.

54. The facts that follow have been taken from ibid., pp. 15, 152, 162.

55. League of Nations, *Rapport sur le contrôle des changes; Enquête sur les accords de clearing;* UNO, *Mesures prises par les gouvernements; Tendances et politiques des balances des paiements, 1950–51;* League of Nations, *L'expérience monétaire internationale,* pp. 185–212.

Notes to Afterword

1. Baran and Sweezy, *Monopoly Capital.*

2. Mandel, "La valeur-travail et le capitalisme monopolistique."

3. An excellent analysis of the disastrous results for nations of taking a "near" horizon in their calculation of profitability will be found in Tanzer, *The Political Economy of International Oil,* especially pp. 32 et seq.

4. This critique of cost-benefit analysis was begun by Sachs in *Environmental Quality, Management and Development Planning.*

5. For an illustration of what might be the economic characteristics of such a technology, see Muller-Plantenberg, "Technologie et dépendance."

6. Discussed in Volume 1.

7. Emmanuel, *Unequal Exchange.* This controversy was echoed in *Le Monde,* 11 November 1969, articles by A. Emmanuel and C. Bettelheim; *Politique Aujourd'hui,* 1969–70, articles by A. Emmanuel, H. Denis, A. Granou, G. Dhoquois, and C. Bettelheim; and *L'homme et la société,* nos. 12, 15, 18, and 19, 1969–71, articles by A. Emmanuel and C. Palloix.

8. This quite unacceptable criticism is offered by Chatelain in "Où mène la thèse de l'échange inégal?" The line taken by Florian ("Emmanuel chez les Philistins") is much more carefully argued. By acknowledging that international transfer of surplus value does take place (p. 103), Florian accepts the existence of unequal exchange, as he explicitly admits (Bailly and Florian, "Contradictions dans les économies semi-industrialisées," p. 39). His polemic really relates to themes connected with the political conclusions too hastily drawn by both supporters and opponents, which have no bearing on the thesis itself.

9. This inadequacy of Robinson's critique of marginalism, as compared with my own, is clearly reflected by Bailly and Florian, op. cit.

10. Bettelheim, "A propos du 'Marxisme de Mao,' " p. 243.

11. Celso Furtado, *Development and Stagnation in Latin America;* Conceicão Tavarès, "Substitucion de importaciones en el Brasil."

12. The literature of this subject is very extensive. I will mention here only: Arrighi, "International Corporations, Labor Aristocracies, and Economic Development in Tropical Africa"; de Cecco, "The Influence of Multinational Corporations"; Hymer, "Excerpt on Mercantilism III"; "The Multinational Corporation and Its Allies"; "The Efficiency of Multinational Corporations"; Hymer and Resnick, "International Trade and Uneven Development"; Kidron, *Western Capitalism Since the War;* Michalet, *L'entreprise plurinationale;* Miller and Carter, "The Modern Dual Economy"; Rowthorn, "Capitalism Since the War"; Sunkel, "Intégration capitaliste transnationale et désintégration nationale"; Sutcliffe, "Outlook for Capitalism in the Seventies"; Tanzer, op. cit.

13. *Partners in Development.* See my criticism of this report in Ward, d'Anjou, and Runnels, eds., *The Widening Gap: Development in the 1970s.*

14. Sraffa, *Production of Commodities by Means of Commodities.*

15. This problem, first raised by Bortkiewicz in 1907, provided the basis of a long controversy in which Moszkowska, Hilferding, Boudin, and others took part. The discussion was resumed by Sweezy in *The Theory of Capitalist Development* (chapter 7) and more recently by Emmanuel, in *L'homme et la société,* no. 18, 1970; see also *Unequal Exchange.* Some have seen a defeat for the labor theory of value in this connection and have consequently attempted a synthesis between it and the subjective theory. Sraffa's work proves, in my opinion, that this view of the matter is wrong, and fully reestablishes the significance of the labor theory of value. It is, of course, not possible to discuss these ideas seriously here.

16. See on this the excellent introduction to the problem in the book by Pelletier and Goblot, *Matérialisme historique et histoire des civilisations;* and, as regards the Arab world, the article by el Kodsy, "Nationalism and Class Struggle in the Arab World."

17. The bibliography could be very lengthy. At the very least I must mention: Casanova, *La démocratie au Mexique;* Cardoso, *Politique et développement dans les sociétés dépendantes* and *Soviologie du développement en Amérique Latine;* Ricardo Cibboti; Enzo Faletto; Cardoso and Faletto, *Dependencia y desarrollo en America latina;* Ferrer, *La economia argentina;* André Gunder Frank; Celso Furtado, *Les Etats-Unis et le sous-développement de l'Amérique latine;* Germani, *Politica y sociedad en una epoca de transicion;* Hinkelammert et al., *Dialectica del desarrollo desigual;* Ianni, *Estado e capitalismo;* Marcos

Kaplan; Jose Martos Mar; Marini, *Subdesarrollo y revolucion;* Luciano Martins; Vilelaluz, *A luta pela industrializacâo do Brasil;* Hector Silva and Jose Michelena; Dominguez, Noceto, et al., *El proceso economico del Uruguay;* Ortiz, *Historia economica de la Argentina;* Anibal Pinto; Anibal Quijano; Dos Santos, *Dependencia y cambio social* and *Socialismo o fascismo, dilema latino-americano;* Stavenhagen, *Les classes sociales dans les sociétés africaines;* Osvaldo Sunkel; Maria Conceicão Tavarès; Di Tella, *Una teoria sobre el primer impacto de la industialization;* Claudio Veliz; Francisco Welfort; Cardoso and Welfort, *Sociologia de la dependencia*; Marshall Wolfe; and many others whose works are still, unfortunately, unknown to me.

18. Here I must mention, if no one else, at least Gunnar Myrdal, (*Asian Drama*); Arthur Lewis (*The Development Process*); Hans Singer ("Distribution of Gains from Trade and Investment"); and the UNRISD team in Geneva working on "a unified approach to development problems." Myrdal's approach, the most systematic, remains structuralist, and, because he does not recognize that production relations are *ultimately* determining, his critique of *economism* lands him in psychologism. While Arthur Lewis's effort fails to go beyond eclectic juxtaposition of the "economic," "social," etc., planes, Hans Singer's courageous self-criticism endeavors really to integrate domination and imperialism in economic analysis.

19. As Gunnar Myrdal has declared.

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