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Harmonic and Conflict Views in International Economic Relations: a Sraffian view

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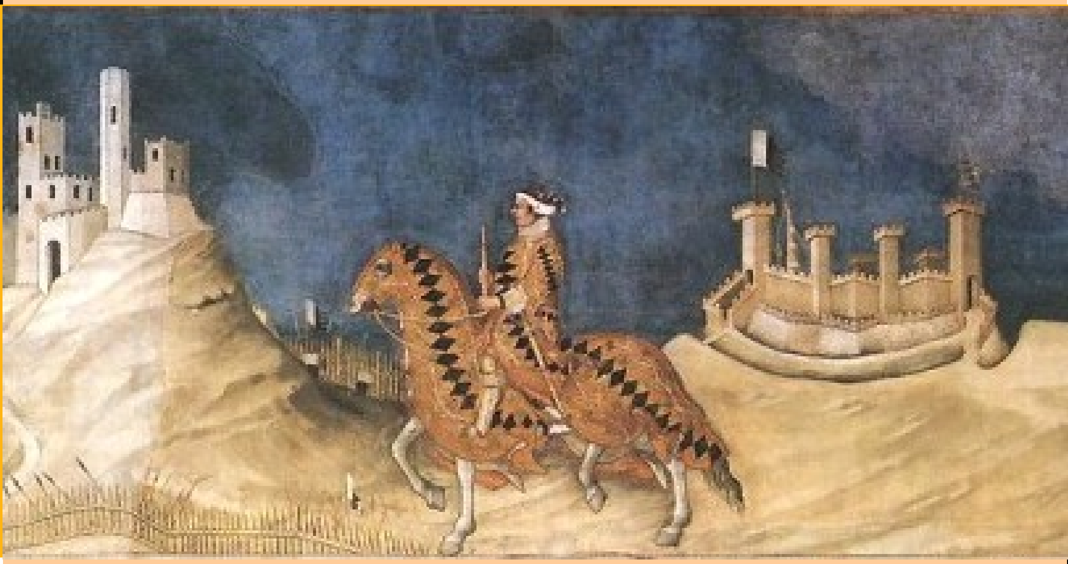

Abstract - Research on the recent European financial crisis has prompted exploration of the harmonic and disharmonic views of international economic relations. The former, more liberal view is based on the Ricardian and Neoclassical trade theories. The latter is derived from pre-Smithian mercantilist conflict views of international trade. Here we investigated the contribution that Sraffian theory can offer the latter stream of thought. This contribution cannot be underestimated since it provides a rigorous analytical rebuttal of the Neoclassical theory of international trade and capital flows and supports the existence of absolute advantages, which are a source of potential trade conflict between nations. Kaleckian theory may also vindicate mercantilist attention to trade surplus. A disharmonic view of the international economic relations also springs from Political Realism, a major tradition in political science. Mercantilism and Political Realism converge in International Political Economy (IPE), a field that arose in the early 1970s as an attempt to bridge the gap between the disciplines of international economics and international relations. The nation-state is at the centre of Mercantilism and IPE. The Classical and Marxist approaches are not on easy terms with the notion of nation-state, so that it was also impossible to avoid this topic. This paper is a preliminary exploration of the complementarity of the Classical conflict view of income distribution and the disharmonic traditions of IER in opposition to the harmonic beliefs of economic and political liberalism.

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Harmonic and Conflict Views in International Economic Relations: a Sraffian view

*Introduction**

In dealing with the European crisis and the frequent accusation of German 'mercantilist behaviour' (Cesaratto, 2011; Cesaratto and Stirati, 2011; Cesaratto, 2012b; Cesaratto 2013), it seemed natural to look for analytical approaches to international economic relations (IER) that went beyond naive pro-European rhetoric and mainstream economic beliefs in the harmonic virtues of international laissez-faire. Some Sraffian contributions to the demolition of these beliefs will be recalled below. The pre-laissez-faire, mercantilist tradition was another natural candidate for attention. Mercantilism, the world of non-harmony, may be envisaged as an underground tradition, which a group of northern European economists called 'the other canon' (www.othercanon.org), parallel to the laissez-faire tradition. Kalecki's view of net exports as a way of realising profits also buttresses a conflict view of IER. A cynical view also springs from political realism, a major tradition in political science. An intellectual father of political realism was Thomas Hobbes, contemporary of many British mercantilists. In this tradition, a social contract is enforceable at domestic level by attributing authority to the Prince, but not at international level where sovereign states do not submissively recognise any higher authority. Mercantilism and political realism converge in international political economy (IPE), a field that arose in the early 1970s as an attempt to bridge the gap between the disciplines of international economics and international relations (Strange, 1970). Political realism is commonly juxtaposed with a liberal tradition that holds a more harmonic view of IER. IPE has recently been colonised by neoclassical political scientists. The Sraffian criticism of neoclassical economics therefore appears remarkably precious as a response to neoclassical imperialism. The nation-state is at the centre of mercantilism and IPE. The classical and Marxist approaches are not on easy terms with the notion of nation-state, so that it was also impossible to avoid this topic.

This chapter is a preliminary exploration of the complementarity of the classical conflict view of income distribution and the disharmonic traditions of IER in opposition to the harmonic beliefs of economic and political liberalism.[1]

1. Mercantilism and laissez-faire

In classic treatises on mercantilism, Furniss (1920), Suviranta (1923) and Heckscher (1955) regard it as a first *systematic* attempt to understand economic phenomena.[2] All trained in neoclassical economics, these economists found mercantilism profoundly different from laissez-faire doctrines, both classical and marginalist.

