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**THE TRANSFORMATION
OF THE WORLD ECONOMY**

***New Directions and
New Interests***

Tamás Szentes

THE UNITED NATIONS UNIVERSITY

STUDIES ON SOCIO-CULTURAL DEVELOPMENT
ALTERNATIVES IN A CHANGING WORLD

The Transformation of the World Economy

New Directions and
New Interests

Tamás Szentes



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General Editor: Anouar Abdel-Malek

The United Nations University's Project on Socio-cultural Development Alternatives in a Changing World (SCA), 1978-1982, arose from the deeply felt need to re-posit the problematique of human and social development in view of the dominant, Western-centred, reductionist models of development. The study concentrated on two major dimensions, constituting two sub-projects – Endogenous Intellectual Creativity and Transformation of the World – while select major thematic, innovative Convergence Areas (e.g., specificity and universality, geo-cultural visions of the world) were explored. Under the former theme development and its related issues were examined in terms of different geo-cultural areas of the world: Asia, Africa, the Arab World, Latin America, Europe, and North America. Under the latter sub-project consideration was given to the analysis of world transformation in the domains of science and technology, economy and society, culture and thought, religion and philosophy, and the making of a new international order.

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1. Introduction

The transformation of the world towards a more democratic, just, peaceful and rational society is obviously a very complex and multi-dimensional process. It can by no means be equated with changes in the world economy only, nor can the latter be interpreted merely as shifts in the pattern of international commodity and financial flows.

The substance of the current transformation of the world we live in is a social transformation. This is naturally based upon changes in the economy but comprising the whole complex of social relations of production. These cannot be isolated from either technological changes (especially the new scientific and technological revolution) on the one hand, or from political, cultural and institutional changes on the other. It follows that the analysis of this world transformation requires a dialectical, holistic approach, which involves the complicated social science methodology of political economy rather than one based on the fragmentation of the social sciences. The latter, after all, were only the riposte of bourgeois ideology to the birth of Marxism in the 19th century, and produced 'pure economics' as the 'science' of economizing on costs, 'pure sociology' as the 'science' of behaviour patterns, 'pure political science' as the 'science' of political motivations, institutions, organizational patterns and forms, and 'pure historicism' as simple chronology.

A number of questions have to be raised when trying to understand this world transformation process, including very fundamental ones which inevitably invite different answers, depending on one's theoretical or ideological point of view. These questions include: What is actually changing? i.e. What system? And from what previous state to what new one? What is the scope and substance of the transformation process? Within what framework does it take place? How does the transformation proceed; what are its main motive forces? What is the role of economic changes in it? What kind of economy is it that is changing? At what stage of the transformation are we today, and what are the characteristics of this stage? What is the desired goal of the transformation process, and desired by whom? i.e. What kind of world system should be created? What is the present direction of changes, and does it promise to lead toward the desired goal? If not, what corrections or radical changes are needed, and who will carry them out? And so on.

These questions are related to the interpretation, explanation and value we

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place on particular social systems. In the present case, this means the historical development of capitalism, its essential nature and inherent laws of motion. This means understanding the national and international scene, the development and nature of the forces of the world economy, and also the characteristics of a post-capitalist society and how it might emerge.

As regards the desired goal of the transformation process, a certain consensus may appear despite ideological disagreements and conflicting interests. Most people may be able to agree on the general features of an ideal world society of the future. These might include equality among people; a high level of material and cultural welfare; peace and order; freedom, brotherhood and participatory democracy; ecological balance and environmental protection; the mastering of technologies, unfolding creativity and happiness etc. A consensus around these goals would not be surprising. For centuries humankind has been dreaming about a better future, better people, a better society, better living conditions and opportunities for all. A great many philosophers, scholars and theoreticians all over the world and throughout human history have, when trying to describe an imaginary better society of the future, drawn a somewhat similar picture. This is so whatever name they have given to it: whether they have called it heaven on earth, Paradise Regained, Utopia, Nova Atlantis, Socialism, Communism, or a post-materialist society. And the vision has been very similar regardless of whether they formulated their theses in religious or scientific terms.

The crucial difference and real conflict between the various views, theories and ideologies appears, however, once the question arises how the desired new society can be established. On-what economic and institutional basis? And by what social and political forces? For these are direct questions posed to existing, contemporary society. They imply a criticism of its nature as compared to that of the desired society. And they raise questions as to how far removed current reality is from the ideal, and what ways are open for its transformation.

Since the contemporary world consists of societies either inherited from or still dominated by capitalism — i.e. still bearing the marks of the capitalist system — the world transformation process cannot be properly understood without understanding the historical role, nature and development process of capitalism itself.

