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HUNGARIAN'S VIEW OF MARXIAN THEORY OF FOREIGN TRADE

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Marx intended to supplement his economic theory with a theory of foreign trade but, for lack of time, never did so. This circumstance fails, however, to justify attempts simply to substitute the Ricardian scheme for the Marxian theory of foreign trade -- as if Marx did not have a view of his own on this matter and as if, in criticizing the Ricardian system, Marx had considered a special critique of Ricardo's theory of foreign trade unnecessary.

Marx's works contain numerous references to foreign trade in general and to the inanity of the Ricardian theory in particular. It may be noted that the problem does not concern an isolated part of economic theory. Ricardo's as well as Marx's views on foreign trade are organic parts of their respective systems. In fact, the problem concerns the international validity of the theory of value. What are the principal characteristics of the fundamental difference between Ricardo and Marx in reference to international economic relations; what are the historical background and class interests from which these theorics stemmed?

Adam Smith and Ricardo broke a lance against mercantilism. The principle of comparative costs is, as to its point of departure and intent, definitely and antimercantilistic theory. The British mercantilists, the directors of the East India Company, were pioneers in the fight for British world trade monopoly and in establishing this fight in theory. The classical economists considered it their aim to prove the permanence of Britian's world trade monopoly. However, they attempted to prove, from the viewpoint of industrial capital, the limited nature of the methods of commercial capital in establishing market monopoly. Marx furnishes a critique of the classical economists.

Critique of the Principles of Comparative Costs

The principle of comparative costs, in an oversimplified formulation, is as follows: Of two industrial branches the one operating with the greater productivity presumably becomes an export industry. This development satisfies, it was claimed, both the interests of the country in question and the optimum international division of labor.

The theorem, as stated, is logically unassailable. However, as will be seen, the premises are troublesome. Moreover, the Ricardo-Mill theorem was calcualted to serve as a theoretical basis of the international division of labor, which is an untenable assumption. What are the premises?

1. To begin with, the principle of comparative costs disregards the market problems of capitalism entirely. Ricardo does not even mention the need of a capitalistic country for foreign markets. What Marx called "Ricardo's dogma," namely, that no amount of capital exists that could not be profitable invested domestically, is a crucial, tacit premise of the principle of comparative costs.

According to Marx, "... the expansion of foreign trade, which had been a basis of capitalistic production in the latter's infancy, became an internal necessity and a concomitant of capitalisitc production. Ricardo completely ignored this aspect of foreign trade."

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2. This is closely related to what Marx called "Ricardo's false theory of money." Money according to Ricardo is merely a means of exchange of products. Product is exchanged for product, making supply equal demand and eliminating the problem of market. In Marx's words, "... how ridiculously Ricardo confuses money and product, as well as money and currency, is shown by his statement: 'If it could be assumed that England, after a crop failure, needed grain import, while another country had a grain surplus but did not need other products, it follows logically that the latter country would refuse to export grain either for other products or for money, because money is a product which is not needed absolutely but only relatively'". Ricardo's ridiculous statement expresses concisely his false theory of money and the fact that he considers the problem of markets nonexistent.

3. Ricardo, guided by antimercantilistic prejudices and objectives, assumed that international trade balances are necessarily in equilibrium. There is no need to explain that this assumption is closely related to his false theory of money.

Both Adam Smith and Ricardo, in arguing against the mercantilists, endeavored to prove that the advantage derived from foreign trade cannot be measured by foreign trade balance. They claimed on the contrary, that foreign trade produces the general advantages of the international division of labor.

This theory, of course, contains a good deal of truth. It goes beyond the mercantilistic viewpoint and reflects the actual historical progress from the era of commercial capitalism to that of industrial capitalism. However, in contrast to the mercantilists, who had overemphasized the market problem and restricted it to the problem of foreign markets, Smith and Ricardo completely ignored it. Although the principle of comparative costs claims to replace the mercantilistic theory of international trade balances, it is valid only on the a priori assumption of the equilibrium of trade balances. In the case of completely free trade the trade balances are automatically in equilibrium, according to the classical economists. The principle of comparative costs itself postulates the equilibrium of trade balances. This however, is not a realistic postulate. It is based on Ricardo's assumption, ridiculed by Marx, which ignores the marketing problem and minimizes the role of money in international trade.

Actually, the principle of comparative costs is valid only if the automatic equilibrium of trade balances is postulated. Such automatic equilibrium can be assumed, however, only by ignoring the market problem and accepting Ricardo's impossible viewpoint. This is the logical stumpling block of the principle of comparative costs.