Assessing Adam Smith's famous criticism of mercantilism, to which Smith devoted a quarter of *The Wealth of Nations*, Suviranta (1923, p. 160) notes that '[t]he difference between the mercantile and the liberal point of view was not accidental, arising merely from confusion in thought, but it was deep-rooted in the different character of these economic systems'. In the latter point of view, the purpose of economic activity is '[p]roducing wealth for satisfying human wants, i.e. the ultimate end is consumption'. On the other hand, according to mercantilism '[t]he logical consequence of the fact that the people were primarily thought of as a capital material, was that consumption also came primarily to be servant of production, and not a means of satisfying human wants' (ibid, p. 162).

In a similar vein, Heckscher (1955 [II], p. 285) considered mercantilism to be amoral, because it broke with the ethical foundations of the middle age political views, and characteristically put the *raison d'état*, not individualism, centre-stage: 'the welfare of society or, in actual fact, the welfare of the state was substituted in place of the amelioration of the individual. This was a perfectly simple corollary of the raison d'état, or pure Machiavellism. …In addition the

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raison d’état was conceived emphatically as materialistic or economic’ (ibid, p. 286). Mercantilism was also amoral with regard to its means. In particular, the pursuit of individual interest was seen as a function of state welfare, and had to be regulated for that purpose (ibid, p. 293 and passim). Heckscher regarded this view as being opposite to that of laissez-faire economists influenced by the utilitarian goal of improving social happiness, seen as the sum of individual welfare (ibidem): both the individual and the state served the ‘community’. The mercantilists held a more cynical view in which both individuals and the community served the state (ibid, pp. 328–9). According to Heckscher mercantilists thought in terms of nation-states, and did not regard the individuals composing a nation as equal.

Rational thought pervaded mercantilism: ‘Rationalism characterized mercantilism to so high a degree. There was little mysticism in the arguments. … this rationalism expressed itself in references to *nature*. Nature was conceived as a factor which also influenced the social sphere, social life being placed parallel to physical life of the individual; and society was regarded as a body with functions similar to those of the physical body’ (ibid., p. 308). Mercantilists, as well as laissez-faire theorists, therefore believed in the possibility of discovering natural laws. The difference with laissez-faire theorists was that mercantilists did not regard public intervention as interference with the benign working of those laws, but as their natural complement. Mercantilists did not believe in a ‘immanent social rationality’ (ibid., p. 321) or objective economic harmony, whereas laissez-faire ‘went so far in its belief in the domination of natural laws in society that it believed in an immanent reason in the free play of forces’ (ibid., p. 323).[3]

Heckscher regarded the victory of laissez-faire theories over mercantilism as temporary. During the nineteenth century they were submerged by historicist and nationalistic doctrines: ‘Society was regarded as a growth in the highest degree naturally determined, to be changed only by slow and gently progressive treatment, bound to tradition, each individual nation containing inherent and more or less ineradicable peculiarities’ (ibid., p. 334). According to the Swedish

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and A.Stirati (Routledge)

economist, laissez-faire doctrines also failed in their alleged humanitarian aims. Indeed, what they did, Heckscher argues, was to support measures that protected the individual against the state, but they failed to protect him against the market, 'against the pressure of social conditions, which did not have their origins in definite measures of the state but which, on the contrary, demanded such measures if they were to be abolished. On this point, *laissez-faire* was obstructed by its belief in natural rights, i.e., its belief in a predetermined harmony, to which was added in practical policy the influence of employer and capitalist interests' (ibid., p. 337). Heckscher observes that paradoxically but not incidentally, social reforms were supported and adopted by conservatives: 'economic policy being bound up with the duty of the patriarchal state to care for the welfare of its subjects', while 'the growing importance of socialism also goaded politicians into finding remedies' (ibid., p. 337).

2. Domestic social surplus and foreign trade surplus

In *Theories of Surplus Value* Marx argued that although James Steuart, the last great mercantilist, represented the clearest expression of the theory of 'profits upon alienation', he 'does not share the illusion that the surplus-value which accrues to the individual capitalist from selling the commodity above its value is a creation of new wealth' (Marx (1861–3 [1969], p. 41). What Marx seems to appreciate is the idea that the surplus value is the result of one side taking advantage of the other, although the 'unequal exchange' that generates a surplus for one trading side takes place, for Marx, in the labour, not the goods market. The classic treaties on mercantilism also underline the clash between the mercantilists' view of distribution and that of 'modern' marginal theory.

Furniss (1923, pp. 198–203) regards wage determination in mercantilism as affected by the interests of the dominant classes, something far removed from the marginalist notion of wages as the natural reward of labour linked to its (marginal) contribution to production. The contrast between the mercantilist view of labour as 'the source of national wealth' and the recommendation of low wages led Furniss to perceive 'the germs of the socialist doctrine' (ibid., p. 25), the term he uses to denote the classical surplus approach, in mercantilism. Indeed, very few mercantilists clearly anticipated the classical concept of surplus, and almost none came close to seeing the origin of a foreign surplus in a domestic surplus of production over consumption.[4] However, the concept was there, for instance, when they regarded the unemployed as a burden on the nation, implying that they lived on a surplus produced by the employed population, and when they argued that productive utilisation of the unemployed would increase the riches of the nation (e.g. ibid., pp.41–47 and 89–95).[5] In a famous example, Petty alludes to the ability of one section of the population to sustain the rest, including those that produce export goods (e.g. Aspromourgos 1996, p. 23). Davenant is worth quoting: 'If all hands in this Kingdom that are able were employed in useful labour our manufactures would be so increased that the commonwealth could be thereby greatly enriched and the poor, instead of being a charge, would be a benefit to the Kingdom' (quoted by Furniss, p. 91).

Suppose that the social product P just consists of *necessities*: $P = N + N'$, where N and N' are the necessities of L workers and U unemployed, respectively, both receiving a real wage equal to w, so that $P = Lw + Uw$. Defining per capita output as $\pi = P/L$, we get: $L(\pi - w) = Uw$. In other words, the unemployed survive on the surplus produced by workers above their subsistence ($\pi > w$, otherwise the unemployed would already have died). If the unemployed are put to work, the social product becomes: $P' = (L + U)\pi = L'\pi$, and the social surplus: $S = P' - L'w = L'(\pi - w)$. Now a larger surplus can be used to sustain an unproductive class (not consisting of unemployed in this case) or exported.