Contrary to the old, empirically defeated but still surviving apologia rooted in European classical economics, which conceives capitalism as the most rational and perfect form of society, and contrary, too, to those views which interpret it as an historical error, capitalism is neither the ideal summit of human evolution nor a dead end, but an organic part of the historical development of human society.

Its evolution — and its decline and downfall too — is not an historical accident, but an objective necessity deriving from the general tendencies of social development. Capitalism is a particular phase and not a blind alley or detour in the general development of human society. It represents a higher stage than any preceding social formation in the development of both the

productive forces of society (i.e. labour force and its means of production) and the social relations of production (i.e. the social relations of ownership over the principal means of production and the distribution of social roles and incomes). No return to pre-capitalist social formations is historically feasible.

Capitalism has contributed to the progress of human society both by its great achievements and by the sharpening contradictions which it has produced but cannot solve:

- ★ It has developed science and technology, and the human productive forces in general — albeit not primarily for the benefit of the community as a whole, and certainly not under the control of the whole society;
- ★ It has developed nation states, national economies and societies, but only in certain parts of the world, while it has actually prevented, by oppression and exploitation, the rise and development of integrated national economies and societies in other parts;
- ★ It has developed an international economy and global division of labour, but in an asymmetrical pattern, with increasing inequalities between the participants; and it has set in motion an internationalization process parallel to the process of growing monopolization.

As with all social formations, capitalism constitutes an inter-related system of economic 'base', — i.e. the economic structure of society (which encompasses all the social relations of production in dialectical relationship with the productive forces) — and the corresponding 'superstructure' of political, legal and cultural institutions and ideas, including the various forms of social consciousness. In other words, a capitalist society implies the totality of economic, social, political and cultural phenomena and processes even if they always include some non-capitalist elements.

The most characteristic contradiction of this kind of society is the antagonism between labour and capital, i.e. between live, human labour, the creator of value and wealth on the one hand, and its dead, materialized, appropriated and capitalized product on the other. This contradiction manifests itself primarily in private ownership relations, and makes the rules for distributing social roles and income contradictory and dualistic. The principles that govern role allocation and income distribution for the working majority are not the same as those governing the minority of owners of capital.

The basic inequalities of the capitalist system become manifest both within the national framework and on the international scene: firstly, inequalities of ownership and control; secondly, inequalities in the allocation and distribution of roles within national societies as well as in the international division of labour; and thirdly, an unequal income distribution system which is basically the consequence of the above, both within national societies and within the world community.

Capitalism, whose emergence and operation presupposed from the outset a wider scope and sphere of activity than its immediate product, national economies, was the first system in history to bring about a world economy. The capitalist world economy involves relations of dominance and asymmetric dependence between its centre and its periphery.¹

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A natural concomitant of the operation of a world capitalist economy has been unequal development. One of its manifestations has been changes in the hierarchy among the developed capitalist countries of the centre and a shift of the leading role within it in favour of those countries which have succeeded at any given time in developing their productive forces and technology at a faster rate than others. Another — this time, cumulative — manifestation of unequal development has been the widening of the development gap between the centre and the periphery, i.e. the reproduction of relative underdevelopment. These two features are inter-related. The exploitation of the periphery provides the possibility (and at the same time a negative incentive — owing to protected markets limiting competition) to develop the productive forces in countries at the centre. In addition, the countries of the centre and the periphery are also connected by the marginal cases called ‘semi-peripheries’² which are exposed simultaneously to the effect of both aspects. These marginal cases do not refute the dichotomy, the bipolarity, of the system, but are exactly indicative of its movement, development and change.

While capitalism has created and developed national economies in the central or core countries, it has prevented the countries of the periphery from developing their own national economies. Since the very birth of capitalism, therefore, a dialectical contradiction has appeared between national and international development, which capitalism has been unable to resolve.

Socio-economic development has been going ahead both at the level of nations, i.e. within countries, and on the world level. Consequently, it is not sufficient to have a single unit of analysis. It does in certain circumstances make sense to analyse development processes within a national framework, i.e. on a country level, because not all the socio-economic processes of individual countries are related directly to the global system. The existence and relevance of national economies and societies have not disappeared yet, and in fact cannot fade away as long as the national character of the political superstructure of the state and its institutions survives.