4. The principle of comparative costs fails to throw light on the competitive and progressive capabilities of the national economy as a whole and on the relationship between export industry and total output. In contrast thereto, Marx's analysis based an examination of the factors of the average rate of profit explains both the disproportionate growth of export industries and the capitalistic tendency of stimulating other industrial branches to approximate the productivity of export industries.

The so-called underdeveloped countries are characterized by the very fact that their export industries are isolated from the national economy as a whole. For example, oil production in Venezuela or copper mining in Chile is much more an organic component of the national economy of the US than of Venezuela and Chile, respectively. The other industrial branches in these countries, therefore, cannot advance to the level of productivity of the export industry, and this failure prevents the national economy as a whole from attaining a higher level of productivity.

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5. In the concept of the classical economists, international division of labor is patterned on the domestic division of labor, and the adherents of free trade represent extreme individualism. Specifically, the problem may be stated as follows: in practice, international trade is conducted between individual persons or firms; actually, however, it is trade between nations. Smith and Ricardo attempted to overcome this difficulty by assuming that foreign trade as a whole is governed by the same rules as the economic actions of the individual merchandise owners.

To what extent can the principle of comparative costs be considered a basis for the international division of labor?

Ricardo disregards the distinguishing characteristics of the capitalistic world market. According to Marx, on the other hand, industrial capitalism is characterized by "division of labor according to the location of manufacturing industry," and this new kind of international division of labor forms the basis of the capitalistic world market. In this connection, the question, also stressed by Marx and Engels, arises: what is the interrelation between foreign trade, production, and investments? In the 19th century, this query was tantamount to the question of whether England should forever remain the center of manufacturing industry, to which international division of labor must always adjust itself. The answer would have been an unqualified "yes" on the basis of the principle of comparative costs. Yet the development of the forces of production on a world-wide scale beyond a certain level would thereby have been handicapped rather than advanced. Economic backwardness can be overcome only by swimming against the current by the contravention of the so-called law of comparative costs.

The principle of comparative costs is a static principle. Hence, the prerequisites for economic progress are necessarily in conflict with it. The crucial question may be formulated as follows: What sacrifice can be considered greater from the viewpoints of nationl and world economy -- surrender of economic development for the advantages which may be derived from the principle of comparative costs, or surrender of these advantages to gain economic advances?

Marx ridiculed the thesis of classical political economy which states that "free trade creates international division of labor and thereby assigns to each country the branch of production which is most suitable for its natural resources." He gave as an example the case of the weavers of Dacca in India who, in the sense of the principle of comparative costs, were evidently "predestined from the beginning of time to be hand weavers."

International competition between capital funds creates an entirely different form of international division of labor than envisioned by Ricardo in his oversimplified logical scheme. To begin with, it is erroneous to assume that international division of labor develops between the two economic branches, raw material production and the processing industries, in accordance with the principle of comparative costs in a manner which ensures the economic progress of the raw-material-producing countries. The productivity of labor grows faster in industrially developed countries than in those producing raw material. The supremacy of industry precludes mutually profitable division of labor which works for the advancement of both countries. In simple language, the industrially developed country advances at the expense of the raw-material-producing country.

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International Validity of the Law of Value

On the basis of the foregoing considerations, the statement of the
question as formulated by Marx is radically different from that of the
classical economists. Ricardo's thesis reads as follows: In the case of
free trade, the principle of comparative costs assures to each participant
of international trade certain advantages, which would not exist without
the validity of this principle. Marx's thesis is: In the case of free
trade the underdeveloped country can be exploited by the economically more
advanced country.

Marx clearly stated: "Currently there are certain branches of industry
which dominate all others and assure supremacy in the world market to those
nations which have developed these industries to the maximum extent.... If
the adherents of free trade fail to understand how one nation can enrich
itself at the expense of another nation, there is no cause for being astonished,
since the same gentlemen refuse to understand how one class can grow rich
at the expense of another class within the same country." Later he sub-
stituted the following thesis for the principle of comparative costs: "The
more advanced country sells it products above their value, although it can
sell cheaper than its competitors.... The same relation may be established
also with countries from which imports are made.... In the latter case the
more favorably situated country receives products which embody more labor
than the products given in exchange...."

In another place Marx is even more specific: "Two countries [illegible]
in the exchange of their products with one another with both [illegible]
one of the two is, however, [illegible] a disadvantage. The profit [illegible]
ceivably be smaller than the surplus value, and it follows that not only
individual capitalists but also nations could exchange their products with
one another, and repeat the exchange on increasingly higher levels, without
deriving the same rate of profit. One of the two countries can expropriate
part of the other's surplus labor."