However, only in a late mercantilist quoted by Furniss, William Hay, an author who was presumably influenced by Petty, do we find clear coordination between domestic social surplus and foreign trade surplus:[6] 'The source of wealth is from the number of its inhabitants; … the more populous a country is, the richer it is or may be … For the earth is grateful and repays their labour not only with enough but with an abundance … Now whatever they have more than they consume, the surplus is the *riches* of the nation. This surplus is sent to other nations and is there exchanged or sold, and this is the trade of the nation. If the nation to which it is sent cannot give goods in exchange to the same value they must pay for the remainder in money; which is the balance of trade; and the nation that hath that balance in her favour must increase in wealth' (1751, quoted by Furniss 19–20, italics in Furniss).

Using the same symbols as above, the coordination between the two surpluses can be summarised as follows. In a surplus-producing economy we have: $S = P - N$. The social surplus can have a number of destinations: capitalists' consumption C_c, capital accumulation I and net exports $X - M$, that is: $S = C_c + I + X - M$. If, for simplicity C_c and I are zero, we obtain: $S = X - M$.

3. The centrality of national output, employment and trade surplus

As we have seen, mercantilism appears to have accorded primacy to production rather than to consumption, as in later laissez-faire theories.[7] The goal of maximising domestic production and employment, while minimising domestic consumption and imports of superfluous goods, aimed at obtaining the largest possible foreign trade surplus, which was seen by many mercantilists as the origin of net wealth for the nation. As suggested by Kalecki's lesson, we may now interpret foreign trade surplus as a way for capitalists to realise the domestic social surplus they do not consume or invest.[8] Although full coordination of internal and external surpluses was to some extent approached, it cannot be said that the mercantilists were successful in this regard. So on one hand we are left with hints, by later mercantilists in particular, that the social surplus is the origin of net wealth (intended as that part of the social surplus that can be consumed or accumulated without endangering reproduction of the system on at least the same scale) and on the other hand with the idea that the origin of net wealth lies in the foreign trade surplus. How did they justify this second origin of net wealth or the importance they attributed to the trade surplus?

(i) Supposing, like Marx, that most mercantilists held a theory of 'profit upon alienation', it follows naturally that net gains for the nation as a whole can only be obtained by foreign trade (Heckscher [II] 1955, p. 193). One of the clearest expressions of this view is in widely quoted passages by Charles Davenant:<quote>

It is the Interest of all Trading Nations, whatsoever, that their Home Consumption should be little, of a Cheap and Foreign Growth and that their own manufacturers should be Sold at the highest Markets, and spent Abroad; Since by what is Consumed at Home, one loseth only what another gets, and the Nation in General is not at all the Richer; but all Foreign Consumption is a Clear and Certain Profit. (1697, quoted by Heckscher [II], p.115) </quote>

So there are no 'profits' if the product is sold at home, but positive profits if consumption is kept at a minimum, cheap foreign commodities are imported, and net output sold abroad. Mercantilists had no clear notion of profits as the net income accruing to capital (Ehrlich 1955) and as we have seen, almost without exception they did not clearly perceive the existence of a domestic surplus as the basis for a foreign surplus. They seemed to have even less idea that, given the real wage, the larger the domestic surplus, the more difficult its realisation in the domestic market, and the greater the need for 'external markets'. In any case, Kalecki's theory upholds their point of view as to the importance of net exports.

(ii) The importance attributed by mercantilists to the trade surplus may be linked to the importance they seemed to attribute to the maximisation of domestic output and employment by minimising imports and maximising exports, and vice versa, to the maximisation of domestic employment to reduce imports and increase exports.[9] In this regard Johnson (1937, p. 302) describes a 'balance of work' as the difference between the labour content of exports and imports (see also Furniss, 1920, pp. 13–14; Suviranta, 1923, p. 142; Heckscher, 1955 [II], p. 366). Imports were seen as reducing domestic employment, and exports as labour 'paid by foreigners'. Here one may perhaps identify the 'fear of goods', which Heckscher saw as a leitmotif of mercantilism, as fear that limitation of the domestic market was incompatible with full employment, not such a strange concern in a low-wage economy (Heckscher 1955 [II], pp. 121, 365).

Low wages were seen by mercantilists, though not unanimously, as a way to keep domestic consumption and imports at bay (ibid., p. 364) and production costs low (ibid., pp. 152–3), while encouraging hard work (Furniss 1920, Ch. 4). A low-wage economy was therefore a central objective for a typical mercantilist (Furniss, 1920, pp. 8, 40; Heckscher. 1955 [II], pp. 46, 163–5, 153–4, 364–5). This calls for reflection.

We may distinguish a policy of *import substitution* from an *export-led* economy. The mercantilist position is evocative of both. In Keynesian terms, a policy of *import substitution* that, say, decreases the marginal propensity to import, has (*ceteris paribus*) a positive effect on domestic output and employment and – for a given level of exports – on the trade balance. In addition to the initial benefit for output and employment, relaxing the foreign balance of trade constraint can allow an import substitution policy that also leaves more scope for growth policies based *on the growth of the domestic market*. So, in this case, the improvement in foreign trade is necessary to development of the domestic market, not an objective *per se*.