On the other hand, internationalization is forging ahead and strengthens the global content of the development process. A world-level analysis³ helps to understand many new, specific problems. It is also, of course, a pre-requisite for understanding the unequal development of the world capitalist system, centre-periphery relations, and the causes of the underdevelopment of the Third World.⁴

Since capitalism has developed both within national boundaries as a national system, and as an international or world system, the appropriate unit of its analysis is neither exclusively the national nor the world system. The acceptance of these two equally relevant and real units of analysis clearly points to the need for action, too, on both these levels, i.e. the dialectical relationship between national and international politics. It is equally wrong to seek for solutions only at the national level and forget about what changes are required in the world economy as a whole, as it is to focus only on the international level and leave the required national changes out of account.

The capitalist system involves both its fundamental social contradiction (the

antagonism between labour and capital) which makes a social class struggle of varying intensity inevitable, and the contradiction between national development and the process of internationalization (based upon dominance and monopolization) which gives birth to national movements of oppressed, exploited peoples. It follows that the social (class) and national movements make up the primary forces of transformation. These interact and mingle with each other, either reinforcing or weakening their impact. State power is the main instrument they both seek to control. Since the role and interests of the different social or class forces in national movements also vary, the class content of the nation state becomes a decisive factor not only from the point of view of social progress but also of national development.

A post-capitalist society, whatever name is used to define it, has to resolve all the contradictions inherent in capitalism. It has not only to develop science and technology further but also to put them under the control of the community as a whole and make them serve the purposes of social welfare and satisfy the real needs of working people. It has to end the antagonistic contradiction between labour and capital by changing the social relations of production and socializing ownership and control over the means of production. It has to promote and carry out a real internationalization by eliminating, first, the dominance of certain nations over others and, second, ensuring equal opportunities for the development and full sovereignty of all nations.

The fulfilment of tasks like these requires, of course, a long historical period which can be described as a process of liberation or emancipation. This multi-faceted process involves the liberation of human beings from the domination of nature and the dominance of what they themselves have produced — technology, wealth, and power. It requires the liberation of society from group and class dominance, exploitation and alienation (i.e. social emancipation); the liberation of nations from the dominance of others (i.e. national emancipation); and finally, the liberation of the whole world from the dangers of war, self-destruction and ecological deterioration.

The liberation of human beings and their societies from the dominance of nature requires an appropriate development and social management of science and technology. Their liberation from their own alienated products and of society from class dominance and exploitation requires fundamental changes in ownership, control and power relations within the societies concerned. The liberation of nations requires not only formal political independence but also economic sovereignty and cultural identity. And the liberation of the world from the dangers of destruction requires not only a military balance of power and specific anti-pollution measures, but the elimination of the fundamental causes of violent international conflicts — the military-industrial complex as well as the basic inequalities in international relations — and a global ecological policy.

Post-capitalist society, namely socialism, is supposed in turn to be a transitional stage towards a really worldwide and communal (communist) society. But precisely because capitalism has been unable to complete the internationalization process and produce a really transnational world system,

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while, on the other hand, it has actually prevented the rise of national economies in certain parts of the world, the emerging socialist systems confront a particularly onerous task. They have to face not only the job of eliminating class inequalities and the great many social, cultural and moral distortions inherited from capitalism (while preserving and transcending its very real historical achievements), but also the double task of developing a national economy (or even creating it where it has not yet been able to arise) and at the same time completing the process of internationalization.

Owing to the uneven development of capitalism in different parts of the world and the multi-dimensional, complex character of social development, the process of transforming the system is necessarily also uneven. The transition to socialism in certain spheres may begin along with the further development of capitalism in others. Socialist systems may arise, as they did historically, in some parts of the world while capitalism survives in or continues to penetrate other regions. All this makes for an increasingly mixed world in which differing economic elements conflict with and also influence one another.

Since capitalism has in this century lost its worldwide hegemony, it cannot operate in the same way as before due to the existence of new, socialist systems. Nor can the latter develop in the same manner as they could have if they had not been surrounded by capitalist countries, threatening them militarily, and if they had not had to work in a basically capitalist world economy. The very fact that socialist development has historically started as a *partial* world process — i.e. in single countries, and not as a universal, worldwide process — has had many implications. So has the fact that socialism started in relatively less developed, peripheral or semi-peripheral countries, overshadowed by the presence of economically much more advanced capitalist countries which exerted an impact and various demonstration effects (both positive and negative). These conditions created certain specific difficulties and contradictions, as well as facilitating factors, for the development of socialism.

At the same time, the rise of new socialist systems spread over a considerable part of the world and the birth of new, independent nation states in all the peripheral areas of world capitalism have increasingly influenced the socio-economic processes in the advanced capitalist countries, themselves. Between the different parts of our global society there has been also increasing co-operation at various levels — the United Nations, the multilateral and regional organizations, and bilateral collaboration in the economic, technological, scientific, cultural and educational fields. If these are based on mutual interest or compromises made necessary by the urgent global problems that need to be solved, these forms of co-operation can actually ensure a peaceful coexistence and even push forward the global process of emancipation beyond the changes taking place in, or originating from, individual parts of the world.

