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A RADICAL APPROACH OF INTERNATIONAL TRADE AND INTERNATIONAL
PRODUCTION: THE PROCESS OF INTERNATIONALIZATION OF SURPLUS
VALUE REALIZATION AND SURPLUS VALUE PRODUCTION BASED ON MARX'S
LAW OF VALUE

by

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I. INTRODUCTION

Foreign economic relations are one of the most controversial and important areas within economic theory. Even orthodox economic theory, generally characterized by a uniform theoretical system, did not develop a stable and prevailing paradigm. The radical or marxist economic theory did not very well either. The marxist political economy discussed foreign economic relations in the 1910s to 1930s mainly under the aspect of imperialism; periodical over-accumulation of the capital and the tendency to monopolies were the main issues.¹ This discussion was finally ended with World War II.

In the post World War II period the anti-communist social and political environment in the western countries was not at all conducive for a vivid and intensive marxist discussion. This changed in the 1960s. Issues like the Vietnam war, imperialism, and, most important, the so-called student revolution in some western countries enabled marxian economists to get some access to research institutes and universities. Besides national economic problems the marxian economists focused attention to international economic problems like international trade and capital movement, the role of transnational corporations, north-south-conflict, world order, and world market crisis.

Out of this discussion some economists formulated a new approach of international trade and international production as a process of the internationalization of surplus value realization and surplus value production based on Marx's law of value. This theoretical approach is the subject of this report.²

1. I refer to the theories of Hilferding, Bukharin, Lenin, Luxemburg and others.

2. The approach of Arghiri Emmanuel, which may seem on the surface to be similar to our approach, is not considered in this report (see Emmanuel, 1972). Although Emmanuel's approach of 'l'échange inégal' is also based on Marx's labor value theory, there are

The general hypothesis of this approach is that the internationalization process of surplus value production (international production) is deducible from the theoretical principles inherent in the process of the internationalization of surplus value realization (international trade), and that both processes are based on Marx's law of value. The following procedure seems suitable to deal with our choice of subject and is elucidated by Diagram 1.

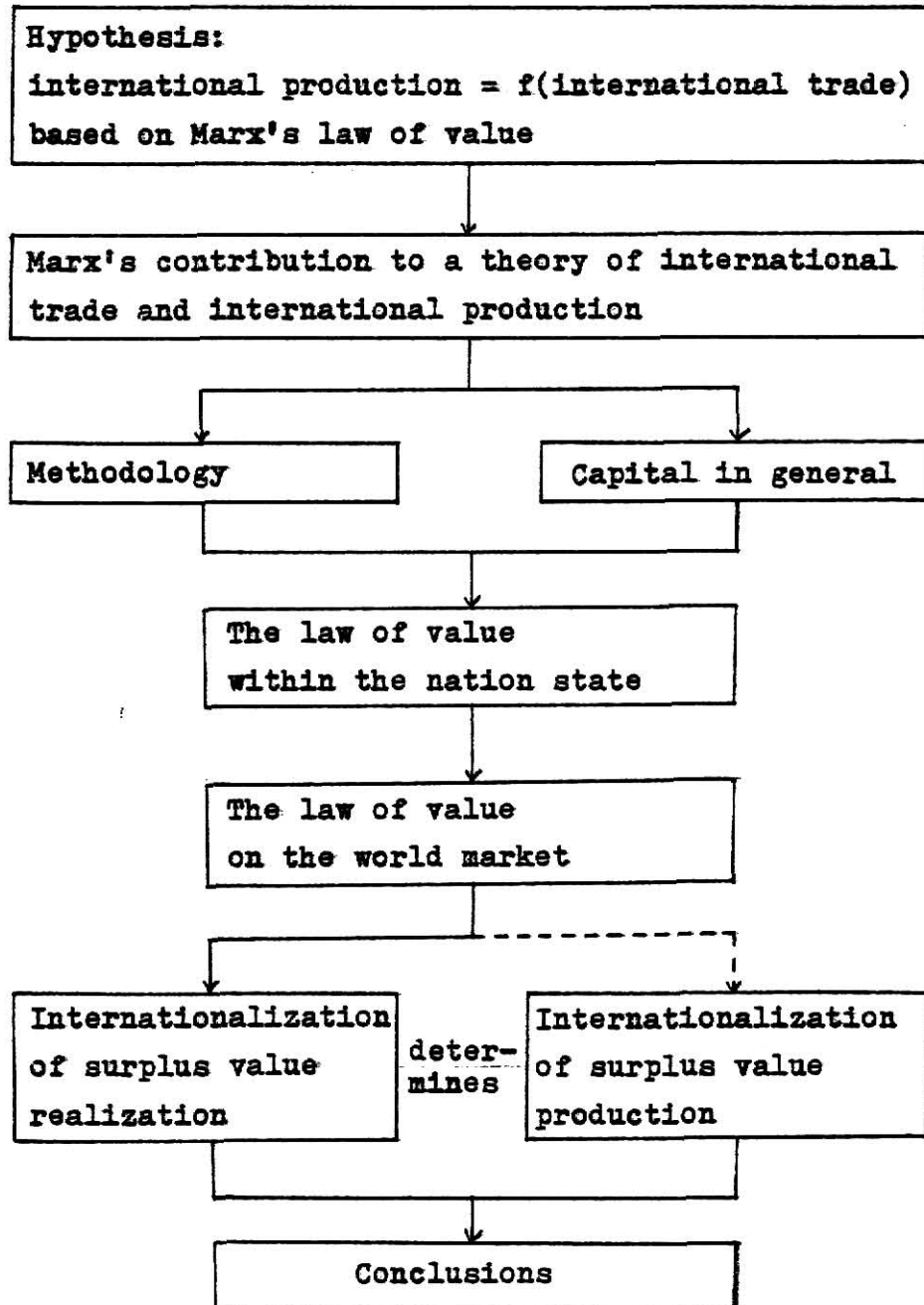
In the second chapter (the first chapter is the introduction) we ask the question as to what the contribution of Marx is with respect to international trade and international production. Although Marx never formulated a complete theory of international trade and international production, he provided a methodology and a general theory of capital of which the law of value is a fundamental part of and on which basis additional theory could be developed.

The law of value within the nation state is the subject of the third chapter. The law of value is the economic mechanism which distributes the total labor power at the disposal of society between its various sectors of production, via the mediation of the exchange of all commodities at their prices of production; the law of value also determines the structure of investments via the average profit rate. In the sub-sections we deal with the constituent elements of the law of value, i.e., commodity and socially necessary labor time, market value and surplus value, and average profit rate and production price.

The fourth chapter is the core of this report and considers the modifications of the law of value on the world market and its meaning for international trade and international production. The

substantial differences from the theory presented in this paper. In contrast to our approach, Emmanuel focuses mainly on international trade, particularly on the relationship of the less developed countries to developed capitalist countries. His theory of imperialism is written from the viewpoint of the less developed countries which are exploited by the mean of 'unequal exchange' with the developed countries. Also in contrast to our approach, Emmanuel claims the real existence of an international average profit rate and therewith of international production prices.

Diagram 1: The procedure used in this report



necessity for a modification of the law of value on the world market is primarily based on the existence of nation states which divides the world market in different spheres of circulation and production and thus changes the basis of the value formation process. With respect to international trade, the modified law of value causes a difference in character between national and international competition and a difference in the possibility to appropriate surplus profits permanently, i.e., a less productive national capital may become competitive on the world market and an above average productive national capital can appropriate a surplus profit only temporarily; both are in contrast to the competition in the national framework. These effects of the modified law of value on the world market can be counteracted by the means of capital exports with the goal of international production. The theoretical considerations of international surplus value realization and international surplus value production are elucidated by some graphical presentations.

The report will close with a concluding chapter (fifth chapter).

Finally, it should be pointed out that some interesting and related issues are not addressed, although they are discussed peripherally in certain parts of this report. These issues are the relationship between the internationalization of capital valorization and world market crisis, the national organization of the state and the internationalization of capital, and the international organization of capital and the national organization of labor unions. To deal with these topics would go beyond the limits of this report. It also should be emphasized that the report deals with only theoretical, not empirical analyses of international trade and international production.

II. MARX'S CONTRIBUTION TO A THEORY OF INTERNATIONAL TRADE AND INTERNATIONAL PRODUCTION

The general hypothesis of this paper is that international production (or internationalization of surplus value production) can be explained by the theoretical principles of international trade (i.e., internationalization of surplus value realization), and that both processes are based upon the working of the law of value formulated by Karl Marx.

With regard to this hypothesis, it is legitimate to ask what the contribution of Marx is to international trade and international production. This question can be answered basically in two ways.

First, Marx never formulated a complete theory of international trade or international production. Only in different places, spread throughout his whole work, did he make some indications or marginal notes, raising the question of how international trade and international production may influence the process of capitalist production and accumulation or of how these problems should be dealt with.

In Marx's original outline of 1857, which he wanted to use as the basis for his principle work, Marx planned to write 'books' on international production, international trade, and the world market.

"The order obviously has to be (1) the general, abstract determinants which obtain in more or less all forms of society ... (2) The categories which make up the inner structure of bourgeois society and on which the fundamental classes rest. Capital, wage labour, landed property. Their interrelations. Town and country. The three great social classes. Exchange between them. Circulation. Credit system (private). (3) Concentration of bourgeois society in the form of the state. Viewed in relation to itself. The 'unproductive' classes. Taxes. State debt. Public credit. The population. The colonies. Emigration. (4) The international relation of production. International division of labour. International exchange. (5) The world market and crisis."

1. Marx, 1973a, p. 108.

Marx never wrote the last three books which would be relevant for our chosen subject.¹

Second, Marx made a contribution toward a theory of international trade and production in the way that he provided a methodology and a general theory of capitalism on which basic additional theory could be developed.

Marx's method of analysis of the development of capitalism often is characterized as one which advances from the abstract to the concrete.

"Of course the method of presentation must differ in form from that of inquiry. The latter has to appropriate the material in detail, to analyse its different forms of development, to trace out their inner connection. Only after this work is done, can the actual movement be adequately described. If this is done successfully, if the life of the subject matter is ideally reflected as in a mirror, then it may appear as if we had before us a mere a priori construction."²

The necessity of science and of a proper methodology results from the fact that essence and appearance never directly coincide.

"But all science would be superfluous, if the appearance, the form, and the nature of things were wholly identical."³

In the 'Grundrisse (Rough Draft)' Marx used an example (population) of a correct and a false method of political economy.

"It seems to be correct to begin with the real and the concrete, with the real preconditions, which is the foundation and the subject of the entire social act of production. However, on closer examination this proves false. The population is an abstraction if I leave out, for example, the classes of which it is composed. These classes in turn are an empty phrase if I am not familiar with the elements on which they rest. E.g. wage labour, capital, etc. These latter in turn presuppose exchange, division of labour, prices, etc. For example, capital is nothing without wage labour, without value, money, price etc. Thus, if I were to begin with the population, this would be a chaotic conception (Vorstellung)

1. Nicolaus, 1973, pp. 52-63; Rosdolsky, 1977, pp. 10-25; Marx, 1973b, pp. 555-6

2. Marx, 1970, p. 19.

3. Marx, 1909, p. 951.

of the whole, and I would then, by means of further determination, move analytically towards ever more simple concepts (Begriff), from the imagined concrete towards ever thinner abstractions until I had arrived at the simplest determinations. From there the journey would have to be retraced until I had finally arrived at the population again, but this time not as the chaotic conception of a whole, but as a rich totality of many determinations and relations ... The economists of the seventeenth century, e.g., always begin with the living whole, with population, nation, state, several states, etc.; but they always conclude by discovering through analysis a small number of determinant, abstract, general relations such as division of labour, money, value, etc. As soon as these individual moments had been more or less firmly established and abstracted, there began the economic systems, which ascended from the simple relations, such as labour, division of labour, need, exchange value, to the level of state, exchange between nations and the world market. The latter is obviously the scientifically correct method. The concrete is concrete because it is the concentration of many determinations, hence unity of the diverse. It appears in the process of thinking, therefore, as a process of concentration, as a result, not as a point of departure, even though it is the point of departure in reality and hence also the point of departure for observation (Anschauung) and conception. Along the first path the full conception was evaporated to yield an abstract determination; along the second, the abstract determination lead towards a reproduction of the concrete by way of thought ... the method of rising from the abstract to the concrete is only the way in which thought appropriates the concrete, reproduces it as the concrete in mind."¹

In this way the characterization of Marx's method as an advancement from the abstract to the concrete may be subject to misunderstanding because the concrete is both the point of departure and the final goal of the scientific process and advancement from the abstract to the concrete is necessarily preceded by a progression from the concrete to the abstract.

1. Marx, 1973a, pp. 100-1; see also Meek, 1976, pp. 146-156.

Now it can be argued that the question of Marx's contribution to a theory of international trade and production, which is also the question of the development of advanced capitalism, can be answered in the affirmative; Marx provided a method for researching this set of international economic problems.

The same question can also be answered in a second and inter-related manner. Marx provided a theory of capitalism in general, particularly elaborated in the three volumes of the 'Capital'. These elaborations, provided by Marx in his theories of capitalist production and circulation, can be used as a starting point for further research, for a theory of international trade and production as a progression from the abstract to the concrete.¹

Central features of Marx's theory of capitalist development in general are his characterizations of capitalist societies as commodity producing societies and the law of value as an ex-post regulative mechanism. These categories are the subject of the following chapter and the basis for necessary modifications when we regard the modified working of the law of value with respect to international trade and international production. But first we must consider the law of value within the nation state.

1. Marx, 1972, p. 639.

III. THE LAW OF VALUE WITHIN THE NATION STATE

The precondition for expanding the working of the law of value on the world market is the development of the mechanism of the law of value in the national framework. The law of value within the nation state is the subject of this chapter.

Marx calls it a 'natural law' that every society has to distribute the mass of products among the different sectors of production.

"Every child knows ... that the mass of products corresponding to the different needs require different and quantitatively determined masses of the total labour of society."¹

This necessity, according to Marx, is inherent in every kind of society; the only thing that changes is the form in which this law operates.

"That this necessity of distributing social labour in definite proportions cannot be done away with by the particular form of social production, but can only change the form it assumes, is self evident ... What can change, in changing historical circumstances, is the form in which these laws operate."²

In a capitalist society, where there is no a priori conscious planning of production, where the interconnection of social labor is manifested in the private exchange of the individual products of labor after the completion of the production process, the law of value undertakes this function of regulation.³

Central elements to determine the law of value are the following categories: commodity and socially necessary labor time; market value and surplus value; and average profit rate and production price.

1. Marx, 1973c, p. 73.

2. Ibid.

3. Ibid., pp. 73-4.

1. Commodity and Socially Necessary Labor Time

The category 'commodity' is the starting point of Marx's analysis of capitalist society. The commodity "is the economic cell-form"¹ of the capitalist society in which all the contradictions of this society are already present.