A low-wage economy would also keep imports at bay – assuming that imports of foreign goods are linked to the level of real wages. This policy, however, is hardly relevant to the development of a domestic market, but conducive to an export-led model. Once a decision to depress the domestic market is taken through a low-wage policy, then an *export-led model* is the only game in town, sustained in turn by the low labour costs. This description of a low-wage, export-led economy suits the mercantilist idea of imports as paying foreign labour, and exports as domestic labour paid by foreigners. According to the Kaleckian surplus approach, in such an economy capitalists maximise the domestic surplus they extract from workers, and get rid of it by net exports.[10]

(iii) Although a popular interpretation of mercantilism regards mere accumulation of species as the aim of a trade surplus, mercantilists seem to have maintained that a net influx of precious metals was functional to growth of the domestic money supply, lowered the interest rate and favoured economic activity (Heckscher, 1955 [II], pp. 204, 208–9, 217–18 and passim). Heckscher notes that the idea that savings finance investment was absent in this literature, and capital was identified with money (ibid., pp. 198-99), something that would not sound strange to modern unconventional monetary economists. This was Keynes's favourite explanation of mercantilism, expressed in Chapter 23 of the *General Theory*.

(iv) Finally, the goal of a foreign trade surplus can be interpreted as a way to generate relative international political power.[11] The relative importance of power and wealth was the subject of controversy between Heckscher (1955 (I), p. 24 and passim) and Viner (1948); both acknowledged that the two objectives mutually sustained each other, but Heckscher attributed primacy to power and Viner to wealth. The mercantilist tradition has indeed been perceived as putting the nation-state at the centre of analysis, contrary to the cosmopolitan views of laissez-faire and Marx's theories: 'the state stood at the centre of mercantilist endeavours as they developed historically: the state was both the subject and the object of mercantilistic economic policy' (Heckscher, 1955 [I], p. 21). In short, mercantilism is 'the economic system of nationalism' (ibid., [II], p. 13).[12]

In discussing presumed German mercantilism (Cesaratto, 2011; Cesaratto and Stirati, 2011; Cesaratto, 2012b), I regarded export-led growth as a growth policy choice alternative to domestic-demand-led growth. In Germany, the Keynesian perspective was rejected by the influential Ordoliberal school as conducive to social indiscipline and inflation, regarded in turn as disturbing market-led resource allocation. Although not explicitly acknowledged, in this context, export-led growth remained the only game in town – a model that is conducive to, and simultaneously supported by, social discipline and wage restraint (Crouch, 2008, p. 479). As Ludwig Erhard (1897–1977) stated in 1953: 'foreign trade is not a specialized activity for a few who might engage in it, but the very core and even precondition of our economic and social order' (quoted by Cronin, 1996). Germany is indeed a perfect mercantile economy. At the micro level it has an excellent training, educational and R&D system; at the meso level the yardstick of a trade surplus creates an ideological climate that induces cooperation and discipline; at the macro level the systems keep wage growth in line with productivity growth and fiscal policy moderates domestic demand. Foreign policy has the promotion of German exports as priority. Paternalism is a traditional attitude of the German government; a sense of national community, traditions and nature is the main component of 'German ideology'. This perfectly suits the mercantilist tradition, particularly in its German version (Cameralism, Historical School, cf. Riha, 1985, chapters 4 and 5). Codetermination is a further institutional pillar, but as Voltaire said (and as the late Vianello liked to quote): 'Incantations will destroy a flock of sheep if administered with a certain quantity of arsenic'. Just in case, a watchdog role was taken on by the Bundesbank in a unique wage-bargaining process directly involving the central bank and the leading trade union IG-Metall (Franzese and Hall, 2000, pp. 182–83). As we have seen, this model perfectly fits the Kaleckian view that net exports are a way of realising a domestic surplus, and that financial capital flows from core-surplus countries are a way to finance expenditure by trade peripheral-deficit countries, as confirmed by recent European experience (Cesaratto, 2012b).

4. The mercantilist tradition, liberalism and international political economy

Mercantilism was deemed dead in the late eighteenth century, when Adam Smith was self-confident enough to pass silently over the contribution of the last great quasi-contemporary mercantilist, James Steuart. Nonetheless mercantilist wisdom survived as an underground stream of thought parallel to mainstream laissez-faire economics, for instance in the work of protectionists Alexander Hamilton and Friedrich List in the German Historical School, up to modern developmentalism and in some versions of IPE.[13]

International political economy arose in the early 1970s in English-speaking countries (see Cohen, 2008). Economists Albert Hirschman and Charles Kindleberger are regarded as its forerunners. Simplifying, there are two competing political-philosophical inspirations of IPE, liberalism and political realism, which hold harmonic and conflict views of IER, respectively. The intellectual fathers of political realism are Thucydides, Machiavelli and Hobbes (see, e.g., Donnelly, 2000). All held a pessimistic view of human nature as being motivated by greed, suspicion and ambition. As a result, there is a conservative element in political realism – the human soul cannot change – but also a healthy reaction against facile utopias, which are seen as an obstacle to real change.[14] The international arena is regarded as an anarchic field governed by the rules of power: no Hobbesian social contract that delegates power to a super-national authority is acceptable to sovereign states, if not for contingent convenience.[15] The modern recovery and application of this approach to international relations is due to Edward Carr (notably a Marxist), Hans Morgenthau and Kenneth Waltz. On the other side, the liberal tradition maintains that affirmation of the market economy is a solution to domestic and international conflicts through the mutual advantages of free trade (on this, cf. the critical analysis by Albert Hirschman, 1977).

In this regard, an influential exponent of IPE, Robert Gilpin, distinguishes liberal, nationalist and Marxist traditions. ‘Economic liberals’, he writes, ‘believe that the benefits of an international division of labour based on the principle of comparative advantage cause markets to arise spontaneously and foster harmony among the states; they also believe that expanding webs of economic interdependence create the basis for peace and cooperation in the competitive and anarchic state system’ (Gilpin, 1987, pp. 12–3). On the other hand, ‘Economic nationalists … stress the role of power in the rise of a market and the conflictual nature of IER’; they argue that ‘economic interdependence must have a political foundation and that it creates yet another arena of interstate conflict, increases national vulnerability, and constitutes a mechanism that one society can employ to dominate another’ (ibid., p. 13). Gilpin identifies this approach with the mercantilist tradition. Finally, the Marxist tradition regards international relations as a field of imperial conflict and exploitation of peripheral countries.

