REVIEW

Ranjit SAU : *Unequal Exchange, Imperialism and Underdevelopment: An Essay on the Political Economy of Imperialism, (Oxford University Press, Calcutta, 1978)*

Reviewed by

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Ranjit Sau's «Essay» seeks to analyse how the exploitative relation between metropolitan and periphery economies has been maintained in the post-colonial or neo-colonial era. More specifically, how has the unequal exchange of the last 400 years been perpetrated in the neo-colonial era? Essentially then this is a study of not only the roots of imperialism at the center but also its manifestation in the periphery and the socio-economic forces maintaining the system.

As is essential to any theory of imperialism, Sau starts with a discussion of the nature of the crisis in the metropolitan economies since it is this crisis that not only generates the expansionist tendencies of capitalism at the center but conditions, in a very fundamental way, the modalities of the interactions between the center and the periphery. Sau choses to start the discussion with a frontal attack on conventional theories of growth based on some notion of a «golden age steady-state» expansion path of capitalist accumulation. Along such a path several key economic magnitudes – rate of profits, and the growth rates of income capital and employment – are equal. There is no «realization» crisis, nor is capitalism encumbered by internal contradictions. Sau asserts that the concept of a «golden age steady-state» is intended to be an answer to Marx's theory of falling rates of profits. This may be true but it could be equally argued that the theory was advanced as a response to the demonstration by Harrod and Domar *within* the Keynesian paradigm that capitalist accumulation traversed a «knife-edge» from which any slight departure would generate a movement away from equilibrium. It could also be argued that the models positing «steady-state» capitalist accumulation are intended as *reductio ad absurdum* of notions of competitive capitalism for they establish how absurdly stringent are the conditions of capitalist stability. The point here is that Sau's reading of the ideology behind the elaborate mathematical equations may be too sweeping.

Sau is at his best when he discusses the relationship between the «golden age of steady-state» and the concept of exploitation. Under the «golden age» regime, profit (r) is equal to growth (g) or

$$g = r$$

What happens then when g is less than r? In such a case although the workers are producing enough to sustain permanently a certain steady stream of per capita consumption, they are consuming less than that. Somebody else then must be depriving them of a part of the fruits of their labour. Somebody must be exploiting them. This definition of exploita-

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tion cuts both ways since should the growth rate *exceed* the profit rate, the workers in turn must be exploiting some other group in society. Only along the «golden age steady-state» path is there no exploitation since along such a path all profits are reinvested, or, which is the same thing, capitalists do not consume.

There are three things to note about this theoretical construct and Sau brings them all out clearly. In the first place, the definition of exploitation advanced here is fundamentally different from that of Marx and the claims (especially by Samuelson and Weizsäcker) that their theory is a *generalized* theory of exploitation is false. In Marx, the capitalists' appropriation of surplus labour and their control of its disposal (to consume or invest) constitute exploitation since they alienate the fruits of labour from the producers. In the second place, the age of no exploitation when g equals r is patently absurd and so devoid of social and historical content that it has been justifiably called «mythical» (Joan Robinson). In that state, capitalists somehow exist although they do not consume anything ! Finally, the competitive conditions that must be fulfilled in order to ensure steady- state accumulation are drawn out of a never-never land.

Sau abruptly abandons this line of attack on conventional theory and the reader is left with the feeling that Sau's exposé was probably much ado about nothing. His various demonstrations of the mythical nature of «steady-state» capitalist accumulation do not in themselves establish why imperialism should be the system's outlet. He immediately moves on to a brief elaboration of the Marxism theory of capitalist crisis around the well-known triad of constant capital, variable capital and surplus. According to this theory there are two fundamental types of crises. One is called the «falling tendency of the rate of profit» and the other the «realization crisis». Both of these crises impel capitalism towards expansionism either in search of raw materials to lower the value of constant and/or variable capital or in search of new markets to solve the problem of «realization» of surplus. Imperialism, together with technological change, concentration of capital and intensification of exploitation appear then as «the countervailing tendencies» within the system. The incorporation of the present-day underdeveloped countries is thus one of the manifestations of these «countervailing tendencies».

On a purely theoretical basis it has been argued, on the one hand, that such expansion of capitalism should lead to development in the periphery economies since capitalist expropriation of surplus, search for markets or acquisition of essential inputs all require expansion of such economies. On the other hand, it has been argued (e.g. by Gunder Frank) that imperialism can only *underdevelop* the periphery economies. Sau seems at times to lean heavily towards the latter despite his observation that :

> *«It is incorrect to say that in view of imperialism, industrialization is impossible in the Third World; or that its economy must stagnate or even regress. For it is to the interest of imperialism that an economic expansion of a particular nature occurs in the semi-colony, so as to absorb its discarded commodities including plant and equipment»*. (p. 44).