"In the first place ... I do not start from 'concepts' ... What I start out from is the simplest social form in which the labour-product is presented in contemporary society, and this is the 'commodity'. I analyse it, and right from the beginning, in the form in which it appears."²

Commodity production³ is based on two fundamental characteristics. First, social production is carried out by division of labor. Second, the production is accomplished by autonomous, isolated producers. The connection between these individual works is established by the exchange of the products.

In order that products become commodities, the producer "must not only produce use-values, but use-values for others, social use-values."⁴ Although the division of labor is a prerequisite, it does not necessarily lead to commodity production. It is necessary that products which are use values for others become commodities by being transferred to others in exchange for other products or money; thus, the division of labor is manifested by the exchange process. Only the products of autonomous, mutually independent individual works are faced to one another as commodities.

To become exchangeable, a commodity not only must have a use value for others, but also must be reduced to one common quality by which the commodity becomes comparable to all other commodities. The different material characteristics, the different utilities of a product becomes comparable to all other commodities through

1. Marx, 1906, p. 12.

2. Marx, 1975, p. 198.

3. Marx, 1906, pp. 41-106.

4. Ibid., p. 48.

an inherent common denominator contained in the commodity: the human labor in the abstract, or more exactly, the socially necessary labor time.

"The labour-time socially necessary is that required to produce an article under the normal conditions of production, and with the average degree of skill and intensity prevalent at the time."¹

The socially necessary labor time does not appear directly, but is transmitted through the exchange process because social production is performed by labor division and use values are produced for others.

So that the private works prove socially necessary on the market, the comparison process in the market has to show two things. First, the products have to satisfy a need for the non-producer. This implies that the supply of an economic sector does not have to exceed social need. Second, the use values must be produced under socially normal conditions. This implies that the articles cannot be produced with below average productivity and intensity. If the products satisfy this twofold condition, they become commodities, and in the products materialized human labor in the abstract constitutes value, which appears as exchange value on the market.²

Accordingly, the distribution of social work among the sectors is regulated by the exchange value of the products. But the distribution is not planned. In a commodity producing society labor is not expended directly social, but private; the producer only knows ex-post if the performed work was socially necessary respectively if he had realized exchange value.

"In this specific form of value, labor appears on the one hand only as social labor; on the other hand, the distribution of this social labor and the mutual supplementing and circulation of matter in the products, the subordination under the social activity and the entrance into it,

1. Marx, 1909, pp. 203-234.

2. Ibid., pp. 215-6.

are left to the accidental and mutually nullifying initiative of the individual capitalists. Since these meet one another only as owners of commodities, and every one seeks to sell his commodity as dearly as possible (being apparently guided in the regulation of his own production by his own arbitrary will), the internal law enforces itself merely by means of their competition, by their mutual pressure upon each other, by means of which the various deviations are balanced. Only as an internal law, and from the point of view of the individual agents as a blind law, does the law of value exert its influence here and maintain the social equilibrium of production in the turmoil of its accidental fluctuations."¹

2. Market Value and Surplus Value

The process of distribution, whereby the law of value distributes the social labor among the different sectors of production, is analysed by Marx with the category 'market value'.² The process of distribution of social labor as well as of the socially necessary labor time may be best understood if we analyse two cases.

First, we consider the process of distribution by the law of value under the assumption that in one sector of production expended labor time is equal to the need of society for the commodities of this sector. In capitalist societies there is no conscious planning of production and therefore it is understandable that not all producers work under the same conditions of production, i.e., that not all single articles need the same quantity of labor. Some producers will materialize more or less labor time in the articles than the majority of producers who expend average labor time. When those under different conditions of production produced commodities are brought to the market, the mechanism of competition will cause that all commodities will realize an ex-

1. Marx, 1909, p. 1026.

2. Ibid., pp. 203-234.

change value equal to the individual labor time the majority of producers have materialized in their commodities.¹

We can distinguish three different market constellations within the sector. In the first case, the majority of commodities are produced by intermediate conditions of production; in the second case, the majority of commodities are produced under the worst conditions; and finally, the commodities produced under the most favorable conditions dominate the market. Depending on these cases the market values of the sector's commodities will be different. In the first case, the market value will be determined by the intermediate conditions of production.

"Those who produce under the worst conditions must sell their commodities below their individual values; those producing under the best conditions sell them above their individual values. In the second case, the two lots of commodities produced at the two extremes do not balance one another. The lot produced under the worst conditions decides the question."²

The third case has the opposite outcome, i.e., the commodities produced under the most favorable conditions determine the market value in the sector.³

Therefore, the market value is the result of competition among private producers with different conditions of production. The competition decides how much quantity of labor is socially necessary at the present time.

"In order that commodities of the same sphere of production, the same kind, and approximately the same quality, may be sold at their values, the following ... requirements must be fulfilled: ... The different individual values must have been averaged into one special value, the above-named market-value, and this implies a competition between the producers of the same kind of commodities, and also the existence of a common market, on which they offer their articles for sale."⁴

1. Marx, 1909, pp. 215-6.

2. Ibid., pp. 216-7.

3. Ibid., p. 217.

4. Ibid., pp. 212-3.

In connection with the constitution of the market value within the sector there goes along a differentiation of the conditions for capital to expand its value. Usually, the producers with intermediate conditions of production produce the majority of the supply and determine the socially necessary labor time. Producers with less than average productivity cannot realize a part of the materialized labor, but those with more than average productivity realize an extra surplus value.

"We ... have to note a market value, which must be distinguished from the individual value of the commodities produced by the various producers ... The individual value of some of these commodities will be below the market-value, that is to say, they require less labor-time for their production than is expressed in the market-value, while that of others will be above the market-value ... If the ... demand is satisfied by the supply of commodities of average value, ... then those commodities, whose individual value stands below the market-value, realise an extra surplus-value, or surplus-profit, while those, whose individual value stands above the market-value cannot realise a portion of the surplus-value contained in them."¹

The labor of the most productive producer creates more value than the labor with average conditions of production, because the highly productive producer materializes less labor in his product as socially usual, while the basis of the value is the average condition.

"The exceptionally productive labour operates as intensified labour; it creates in equal periods of time greater values than average social labour of the same kind ... Hence, the capitalist who applies the improved method of production appropriates to surplus-labour a greater portion of the working day, than the other capitalists in the same trade."²

The foregoing presentation operated under the assumption of the congruity of production and market. Now we put aside this assumption and look at the second regulative function of the law of value, that is the distribution of the social labor among the different sectors in accordance with social need.

1. Marx, 1909, p. 210.

2. Marx, 1906, pp. 349-350.

In capitalism the congruity of production and market is only an exceptional case. In those cases of non-congruity the market value is not exclusively determined by the bulky average conditions in the sphere of production, but also by the relation of supply and demand.

"Lastly, suppose that every piece of linen in the market contains no more labour-time than is socially necessary. In spite of this, all these pieces taken as a whole, may have had superfluous labour-time spent upon them. If the market cannot stomach the whole quantity at the normal price of 2 shillings a yard, this process that too great a portion of the total labour of the community has been expended in the form of weaving. The effect is the same as if each individual weaver had expended more labour-time upon his particular product than is socially necessary. Here we may say, with the German proverb: caught together, hung together. All the linen in the market counts but as one article of commerce, of which each piece is only an aliquot part. And as a matter of fact, the value also of each single yard is but the materialised form of the same definite and socially fixed quantity of homogenous human labour."¹

In the case of a disequilibrium between supply of a sphere of production and social demand, the base of the market value moves between the extremes of the conditions of production. In the case of over-production the market value decreases to the individual quantity of labor which those producers with above average productivity materialize in their commodities; in the case of production-deficiency the individual quantity of labor of the producers with poor productivity is the base of market value.

The limits of variability of market value is characterized by Marx as follows:

"Now, if the demand for this mass also remains the same, then this commodity will be sold at its market-value; no matter which one of the three aforementioned cases may regulate this market-value. This mass of commodities does not only satisfy demand, but satisfies it to its full social extent. On the other hand, if the quantity is smaller than the demand for it, then the market-prices differ from the market-values. And

1. Marx, 1906, pp. 120-1; see also Marx, 1952, pp. 398-9.

the first differentiation is that the market-value is always regulated by the commodity produced under the least favorable circumstances, if the supply is too small, and by the commodity produced under the most favorable conditions, if the supply is too large. In other words, one of the extremes determines the market-value, in spite of the fact that the proportion of the masses produced under different conditions ought to bring about a different result."¹

When the market price should decrease or increase under or over the by the conditions of production determined market values, this would be not a value, but a price movement. The market value has to represent real value, and a difference between market value and individual value of an article can only be related to different productivities.²

3. Average Profit Rate and Production Price

"Under capitalist production it is not a question of merely throwing a certain mass of values into circulation and exchanging that mass for equal values in some other form, whether of money or other commodities, but it is also a question of advancing capital in producing and realising on it as much surplus-value, or profit, in proportion to its magnitude, as any other capital of the same or of other magnitudes in whatever line of production. It is a question, then, of selling the commodities at least at prices which will yield the average profit ..."³

Usually, the organic composition of capital is different in the various spheres of production.

"By the composition of capital we mean ... the proportions of its active and passive parts, of variable and constant capital ... The composition of the values of capital, which is determined by, and reflects, its technical composition, is called the organic composition of capital."⁴

Different organic composition of capital has as its consequence that, if the commodities of the different sectors are exchanged to their values, there are unequal sector profit rates.

1. Marx, 1909, pp. 218-9.

2. Marx, 1974, pp. 266-9.

3. Marx, 1909, pp. 229-230.

4. Ibid., pp. 171-2; see also Marx, 1906, pp. 681-9.

For example, two sectors with different composition of capital, but the same total capital and the same rate of surplus value (100%) are considered. The total capital of sector A consists of 10 units constant capital and 90 units variable capital, and sector B, in contrast, distributes 100 units of total capital between 90 units constant and 10 units variable capital. Then, sector A will produce 90 units of surplus value, sector B only 10 units of surplus value. Under the assumption that the constant capital is transferred everywhere uniformly and entirely to the annual product of the capitals named and that the periods of turnover are equal, then sector A will have a profit rate of 90% p.a. and sector B only one of 10% p.a.¹ This result is incompatible with the ends and presuppositions of the capitalist mode of production, because every single capital tries to gain highest profit rates and has to realize the average rate of profit.

When "commodities are not exchanged simply as commodities, but as products of capitals, which claim equal shares of the total amount of surplus-value, if they are of equal magnitude, or shares proportional to their different magnitudes"², then a situation of equilibrium between the different sector-capitals is only accomplished when the following conditions are realized, which are also compiled in Table 1.

The originally different sector profit rates only assimilate, if the commodities are not exchanged at their values, but are sold at their production prices, which are composed of the sum of cost prices and average profits.

"The prices which arise by drawing the average of the various rates of profit in the different spheres of production and adding this average to the cost-prices of the different spheres of production, are the prices of production. They are conditioned on the existence of an average rate of profit, and this, again, rests on the premise that the rates of profit

1. Marx, 1909, pp. 182-3.

2. Ibid., p. 206.

Table 1: Average profit rate and production price

Sector	s'	s	p'	c	vc	cp	\bar{p}'	pp	$pp-vc$
A 80C + 20V	100%	20	20%	50	90	70	22%	92	+ 2
B 70C + 30V	100%	30	30%	51	111	81	22%	103	- 8
C 60C + 40V	100%	40	40%	51	131	91	22%	113	-18
D 85C + 15V	100%	15	15%	40	70	55	22%	77	+ 7
E 95C + 5V	100%	5	5%	10	20	15	22%	37	+17

C = constant capital

V = variable capital

s' = $\frac{s}{v}$ = rate of surplus value

s = surplus value

p' = original rate of profit in one sector

c = used C

vc = $c + v + s$ = value of commodities

cp = $c + v$ = cost price

\bar{p}' = $\frac{\sum s}{\sum C + \sum V}$ = average rate of profit

pp = $cp + p$ = production price; p = average profit

$pp-vc$ = deviation of price from profit

Source:

Marx, 1909, pp. 183-5.

in every sphere of production, considered by itself, have previously been reduced to so many average rates of profit. These special rates of profit are equal to \bar{p} in every sphere of production, and they must be deduced out of the values of the commodities ... Without such a deduction an average rate of profit (and consequently a price of production of commodities), remains a vague and senseless conception. The price of production of a commodity, then, is equal to its cost-price plus a percentage of profit apportioned to the average rate of profit, or in other words, equal to its cost-price plus the average profit."¹

Although the commodities are no longer exchanged to their values after the formation of a general rate of profit, but to their production prices, the law of value nevertheless determine their movement. The sum total of the commodities' values is equal to the sum total of the production prices, and the sum total of the surplus values is equal to the sum total of the mass of profits distributed among the different spheres of production. The production prices are the medium to allocate a certain quantity of labor in one sphere of production which is originally produced in another sector and vice versa. With the help of the production prices capital realizes the same rate of profit in every sector.

Lastly, we have to explain the process of the formation of the average rate of profit.

"In the case of capitals of average, or approximately average, composition, the price of production coincides exactly, or approximately with the value, and the profit with the surplus-value produced by them. All other capitals, of whatever composition, tend toward this average under the pressure of competition. But since the capitals of average composition are of the same, or approximately the same, structure as the average social capital, all capitals have the tendency, regardless of the surplus-value produced by them, to realise in the prices of their commodities the average profit, instead of their own surplus-value, in other words, to realise the prices of production ... The real difficulty lies in the question: How is this equalisation of the profits into an average rate of profit brought about, seeing that it is evidently a result, not a point of departure ?"²

1. Marx, 1909, pp. 185-6.

2. Ibid., pp. 204-5.

This question is answered by Marx as follows:

"Now, if the commodities are sold at their values, then, as we have shown, considerably different rates of profit arise in the various spheres of production, according to the different organic composition of the masses of capital invested in them. But capital withdraws from spheres with low rates of profit and invades others which yield a higher rate. By means of this incessant emigration and immigration, in one word, by its distribution among the various spheres in accord with a rise of the rate of profit here, and its fall there, it brings about such a proportion of supply to demand that the average profit in the various spheres of production becomes the same, so that values are converted into prices of production."¹

To sum up, the process of equalization of profits into an average rate of profit is brought about as follows. Different organic compositions of capital lead to different rates of profit in the various spheres of production. The capital, seeking maximal profit withdraws from spheres of low rates of profit and invades others with higher rates, leaving behind the following constellation of demand and supply: In the sectors with originally low rates of profit the capital withdrawal leads to a production-deficiency, and the market prices will increase above the individual values of those producers with poor conditions of production; in the sectors with originally high rates of profit the capital immigration will lead to an over-production, and the market prices will decrease under the individual values of those with the most favorable conditions of production. The result is the constitution of a general rate of profit.