Comparing the three approaches, Gilpin points out that, like liberals, Marxists tend to regard international trade as a modernisation force against the scepticism of nationalists (ibid., p. 14).[16] Nationalists support the primacy of politics over economics, Marxists the opposite, and liberals maintain that the two spheres should remain relatively autonomous (ibid., p. 26). Finally liberals and Marxists share an optimistic view of the human fate, the opposite of nationalists, who at international level base their stance on a conflict view of international relations (ibid., p. 43).

The realist Gilpin was sympathetic to nationalists and Marxists, despite his personal liberal beliefs (ibid., p. 25). He was also critical of the neoclassical foundations of the liberal view, accusing the dominant theory of being based on unrealistic assumptions, e.g. perfect competition, rationality, perfect information and the like. Any theory must indeed make simplifications, as long as they do not alter the substance, and this is what mainstream economists have largely done by making the alleged unrealistic assumptions. By virtue of its frail criticism of mainstream international economics, the realist tradition of IPE represented by Gilpin was exposed to liberal and neoclassical counter-criticism.[17] Not surprisingly, the latest generation of American IPE students has increasingly returned to neoclassical propositions and mainstream research methods. This new trend is called open economic policy (OEP) (Lake, 2009, pp. 50, 52). Benjamin Cohen's intellectual history of IPE (Cohen, 2008) sparked off a fierce debate on the evolution of IPE. Cohen notes divergence between American and British IPE, observing that the American school has become increasingly standardised, coming to resemble nothing so much as the methodology of neoclassical economics, featuring the same penchant for positivist analysis, formal modelling, and where possible, the systematic collection and evaluation of empirical data (ibid., pp. 41–2). He also notes that political scientists 'have an inferiority complex when it comes to economics' (ibid., p. 42).

Like Gilpin, defenders of traditional IPE point to the *limitations* of starting with the economic choices of rational individuals (the state was the main unit of analysis in traditional IPE). Another leading old-guard international political economist points out that a high price is paid by 'making preferences and interests exogenous, assuming that interests can be derived only from a rationalist model of human behaviour, excluding from analysis the constitutive aspects of institutional life, committing to an exclusively materialist conception of preferences and interests, and importing reductionist economic theories of politics' (Katzenstein, 2009, p.127; see also Coahane, 2009, pp. 37–8). I do not regard this criticism of the assumption of rational choices by selfish individual agents as particularly illuminating. A non-individualistic theory of society calls rather for an alternative view of the economic fabric of society.

We cannot but refer to Marx's criticism of methodological individualism based on the classical 'surplus approach'. The methodological individualism of the early classical economists did not surprise Marx: after all, it was the ideology of a new form of society in which individuals broke previous institutional ties – feudal, religious etc. – with other individuals. This of course does not imply that ties have disappeared: they have just been superseded by more anonymous, market-dominated relations, creating the *illusion* that analysis can start with isolated individuals (e.g. Marx, 1957 [1973], pp. 82–3). The production and reproduction of social life is a collective fact for Marx, although in history the manner in which social surplus is produced and distributed has changed profoundly.[18] Individuals' interests and choices are moulded by their positions in production modes (cf. Marx, 1859). Note the degree to which the forgivable 'robinsonades' of Smith and Ricardo became the very foundations of economic and social theory with marginalism. In this theory, production is the *ex post* result of the (marginal) contributions of individual endowments of production factors, an unhistorical view in which socioeconomic relations of production are not the result of evolution of the modes by which humans produce and distribute social output and surplus.[19]

The fact that traditional IPE attributes centrality to the state as the basic unit of analysis is also problematical. On the one hand, the state is an indisputable guarantee of economic activity: 'as Carr has argued, every economic system must rest on a secure political base' (Gilpin, 1987, p. 47).[20] On the other hand, most IPE less convincingly assumes that 'society and the State form a unitary identity and that foreign policy is determined by objective national interest' when 'foreign policy (including foreign economic policy) is in large measure the outcome of conflicts between dominant groups in society' (ibid., p. 48; see also Cohen, 2008, p. 125; Katzenstein 1977, p. 604; and Section 10.6 below).[21]

5. Comparative disadvantages?

Adam Smith accused the mercantile doctrine of looking after the interests of merchants and producers, while sacrificing those of consumers (1776, pp. 661–2). He upheld the advantages of international trade for all participating nations through exchange of surplus products, market expansion and thereby extension of the division of labour (1776, pp. 446–7). Smith held a theory of *absolute* advantages from trade which is very different from the theory of *comparative* advantages attributed to David Ricardo. A theory of absolute advantages is theoretically consistent with the pursuit of mercantilist policies, e.g. trade policies aimed at developing and safeguarding national absolute advantages. Despite his attack on mercantilism, Smith's theory of international trade is therefore not inconsistent with a disharmonic view of IPR. Ricardo's theory of comparative advantages is commonly regarded as the final challenge to mercantilism: a harmonic view of international relations was seen to prevail over a conflict one, although Ricardo was very clear in limiting the validity of his celebrated theorem to the case of absence of capital mobility.

The Ricardian theory identified the origin of comparative advantages in technological differences, whereas the basic marginalist Heckscher-Ohlin-Samuelson (HOS) explanation of international trade explained specialisation on the basis of countries' different factor endowments. The international specialisation of free-trading countries with full employment thus depended on relative scarcity of factors. Sraffian authors, such as Parrinello and Steedman, have gone in two directions. On one hand, the results of the capital theory controversy have been used to show the limited validity of the HOS theory for cases in which only land and labour are used as inputs. On the other hand, modern extensions of Ricardo's analysis have confirmed the limitations of comparative advantages that Ricardo himself pointed out.