Marx explained in detail how the law of value is modified in inter-
national relations. He considered it the most important factor that, in
the world market, productivity of labor has the same weight as intensity
of labor, until international competition compels the more productive
country to lower it prices in a ratio corresponding to the increase in
international productivity. "As compared with less intensive labor, intensive
rational labor produces more value during the same unit of time, and this
surplus is expressed in more money."

The law of value in its international application is, however, even
more modified by the fact that in the world market the more productive
national labor also counts for more intense labor, unless the more
productive nation is compelled by competition to reduce its selling prices
to the value of the products.

In other words, the more advanced country receives more money than the
value of its national product. A concomitant of this situation is the
relative devaluation of the currency in the more advanced countries. The
domestic price level in these countries is above that of underdeveloped
countries. This relative difference in the value of money in the countries
of various degrees of development, which is [illegible] by Marx and is
entirely disregarded by Ricardo, has enormous importance from the viewpoint
of international competition in determining whether the principle of comparative
costs is absolutely favorable in all countries [illegible] in the world
market.

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Ricardo does not even raise the question of competition in the world market. The principle of comparative costs demands only that a country should not produce commodities in which it is not competitive. He excludes the intensity and productivity of the national labor from the scope of his investigation. According to Marx, "To the extent of the development of capitalistic production in a country, the national intensity and productivity of labor surpass the international level. Different amounts of a commodity produced in different countries during the same length of work time possess, therefore, unequal international values expressed in different prices. The relative value of money is, therefore, less in economically more advanced countries than in retarded countries."

The gist of the entire line of thought is that an advanced country produces a greater international value which is expressed in more money. Put in another form, the international value of the total product of an advanced country exceeds the domestic value, while the opposite is true of an underdeveloped country. As a result, in the distribution of the surplus value resulting from the international division of labor and from international trade there is a shift in favor of the advanced countries. The capitalists in these countries reap the fruits of the increase in their own productivity and of the increased efforts of the underdeveloped countries. Hence, the principle of comparative costs is replaced by the following Marxian thesis: "Since, in international relations, the law of value is modified by the fact that in the world market the productivity of labor counts as much as the intensity of labor, the lion's share, or even the total, of the profit derived from international trade is appropriated by the advanced countries."

This thesis is proved by the terms of international trade between raw-material-producing and industrial countries between 1876 and 1947. The following table shows the amount of finished products which could be bought for the proceeds of certain amounts of raw materials:

1876-1880	100.0	1911-1913	85.8
1881-1885	102.4	1921-1925	67.3
1886-1890	96.3	1926-1930	73.3
1891-1895	90.1	1931-1935	62.0
1896-1900	87.1	1936-1938	64.1
1901-1905	84.6	1946-1947	68.7
1906-1910	85.8		

(See "Postwar Price Relations Between Underdeveloped and Industrialized Countries," UN, 1949.)

These data are diametrically opposed to the Ricardian principle and fully justify Marx's thesis. The authors of the UN study themselves were forced to derive the following conclusion (see op. cit. pp 115-116):

"The long-range deterioration in the international rate of goods exchange to the detriment of raw-material-producing countries could be explained by the different rate of growth of productivity in the production

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of raw materials and finished products, respectively. By assuming that productivity in the production of raw materials grows faster than that of finished products, the deterioration in the international rate of goods exchange would, naturally, be less alarming. It would merely mean that, to the extent of raw material exports, the benefits of the increased productivity are surrendered to the purchasers of raw materials in the more industrialized countries.

"Although statistical data on the change of productivity in raw-material producing-countries and in countries producing finished goods are practically nonexistent, the above explanation may be rejected. There is hardly any doubt that productivity in industrialized countries is growing faster than in the underdeveloped countries. This is borne out by the fact that the standard of living in the industrialized countries rose faster during the period under review, that is, from 1870 to the present. For this reason, the changes in the terms of international goods exchange do not mean that the benefits of increased productivity in raw-material production were surrendered to the industrialized countries. On the contrary, they show that, through the differential between the prices paid for imported finished products and those received for their raw-material exports, the underdeveloped countries contributed to the rise of the standard of living in the industrial countries without receiving equivalent compensation for the enhancement of their own standard of living."

The answer of the classical economists and their epigoni, the vulgar economists, would be that the solution lies not in the industrization of the underdeveloped areas (because they could import industrial finished products cheaper than they could produce them) but in abandoning production for export at increasingly larger losses.

