Dependencies and Interdependencies

A Theoretical Comment

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In the area of foreign trade theory, the theorem of unequal exchange, in the area of social sciences in general and in the sphere of development policy in particular, the "dependencia" approach, and in the politico-economic area, the interdependence approach, have yielded important results and — more important — may yield more results. Those working on world models should try to integrate these results into their future research more effectively.

In recent years, the demand of the developing countries for a "New Economic Order", the oil price "shock" of 1973/74, and the more or less concurrent worldwide economic crisis, have made it a commonplace to speak of an increase in economic interdependence among the world’s nations. Regarding the first two subjects, the political dimension of increased economic interdependence stems from the conflict between the North and the South; regarding the third, increased economic interdependence is only partially reflected in the conflict between North and South, because the economic crisis by and large affects the industrial countries of the West, the "rich North" — at least according to the prevailing perception. For every nation it is clear, however, that the tendencies of stagflation are not only "home-made", but also — and possibly more so — internationally and interregionally made. In addition, the quadrupling of the oil prices in 1973 has been explicitly called a "weapon" against Israel by the oil producing countries. This is one indication of the relationship between world politics and world economics and (keeping in mind the different economic consequences for different countries) the relationship between national economies and the international economy at large.

This is just one example of international political-economic interdependencies. Others could easily be added — including such recent ones as the pressure exerted by the Americans on West Germany to fulfill its function as a "locomotive" for the recovery of the western economies. It is surprising that such international interdependencies are seldom central topics of economic and political research. And this deficiency can be traced back to a lack of conceptualization, as can be demonstrated by examining three basic theoretical approaches.

The traditional theory of international economics is fundamentally based on a two-country model, which provides an explanation for when the establishment of trade relations between two countries is advantageous. Within the framework of the theorem of comparative advantage the criterion of advantage is a calculus of universal efficiency. This entails the specialization of two countries in the production of those goods in which they enjoy a comparative advantage and results in an increased production altogether with the same labour and capital input or results in the same output with less factor input. In other words, national product specialization and international exchange of goods increase economic welfare worldwide.

This is the key argument of international economics, and it reveals that the theory of international economics is at its root international trade theory (such important elements of international economic relations as capital transfers, labour migration, and exchange rate changes are not either considered at all or not sufficiently considered). Nevertheless, the theorem of comparative advantage has always provided the cognitive legitimation for the demand for free trade and liberalism in the sphere of international economic relations, even though it is not able to explain the distribution of the gains from trade. Beginning with the classic theorem of comparative advantage, followed by its neoclassical variant, and sustained by the factor proportion theorem, it has always been included in the teaching of accepted economics, with no additional material elucidation. However, by reformulating the classical version and by including the distributional dimen-
sion, the theorem of unequal exchange provides an explanation for the gains from trade. Combined with the theorem of comparative advantage, the positive conclusion is that both countries involved in international trade gain by trading; however, the more productive nation gains more than the less productive one.

The Theorem of Unequal Exchange

The theorem of unequal exchange basically implies nothing more than a return to classic reasoning in economic theory, although with some change of emphasis. The only possibility for operationalization is the neoclassical instrument of the double factorial terms of trade. However, since the theorem has been developed in close association with marxist notions, it has always been relegated to an "outsider" position in economic reasoning, and has sometimes been ignored and other times received with ideological enmity. These reactions may stem in part from the fact that the most vociferous adherents have — strangely enough, or maybe typically enough — not been economists by education and consequently have grossly misunderstood its potential of reasoning and argue for conclusions which cannot be sustained. The climax of this "theoretical" position is the demand for a dissociation of the peripheral countries from the capitalist world market, because the theorem of unequal exchange is considered incompatible with the theorem of comparative advantage. What they fail to understand is that the theorem of unequal exchange supplements the positive reasoning of the comparative advantage theorem internationally: the universal gains from specialization and trade are internationally unequally distributed. And the normative aspect, the demand for worldwide free trade, is set against contradictory national economic interests. Thus, the positive and the normative aspects of the theorem are confounded.

The Dependencia Approach

In the terms of the history of economic ideas, this may be considered a successful combination of Ricardo and List. It also indicates the theoretical core of the dependencia approach, i.e. the economic dependence of the peripheral countries on the metropoles is perceived as biased and disadvantageous. It rests on a misunderstanding or an over-interpretation, which manifests itself most visibly in the demand for a severance from the world market in order to eliminate the causes of the underdevelopment of the periphery. For it is one thing to justly complain about the traditional monocultivation in agriculture, the impediment of the accumulation, reproduction, and processing potentials, the possibilities of transferring domestic capital abroad and penetration by foreign capital, the outward looking domestic industries which are closely integrated into the world market and do not sufficiently supply the respective domestic markets in the third world countries which are voiced by the dependencia approach, and it is quite another thing to have a theoretical key for the legitimation of a trade policy.

There is no doubt that within the periphery and among the metropoles, as well as among periphery and metropoles, there is inequality in economic development, division of labour, and exchange relationships. However, the exchange conditions as analyzed by the theory of international trade constitute only one — the international — cause for the poverty of the third and the wealth of the first world. The analytical instrument, the double factorial terms of trade, indicates empirically how different developments in productivity and export prices manifest themselves over the course of time, i.e., a transfer of real income in specified amounts takes place between the periphery and the metropoles via international trade. But this cannot explain the determinants of development here and underdevelopment there; there must be national determinants in addition. On the other hand, the theorem of unequal exchange only implies that the gains from trade are larger for the first world countries than for the third world countries, without denying that there are regional and national gains from specialization according to comparative advantages for all countries involved. The theorem of unequal exchange in no way contradicts the comparative advantage theorem, i.e. the universal advantage of international trade. As an example, consider the question of how peripheral countries, in which monocultivation in agriculture prevails, can increase their standards of living without the exchange of goods? By increasing their banana, coffee or crude oil productions and the respective consumptions?

This cannot be meant, of course, but since the dependencia approach can explain part of the consequences of the international division of labour (namely that part which caused those deformations of the periphery by way of "structural" dependencies), it has rightly and wrongly been described as a "sociological immunization" of the fact of underdevelopment. Wrongly, because only a combination of historical, economic, political,