Beginning with the first aspect, the HOS theorem may be expressed rigorously in terms of endowment of non-produced production factors, such as land and labour. On this basis the theory predicts that the country with the highest land-to-labour ratio exports land-intensive commodities. The inclusion of 'capital', however, undermined the prediction that the country with the largest 'capital supply' and the lowest interest rate exports the most capital-intensive commodity. To begin with, there is the standard problem of measuring the 'given amount of capital' irrespective of its distribution. Second, results in capital theory (assuming two sectors) show that ordering of sectors by capital intensity may change with the fall in interest rate and that the price of a more capital-intensive commodity will not fall monotonically with a fall in interest rate (Steedman, 1979a, pp. 4–5).

The international mobility of 'production factors' is seen by conventional theory as alternative to international trade: it is the same whether a relatively 'capital-rich' country exports capital-intensive commodities or 'capital' directly. The idea that capital flows arise from capital-rich countries lending *savings* to capital-poor countries is subject to capital theory criticism as much as to the domestic saving–investment nexus (Garegnani, 1983; Dalziel and Harcourt, 1997). A Kaleckian view would lead us to regard financial flows to trade deficit countries as part of a mercantilist strategy whereby surplus countries lend to deficit countries. In this view, loans precede import spending by peripheral countries, and foreign saving in core countries emerges as the result of their net exports to the periphery. The recent European crisis can be interpreted along these lines (Cesaratto, 2012b).

Marginal theory focuses on countries' different factor endowments, whereas Ricardo suggested that countries may differ because of their respective technology levels and, in the absence of capital mobility, specialise in producing the commodity for which they have the greatest comparative advantage, or the smallest comparative disadvantage. Brewer (1985) and Parrinello (2009) show that once the real wages in two potentially trading countries are, respectively, taken as given[22] and there is capital mobility, *absolute* and not comparative advantages determine the location of production. Too high a wage rate, or too low a productivity level may make a country uncompetitive, inducing capital to flow to the other country: '*We would say that a whole capitalistic economy is not competitive if all its capital-using techniques are unprofitable at the international equilibrium prices. This result overrules the claim that "a country must always* *possess a comparative advantage in something'* [as argued by Krugman]' (Parrinello, 2009, p. 52, italics in the original), which vindicates 'the intuitive idea that national competitiveness can be a source of possible economic conflict among the national economies of a global economy' (ibid., p. 50).[23]

6. Mercantilism, classical economists and Marx on the nation-state

As we have seen, mercantilism and Marxism both reject the approach, typical of laissez-faire economics, of considering the individual as the basic analytical unit, what Marx called 'robinsonades'. The social relations of production are Marx's analytical anchor, regarded as the way a society historically organises the production and distribution of social output and surplus. The mercantilist tradition does not attain the sophistication of Marx's historical materialism, but both reject the market as the place where free choices of a variety of individuals are recomposed in a harmonic way. National communities and states, rather than Marx's social relations of production and social classes, are the reference categories of the mercantilist tradition. In an important unpublished work, Marx (1845) rejected this approach by fiercely criticising Friedrich List (1841), an author we can classify in the mercantilist tradition of national political economy and developmental state. Marx's stance is not surprising, as Szporluk explains:<quote>

Marx claimed that his theory, while the result of his own intellectual endeavour, was also the reflection of objectively working historical forces and would therefore be carried out as a predestined outcome of historical development. Marx further thought that the proletariat was that 'material force' whose historical task was to realise his philosophy. When one bears all of this in mind, it is easy to see why Marx found the theories of List, particularly his view of history and his program for the future, not only objectionable but aberrant … It was axiomatic to Marx that industrial progress intensified and sharpened the antagonism between the bourgeoisie and the proletariat, an antagonism that would in the immediate future explode in a violent revolution. List, in the meantime, preached class cooperation and solidarity in the building of a nation's power. Marx thought that the Industrial Revolution, and the concomitant rule of the bourgeoisie, promoted the unification of the world and obliterated national differences. (Communism, he thought, would abolish nations themselves.) List claimed that the same phenomenon, the Industrial Revolution, intensified national differences and exacerbated conflicts among nations. While Marx saw the necessity of workers uniting across nations against the bourgeoisie, List called for the unification of all segments of a nation against other nations. (1988, pp. 4–5) </quote>

The belief in free trade and comparative advantages may have led classical economists to overlook the role of the nation-state (there are, of course, exceptions, for example in *The Wealth of Nations*, and also Ricardo's belief in capital immobility can be taken as a reference to a nationalist element, but not such as to refute the general attitude). According to List, classical economists' defence of free trade served the commercial interests of Britain in having open access to foreign markets (paraphrasing Joan Robinson (1966) and Carl Schmitt, it may be argued that List regarded free trade 'as the continuation of mercantilism in other forms'). According to Marx, however, classical economists were actually decoding the secular and cosmopolitan characteristics of capitalism (Marx, 1845; Szporluk, 1988, p. 66 and passim), in particular the conflicting interests of capital and labour that, in his opinion, went beyond the provincial boundaries of national states. Marx's criticism of List also reveals the German national bourgeoisie's interests behind List's vivid description of national identities (there is a similarity with Adam Smith's criticism of mercantilist writers as prejudiced defenders of merchants' interests). According to Desai (2011), Marx accuses List of hypocrisy: 'As a spokesperson for a capitalist developmental state, List was not concerned with class exploitation, only with national exploitation: "However much the individual bourgeois fights against the others, as a class the bourgeois has a common interest, and this community of interest, which is directed against the proletariat inside the country, is directed against the bourgeois of other nations outside the country. This the bourgeois calls his nationality"' (Desai, 2012, p. 62, quotation from Marx 1845 [1975], p. 281).