In the domestic field, noncompetitive producers are eliminated by competition. Demand is satisfied, in final analysis, by producers who can produce commodities with the amount of labor which is socially necessary. A producer who uses a greater amount of labor for a prolonged period cannot operate profitably and is sooner or later forced out of business. This is the pattern underlying the structure of capitalistic national economy and modern social division of labor.

However, international division of labor came into being differently. The deterioriation of the terms of international trade does not force a non-competitive country to abandon production. On the contrary, it is often instrumental in increasing production and, therefore, leads to a further detorioriation in the terms of international trade. An exception is when a country is subjected by force to another country and its total production is adapted to the industrial needs of the conqueror.

In the first half of the 19th century, both India and the US were cotton growers. According to the principle of comparative costs, it was more reasonable for India to confine itself to cotton growing and export and to receive in exchange the cheap cotton goods which ruined the Indian handicraft industry. The US gave up this advantage and abolished the so-called law of comparative costs as it did so many other laws proclaimed by England. India followed the example of the US only a century later, and currently it seems as if, in the sense of the principle of comparative costs, it were England's turn to abandon textile production for India's benefit. In fact, the English economists are beginning to wonder whether the principle of comparative costs is as valid as it was believed to be for a century.

The situtation changes radically by the transition of the national economy into monopolistic capitalism, when the problem concerns not only capitalistic international trade but also goods export subject to capital export, and when international economic relations are characterized not only by the relationship between sellers and buyers but also by the debtor-creditor relationship.

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At this stage, the capitalistic world market is no longer based on the international division of labor according to industrial centers but rather on a division of labor which best satisfies the interests and commercial requirements of monopolistic capital, specifically of the monopolistic capital which is the strongest in international relations.

It is impossible to speak of equivalent trade between an advanced creditor and a backward debtor. The role of money in international trade increases at a geometrical ratio. International trade is no longer simply a vehicle of profit but that of maxium profit, a circumstance which is not only inconsistant with equivalent trade but directly postulates nonequivalent trade.

In trade between an advanced creditor and a backward debtor the latter needs money, a fact which, through the balance of payments and foreign exchange rates, affects the terms of international trade. In monopolistic capitalism as a world economic system, the question concerns not merely the modification of the law of value in the sense established by Marx but also the efforts of the monopolies directed at preventing the law of value from achieving international validity.

This is the fundamental reason why, in the current rotting stage of capitalistic development, the capitalistic world market is becoming increasingly incapable of functioning and the capitalistic world economic system has begun to disintegrate.

At this stage, it is no longer a question of the capitalists of the advanced countries reaping the benefits of increasing productivity through the mechanism of international trade; the question now involves a ransom imposed by noneconomical compulsion. This fact is reflected by the transfer problem, which is becoming the central drawback of international trade.

The characteristics of monopolistic capitalism stem directly from the international economic conditions which prevailed during the preceding era of free trade. In other words, on the basis of Marx's analysis it is possible to proceed to the analysis and understanding of the new conditions. On the other hand, the Ricardian theory leads into a blind alley because, as revealed by Marx's critique, it was too limited and superficial even in analyzing the capitalism of free trade.

Prerequisites of Economic Development and Foreign Trade

The principal deficiencies of the Ricardian theory of free trade may be summarized as follows: (1) it disregards the problem of markets and (2) it disregards the problem of economic progress, specifically the problem of overcoming economic backwardness within the framework of capitalism. If these two problems are disregarded, the Ricardian theory appears very logical. Such disregard, however, makes the theory too limited, anemic and unreal.

The Ricardo-Mill principle of comparative costs and the Ricardo-Say law of markets are closely interrelated. It is interesting to review the history of these two theses within the framework of bourgeois economics.

The Ricardo-Say law was disproved when the problem of markets assumed unprecedented dimensions during the general crisis of capitalism. The overthrow of this century-old false law is currently called by the vulgar economists the "Keynesian revolution."

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Attacks against the principle of comparative costs began in the second phase of the general crisis of capitalism, when the problem of underdeveloped markets became acute. Prebisch, the present Minister of Finance of Argentina, in his work "The Economic Development of Latin America and Its Main Problems," published in 1950, made the following statement: "In Latin America, reality is undermining the absolute scheme of the international division of labor, which gained great importance during the 19th century and, as a theory, exercized considerable influence until recently."

Currently, the foremost trend in capitalistic international trade is toward an increase of the backwardness of underdeveloped countries and a growing imbalance of capitalistic world trade. Underdeveloped countries, therefore, cannot look to capitalistic foreign trade for a rise in their national income and standard of living. Instead, they must enter the path of industrialization by overthrowing the capitalistic economic trends unmasked by Marx and Lenin. Statistics uncontrovertibly show that the principle of comparative costs as developed by Ricardo and Mill is untenable.

