
DEBATES

Merchandise Trade and Exploitation

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In a recent issue of this Journal, Andre Gunder Frank published a major article¹ the whole of which is based on one single fundamental proposition. This proposition is that in the economic relationship between countries, only merchandise trade should be counted, while all other activities, commonly called "invisible" imports and exports, should be totally ignored, and that this method would form a just basis on which to judge to what extent the Third World has been exploited by the industrialised economies, particularly since 1870. It is likely that many readers will have believed, erroneously as it turns out, that the crude fallacy that goods are in some way more real, and their production more meritorious than services, had gone out with the beginning of modern economic thought some two hundred years ago, and is usually dealt with once and for all in the first three lectures of any economics course. For them, astonishment at finding the fallacy still haunting a serious article in a serious journal will not be lessened by seeing it accompanied by several elementary errors of logic and numerous unproved insinuations and innuendos.

Now it is true that if we look at the relations between two countries and observe that the first supplies to the second nothing but commodities (A), but is paid for in part by commodities (A) and in part by services (B), and if we further declare arbitrarily that B is worthless and should not count, then we reach the tautological conclusion that country 2 is getting

¹ ANDRE GUNDER FRANK, *Multilateral Merchandise Trade Imbalances and Uneven Economic Development*, « Journal of European Economic History » V/2, Fall 1976, pp. 407-438. Cited below as "Frank".

something for nothing, and that country 1 is being exploited. Similarly, if we were to assume that A does not count and should be considered worthless, then country 1 would be getting something for nothing and country 2 would be the exploited one. Neither of these propositions seems to add much to human knowledge or understanding, yet Mr. Frank has opted for the first, without a word of explanation, without reference to any source which might justify such a startling procedure, without even being apparently aware that it runs counter, not only to common sense, but to the long-established understanding of the academic community which he is apparently addressing.

One wonders if in his own society, Mr. Frank considers that his waiter, his bus driver or his post office clerk, to name three service trades at random, are drawing their wages under false pretences, and if they could be said to exploit, say, the roller in a steel mill, or the girl operator in a cigarette factory, who offer goods, and get but services from such people in return? How would he evaluate his own services to the community? But if individuals in services have to be paid normal wages, how does he expect whole countries to perform services for others without getting paid for them? If, as he rightly observes,² much of the difference between the commodity trade figures between advanced and underdeveloped regions in the past consisted of shipping services supplied by the former to the latter (and ignoring the typical unproved innuendo that these were monopolistically organised), does he expect European sailors to perform those free of charge? Does he expect shipbuilders to supply ships free of charge? Would he expect those shipping services to be similarly free of charge if perchance they had been undertaken by Latin American or Indian companies? Or is it only Europeans who are expected to work for nothing? But if they provide genuine services as part of the trading relationship, why should payment for them be discounted, to create mythical adverse balances?

If the distinction at micro-level between commodity production and services is wholly artificial, it becomes even more blurred in macro-terms. Taking once more the trade with Latin America as our example, one wonders whether Mr. Frank really believes that the value of what appears on the quayside in, say, Buenos Aires is due to purely commodity "production". Has he considered that some of its price (credited fully to the Argentine in Frank's scheme) reflects the cost of transport from the estate to the port of shipment? By what logic is that transport cost to be allowed to enter his trade figures, while the transport cost across the sea is to be totally ignored? Similarly, the Argentinian costs include interest on capital, profits, and rents: why are they to be ignored simply because payments are made to foreign nationals?

It is embarrassing to have to make such elementary points in a debate

² FRANK, p. 420.

among adults; but the fact is that if they are accepted, then the whole of Frank's article falls to the ground: here is no unequal trade, there are no "surpluses" or "deficits", and there is no exploitation. All we have is the complex relationships between countries at different stages in their development, to the understanding of which Mr. Frank has added nothing. All that complicated mathematics was merely chasing a will-of-the-wisp.

Unfortunately, the matter does not rest there. For in Frank's view as to what constitutes a balance is curious, he use he makes of his discovery is positively bizarre.

Two major concepts will be considered here. The first concerns his apparent belief that while there is something satisfactory in a bilateral balance, in which the trade (however measured) between two countries is equal in both directions, there is something positively sinister, bespeaking massive exploitation, in a multilateral balance, simplified by him into a circular flow of the type: A has a surplus with B, B with C, C with... N and N with A. It is not made clear why this should be so objectionable, but it occupies much of the centre of his stage, beginning with a modified trade flow diagram drawn from Condliffe.³ Possibly the one particular example he returns to again and again, British trade with India,⁴ might make his objection clearer. Britain was exploiting India, according to Frank, because she could use her own trade surplus with India,⁵ and India's surplus with other countries, such as Continental Europe, to obtain commodities from Europe which otherwise she could not have paid for. The relationship between these three areas (Britain - India - Europe - Britain) is of course a valid and familiar one, but it is nowhere made clear why just one segment of the circle should be picked out as the exploitative one. If Britain was enabled to buy European goods (only) through the intervention of India, India could be said to be enabled to buy British goods only through the intervention of Europe, and Europe to buy Indian goods only through the intervention of Britain. Where is the exploitation in this circular flow? Or does it become exploitative only where Mr. Frank tells us it does?