With the development of the forces of production the composition of the capital in the different spheres can change and the sector rates of profit may depart from the average rate of profit. Again, a process of equalization is necessary.

"The incessant equilibration of the continual differences is accomplished so much quicker, 1), the more moveable capital is, the easier it can be shifted from one sphere and one place to another; 2) the quicker labor-power can be transferred from one sphere to another and from one local point of production

1. Marx, 1909, p. 230.

to another. The first condition implies complete freedom of trade in the interior of society and the removal of all monopolies with the exception of those which naturally arise out of the capitalist mode of production. It implies, furthermore, the development of the credit-system, which concentrates the inorganic mass of the disposable social capital instead of leaving it in the hands of individual capitalists. Finally it implies a subordination of the various spheres of production to the control of the capitalists ... A great density of population is also a requirement.- The second condition implies the abolition of all laws which prevent the laborers from moving from one sphere of production to another and from one local center of production to another; an indifference of the laborer to the nature of his labor; the greatest possible reduction of labor in all spheres of production to simple labor; the elimination of all craft prejudices among laborers; and last, not least, a subjugation of the laborer under the capitalist mode of production."¹

The law of value within the nation state was the subject of this chapter. In the next chapter we consider the necessary modifications of the law of value on the world market and its impact upon international trade and international production.

1. Marx, 1909, p. 231

IV. MODIFICATIONS OF THE LAW OF VALUE ON THE WORLD MARKET AND ITS IMPACT UPON INTERNATIONAL TRADE AND INTERNATIONAL PRODUCTION

The purpose of this chapter is to analyse the modifications of the law of value on the world market and its meaning for international trade and international production. The necessity for a modification of the law of value in its international context is primarily based on the existence of nation states. Before we regard more closely the impact of a modified working of the law of value upon the internationalization of surplus value realization and surplus value production, we must consider as a first step the meaning of the nation state for the deployment of the law of value on the world market.

1. The Meaning of the Nation State for the Deployment of the Law of Value on the World Market

In Chapter III. we described that in a society based on private means of production the law of value is the concept which distributes social labor among the different sectors and regulates the socially necessary labor time of the commodities. But the social framework the private producers are part of is subjected to variable conditions.

One of these variable conditions is the spatial extension of economic activity. When the products are only supplied on local or regional markets and undergo the process of comparison with products of the same spatial origin, then the basis of the value formation process is determined by this limited social framework. In contrast, when the local or regional markets are united to a national market, then the national framework determines what the social necessity is.

In general, the quantity of labor considered as socially necessary at the time is dependent on the stage of development of the material forces of production and on the level of social need within a given social framework which is subjected to variable spatial conditions.

In a further step the products of the various nations are supplied on the world market and again the determination of the socially necessary labor time is shifted and international values are constituted.¹

The main question now is if there is a difference between the working of the law of value on the world market and within the national framework.

The basic difference of the working of the law of value becomes clear in considering the process of competition of unequally developed and nationally organized capital on the world market. Historically, capital has associated itself in national organizations, i.e., nation states. Therefore, the world market consists of delineated spheres of circulation. While within the national framework capitals compete with each other directly, without state barriers, the international competition of capital is basically brought about by national barriers. Those national barriers are in the simplest case, neglecting import and export subsidies or restrictions etc., the rates of exchange. Commodities of one country in order to get realized on the world market and therefore leave their national sphere of circulation consummate a metamorphosis of their price, i.e., their money name is no longer expressed in national currency, but in international or foreign currency. When we consider the various capitals of nations with unequally developed material forces of production that are engaged on the world market, this money name metamorphosis has a central meaning.

1. Busch, 1974, p. 35; see also Kohn, 1962, p. 35.

Nations whose average rates of labor intensity and productivity are relatively high in the international comparison will be, at first, superior to the lesser developed national capital. The more developed nations will realize a larger quantity of commodities on the world market than they will import from other nations involved on the world market. The export surplus of the more developed nations will lead to a series of currency mechanisms. Although the exact course of this mechanism depends on the structure of the international currency system, in the tendency it leads to the following outcome: The commodities of the more developed countries fetch a higher price figure because of a higher valuation of their currency or because of imported inflation; on the other side, the commodities of the lesser developed nations fetch a lower price expression because of depreciation or deflation.

The labor value basis of these international money and price movements may be illustrated with the following example. Three nations are operating on the world market, A, B, and C. A is the country with the highest, B with the intermediate, and C with the lowest average degree of intensity and productivity. As a consequence, one national labor day of country A represents higher international values than those of the countries B and C. If we term the value substance of the international values 'universal labor', then one national labor day of A represents two universal labor days, one national labor day of B one universal labor day, and one national labor day of C half a universal labor day. Introducing the general equivalent of national or international currencies we have the following relations compiled in Table 2. Therefore, one national labor day of country A represents larger international sums of money than one national labor day of the countries B or C.¹ Marx wrote in this context:

"In every country there is a certain average intensity of labour, below which the labour for the production of a

1. Busch, 1974, pp. 37-40.

Table 2: National labor day, universal labor, and currency

1 n LD of A	=	1 n CU of A	=	2 u LD	=	2 i CU
1 n LD of B	=	1 n CU of B	=	1 u LD	=	1 i CU
1 n LD of C	=	1 n CU of C	=	$\frac{1}{2}$ u LD	=	$\frac{1}{2}$ i CU
1 n CU of A	=	2 n CU of B	=	4 n CU of C		
n LD = national labor day n CU = national currency unit u LD = universal labor day i CU = international currency unit						

requires more than the socially necessary time, and therefore does not reckon as labour of normal quality. Only a degree of intensity above the national average affects, in a given country, the measure of value of the mere duration of the working time. This is not the case on the universal market, whose integral parts are the individual countries. The average intensity of labour changes from country to country; here it is greater, there less. These national averages form a scale, whose unit of measure is the average unit of universal labour. The more intense national labour, therefore, as compared with the less intense, produces in the same time more value, which expresses itself in more money. But the law of value in its international application is yet more modified by this, that on the world-market the more productive national labour reckons also as the more intense, so long as the more productive nation is not compelled by competition to lower the selling price of its commodities to the level of their value. In proportion as capitalist production is developed in a country, in the same proportions do the national intensity and productivity of labour there rise above the international level. The different quantities of commodities of the same kind, produced in different countries in the same working time, have, therefore, unequal international values, which are expressed in different prices, i.e., in sums of money varying according to international values."¹

1. Marx, 1906, pp. 612-3.

We can conclude that every nation has a certain position in the scale of international intensity and productivity of labor and that this position is reflected in the rates of exchange.¹

The process of the formation of international market values then will have the following pattern. The prices of the commodities of all sectors, when leaving the national sphere of circulation, will be transferred to international currency units with the help of the rates of exchange. This metamorphosis is equivalent to a process of weighting. Every national quantity of labor appearing on the world market is weighted value-like with that position the respective national capital on the average has in the scale of universal labor. Then the quantities of labor of the more developed nations will represent higher international values because the national average labor intensity and productivity is above the international average. In contrast, the quantities of labor of the less developed nations will represent lower international values.²

The formation of international market values is quite comparable with the one within national sectors. The conditions of production in a mass will determine the center of gravity of the world market prices if demand is equal to supply. In the case of a demand or supply deficiency the formation process will change in the above described manner.³

In what respect is there now a modification of the law of value on the world market? We discussed the meaning of the nation states which create different spheres of circulation. But this is not the result of the working of the law of value; it is only its social framework. We have to consider more closely the specific differences between the working of the law of value within the nation state and the world market.

Basically, the modification of the law of value on the world market includes two points.⁴

1. Neuss et al., 1971, p. 20

2. Busch, 1974, p. 41.

3. See Chapter III. of this report.

4. Busch, 1974, pp. 42-57; Neuss et al., 1971, pp. 16-7; Neuss, 1975, pp. 125-146.

First, there is a difference in character between national and international competition. In the national framework the economically weaker producers are directly confronted with the superior forces of production of highly developed capital and the ruin of the backward capital is an inevitable result. But on the world market the economically less developed nations are screened against the destructive competition of the high developed nations because international competition is only indirectly brought about by different national spheres of circulation or the rates of exchange. Even if all sectors of the less developed nations are producing with a low productivity, they are able to compete on the world market because their high national prices are transformed by the rate of exchange into lower international commodity prices, and the low national prices of the higher developed nations are transformed into higher international prices.

This mechanism of protection of the international law of value for the lesser developed nations is an essential modification of the law of value. This mechanism is also the reason for the establishment of an international division of labor between unequally developed nations. The rates of exchange reflect the average degree of intensity and productivity and the position of a nation in the scale of universal labor. But besides sectors with average conditions of production there are also sectors with above and below average conditions of production. In this respect, the exchange rate mechanism is of disadvantage to the below average productive sectors in every nation. In the more developed countries the exchange rate mechanism forces such a high international price upon the lesser developed sectors so that these sectors have a competitive disadvantage to the respective sectors of the lesser developed countries, although they may produce more productively in absolute terms. In contrast, in the lesser developed countries the exchange rate mechanism does not sufficiently protect the below average spheres of production

which will lose in the international competition with the superior nations. In this way an international division of labor is institutionalized on the basis of comparative cost advantages, a labor division structure not possible in the national framework.

Second, there is a difference in the possibility of appropriating surplus profits permanently in the national and international framework. In the national framework the above average productive capital is able to appropriate a surplus profit permanently. In the international competition the above average productive national capital can appropriate a surplus profit only temporarily.

If the labor productivity in one nation increase faster than in the other countries then the world market sectors of this one nation, before exchange rate adjustment processes begin to work, can appropriate surplus profits because they materialize in a given quantity of commodities less national labor, but realize higher international values. The increasing export of the more productive nation will finally lead to a higher valuation of its currency or to a depreciation of the currency of the other nations. As a result, the basis of the more productive nation to appropriate surplus profits is eliminated.

The exchange rate mechanism takes away the possibility for the higher developed national capital in the average to appropriate surplus profits; only the above average productive sectors are able to realize in the international competition a surplus profit.

These two modifications of the law of value in the international framework are due to the existence of different spheres of circulation of the different developed national capital. If all present nations were in one world nation, the working of the law of value would be the same as in the national framework.

In our comparison of the working of the law of value on the national and international basis, one question appears unanswered, that of an international average profit rate and of in-

ternational production prices as deployment form of the international average profit rate.¹

A conclusion by analogy from the national to the international formation process of the average profit rate leads to an inaccurate result because this would be in contradiction to the above developed modifications of the law of value on the world market.

The form of competition of capital for the highest rate of valorization in the international framework is not comparable to the national inter-sector competition, which constitutes the average profit rate in the national framework. Within a nation the sectors with high organic composition of capital and low profit rates have no direct competition with those sectors of low organic composition of capital and high profit rates, but in the international framework the higher developed national capital (high organic composition of capital, low national rate of profit) usually compete with less developed national capital (low organic composition of capital, high national rate of profit) directly on the sector level. In respect to the rate of profit this means that the various national capitals are more comparable with the different developed capitals within a national sector than with different sectors within a national capital.²

The profit rate competition of the various nations is more comparable with intra-sector competition than with inter-sector competition because the various sectors of the nations compete with each other directly, and this competition leads to the constitution of sector specific international market values and therefore to different profit rates for the various sectors of the different developed nations. The higher developed national capital is able, at first, to appropriate a surplus profit and the average national rate of profit of the higher developed nation increases, the one of the less developed nation decreases.

1. Busch, 1974, pp. 46-57.

2. Marx, 1974, pp. 204-5.

As a result, there is an approximation of the national rates of profit without an international capital movement.

The working of the modified law of value then will lead to the above described exchange rate mechanism. The higher developed national capital will lose its surplus profit position and the national average rate of profit will decrease.

In order that the capital of the higher developed countries can keep its surplus profit position, it only has the possibility of foreign direct investments in the less developed nations. By mean of foreign direct investments the world market sectors of the more developed nations can avoid the exchange rate mechanism. Doing so, they can confront the less developed nations directly with their superior forces of production and they are again able to produce surplus profits. One result is the approximation of the national average profit rates.

The constitution of an average international profit rate is finally an empirical question, depending on the extension of international capital movements. Considering the capital movements between the capitalist industrial countries and the countries of the 'Third World' and its effects on national profit rates, the answer to the question is no.¹

The modified working of the law of value on the world market and the differences to its national working in the context of the existence of nation states were the subjects of this section. It should not be surprising that the analysis dealt primarily with the impact of the international law of value upon international trade, considering that our hypothesis states that the internationalization of surplus value production is explainable in accordance with the theoretical principles inherent in the internationalization of surplus value realization.

1. Busch, 1974, pp. 55-57; 115-249; Mandel, 1975, pp. 71-77.

2. Internationalization of Surplus Value Realization

In the foregoing section we developed the international law of value and its general impact upon international trade and international production. The subject of this section is a more close analysis of the internationalization of surplus value realization based on the expositions of the last section, some recapitulation will be inevitable. In particular, we will consider the relation between differential national productivity and exchange rates, and their impact upon international competition and trade. We will especially consider the working of the exchange rate mechanism in the case of different national sector productivity, and the impact of international tariffs. We will try to elucidate this with graphic presentations.

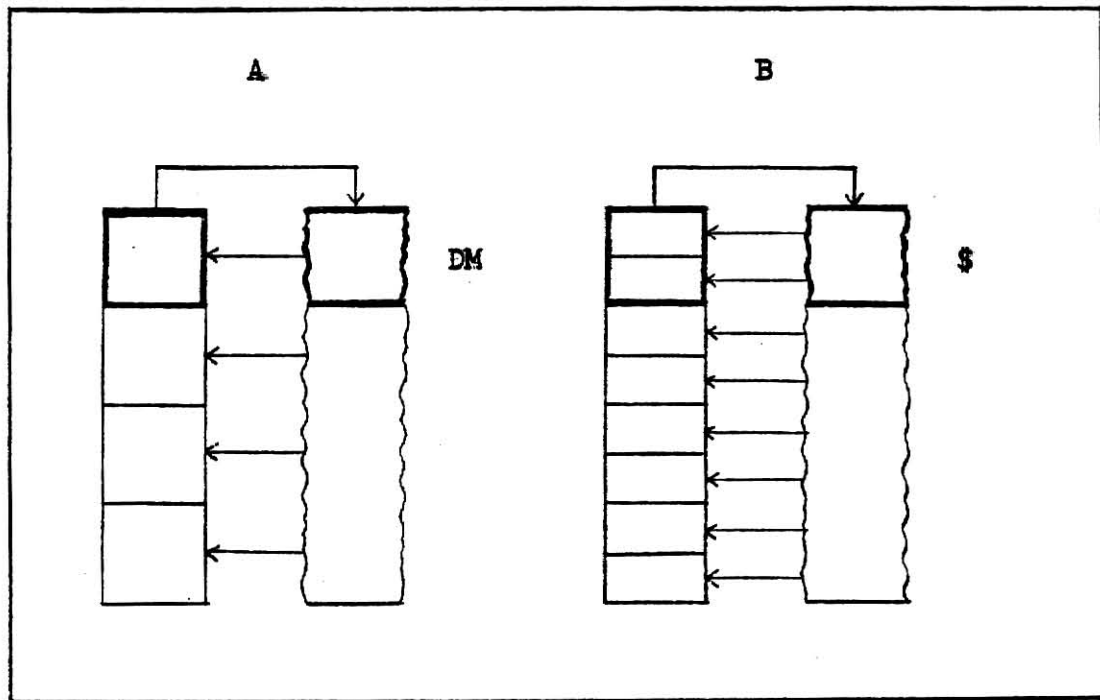
2.1. National different average productivity and the rate of exchange

The formation of value differs from one country to the next; the capitalist world is composed of various spheres of value production. The relation between national commodity production and international trade can be elucidated with some examples. As the first step we consider the impact of differential national average productivity upon the rates of exchange.