The world transformation process, therefore, involves both local changes — i.e. transformations going ahead in parallel in individual parts of the world, these being in both mutually beneficial and contradictory interaction with each other — and changes in the whole — i.e. the transformation of the global society of humankind, making for advances at the world level.

2. Changing Theories of the World Economy

Leaving aside the minimum consensus which can be found concerning the most general features of an ideal society for the future, the theoretical approaches to understanding society differ widely. These affect how one assesses the currently prevailing society, the system to be transformed, and the definition of the ways, concrete direction and leading forces of such a transformation. Differences in theoretical approach will also affect judgements as to the nature, rules, basis and structure of the social system which may grow out of the transformation.

The development of the capitalist system has been accompanied by the rise of various pro- or anti-capitalistic theories connected with particular social forces and political movements. There was the romantic anti-capitalism which opposed the penetration of capitalist relations in pre-capitalist societies and that wanted to defend or even restore these societies. In addition, numerous socialist ideas came into being — utopian, reformist and revolutionary alike — challenging the ideological protagonists of capitalism. As a consequence, however, of the expansion of capitalism and its harsh realities, most of the romantic anti-capitalist ideas as well as utopian socialist theories have disappeared (only to re-emerge temporarily later or elsewhere whenever a choice of development alternatives is on the agenda). But the changes in the internal structure and external dimensions of the capitalist system have always induced its main opponents — the labour movement — and the main anti-capitalistic ideology — Marxism — to renew the argument. It must be said, however, that such critiques must take into account actual changes; dogmatic orthodoxy which rigidly insists on old-fashioned theses related to another time or place cannot survive for long.

This book cannot present, of course, an overall survey of the great many ideologies in contention, or even just the main schools of economic thought,⁵ partly because its size is limited as is the knowledge of its author, and partly because it intends to deal with the actual process of transformation, and especially with the recent changes in the world economy. Having said that, it seems necessary to include here at least some comparative investigation of the different and changing theories of the world economy. Though it is difficult to draw a sharp division between the different theories, we have to categorize the great many diverse views — even at the expense of considerable simplification — in order to point to the main differences in respect of certain key issues which

are relevant to the transformation process.

We ought to note that, owing to the increasingly mixed character of the world economy (i.e. the heterogeneous nature and varying position of the different countries participating in world economic processes), the theories concerned vary and cross-cut one another much more than those theories of social systems which can be distinguished as either pro- or anti-capitalist conceptions.

We should also note that since capitalism as a national system first arose in Western Europe and as an international system radiated out from there, the first and still dominant theories of both how capitalist national economies work and international economic relations reflect West European conditions and Western capitalist interests. These theories dominated and mostly replaced other pre-capitalist economic ideas and made the development of economic theories later or in other countries more or less derivative. However, capitalism has never been realized as a 'pure', totally homogeneous system either at national level (with society consisting only of two classes — capitalist owners and workers owning only their labour power which they sell) or at the world level (as a perfectly dichotomous system embracing only an exploiting advanced centre and an exploited underdeveloped periphery). The survival of various other elements, intermediate or marginal strata, provides a permanent breeding ground for the existence of other ideologies. Many of them are rooted in pre-capitalist or non-European cultures. They represent not only a valuable cultural heritage from the past and a great enrichment of the culture of humanity in general, but also important additional forces in the system. None of them, of course, has remained completely insulated from capitalist reality or fully independent of the dominant capitalist ideology, or its main antagonist.

It is true that certain antecedent ideas of classical Western economics can be found in non-West European history. Moreover, numerous basic principles and methods were first discovered elsewhere — for example, the concept of labour-determined value in ancient Arab and also Greek culture. Nevertheless the dominant capitalist system has made its own body of theory dominant and forced all others to relate to it, either as followers or opponents. Even Marxism, which arose as the ideology of the victims of West European capitalism — both local proletariats and exploited working people overseas, made use of British classical economics as a source, and articulated its anti-theses in response to the latter when formulating its universal anti-capitalist theory and outlining the historic processes which would lead to a post-capitalist world society.

As capitalism has developed and its international patterns changed, the foci and issues of dominant capitalist theory, as well as of its counter-theories, have shifted to reflect both new stages of capitalist development in general and the actual position of particular countries in the context of the world economy.