It is, however, the conclusion which Frank draws from his major premise of unbalanced trade which, apparently, he considers to be the more important one. This is that by being made to have a commodity trade surplus with the capitalistic world, the Third world countries were being exploited and robbed: it was their unrequited despatch of commodities which made Europe rich while it made them poor. A commodity export surplus is therefore a mechanism, a measure and a proof of exploitation.

³ FRANK, p. 411, but also see pp. 409-10, 422.

⁴ FRANK, pp. 410, 423-4, 429.

⁵ The quotation on p. 423, incidentally, citing someone who does understand the mechanism of international trade, does actually refer to a surplus of goods "and invisible services" supplied to India, to which Frank could be expected to object, but as it presumably suits his book at that point, he passes it over in silence.

Needless to say, if you start out, as Mr. Frank does, by abstracting a large proportion (the invisible part) of world trading and payments relationships, you will have vast unbalances between countries as well as between groups of countries, and there will be numerous cases of Third World countries, or groups of them, showing export "surpluses" to countries more developed than themselves. Frank has a splendid time grouping and re-grouping all his plusses and minuses, using the process, incidentally, to remove the items that do not fit his theory: thus China, surely one of the most exploited of underdeveloped countries in 1928, the base year for many of Frank's statistics, shows unfortunately a large import surplus whereas his theory requires an export surplus; in consequence, she is suitably punished by being removed from the calculations.⁶ Having done his groundwork, he can proceed to enumerate the cases in which trade surpluses "prove" that it was the underdeveloped countries that fed (and indeed, even supplied capital to) their capitalistic trading partners.

The trouble is that even after all the doctoring, there are still many cases in which the opposite relationship holds. Thus the U.S.A., in the full flight of her rampant imperialism after 1900, is shown to have a vast export surplus, just like any Asian colony: indeed, even as late as 1928, the U.S.A. and the White Dominions together, surely among the richest, most advanced and most capitalistic of countries, have the same trade pattern as the Underdeveloped world.⁷ What possible predictive or descriptive value can attach to a model which produces a result like that? But worse is to come. For in Frank's scheme of the world, there is a hierarchy of offenders, as there is of victims. And at the head of the exploiters, exploiting not only the overseas world but the rest of Europe also, stands Great Britain; similarly at the bottom of the heap, exploited by all, are the "Tropics" and the "Underdeveloped World".⁸ It follows that the trade between them should show the greatest unbalance of all: there should be a vast export surplus from the latter to the former. Alas for Frank the balance is the other way. To be sure, (following his normal routine of explaining his figures away rather than explaining them) he remarks somewhat lamely that the British commodity export surplus was but a small one: so, indeed, it was, but that, according to Frank, should merely mean that Great Britain was being exploited to but a small extent by such areas as India, Africa, or China, whereas he set out triumphantly to prove the opposite. Or are we back at the former conclusion that figures mean what Frank tells us they mean? In which case, we would surely do better just to let him just to tell us who was being exploited and dispense with the disturbing figures altogether.

⁶ FRANK, p. 415.

⁷ FRANK, Table 2, p. 414.

⁸ FRANK, Table 5, pp. 432-3.

In truth, the doctrine which, after all the illicit doctoring and realignments of figures of which the author is capable, still emerges with the result that India was exploiting Britain in the interwar period, that the U.S.A. and the White Dominions are to be treated as under-developed countries in 1928, and that, for that matter, West Germany and Japan are among the most exploited countries today, is not merely worthless: it is positively mischievous. For example, the Frank doctrine obscures the fact that it was often precisely a commodity export which was used to subvert and exploit the economy of a backward country. The best-known example of this, the destruction of the Indian cotton industry by exports from Lancashire, is actually hinted at on another page of the same issue of the *Journal*, in a reply by Paul Bairoch to criticism by — of all people — Andre Gunder Frank.⁹

The tragedy of it is that there was indeed exploitation of the rest of the world by Europe and that Third World countries often gained little, and suffered severely, by contact with the West. But the mechanisms by which this was achieved were complex ones, and they are difficult to unravel. They include the relationship between political power and economic interest; the uses and abuses of foreign investment; the imposition of alien capitalist legal systems on delicately balanced social relations obeying a different logic; migration, slavery, and indentured labour; poll taxes, diseases, drink, monoculture, enclave economies, manufactured imports, cultural aggression; and many more. These are eminently worthy of study, and are being studied by serious scholars. The crudities of using doctored figures which often prove the opposite of what they set out to prove, such as are found in Frank's paper, can only serve to bring genuine scholarship on this vital topic into disrepute.

⁹ PAUL BAIROCH, *Reply to Mr. Gunder Frank's Commentary, ibid.*, p. 473.