Let us assume two countries A (FRG) and B (USA) are producing the same commodity a. If we assume that the productivity in country B is twice as high as in country A, the national value of the single commodity of B is only half as high as those of A. The national socially necessary labor time determines the different national value of the commodities, although in both countries the same sum of values was produced.

Figure 1 shall represent the two economies A and B with different degrees of productivity. The respective left barks (straight lines) represent the produced commodities; A and B produces 4 and

Figure 1: Two country model and different national productivity



8 units a day respectively. The respective right balks (wavy lines) represent the created money income. In this way, the figures are a simple economic circular flow model. For reasons of simplicity we also assume that the currency unit is adequate to the product of the labor hour, i.e., 1 DM corresponds to one commodity unit produced in A and \$ 1 corresponds to two commodity units produced in B.¹

If we suppose that the two countries are engaged on the world market and trade their commodities, we can develop our example further. An implication of different national spheres of circulation is that the national currency can only buy commodities supplied on the national market. In order to buy foreign commodities the buyer of one country first has to provide himself with

1. Senf, 1978b, pp. 241-9.

foreign currency. In this way, the national chain of exchange becomes modified.¹

The national chain of exchange can be described by $M - C - M^+$ (the goal of capitalist production is that $M^+ > M$), whereby only the first link is of relevance at this point (M = money or capital in money form, C = commodity, M^+ = surplus money). The modified chain of exchange looks as follows: $M - M' - C \dots$ or, in accordance with the above example, $DM - \$ - C \dots$ (German import) or $\$ - DM - C \dots$ (American import); M' = foreign currency.

The international trade of commodities will create a dollar demand (DM supply) on the side of the Germans and a dollar supply (DM demand) on the side of the Americans. Assuming flexible exchange rates, the foreign exchange market will set up a certain exchange rate. Figure 2 represents the relation between differential average national productivity and the rate of exchange and its adjustment process.²

In Figure 2a it is assumed that the foreign exchange market develops an exchange rate of 1 DM : \$ 1. After the accomplished exchange of their currencies the Americans with their exchanged DM can only buy commodities of one quantity unit. In contrast, the Germans with their exchanged dollar are able to buy two commodity units. By an exchange rate of 1 : 1 this means that the German commodities are too expensive for the Americans, and vice versa. As a consequence, the German buyers, instead of demanding the commodities produced in their own country, will import the respective commodities from the USA and the American buyers will reduce their imports from Germany. This will lead to a larger DM supply and a decreasing dollar supply on the foreign exchange market. The dollar currency will become more expensive, i.e., the DM price of the dollar will increase.

1. Senf, 1978a, pp. 82-96; Kast, 1976, pp. 20-28.

2. Senf, 1978b, pp. 249-254.

Figure 2: Different national average productivity and the exchange rate; two country model

Figure 2a:

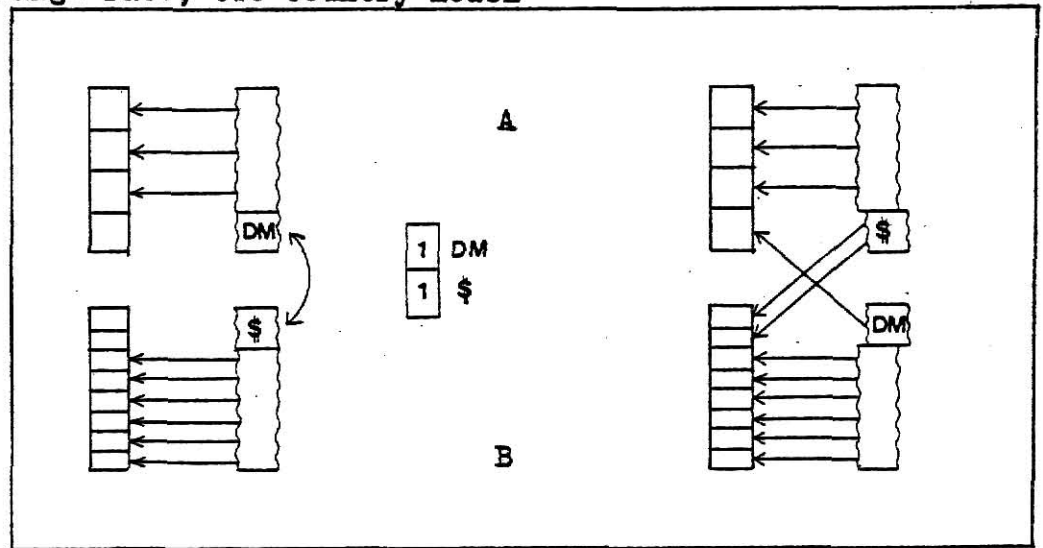


Figure 2b:

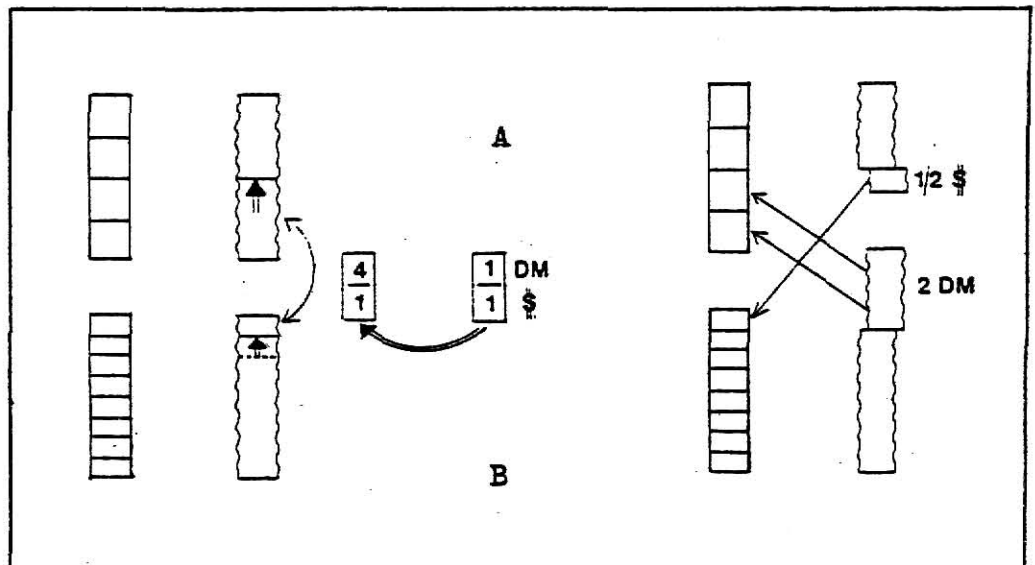
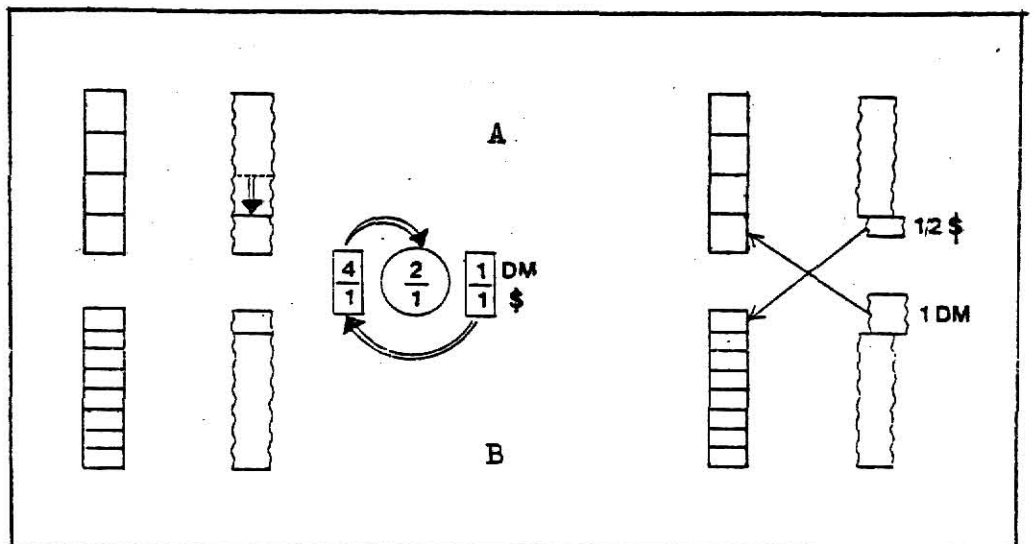


Figure 2c:



In Figure 2b we assume a new exchange rate of 4 DM : \$ 1. The Americans get for half a dollar two DM in return and with two DM they can buy two quantity units in Germany; at home they only could get half of the quantity. On the other side, the exchange rate is to the disadvantage of the Germans. This time they would exchange two units of German commodities for one unit of American commodities. Again, the exchange rate will change; the German exchange rate will increase and the American one will decrease.

Finally, in Figure 2c we assume an exchange rate of 2 DM : \$ 1. One quantity unit of German commodities is exchanged for one quantity unit of American commodities. The exchange rates are in a stable equilibrium.

We can conclude that this equilibrium exchange rate reflects the relation of the different degree of productivity in both countries. A change in the relation of the productivities will also change the exchange rates. With respect to all countries engaged on the world market this means that the long-term development of the exchange rates between the various currencies mirrors the development of the productivity within the countries.¹

In a system of inflexible exchange rates, the exchange rate can be artificially maintained on a level that does not reflect national productivities. In the long run this will result in a currency crisis and exchange rates will be established in accordance to national productivity developments.²

2.2. Exchange rate mechanism and modified international competition

Exchange rates are of central meaning for the competition of national capital on the world market. In our example represented in Figure 2c the dollar as currency is twice as expensive as the DM. Thus, for the buyers from third countries the American commo-

1. Busch, 1974, pp. 38-40.

2. Senf, 1978b, pp. 253-4.

dities have the same price as the German commodities although the American commodities incorporate only half the expended labor of the German ones. The exchange rates cause the individual national values to be leveled on the world market, an effect not existing within the national framework.

In the national framework producers with above average conditions of production can realize an extra profit. This extra profit represents the difference between the individual value of the producer and the socially necessary labor time. This extra profit is also the reason which forces backward capital to improve its conditions of production or to become destroyed by the superior capital.

On the world market, in contrast, the exchange rates protect the below average productive national capital against the destroying competition of the superior capital of other nations. The high valuation of the currency of the more productive country means that its national prices are multiplied by its high exchange rate. On the other side, the national prices of the less productive country are multiplied by its relative low exchange rate. The different national spheres of circulation protect the economically weaker national capital.¹

The effect of the exchange rate mechanism can be elucidated with Figure 3 and Figure 4. Figure 3 represents two economies A and B. The fluid in the vessels symbolizes the different expended labor necessary for a given quantity of commodities in the respective countries. We assume that the expended labor in A is twice as high as in B, i.e., the productivity in A is half as high as in B. On the world market the above described exchange rate mechanism causes a contraction of A's world market prices in comparison to its national prices and an expansion of the world market prices of B. This process can be elucidated if we connect both vessels and understand them as communicating pipes.

1. Busch, 1974, pp. 37-42; Neusuess, 1975, pp. 16-7.

Figure 3: Exchange rate mechanism and international competition; two country model

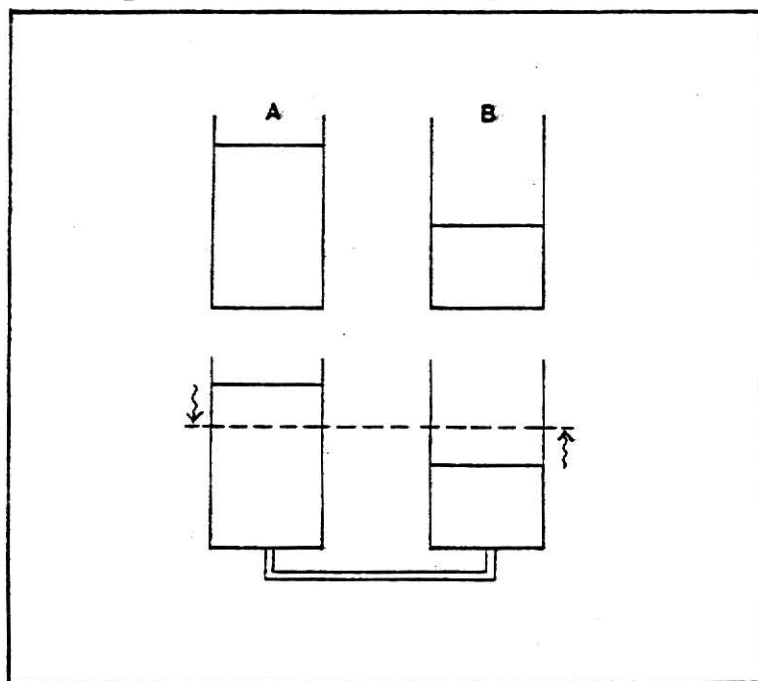


Figure 4: Exchange rate mechanism and international competition; five country model