Such modifications, however, do not result in a perfectly adequate theory. Equally, the theory may not be relevant to particular local conditions only, since by reflecting the position of the parts of the world economy, it may indirectly reflect the development of the world economy as a whole. This explains why so many attempts to produce a genuine, totally independent

theory valid only for a given country, continent or culture have always failed in the same way as the attempts which neglect the specific conditions in a given country or a given period end up trying to put a uniform straitjacket on the unique conditions of particular countries.

Since the universal appears in particularities and the particular makes up the universal, the development of theories reflects, in a contradictory way, the development both of the particular parts and of the universal whole of a system.

Besides, theories have developed also according to their own internal logic, as well as in confrontation with each other and harsh reality, not to forget the personal qualities of their authors. Objectively, the social content and orientation of a given theory may be quite different or even diametrically opposed to the subjective feelings, wishes and personal class position, nationality or group interest of its author. We all know that an objectively pro-capitalist, bourgeois conception does not necessarily mean that its author is also a capitalist or a conscious protagonist of capitalism.

All these circumstances make a critical survey of economic theories difficult. But in the very process of trying, it becomes obvious that theories of the world economy will differ fundamentally according to whether they are based upon pro- or anti-capitalist ideologies and, secondly, on whether they are elaborated from the viewpoint of the advanced centre of the world economy or its underdeveloped periphery.

Finally, we should also note here that periphery-motivated views are not necessarily anti-capitalist, nor are the theories produced in the centre of world capitalism necessarily pro-capitalist. In general, ideological frontiers never coincide with geographical ones.

The History of Conventional Theories⁶

Mercantilism

Apart from some early theoretical forerunners, in Europe and outside, on economic relations between individual countries or the various parts of empires, the first sophisticated theory on international economic relations as well as the economic growth of nations was mercantilism. Mercantilism was the product, primarily though not exclusively, of the historical transformation which led from a feudalism that was collapsing to industrial capitalism. It reflected, and also directly served by formulating a mercantilist economic policy, the interests of the so-called primitive accumulation of capital and national industrialization. Primitive capital accumulation was both the process by which producers were deprived of their means of production, and also the process of the accumulation of capital in money form, the artificial process of 'manufacturing the manufactures', and last but not least, a process of robbing and commercially exploiting other countries and the worldwide expansion of merchant capital.

Attributing the growth of national wealth to the accumulation of 'real money' (precious metals), mercantilism in its early Spanish and Portuguese

variant undoubtedly came under the influence of the fetish of money. This was the illusion of exchange value as against real use value, and the illusion of money as against ordinary commodities.

This illusion, however, perfectly reflected not only the actual reality of the primitive accumulation process but also the fetishism characteristic of the entire history of capitalism, of the commodity and money worlds, which makes most human relations appear to be relations between things, and which conceals class relations by exchange relations.

Mercantilist theory proposed an aggressive foreign trade policy to acquire surplus, in money form, through unequal exchanges with other nations. At home the consequent inflow of precious metals gave a boost, via a price explosion, to the expansion of the domestic market and commodity production. Potential capital began to be concentrated and a start was thereby given to a capitalist national economy. At the same time, the positive balance of trade that mercantilist policy intended to ensure by the export of the new protected manufactures, contributed a lot to the rise of British dominance in the international economy that was in the making.

Mercantilism frankly represented the idea of unequal exchange from which the dominant nation benefited, and so the concept of the inequality of partners in the growing capitalist international economy. It also frankly advocated state intervention in the economic process and the use of institutional measures, including subsidies and protectionism.

While mercantilism as a theory has been ousted from the conventional world of pro-capitalist economics, to be replaced by the euphemistic, even rather apologetic ideas of free trade, liberalism and *laissez-faire* that first appeared with the Physiocrats but which were expressed later in a sophisticated way by classical economics, it has survived in practice in the economic policies of late-comers which have sought to protect and promote their infant industries. Moreover a mercantilist thread of policy can even be detected in the practice of the principal advocates of liberalism.

Physiocratism

Physiocratism, born in France, was a reflection of the failure of mercantilist policy in that country which was lagging behind Britain in international competition. It was also the theoretical expression of the beginning of the capitalist transformation process in agriculture. As the representatives of a relatively less successful nation in international trade, the French physiocrats appeared as the advocates of equality in international trade and of a rather inward-looking national economic policy. Besides rejecting state intervention, particularly the subsidized expansion of industrial exports, and calling for liberalism in general, they pointed to some of the possible dangers and disadvantages of international trade.

Without questioning the potential advantages of an international division of labour, they put emphasis on domestic equilibrium, in particular on the development of agriculture which would physically increase the available volume of consumer goods, and on the subordination of export policy to the