A. According to the principle of comparative costs, a commodity which can be imported advantageously is not worth producing in the importing country. On the basis of this principle, an underdeveloped country can never improve its supply of industrial articles. A statistical table published by the UN shows that, in the period 1926-1929 in the US, per-capita production of finished goods totaled 262 dollars [per year] and per-capita exports of finished goods were 8 dollars, leaving a per-capita supply of 254 dollars for the population. At the same time, the per-capita supply of several industrial countries averaged 104 dollars. During the same period the per-capita supply of industrial finished goods in China and India amounted to 3 dollars, and in all the underdeveloped countries it averaged 13 dollars.

"A simple calculation shows why these areas cannot expect that foreign trade will solve the problem of their supply in industrial products. Let us assume that in these countries the per-capita supply of industrial products increases to one half of that of industrialized countries, or 52 dollars. In such case their imports of finished goods would have to increase 15 fold to a total of 69 billion dollars, a sum equal to double the total international trade (raw materials and industrial products together) or to the total [annual?] manufactured production of the industrialized countries in 1926-1929.

"It is difficult to imagine how these countries could increase their raw material exports to an extent that would provide cover for such large-scale imports. There is no need to analyze this comparison further. Clearly, in practice, it is impossible to bridge by international trade the huge differences in the supply of manufactured products which exist in different countries." (Industrialization and Foreign Trade, UN, New York, 1945, pp 22-23)

B. The 1954 annual report of GATT on international trade points out that, during the period 1938-1952, food exports from industrialized to underdeveloped countries more than doubled, while in the opposite direction they increased only 30 percent. "The per-capita food supply of industrialized areas during the same period increased, in terms of 1950 prices, from 140 dollars to 160 dollars, while in underdeveloped areas it remained virtually unchanged at 40 dollars." (Le Commerce international, Geneva, 1955, p 24)

C. From 1938 to 1952, trade increased by only 7.3 percent between industrialized and nonindustrialized areas and by as much as 16.3 percent for the world as a whole. (Ibid., p 29)

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D. Between 1938 and 1952, the bulk of the increase in international trade fell to the share of industrialized countries. A recent study published by the British Ministry of Finance states that, in the period of 1948-1954, commerce between industrial and raw-material-producing countries increased by 38 percent as compared with an increase of 57 percent between industrial countries. "It is evident that the boom of recent years was not accompanied by a proportionate growth in the demand for raw materials and, therefore, in the income of raw-material-producing countries." (Bulletin for Industry, London, September 1955)

E. Louis H. Bean (International Industrialization and Per Capita Income, National Economic Research Institute, New York, 1946, Vol VIII, p 123) arrived at the conclusion that "if it were possible to change the distribution of the population of the world from the present 60 percent in agriculture to 40 percent, the general productivity, income, and standard of living would show a tremendous rise."

In this statement the emphasis lies on industrialization, that is, on the change of the domestic division of labor, regardless of the advantages which presumably inhere in the international division of labor according to the principle of comparative costs. For this reason, Professor Viner, in a series of lectures given at the National University of Brazil, indignantly rejected Bean's views, including the statement that "presumably, the small per-capita income of China and India could be doubled by channeling 15 percent of their manpower away from food production to other fields of production, while their national income could be trebled by an additional shift of 10 percent." (Ibid., page 123.)

Foreign Trade and Socialist International Division of Labor

Since Ricardo's theory of foreign trade has, at the hands of certain economists, undergone an emphemeral renaissance, a few further comments appear to be to the point.

A. Socialist industrialization cannot satisfy the principle of comparative costs, unless the countries engaged in building socialism renounce their economic independence, stop fighting for their emancipation from the influence of the capitalistic world market, and decide to continue paying a permanent and increasing "ransom" in Lenin's sense. Lenin and Stalin clarified this problem in their fight against rightist deviationism. Marx's theory was concisely expressed in Lenin's work "The Importance of Gold at Present and After the Final Victory of Socialism," in which he advised that we "howl with the wolves" until we become stronger.

B. As to the socialist world market, the question may be asked why the principle of comparative costs cannot become, theoritically, the regulator of socialist international division of labor. The answer is that the socialist world market is an organized market and that the principle of comparative costs has validity only within the framework of the anarchy of international production.

The new world market did not arise, and does not function, spontaneously but as a product of planned cooperation between socialist countries through the coordination of national economic plans, including plans governing foreign trade.

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