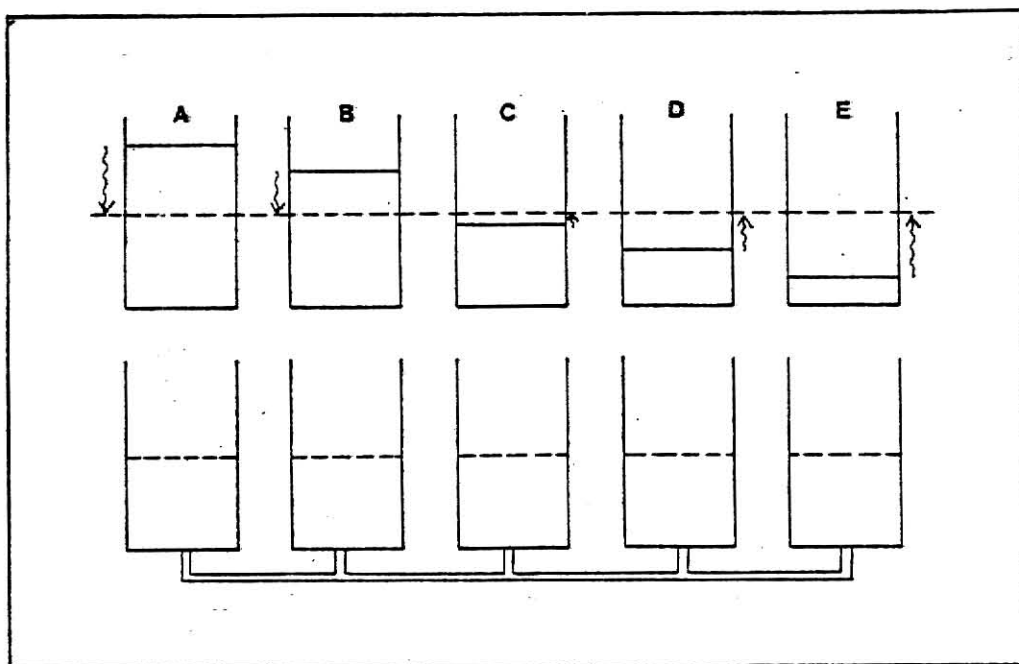


Figure 4 represents the same mechanism for five countries. The five countries are sorted in accordance to their position in the scale of universal labor. The expansion or contraction of the national prices on the world market depends on the country's position in the scale of universal labor. The vessels also elucidate which countries have above average national values (A and B) and which countries not (C, D, and E).¹

2.3. Exchange rates as result of different national productivity and of different scaling national currencies

The foregoing analysis is not suitable to deduct the relation of national productivities directly from the exchange rates. For instance, by an exchange rate of \$ 1 : 500 Lira a direct conclusion from the exchange rate to the relation of national productivities would mean that the productivity in the USA is 500 times higher than in Italy; this is obviously an absurd conclusion. As an additional determining characteristic we have to introduce the scaling of national currencies.

The quantity of money units necessary to buy a given commodity not only depends on the materialized labor, but also on the numerical relation of the money units to the produced sum of values. A given sum of values may be represented in one country by 500 currency units and in another country only by one. Thus, the money expression of the sum of values does not reveal the productivity. Using the manner of representation of Figure 1 we may elucidate this with Figure 5.

In Figure 5a the countries A and B have the same productivity. In the same labor time both countries produce the same sum of values materialized in four units of a given commodity (left balks). However, the scaling of the currencies differs (right balks). In country A one unit of a given commodity is equivalent to one unit of its national currency, but in country B the same

1. Senf, 1978b, pp. 255-6; Neusuess, 1975, pp. 145-6.

Figure 5: Different national productivity, different scaling national currencies, and exchange rate; two country model

Figure 5a:

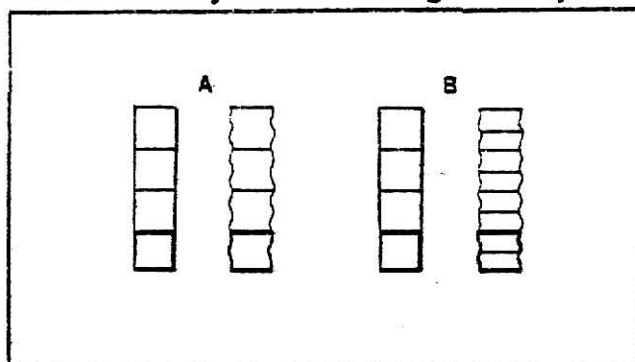


Figure 5b:

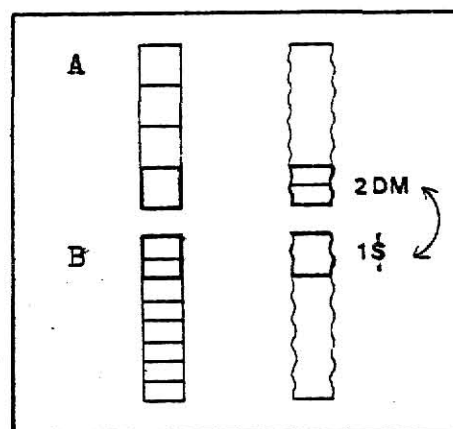
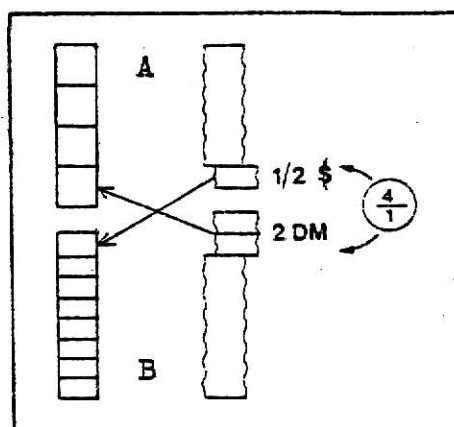


Figure 5c:



quantity of labor is represented in two currency units. Thus, in B the commodity prices are twice as high (calculated in B's currency units) as in A (calculated in A's currency units). Therefore, in country B the twofold quantity of money is circulating.

The Figures 5b and 5c represent our USA - FRG example of Figure 1. But this time (Figure 5b) we assume a smaller scaling of the DM: 2 DM corresponds to one commodity unit produced in the FRG. This different scaling of the DM results in a different rate of exchange, i.e., 4 DM : \$ 1 (Figure 5c). The different scaling of the national currencies influences the exchange rates, but not the productivities of the various countries.¹

The impact of different scaling of national currencies can also be elucidated by the mean of our communicating pipes (Figure 6). Figure 6a represents the two country case. The productivity in the USA is twice as high as in the FRG and we assume that the sum of values produced in the FRG (USA) is equivalent to a money expression of 4 DM (\$ 2). The exchange rate mechanism not only cause a contraction of the DM-prices and an extension of the \$-prices on the world market, but also a shrinking and stretching of the respective currency scale. After the levelling of the world market prices by the exchange rate mechanism, one dollar is on the same level as two DM, i.e., we have an exchange rate of 2 DM : \$ 1.

Suppose that the produced sum of values in the FRG is equivalent to 8 DM (Figure 6b), then the different scaling causes an exchange rate of 4 DM : \$ 1.

Finally, Figure 6c represents several nations with different national productivities and different scalings of their national currencies. The bilateral exchange rates are indicated with the vessels on the bottom. For instance, the exchange rate between A and B is 200 : 1, between A and C 100 : 1, between D and E 2 : 1, etc. Assuming that the currency of country E is the guiding cur-

1. Senf, 1978b, pp. 258-260.

rency, the exchange rates are as follows: 200 : 1 (A), 1 : 1 (B), 10 : 1 (C), and 2 : 1 (D).¹

To sum up, the exchange rates depend, first, on the relation of the productivities between countries and, second, on the relation between the circulating quantity of money and the sum of values. Thus, a change of the exchange rates not only reflect a change of the position within the scale of universal labor, but also different paces of national inflation.

2.4. Exchange rate mechanism and different sector productivity

In the foregoing analysis we only distinguished between various national capitals and between different national average productivities. We assumed that within the various countries there is no distinction among capitals, i.e., that the various capitals within a country have the same conditions of productivity. This postulate is unrealistic because within a nation there are, with respect to productivity, progressive and backward capitals and, with respect to the world market level, productive and less productive sectors. In the following considerations we abandon the assumption of undifferentiated sector productivity.

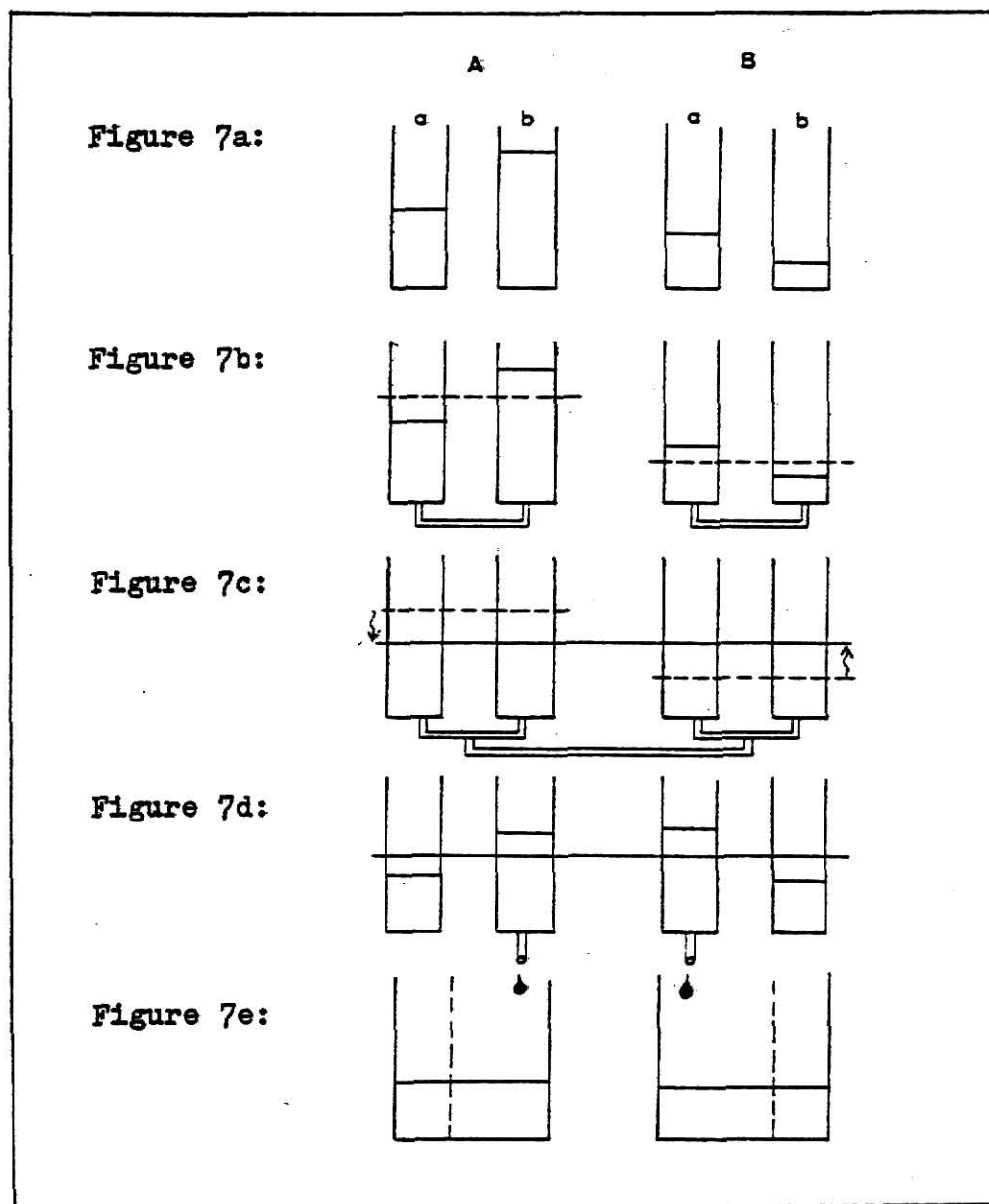
In Figure 7 we have the two country case (A and B), but this time we subdivide the two countries into two sectors. The respective sectors produce the commodities a and b. Country A has a superior productivity with respect to both commodities, whereby the superiority with respect to the commodity b is far larger than for the commodity a (Figure 7a).²

Direct competition of the respective sector capitals without an intervention of the exchange rate mechanism would inevitable result in the ruin of the backward sector capital. Sector a as well as sector b of country A would be destroyed by the superior

1. Senf, 1978b, pp. 260-3.

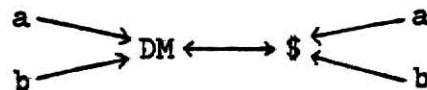
2. Ibid., pp. 263-4.

Figure 7: The exchange rate mechanism and different sector productivity; two country, two sector model



forces of production of sector a and b of country B. But the international competition is only indirectly brought about by different spheres of circulation or the rates of exchange.¹

The different spheres of circulation make it necessary, as a prerequisite of international trade to exchange the national currency into foreign or international currency. In our case of two nations (USA and FRG) and two national sector the exchange chain on the foreign exchange market looks as follows:



It is all the same which concrete use values are sold or bought on the world market; first, the abstract mean of exchange on the world market has to be bought. Although different use values are traded on the world market, the foreign exchange market only produces one exchange rate, not several exchange rates which represent at one time the relation of productivity of the a-sector and the next time the relation of productivity of the b-sector. The foreign exchange market produces an uniform exchange rate for all national sectors which reflects the average productivity of the various countries (we are neglecting inflation).

The average productivity of country A and B are represented by the mean of communicating pipes in Figure 7b. For reasons of simplicity we assume that the share of both sectors on the total value production is the same, therefore the same size of the vessels.

The relation of the respective national average productivities between A and B is determining for the exchange rates. But we have to take into consideration that only those sectors are of relevance for the formation of the exchange rates whose commodities are traded on the world market. More exactly, the vessels in Figure 7 only represent the world market sectors and the average productivity is only the one of the world market sectors.