The expectation of a forthcoming revolution in Britain and its generalisation elsewhere presumably led Marx to dismiss the importance of the development of backward nations and to regard nationalism as an impediment to revolution rather than as a necessary historical passage to developed capitalism. For Marx, the notions of political community and national identity are illusions and false consciousness, like religion (Szporluk, 1988, p. 58). Without discarding Marx's criticism of the reactionary aspects of nationalism and the global nature of capitalism (the first part of *The Communist Manifesto* is a tribute to global capitalism), we should not forget that history vindicated the factual relevance of List's arguments about nation-states in the economic and political fields.[24] For instance, most socialist revolutions overlapped with struggles for national independence, and practical examples of international labour solidarity are rare, to say the least.

In Germany, the most representative exponent of the Young Historical School, Gustav Schmoller, also distanced himself from methodological individualism in his famous 'The Mercantile System' (1897): 'The idea that economic life has ever been a process mainly dependent on individual action, an idea based on the impression that it is merely concerned with methods of satisfying individual needs, is mistaken with regard to all stages of human civilisation, and in some respects it is more mistaken the further we go back' (ibid., p. 4). Schmoller's perspective is, of course, very different and somehow opposite to Marx's. Having its roots in Cameralism, German Historicism and the Romantic movements, Schmoller's Historical School views the nation-state as the supreme expression of human belonging to superior organisms (cf. Riha 1985, chapters 4 and 5). Schmoller talks of 'real *political* economies as unified organisms, the centre of which should be, not merely a state policy reaching out in all directions, but rather the living heart-beat of a united sentiment' (50, italics in the original). And here we find the famous definition of mercantilism, later adopted by Heckscher:<quote>

in its innermost kernel [mercantilism] is nothing but state making – not state making in a narrow sense, but state making and national-economy making at the same time; state making in the modern sense. ... The essence of the system lies not in tariff barriers, protective duties, or navigation laws; but in something far greater: the total transformation of society and its organisation, the state and its institutions, the replacement of a local territorial economic policy with that of the national state. (ibid., pp. 50–1) </quote>

This is ideology, of course, but development economists, particularly Gerschenkron (1962, p. 24), later underlined the importance of nationalist ideologies 'igniting the imaginations' of people for the mobilisation of national resources in the early stages of industrialisation. The reason why developmental bourgeoisies emerge from previous social relations of production in some nation-states, i.e., how certain pre-industrial social relations of production generate progressive pro-growth dominant classes, interested in a developmental state, are questions that have not yet been much explored. Neoclassical institutionalists seem unable to go beyond the mantra of the central role played by the protection of property rights in igniting growth (e.g. Acemoglu and Robinson 2012). This may just be part of a story, the best of which has still to be written.[25]

7. Conclusions

Research on the recent European financial crisis has prompted exploration of the harmonic and disharmonic views of international economic relations. The former, more liberal view is based on the Ricardian and neoclassical trade theories. The latter is derived from pre-Smithian mercantilist conflict views of international trade. Here we have investigated the contribution that Sraffian theory can offer the latter stream of thought. This contribution cannot be underestimated since it provides a rigorous analytical rebuttal of the neoclassical theory of international trade and capital flows and supports the existence of absolute advantages, which are a source of potential trade conflict between nations. Kaleckian theory may also vindicate mercantilist attention to trade surplus. Further research is needed on the topics surveyed in this chapter. What is at stake is the space in the economics profession left by the dominant theory to these promising fields of research.

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[1] Conflict views do not exclude harmonic domestic and international arrangements. In fact, the social-democratic Scandinavian compromise is based on a conflict view of distribution. In the conflict approaches harmony is a subjective political result. In marginalism, harmony is an objective natural outcome of laissez-faire.

[2] I regard these treatises, written in an age that saw the affirmation of nationalism, as representative of the later *reception* of mercantilist ideas. I am more interested in this reception that in the controversies on mercantilism. For example, among historians of economic thought, Coleman (1957) did not regard it as a systematic body of ideas while Bob Coats (1992) defended this view.

[3] Importantly, Heckscher points out that Smith, Ricardo and Malthus perceived objective disharmony, although they did not believe that public interference would improve things much (ibid, pp. 328–9).

[4] See the authors quoted by Furniss (1923, pp. 25–6), for instance Chamberlen (1649): 'This may be a note to all man, especially to statesmen to look no more upon the poor as a burden but as the richest treasure of a nation, if orderly and well-employed. Which is the more manifest if we consider first, that though they multiply more than the rich they do not only feed and clothe themselves but the rich men are fed and clothed and grow rich *by what they get out of the poor's labor over and above their maintenance*. Secondly, that the poor bear a greater burden of taxes in the city and elsewhere. For the rich either abate what they get out of the poor's labor or (which is worse) permit them to starve for want of employment.' (quoted by Furniss, p. 25, italics added). And Bellers: 'Regularly laboring people are the kingdom's greatest treasure and strength, for without laborers there can be no lords; and *if the poor laborers did not raise much food and manufacture than what did subsist themselves*, every gentleman must be a labourer and every idle man must starve' (quoted by Furniss, p. 25, italics added). Johnson (1937, p. 240) quotes Dudley North (1691) who also advances a clear

idea of social surplus: '[Some labourers] are more provident, other more profuse…[some] raise more fruits from the earth, than they consume in supplying their own occasions; and a surplus remains with them and is property of the riches'.

5 Mercantilists oscillate between conceiving unemployment as involuntary, e.g. Davenant: 'a defect in our constitution that many continue in wretched poverty for want of employment, though willing enough to under take it' (quoted by Furniss 1920, p. 82); and the idea of unemployment as a sin (ibid., Ch. 4).

6 As noted above, according to Petty the necessities produced by one section of the population also sustain those employed in the export sector. We find here a clear coordination between internal and external surpluses.