Next the author turns to the theory of «unequal exchange». He starts off with a critique of Emmanuel's theory. It will be recalled that Emmanuel distinguishes between a primary form of non-equivalence characterized by equal rates of exploitation but unequal composition of capital, and what he terms the pure form where the rates of exploitation are in themselves different. Emmanual dismisses the first mentioned theory of non-equivalence as too broad since it holds not only in trade but also within the same country among different sectors. The case of «pure form» non-equivalence occurs whenever trade takes place at prices established through the equalization of profits between regions in which the rate of surplus value is «institutionally» different.

As many others have pointed out, in Emmanuel's theory there is no clear indication as to what mechanism leads to the equalization of profit rates. If it is the mobility of capital induced by the search for the highest return, then one ought to consider the dynamic impact of new investments in the areas enjoying high rates of surplus value. If, on the other hand, it is trade, then one must explain why the capitalists of the high profit region should enter trade when it leads to a fall in their rates of profit due to equalization on a world scale. Similar arguments can be applied against the Sraffian model of Oscar Braun in which there can be no rational ground for the bourgeoisie of the Third World to engage in trade.

Sau advances his own theory of unequal exchange. Take the following matrix equation :

$$p = bw\left[I - \{I - (1 + r)\ \ A\}\right]^{-1}$$

Where p is the price vector, b is the vector of labour inputs, I is the identity matrix, w and r are the wage and interest rate respectively, and A is $n\text{X}n$ technology matrix. Imagine two countries engaged in trade. Both have the same profit rate but different wage rates. The goods produced in the different countries are exchanged between the two countries according to their price ratios. According to the equation above, the price is a multiple of the wage rate. When two goods are exchanged between two countries maintaining trade balance then their total prices must be equal. But they have different wages; so the respective multipliers must be different. The multiplier will be higher for the country with the lower wage rate. Now the multiplier is nothing but the sum of the direct and indirect labour contents (the «socially necessary labour») weighed with the profit rate according to their timing of occurence in the production process. Sau concludes, «Hence the country with the lower wage rate gives out more labour than that what it gets back under balanced trade *even* with perfect competition in full force» (p. 58).

Now what are the policy implications of this presentation ? Should periphery countries simply raise their wages ? No, says Sau. The reason is that the phenomenon of unequal exchange is many centuries old and in modern times is affected «partly by the relative cheapness of labour in poor countries and partly by the outright monopoly power of rich countries». This is an interesting observation especially because it raises the question as to whether the system of prices shown above and the transformation of values into prices implicit in the equation is a «historical process» so that nothing can be done to change the relationship by simply manipulating any of the variables or coefficients in the price equation. Furthermore, one wonders why, if monopoly is congenital to imperialism, bother with models whose assumptions (perfect competition, constant returns to scale etc.) are ahistorical. Indeed as it turns out the forms of non-equivalence Sau concentrates upon are ones resulting from the monopolistic pre-eminence of the advanced countries: technological dominance, transfer pricing, royalties, super profits etc.

In chapter 4, Sau discusses the nature of technological progress under monopoly capitalism. He advances two arguments which seem contradictory. In the first place we are told that in the regime of monopoly capitalism, technological progress «is designed in such a way that the existing plant and equipment are used to the maximum possible extent, and the least possible is expended on new capital goods or on labour» (p. 74). On the following page we are told that despite this usual hesitation of a monopolist to innovate, his penchant for quick and high profits leads to a rapid development of consumer products, and, in its train, to a fast turnover of producer goods: «Obsolescence creeps into the plant and equipment, and their economic life gets exhausted well before the expiry of the technical longevity».

In any case, obsolescence is given pre-eminence in the discussion. The obsolescent plant and equipment is sold or dumped upon the periphery economies (in used or new form). In fact, the existence of an overseas market for obsolescent plant and equipment gives «big impetus» to technological progress in the center. Sau takes the case of India as an example from which he concludes that «the middle layer of the bourgeoisie is an important channel for the penetration of foreign capital and technology in the Third World» (p. 93).

Chapter 5 deals with problems of transition in the Third World. Sau attacks various analyses of transition from the conservative «Chicago School» to the radical, Marxist-inspired one. The Chicago School posits a mode of production in which capitalism is dominant and exclusive and everybody behaves as the *homo economicus* of textbook fame. Such a view implies that feudalism, semi-feudalism and all such categories are totally beside the point when one considers the problem of development. Other variants of such orthodox theory are the dualistic theories of growth and Myrdal's *Asian Drama* which, each in its own way, suggest that economic expansion would be set in motion if only market forces could be let free.

As for the Marxist camp, Sau divides the school into three categories depending on what answer they provide to the question: What is the dominant mode of production in the Third World: (i) capitalist, (ii) colonial – post-colonial or, (iii) semi-feudal – semi-colonial? Sau, again on the basis of evidence from India, supports the third characterization of periphery economies as one true to the Third World. Evidence from Africa would suggest need for more cautious generalization from the Indian experience.

Finally the author discusses the international and national alliances that prop up the whole system of imperialism and unequal exchange. Once again Sau generalizes too hastily the Indian experience to other Third World regions.