1. Busch, 1974, pp. 42-3.

Figure 8: National sectors and world market sectors; two country model

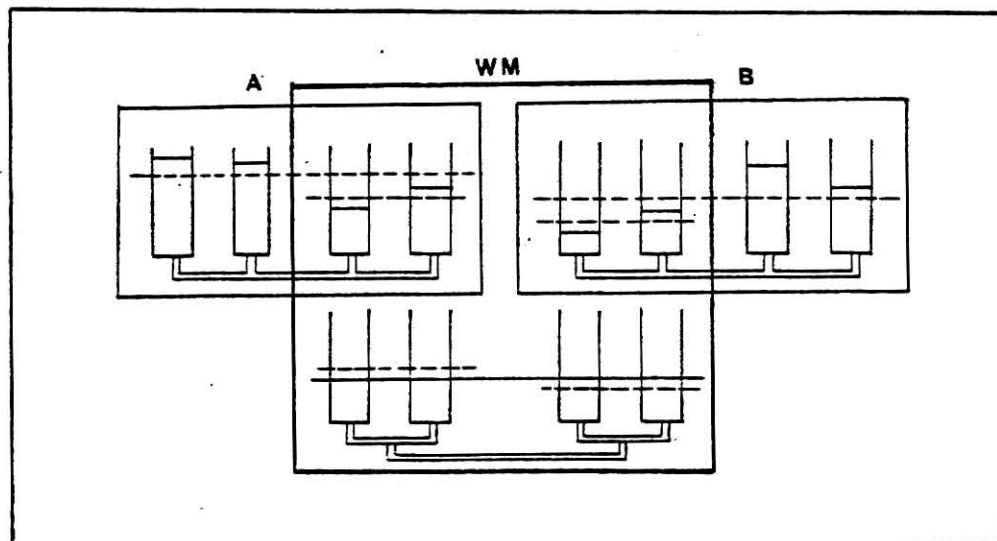


Figure 8 may elucidate this: The countries A and B each have four sectors, but only two sectors of each country belong to the world market, i.e., the other sectors only produce for the national market. Only the average productivities of the world market sectors contribute to the formation of the exchange rates. To that extent, the relation between the national average productivities may depart from the relation between the average productivities of the world market sectors.¹

Considering the sectors a and b of Figure 7 as world market sectors, the decisive point now is that the uniform exchange rate is applied to all world market sectors. The conversion from national prices to world market prices is uniform for all sectors, independent from their position in the scale of sector productivities. Thus, both sectors of A shrink when converted to world market prices. As a result, after the conversion to world market

1. Senf, 1978b, p. 266.

prices, sector a of country A also has a below average position in international competition, but sector b of A now has an above average position. The same is true for country B, only in reciprocal manner. The result of this conversion is represented in Figure 7d (Figure 7c represents the factor of conversion).

Comparing Figure 7a and 7d we detect a significant change: In Figure 7a country B had superior productivity in both sectors. But after the conversion of the national prices to world market prices (Figure 7d), sector a of country A is below (is cheaper) the level of sector a of country B. On the other side, in respect to commodity b country A still has a comparative disadvantage.¹

The absolute productivity advantage of country B is maintained in respect to commodity b, but got lost in respect to commodity a. How can this be explained? Obviously, in the international competition not the absolute productivity advantage is determining, but in which sector this advantage is relatively larger. Sector a of B (Figure 7a) only had a relatively small productivity advantage (small disadvantage for A), but a large one in sector b (large disadvantage for A). Sector b of country B after the conversion to world market prices still has an advantage while sector b of B will lose in competition with country A. These results are basically the same David Ricardo formulated in his law of comparative cost advantages.²

As a consequence of the described exchange rate mechanism an international division of labor is institutionalized and every country is specializing in the sector where the comparative productivity advantage is the largest. Country A is specializing in the production of commodity a, country B is specializing in the production of commodity b. In country A (B) the necessary labor for the production of commodity b (a) is set free and can be used for the production of commodity a (b) (Figure 7e). In comparison

1. Senf, 1978b, pp. 267-8.

2. Busch, 1974, pp. 42-5; Ricardo, 1951, pp. 128-149.

with the national division of labor, the international division of labor creates a larger total production of the commodities a and b (elucidated with the broader vessels in Figure 7e).¹

2.5. Modifications of the law of value on the world market and international tariffs

The above deduced tendency of an international division of labor may be hindered by certain interventions of the nation states. Such state interventions in the system of international trade are, for instance, import tariffs and, less often, export subsidies.

The problem of international tariffs has to be considered in the light of the law of value on the world market. The analysis of the modified law of value showed that the exchange rate mechanism protects the less developed national capital in the competition with the more productive national capital. We have to ask for the reasons which force the less and high developed nations to collect import tariffs.

The exchange rate of a country has different effects for the different capitals depending on the position of this country in the scale of universal labor. In the higher developed country which is forced to higher valuation of its currency, the exchange rate confronts the comparatively less developed sectors with intensified competition on the world market. On the other side, the less developed country is forced to depreciate its currency and the exchange rate does not sufficiently protect the below average productive sectors against the superior capitals of other nations. These capitals of the lesser and higher developed countries have reasons to try to improve their valorization by demanding interventions from their nation states. Those demands may be import

1. Busch, 1974, pp. 74-89; Senf, 1978b, p. 269.

tariffs on foreign commodities or export subsidies for their commodities out of the state budget.¹

Figure 9 may elucidate the effects of tariffs and subsidies upon international competition. Figure 9a is identical with Figure 7d.

For commodity a to become competitive on the world market, country B has to collect an import tariff in the amount of the upward directed arrow, or country B has to grant an export subsidy in the amount of the downward directed arrow (Figure 9b). The import tariff means that the originally lower world market prices of country A are increased by the amount of the import tariff, i.e., the commodity a of A is no longer cheaper than the one of B. Accordingly, the export subsidy means that the price of commodity a decreases and becomes competitive with the respective commodity of country A.

With respect to commodity b of country A (Figure 9c) to become competitive on the world market, country A has to collect an import tariff (upward directed arrow) or to grant an export subsidy (downward directed arrow). This would cause the same world market prices for commodity b of both countries.²

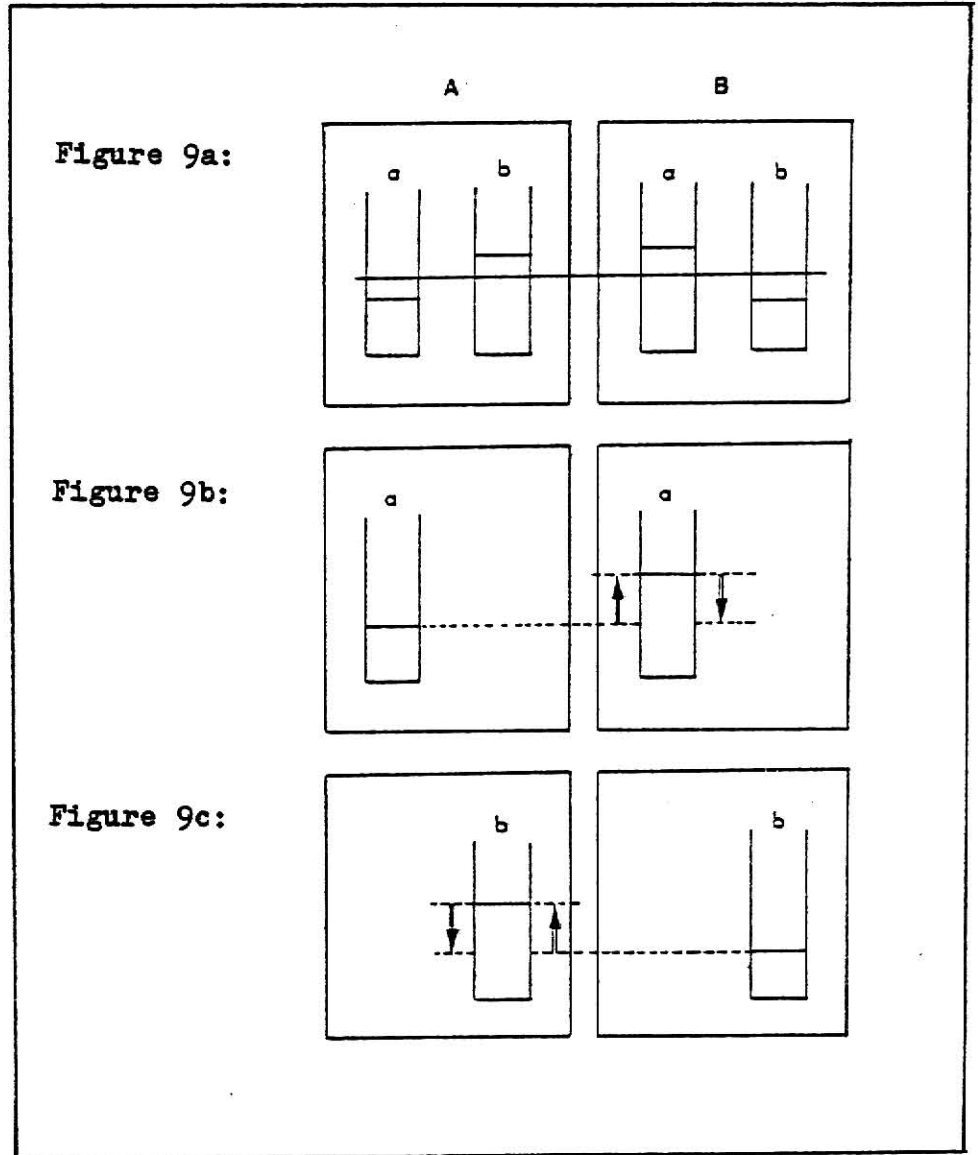
The amounts of the import tariffs and export subsidies represented in the Figures 9b and 9c are only the minimum amounts to create equal price conditions on the world market. To drive out the world market competitors from the national market, higher import tariffs have to be imposed; to get a competitive advantage on the world market, the export subsidies have to be increased by a larger amount than drawn in the Figures 9b and 9c.

Although the demand of the less productive capitals of the lesser and higher developed nations to impose import tariffs or to grant export subsidies is likely, the realization of these demands is less likely, because it would affect the conditions of valorization of the more productive national capitals in a nega-

1. Busch, 1974, pp. 89-91.

2. Senf, 1978b, pp. 271-3.

Figure 9: International tariffs and subsidies and international competition



tive way. Import tariffs make the imports more expensive. If the imports are means of production bought by the more productive national capitals, import tariffs make the elements of the constant capital more expensive and thus decrease the rate of profit.¹ If the imports are consumer goods, import tariffs would increase the costs of reproduction and therefore the value and price of the commodity labor power and thus also decrease the rate of profit.² Additionally, the imposition of import tariffs and export tariffs creates the danger of counter activities (tariffs, import restrictions, etc.) of the foreign countries and thus worsens the conditions of surplus value realization of the high productive world market sectors. The export subsidies will affect the more productive national capitals in a similar way.³

We can conclude that within the national capitals there are contradictory interests. To what extent an international division of labor is brought about by the working of the law of value on the world market depends on the relative strength of the different capital fractions and on the conception of the role of the nation state.⁴

Still not answered is the question of why the higher productive national capitals should demand protective measures. In the case of the less developed nations the exchange rate mechanism protects the national capital against the superior productivity of the higher developed nations, but only in those sectors whose development gap is small in comparison to the more developed nations. If the less developed country wants to improve its position in the scale of universal labor and pursues a policy of industrialization, it may see in high tariff rates for all sectors the way for rapid capital accumulation. In the case of the more developed nations

1. Marx, 1909, pp. 276-7.

2. Marx, 1906, pp. 189-190.

3. Busch, 1974, pp. 90-1.

4. Knapp, 1979, pp. 327-347.

the high productive national capitals are not threatened by world market competition. The general reason for import tariffs is to improve the conditions of surplus value realization on the national market and to increase the rate of profit.¹

In the final analysis it is an empirical question as to what extent the process of internationalization of capital valorization is developed. If we assume that the liberalization of international trade made more progress than protectionism, we may conclude that the forces of the international law of value are stronger than the interests of certain capital fractions and/or that the state serves primarily in the interests of the progressive capital.

2.6. The relation between internationalization of surplus value realization and surplus value production

The foregoing analysis of the modified working of the law of value only referred to the spheres of international circulation, i.e., to the exchange of commodities between outlined spheres of production. The implicit assumption was that there is only mobility of labor and capital within the nation states. The connection of the different spheres of production was brought about by the spheres of circulation.

If we understand with capital valorization the unity of surplus value production and surplus value realization, then the above analysis only covered the internationalization of surplus value realization or internationalization of commodity circulation; the analysis of the process of internationalization of capital valorization is still incomplete.

In the following section we consider the internationalization of surplus value production and we will deduce international production from the theoretical principles inherent in the process of international trade.

1. Busch, 1974, pp. 91-4.

3. Internationalization of Surplus Value Production

The subject of this section is to develop the tendencies of the internationalization of surplus value production out of the regularities inherent in the internationalization of surplus value realization.

The concept surplus value production already indicates that not the whole process of the internationalization of capital will be considered. The subject of this section is only those capital movements with the goal to internationalize the production process. Excluded are credit transactions connected with international trade and portfolio investments. Export and import credits are mere appendices to international trade and portfolio investments are easily explained by international differences of interest rates. Thus, in the forefront of the following considerations is the internationalization of the industrial (production) capital. The internationalization of industrial capital is the real center of the internationalization of capital and the internationalization of trade and bank capital can be regarded as adjustments to the internationalization of industrial capital.

In this section in particular we consider that the law of value produces reasons for capital export and the effects capital exports have on international competition and international capital valorization. Again, we try to elucidate some theoretical considerations by graphical presentations.

3.1. The law of value and the internationalization of surplus value production

The basic approach, according to Busch, Neusuess, and Senf¹, is to deduce the internationalization of surplus value production from the modified working of the law of value on the world market.

1. Busch, 1974, pp. 7, 13, 42-6, 95-7, 249-269; Neusuess, 1975, pp. 125-174; Senf, 1978b, pp. 273-8, 284-8.

The capital exports with the goal to internationalize the surplus value production are best understood in the context of the theoretical principles determining the internationalization of surplus value realization. Thus, the internationalization of surplus value production is not a specific result of certain historic stages of the capitalist mode of production (for instance, the result of monopoly capitalism or the result of an over accumulation crisis), but a general tendency which is constantly produced in the context with the internationalization of surplus value realization.

In capitalist societies capital has an immoderate propensity to expand its value. This propensity to accumulate forces capital to expand its sphere of circulation, to pull down all national boundaries and to conquer the world market.

National capital in the first instance breaks through national boundaries by realizing its commodities not only within the national framework, but by exporting its commodities to foreign countries where the national capital will try to expand its foreign basis of realization permanently. This tendency of capital to expand its sphere of circulation worldwide can reach a stage where the conditions of valorization of the national capital (or some national sectors or some individual capitals) become dependent on the realization of its commodities on the world market. At this stage the regularities inherent in the internationalization of surplus value realization produce the tendency of the internationalization of surplus value production.

Basically, there are three features of the working of the law of value on the world market which cause the alteration from the internationalization of surplus value realization to the internationalization of surplus value production: First, the exchange rate mechanism eliminates the surplus profits the higher developed national capitals can obtain by realizing their commodities on the world market. Second, the tendency of the exchange rate structure

to create an international division of labor has a destructive effect upon the below average productive sectors of the various national capitals. Third, the tendency of an international centralization of capital produced by the competition of the national capitals in spite of the protective mechanism the law of value offers for the less developed nations.¹ These three features will be considered more closely in the following paragraphs.