7 Suviranta, 1923, pp. 122–3, 161; Heckscher (1955 [II], p.124): 'the power of creating wealth is more important than the wealth itself'.

8 On Kalecki and the 'Sraffian supermultiplier' approach to accumulation theory, see Cesaratto (2012a).

9 'When people had once arrived at the view that a surplus of goods was something undesirable, the connection between this and the amount of employment followed inevitably' (Heckscher 1955 [II], p.122. Notoriously, in Heckscher a foreign trade surplus was necessary to get rid of what he named 'fear of goods' or 'fear of redundant stocks' (ibid, p. 59, fn. 3).

10 Serrano (2008, p. 14) criticises Kalecki for this partially unfortunate passage: 'If exports increase and at the same time there is an equal increase in imports, overall profits remain unchanged; international trade is boosted, *but production in the country does not increase*, nor will there be any inducement for expansion of investment activity' (Kalecki, 1934, p. 16, my italics; see also 1967, p. 152). No doubt there is an ultra-mercantilist element in this sentence: international trade is a zero-sum game. Indeed, although Kalecki correctly points out that only a trade surplus generates profits, he misses the point that an increase in exports, even if

accompanied by a corresponding rise in imports, nonetheless provokes an equivalent increase in domestic output: a sort of ‘balanced foreign trade-budget theorem’. However, Kalecki is not wrong when he argues that for a given output, the larger the profit share and the lower the share of profits that capitalists consume or invest, the larger the trade surplus necessary to realise profits.

11 Heckscher (1955 [II], p. 317) argues that the ‘obsession with power also had this result, that the interest was taken not in the absolute total of commerce nor in the utility which it represented to the inhabitants of a particular country, but only in the superiority gained over other countries, irrespective of whether there was no absolute increase at all or perhaps even an absolute decline’. The best quotation he provides is from an important German mercantilist: ‘Whether a nation be to-day mighty and rich or not depends not on the abundance or scarcity of its powers or riches, but principally on whether its neighbours possess more or less than it. For power and riches have become a relative matter, dependent on being weaker and poorer than others’ (ibid., p. 22). Locke would hold a similar thesis (ibid., pp. 22–3).

12 Heckscher distinguishes between the Romanticist notion of nationalism concerned with traditions, ethnicity etc., and the secular mercantilist identification of it with the state interest.

13 Mercantilism has also not disappeared in lay(wo)men’s and politicians’ preoccupation with foreign competition. Krugman (1997) devoted a book to disproving these preoccupations. Here we ignore other important traditions in international economic relations, for instance that of Wallerstein.

14 Cf. the symposium ‘American Realism and the Real World’, *Review of International Studies*, vol. 29, 2003.

15 An inspiring figure of modern political realism, Reinhold Niebuhr (1892–1971), an American Protestant priest, wrote: ‘Power sacrifices justice to peace within the community and destroys peace between communities’ (quoted by Donnelly, 2000, p. 27).

16 ‘[L]iberals believe that trade and economic intercourse are a source of peaceful relations among nations because their mutual benefits of trade and expanding interdependence among national economies will tend to foster cooperative relations. Whereas politics tends to divide, economics tends to unite people’ (Gilpin, 1987, p. 31).

17 Unfortunately, this superficial criticism is also shared by many ‘post-Keynesian’ economists.

18 In a famous book, polymath Jared Diamond (2005 [1997]) regards the production of an economic surplus as the trigger of human civilisation. He presents a theory of human evolution that recalls the ‘four stages’ found in classical authors, such as Turgot and Smith (Meek 1971). See also below n. 25.

19 Adam Smith was quite aware of the social nature of individuals (see Cesaratto, 1996, for a comparison with Schumpeter).

20 Carr (1939 [1981]) wrote: 'Economic forces are in fact political forces. Economics can be treated neither as a minor accessory of history, nor as an independent science in the light of which history can be interpreted. Much confusion would have been saved by a general return to the term “political economy”, which was given the new science by Adam Smith himself and not abandoned in favour of the abstract “economics”, even in Great Britain itself, till the closing years of the nineteenth century. The science of economics presupposes a given political order, and cannot be profitably studied in isolation from politics’ (ibid., p.108).

21 Traditional IPE is also interested in studying how ideologies are formed, a field called ‘constructivism’ (cf. Cohen 2008, pp. 131–2). In this regard, IPE Marxist scholar Robert Cox particularly emphasised the contribution of Gramsci (see Cohen, 2008, p. 90).

[22] For instance, assuming that with unemployed labour wages are close to subsistence level determined on the basis of historically determined social norms.

[23] Ricardo himself limited the validity of his theory of comparative advantages to the case of no capital mobility. In this light, the anti-Ricardianism of colleagues of ‘the other canon’, mentioned at the beginning of this chapter, appears particularly misplaced.

[24] Indeed, subsequent Marxist literature took the imperialist clash between the main economic powers into great consideration; I did not consider this development here (e.g. Brewer 1980). Rosa Luxemburg’s ‘external markets’ as a necessity for core-capitalist countries to realise social surplus, a view recovered by Kalecki (1967) that may vindicate some mercantilist insights, was born in precisely this context.

[25] Meek (1976) points out that both Turgot and Smith regarded the protection of property rights as a result of development rather than a cause of it. In a similar vein, in a recent review of Acemoglu and Robinson (2012), Diamond (2012) is also very critical of these two neoclassical institutionalists, pointing out a causal chain that goes from the emergence of a food surplus to lawful complex societies: ‘The chain of causation leading slowly from productive agriculture to government, state formation, complex institutions, and wealth involved agriculturally driven population explosions and accumulations of food surpluses, leading in turn to the need for centralized decision-making in societies much too populous for decision-making by face-to-face discussions involving all citizens, and the possibility of using the food surpluses to support kings and their bureaucrats.’