3.2. Capital exports and surplus profits

The forces of production in the international level develop in a disproportionate and asynchronous manner. This is why the capitals of the higher developed nations are temporarily able to appropriate surplus profits on the world market; they can realize their commodities at higher values than on their national market. But the exchange rate mechanism impedes the process so that the higher developed national capitals cannot appropriate these surplus profits permanently. The more productive nations with their superior forces of competition export more commodities to the world market than they import at the same time. The exchange rate mechanism will lead to a higher valuation of their currency and, as a result, to deteriorated conditions of competition of the world market sectors of these more productive nations. The capitals of these nations are forced to supply their world market commodities at higher international prices and thus will lose international markets or are forced to reduce their commodity prices; both will lead to an elimination of surplus profits.²

When the surplus value realization on the world market constitutes a substantial part of the capital valorization, the old conditions of valorization are only restored (we abstract from a

1. Busch, 1974, pp. 34-57, 98-105; Neusuess, 1975, pp. 142-6; see also section IV.1. and IV.2. of this report.

2. See section IV.1. of this report.

forced development of the material forces of production) by shifting the export production into the foreign countries. In this way the world market sectors of the more productive nations avoid the profit reducing effect of the exchange rate mechanism.

The production in the foreign country not only restores the old surplus profits, but will increase them because the capitals of the less developed nation now are confronted directly with the superior forces of production of the more productive nation and will suffer losses. These positive profit effects will be larger if the superior capital additionally can avoid import tariffs and transportation costs.¹

A precondition of capital exports to stabilize and expand surplus profits is a stage of the world market integration in which the international markets are important factors of capital valorization. The successive process of the internationalization of surplus value production can be described as follows:² First, the capacity of accumulation within some national sectors or individual capitals becomes insufficient for the reproduction of capital and commodities are realized on the world market. Second, with every following cycle of accumulation the world market dependency of the capitals increases. The network of retail trade and service stations will be expanded to stabilize the position on the export markets. Third, the world market dependency of the capitals increased to an extent that the conditions of realization on the international markets are a critical factor of the profit rate of the enterprise or of the whole sector. The capitals of the more productive nations will avoid the profit reducing effect of the exchange rate mechanism by shifting the production to the most important export markets. This shifting will also be found without the effect of the exchange rate mechanism in the case when the productivity difference between two nations is large and import tariffs and trans-

1. See paragraph IV.2.5. of this report.

2. Busch, 1974, pp. 100-1.

portation costs guarantee a high profit rate. Fourth, when the capitals of the more developed nation set up a series of subsidiary companies, a further stage of the internationalization of surplus value production can be achieved by changing the intra-enterprise division of labor from horizontal to vertical integration and thus to increase the profit rate. Taking into account the exchange rates, import tariffs and transportation costs, the various stages of the production process are shifted to those countries which have the most favorable conditions of production for the respective stages of production, for instance, raw material basis, quantity, quality and price of the labor force, energy supply, infrastructure.¹

3.3. Capital exports and international competition

The modified working of the law of value on the world market also produces an international division of labor based on comparative cost advantages. The exchange rate mechanism carries through this kind of labor division and undermines the international competition of the below average productive capitals of the national capital. With respect to less productive nations, the exchange rate mechanism does not sufficiently protect these less productive national capitals against the superior competition of the more productive nations. With respect to the less productive sectors of the highly productive nations, the foreign competitors of the less productive nations have lower international prices; the sectors with a lower than the average degree of productivity and intensity of labor are endangered to survive in international trade, even if they should produce with a higher productivity than their international competitors from less developed nations. In order to secure the ability to compete, these national capitals are left to protective tariffs or they are

1. Froebel et al., 1977; Froebel et al., 1978, pp. 22-4.

forced to shift their production to countries with a lower position in the scale of universal labor and therefore have a higher degree of protection created by the exchange rate mechanism. We already pointed out that the imposition of tariff rates and similar measures are less likely in the course of the liberalization of international trade.¹ Therefore, the below average productive capitals are forced to develop their material forces of production or to shift the production in a less developed foreign nation.

By the mean of shifting the production to countries with a lower position in the scale of universal labor, these capitals can regain their international competition because their exports out of these less productive countries also have the advantage of low exchange rates which protect the less developed nations against the superior productivity of the higher developed nations.

In contrast to the foreign production with the goal to stabilize and expand the surplus profits, i.e., to substitute the commodity exports by commodity production in the former export markets,² this above described kind of capital export has from the beginning the goal to secure the old national and possibly international markets. The old markets now can be supplied under new conditions of price competition the exchange rate mechanism offers to the less productive nations.

The shifting of the production to less developed nations can be accompanied by lower wages in these countries. If the lower wages are not an expression of a lower quality of the labor force, the rate of exploitation of labor is higher than in the capital's country of origin. This will additionally improve the capital's ability to compete on the world market.³

1. See paragraph IV.2.5. of this report.

2. See paragraph IV.3.2. of this report.

3. Busch, 1974, pp. 102-3.

3.4. Capital exports and international centralization of capital

We already pointed out that there is a crucial distinction between national and international competition of capital. Within the national framework smaller capitals are unprotected confronted with the larger capitals. In general, the smaller capitals are not able to develop their forces of production in the same manner as the large capitals. On the other side, on the world market the modified working of the law of value protects the less developed national capital against the superior competition of the more productive national capital.¹

The destroying of small capitals by large capitals, i.e., centralization, is by far a more rigorous law of capital in the national framework than on the world market.

In spite of the exchange rate mechanism which produces moderated international competition, capital centralization may occur because of the following reasons:² First, the exchange rate mechanism only protects those sectors of the less developed nation which are realizing the average national degree of productivity and intensity of labor. The below average productive sectors are faced with strong competition on the world market. Second, the foreign investments of the more productive country's capitals to stabilize their surplus profits or to secure their competition confront the capitals of the less productive nation directly with the superior productivity of the more developed nations. Third, the capitals of the less productive countries often import modern technology in order to increase their productivity. These capitals may buy foreign patents or produce with a licence. The more productive foreign capitals may use their technological advantage to buy a share of the capitals to whom they sell their know-how. Fourth, the foundation of free-trade regions and tariff-unions leads to forced national concentration and centralization of ca-

1. See section IV.1. of this report.

2. Busch, 1974, pp. 104-5.

pital and also to supranational centralization. The supranational centralization may have the function to unite several capitals of the less productive nations to become competitive with the capitals of the more productive nations.

These four features of international competition are conducive to international centralization of capital.

3.5. The regional structure of international surplus value production

Considering the above described three features of the internationalization of surplus value production (capital export to stabilize and expand surplus profits, capital export to secure international competition, capital export as a form of international centralization of capital), we can conclude that the regularities inherent in international trade mainly force the capitals of the more developed nations to export capital. Supposed that a capital of a less productive nation would invest in a more productive nation, this capital would lose the protective function of the exchange rate mechanism and would be unable to compete with the superior capital.

Therefore, the internationalization of surplus value production will start from the most developed capital centers. To interpret the internationalization of capital as a mutual integration of national markets by the mean of regionally equal distributed capital exports would be a misconception.

3.6. Capital exports and the exchange rate mechanism: a graphical presentation

The previous reasons considered for capital exports and its effects on international competition and the exchange rates can be elucidated by graphical presentations.

In a first step we assume two countries A and B with different national average productivities (Figure 10). We do not differentiate various sector productivities within the countries. The capital of country B has the superior forces of production (Figure 10a) and basically two alternatives of capital accumulation. On the one hand, the realized profits of B can be invested in B. As a result, the world market capacity of B would increase and the exchange rate changes slightly (Figure 10b). The second alternative is to export the accumulated capital and, on the basis of B's superior productivity, to found subsidiary companies in the foreign country A. In this case, there are again two alternatives. B's subsidiary companies can produce for A's interior market (Figure 10c) or also for the world market (Figure 10d).¹

Let us first consider the case of capital export for the purpose of penetrating the foreign interior market. Figure 10c elucidates that B's subsidiaries in A are able to supply its commodities on A's interior market to prices lower than if the commodities were produced in B and then supplied on the world market. Would the commodities have been supplied on the world market, the exchange rate mechanism would have inflated the prices of the more productive nation; but within one sphere of circulation this mechanism does not exist. In this way the advantage in productivity of B's capital in comparison to A's capital is undiminished, not leveled by the exchange rate mechanism. Thus, the foreign direct investments are the means for the world market sectors of the more productive nations to avoid the protective function the exchange rate mechanism offers for the world market sectors of the less developed nations. The foreign investments are also the means to avoid import tariffs.²

Figure 11 shall represent the case in which the subsidiary companies in the foreign country produce for the world market. The superior productive B-capital exported to country A confronts

1. Senf, 1978b, pp. 278-9.

2. Busch, 1974, pp. 99-101.

Figure 10: The alternatives of capital accumulation: investment at home and in the foreign country; two country model

Figure 10a:

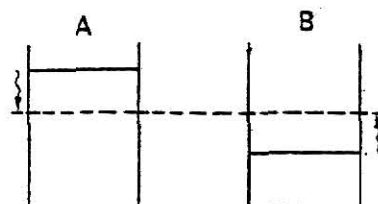


Figure 10b:

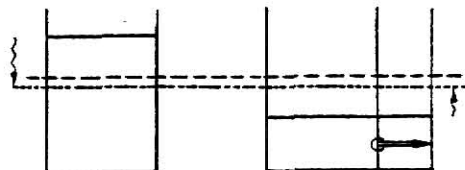


Figure 10c:

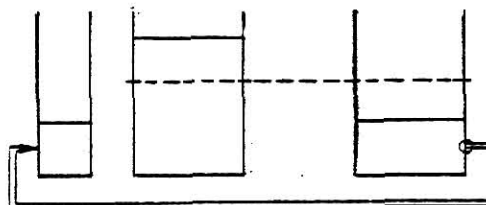


Figure 10d:

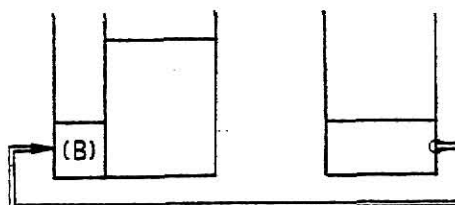


Figure 11: Foreign direct investment and production for the world market; two country model

Figure 11a:

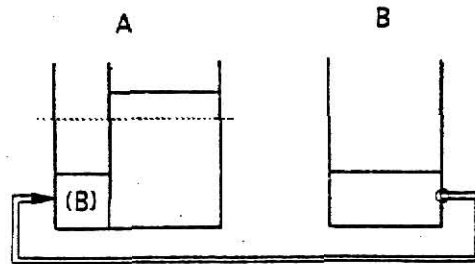


Figure 11b:

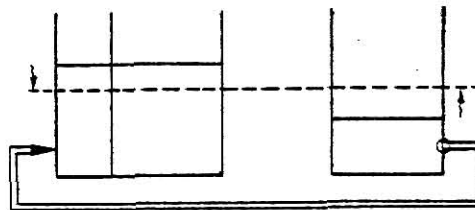


Figure 11c:

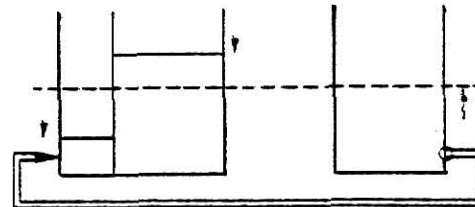
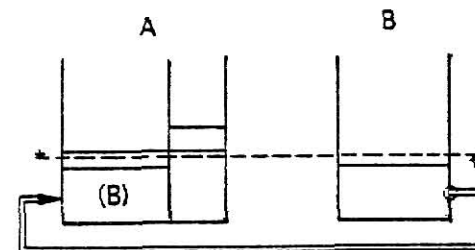


Figure 11d:



the A-capital with a strong and direct competition (Figure 11a). The world market sectors of A are forced to make up their backwardness in productivity or they will lose in the competition with the foreign direct investments of country B. In either case there will be a tendency of increasing productivity in country A, i.e., a tendency to approximate the levels of productivity between both countries.

In Figure 11b we computed the average productivity of the national and foreign capital in country A and put it in relation to the average productivity of country B. As a result, there is still an effect of a higher valuation for country B and a depreciation for country A. Figure 11c shows the world market prices as a result of a multiplication of the national prices (Figure 11a) with the factor of higher valuation respectively depreciation.¹

The result of the capital export to country A is that the B-capital in A not only has the advantage of productivity in comparison to the A-capital, but it also profits from the depreciation of A's currency while the B-capital in country B still is subject to an effect of higher valuation. Thus, the capital export from the more productive countries to less productive countries serves for the superior capitals as a stepping-stone to gain a better position on the world market. But the more B-capital goes to country A, the more this above described advantage disappears, because the gap narrows between the countries' levels of productivity (Figure 11c).²

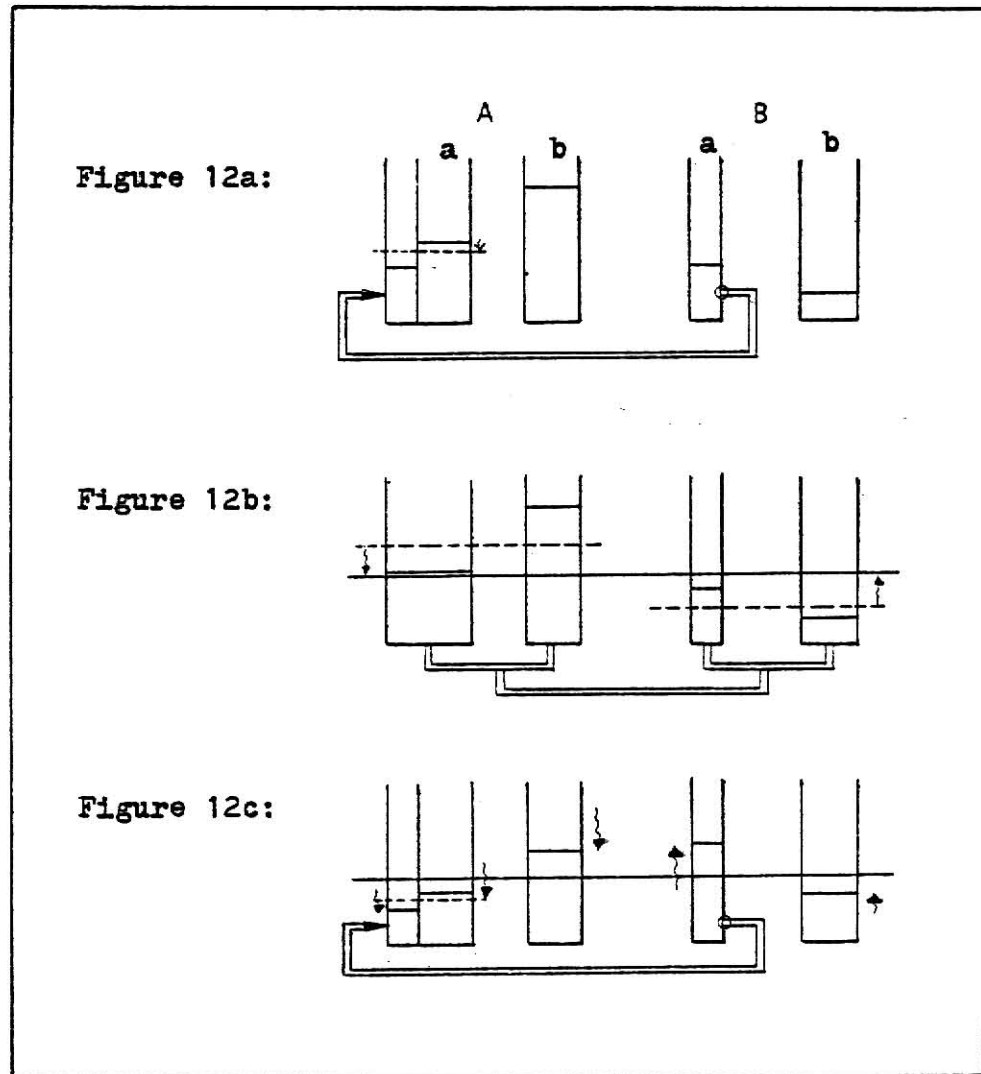
In a final step we can differentiate between different national sector productivities (Figure 12). Like in Figure 7 we assume two countries A and B and that all the world market sectors a and b of country A have a lower productivity than the respective ones of country B, but that the productivity disadvantage of country A's sector a is relatively smaller than in sector b.³

1. Senf, 1978b, pp. 281-2.

2. Busch, 1974, pp. 102-3; Senf, 1978b, p. 282.

3. See paragraph IV.2.4. of this report.

Figure 12: Foreign direct investment and production for the world market; two country, two sector model



In the consideration of Figure 7 we came to the result that in international trade the sector a of country B, in spite of an absolute productivity advantage, had a competitive disadvantage on the world market because of the effect of the exchange rate mechanism to increase its commodity prices. Our analysis of the reasons of capital export makes it predictable that sector a of country B will try to avoid the disadvantage of the exchange rate mechanism and to export capital to a country with a lower national productivity, i.e., to export capital to country A.

Figure 12a shows that by the mean of capital export from a(B) to a(A) the absolute productivity advantage of sector a(B) is undiminished, not turned inside out by the exchange rate mechanism. Like in Figure 11 the capital export will produce a tendency of increasing productivity in country A (elucidated with the downward directed arrow).

Figure 12c shows the world market prices. Both sectors of country A are subject to a depreciation effect and the sectors of country B have an effect of a higher valuation. In sector a(A) we distinguished between the A-capital and the foreign B-capital.¹

Figure 12c also shows that, in terms of world market prices, sector a of country B is still superior to sector a of country A. But this time, because of the capital export from a(B) to a(A), the B-capital in a(A) has the undiminished advantage of its superior productivity and, additionally, a more favorable exchange rate. The B-capital in a(A) is able to supply its commodities on a lower price than the capital of a(A) and/or to realize a surplus profit.

By the mean of the graphical presentations we also came to the conclusion that the below average productive capitals of the higher developed countries regain their in international trade lost competition by capital export into the less productive countries. The same would be true for those capitals who lost their surplus profit position in international trade.²

1. Senf, 1978b, pp. 283-4.

2. Busch, 1974, pp. 99-103.

3.7. The tendency of international capital valorization

The foregoing analysis of the internationalization process of surplus value realization and surplus value production showed that national outlined spheres of production and the internationalization of commodity circulation produce the tendency of an internationalization of surplus value production. Capital exports in the form of foreign direct investments are the means to avoid national difficulties in the capital valorization of the capitals of the more developed nations. At the same time, these capital exports put the capitals of the less developed nations under pressure and force them to increase their productivity. As a result, the gap between the national productivities tend to become smaller. The more this process makes progress, the less the national spheres of production are considerable as independent and outlined; the national spheres of production grow together in the form of multinational enterprises. If the internationalization of surplus value realization is extended by the internationalization of surplus value production (in terms of a tendency), we can speak of a tendency of international capital valorization.¹

The thesis of a internationalization of capital valorization has far-reaching implications. The implications in respect to international economic and political crisis may be indicated as follows.

As long as the national spheres of production are outlined, the national business cycle results out of the specific national conditions of capital valorization and is independent from the business cycle of other nations. When the various national capitals are connected with each other by international trade, the asynchronous development of national business cycles can be used by a country in economic depression to mitigate this depression by trade with countries in an economic boom-phase. But the more the various national capitals grow together by the process of the

1. Neusuess, 1975, pp. 158-160.

internationalization of surplus value production, the more the business cycles become synchronous and the economic crisis more seriously.¹

International capital valorization and economic (world market) crisis influences and is influenced by the role of the nation state. In spite of the tendency of the internationalization of capital, the state is still nationally organized and, therefore, state interventions in the internationalization process are still possible. Assuming that the nation state serves in the interest of the national capital, the behaviour of the nation state depends on the international conditions of capital valorization of its national capital. In times of rising international capital accumulation the nation state will promote the internationalization process by suitable international treaties etc. But in times of a world market crisis the nation state will use all its economic and political interventionistic tools to externalize the crisis and to protect the national capital. In this way the economic crisis also is a political crisis.

On the other side, the internationalization of capital valorization may also lead to an undermining of the economic and political autonomy of the nation state and this may be conducive to create supra national institutions. But the supra national form of a state is itself undermined by the asymmetrical and asynchronous development of the various nations. The international competition of unequal developed national capitals is only possible on the basis of a nation state-like organization of the capitals because only this organization form guarantees the protective function the international law of value offers for the less developed nations.²

To conclude, the internationalization of capital valorization is not a continual, but disruptive process between liberalization and protectionism.

1. Neusuess, 1975, pp. 175-190; Neusuess et al., 1971, pp. 20-5.

2. Busch, 1974, pp. 270-314; Neusuess, 1975, pp. 175-190.

V. CONCLUSIONS

In the preceding chapters we deduced the hypothesis that international trade and international production is explainable by one common approach. We showed that the process of internationalization of surplus value production is explicable with the theoretical principles inherent in the internationalization of surplus value realization and that both processes are based on the law of value.

To build a foundation to this hypothesis we used Marx's contribution of a general theory of capital and reconstructed the working of the law of value within the nation state. The existence of many nation states outlined by different spheres of circulation and production made it necessary to modify the law of value on the world market.

The central meaning of the modified law of value on the world market is that the exchange rates basically reflect the relation of the different degrees of productivity of the national sectors involved on the world market.

An impact of various national spheres of circulation is a modified character of competition on the world market. International competition is only indirectly brought about by the rates of exchange which protect the relatively less productive nations against a destructive competition of the high productive nations. In respect to different productive national sectors, the exchange rate mechanism is of disadvantage to the below average productive sectors of every nation. This protective mechanism of the international law of value is also responsible for the establishment of an international division of labor between unequally developed nations.

An additional impact of the various national spheres of circulation is a modified character of surplus value appropriation. In contrast to the national framework, in the international competition an above average productive national capital can appropriate a surplus profit not permanently.

These mechanisms of the law of value on the world market also cause the alteration from the internationalization of surplus value realization to the internationalization of surplus value production. By the mean of capital exports into less productive nations with the goal of international production, the higher productive national capital can restore their surplus profit position and, in respect to unequal productive national sectors, the below average productive sectors of the higher developed nations can restore their international competition. An implication of this is an unequal national distribution of foreign investments; international production will start from the most developed capital centers.

This marxist approach to deal with international trade and international production got, as far as I know, no direct response in the literature. But it is somehow predictable which character the criticism of the different schools of thinking would be.

The non-marxists are likely to single out the underlying paradigm of our approach, i.e., the marxian labor value theory and therewith proof the invalidity of this approach at all. Their criticism will claim that besides the expended labor other characteristics like utility and scarcity determine the value of an article, that not only labor, but also land and capital are determining, that the labor value is not measurable, and that Marx's transformation of values into prices is invalid.

The counter arguments are as follows. Utility (Marx: use values) and scarcity (with respect to the market a relation of demand and supply) are particulars which determine the prices, not the values. Utility could explain the value formation if it could substitute the abstract labor by an abstract utility. But utility is only concrete, related to a certain object. On the other side, scarcity is itself a relative term, a relation between demand and supply. Marx would admit that demand and supply could explain deviations from the equilibrium price, but it cannot explain the equilibrium price

itself. Like Smith and Ricardo, Marx did not pretend to explain any prices other than those at which supply and demand equilibrate each other and therefore cease to act.

The role of land and capital: The labor value theory does not claim that other factors than labor can create use values, but that labor is the only one which creates value. Marx distinguishes very strictly between the physical concept of articles and its form as commodity.

The labor value is not measurable: The argument is that in order to mark the labor value with figures, we have to refer to figures the market offers (i.e., prices). This is an apt remark, but it does not reject the hypothetical correctness of the thought. Marx's critics, many from the subjective school, feel free to criticize Marx on this point. However, such critics still work with unmeasurable positive and negative utilities. Although there is no absolute measure of expended labor, one should note the attempts of the labor physiology and psychology to measure the relative expended labor.

The critics also state a contradiction of Marx's transformation of values into prices, because the first volume of 'Capital' assumes that the commodities are sold to their values and the third volume says that they are sold to their prices. This seeming contradiction is resolved considering Marx's method.

Another group of critics, although not rejecting the whole marxian system, would agree with the first group that the labor theory of value is invalid and should be substituted by a modern theory of prices (e.g. O. Lange, J. Robinson). Accordingly, they also would reject a theory of international trade and production based on the value theory.¹

1. To the wide literature to this topic see for instance: Meek, 1976, pp. 121-242; Linder, 1975, pp. 1-68; Young, 1978, pp. 22-45; Hofmann, 1971, pp. 81-111; Amin, 1978, pp. 9-18; Lange, 1935, pp. 189-201; Dobb, 1973, pp. 137-165.

Finally, within the group of marxists some would argue that the analysis of Marx has to be improved. Marx, according to this view of monopoly capitalism, wrote in a time of more or less free competition, but today marxists have to consider the increasing centralization of capital in the form of monopolies. In this way this group is more likely to deduce international trade and production from the powerful behavior of big multinational companies. To evaluate this, this paper presented an approach that states that international production is not a specific result of a certain stage of capitalism (like monopoly capitalism), but a general tendency which is constantly produced in the context with international trade. Thus, monopoly capitalism would have a modifying impact upon this general tendency and would not be a contrary approach.

This paper presented a relatively new marxist approach of international trade and production and insofar has all the weakness and limits of a theory in development. The presented theory states that the one and the only goal of international trade and production is capital valorization and investigates the regularities of international profit production and realization. This theory comes to the conclusion that international capital valorization is mainly an economic activity of the most productive capitalist countries. Accordingly, this theory is basically written from an analytical viewpoint of these developed countries. As a consequence, the approach presented neglects to analyse the impact of international trade and production upon the social and political variables of the involved countries. In the forefront of this marxist analysis is the reasons for the internationalization process of capital, but its social and political implications within and between the countries is not the subject of the analysis. There are limited assertions with respect to the economic foundation of the nation, e.g., to ask for the development or the development of underdevelopment of the less developed countries. There are no assertions

with respect to the political superstructure of the nations, e.g., to ask for political dependency and imperialism. Accordingly, there are also no statements for a marxist policy approach of international economic relations.

The approach presented deals with international capital in general. Regarding the growing importance of transnational corporations, this approach shows a deficiency to integrate the economic activity of capital size. The international intra-enterprise division of labor should especially be the subject of careful further research.

An additional critical point of this approach is the proof of its empirical relevance. To agree that only human labor creates value does not mean to agree with the concept of the law of value. How the human labor force is used and distributed among the different sectors is not independent from the market. The level of the socially necessary labor time depends on the degree of technology. In which pace and in which sector technology is developed depends on the capitalist's interests, i.e., their profit rates. Both their profit is the difference between costs and revenues and both are market prices. For the individual enterprise the profit is not a difference between values, but between prices. Thus, the market prices decide about profit, accumulation, the distribution of capital among sectors, and about capital valorization on the world market. To solve this problem by using 'bourgeois datas and statistics' as indicators for the value terms is an unsatisfactory solution.

To conclude, the approach of international trade and international production presented here gives some theoretical insight into the structure of the international economy. However, the approach lacks an assumption of free competition, disregards social and political variables, does not consider the international strategies of transnational enterprises, and is not readily subject to empirical examination. Although the first three shortcomings may be solved, the last one remains. Finally, this report says nothing about the validity of alternative approaches.

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A RADICAL APPROACH OF INTERNATIONAL TRADE AND INTERNATIONAL
PRODUCTION: THE PROCESS OF INTERNATIONALIZATION OF SURPLUS
VALUE REALIZATION AND SURPLUS VALUE PRODUCTION BASED ON MARK'S
LAW OF VALUE

by

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AN ABSTRACT OF A MASTERS REPORT

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Foreign economic relations are one of the most controversial areas within economic theory. Neither orthodox nor marxist political economy has developed a stable and prevailing paradigm of international trade and international capital movements.

The paper deals with a relatively new marxist theoretical contribution to the field of international economy. The general hypothesis of this approach is that the internationalization process of surplus value production (international production) is deducible from the theoretical principles inherent in the process of the internationalization of surplus value realization (international trade), and that both processes are based on Marx's law of value.

In discussion of this hypothesis, it is legitimate to ask what Marx's contribution is with respect to international trade and international production. Although Marx never formulated a theory of international trade and production, he provided a general theory of capital.

Based on this general theory of capital we can reconstruct the law of value within the nation state. The law of value is the economic mechanism of capitalist society to distribute the total labor power at the disposal of society between its various sectors of production and to determine the structure of investments.

The existence of many nation states outlined by different spheres of circulation and production makes it necessary to modify the law of value on the world market. The central meaning of the modified law of value on the world market is that exchange rates basically reflect the relations of different national productivity.

One impact of the various national spheres of circulation is the modified character of competition on the world market. International competition is only indirectly brought about by the rates

of exchange which protect the relatively less productive nations against the destructive competition of the highly productive nations. With respect to different productive national sectors, the exchange rate mechanism is a disadvantage to the sectors of the nation where productivity is less than average. This protective mechanism of the international law of value is also responsible for the establishment of an international division of labor between unequally developed nations.

An additional impact of the various national spheres of circulation is the modified character of surplus value appropriation. In contrast to the national framework, in international competition capital with productivity above average cannot permanently appropriate a surplus profit.

These mechanisms of the law of value on the world market cause an alteration from the internationalization of surplus value realization to the internationalization of surplus value production. By means of capital exports into less productive nations, the capital from more productive nations can restore its surplus profit position, and the sectors of less than average productivity of the more developed nations can restore their international competition. One implication is that international production will start from the most developed nations.

The main shortcomings of the marxist approach to international trade and international production is its inadequacy in exact empirical examination, its disregard of social and political variables, and its non-observance of the international strategies of transnational corporations.