Review of *Value and Unequal Exchange in International Trade*, by Andrea Ricci
Jeff Powell
945 words

Ricci's book begins with a review of heterodox theories of unequal exchange (UE), concluding that the existing theories are rooted in theorised *imperfections* in capitalism, rather than in an understanding of UE as emerging from the *normal* functioning of the capitalist mode of production on a global scale when there is uneven economic development between countries. In his objective of establishing such a theoretical framework, Ricci first elaborates the theories of value and money which will underpin his theory of UE. In what will undoubtedly provoke debate within value theory circles, he sets himself against what he terms the 'substantialist view', wherein value is understood as a property of a commodity which derives from the abstract labour objectified in it, be that alternately argued to be the product of human labour according to productivist authors, or because it has market exchangibility in the circulationist view. In contrast, in his 'processual view', value acts as a 'social algorithm' which translates between the market exchange ratio of commodities (the 'extrinisic measure') and the quantity of objectified socially necessary abstract labour (the 'intrinsic measure').

In his foray into another minefield of Marxist theory, Ricci argues that money is *always* a commodity-in-general, in that it has both use and exchange value; but he differentiates between money as capitalist commodity (gold) and money as non-capitalist commodity within capitalism (fiat money whose circulation is socially imposed by the state). Building from his understanding of value, money (in whatever form it takes) is argued to express *both* the extrinsic and the intrinsic measures of the exchange value of commodities. In a powerful metaphor, drawing on Marx's comparison of money to a mirror, Ricci compares money to an x-ray. Without the x-ray we could not compare the organs of different people, but they are comparable not because they are impressed on the x-ray, but because they are made of a common organic substance: "In the case of money, this common substance is abstract labour, and the human organ is the abstract labour time objectified in the commodity" (2021, 103).

Ricci next brings these theoretical priors to bear on UE. Critically for its calculation, differences in national labour productivities mean that the application of the international law of value results in the systematic overvaluation of exchange rates of countries of the capitalist centre (the well-known 'Penn effect', a 'puzzle' unresolved in the orthodox economic literature). This is because the national units of average social labour are not immediately comparable since they are founded on different historical and institutional trajectories. When the exchange rate corresponds to its PPP level, national units of labour are "coherently converted in units of universal labour having an identical monetary expression for all countries", but if this is not the case, "a unit of universal labour has a different international monetary expression depending on its national origin" (2021, 154), with the difference equal to the margin between the exchange value that a country creates in production ('the intrinsic measure') and that which it is able to realise in circulation (the 'extrinsic measure'). Ricci argues that the real exchange rate misalignments resulting from national productivity differences are independent of the nature of capital flows, and that the liberalisation of capital flows would only accentuate the misalignments as funds are channelled towards "the most profitable countries in search of extra-profits" (2021, 184). However, perhaps this still tacitly assumes profits are from non-financial activities, as compared to asset market inflation which may be generated from the financial flows themselves, opening up space to consider how financialisation impacts UE.

For both orthodox and, indeed, many heterodox economists, Ricci's findings should question the belief in the 'progressive' properties of capitalism. In this orthodox view, while exploitation under capitalism may not be pretty, in the long-run it leads to technology transfer, rising productivity in the periphery and increases in living standards, that is, catching up. Using newly available input-output data from UNCTAD – which allows the calculation of domestic value added in exports, foreign value added embedded in domestic exports, and domestic value added embedded in foreign exports – Ricci calculates value transfer between centre and periphery for the period of 1990-2019. The central regions of North America, Europe, East Asia and Oceania show a consistent and growing value

inflow, reaching a peak of 8.5% of their GDP in 2008 (plateauing at approximately that level since). Outflows from the emerging periphery correspondingly peaked in absolute terms during the GFC, though the growth of these regions has led to outflow falling as a share of their GDP from an average of 20% before the GFC, to single digit levels in the last decade. Outflow value transfers from the poor periphery, especially South and Southeast Asia, have grown in both absolute terms and as a share of GDP throughout the period, exceeding 20% of GDP throughout. Overall, the relative share of value transfer that occurs via Global Value Chains (GVCs) has steadily increased during the period. Ricci constructs an index of dependency on UE, which shows the share of potentially available economic surplus received from/transferred abroad. This index shows that of all emerging and poor peripheral countries, only China has started to move towards a net neutral position on value transfer.

Orthodox development theory continues to insist that more of the same will see more countries follow the Chinese transition (abstracting from what that implies on a planet in the midst of climate breakdown). Ricci's work questions such facile conclusions and makes valuable theoretical and empirical advances for those with an interest not only in trade and GVCs, but in finance, labour studies, value theory, inequality and more. It deserves to be at the centre of a reinvigorated discussion of imperialism and dependency.

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Ricci reviews theories of unequal exchange (UE), concluding that they are rooted in *imperfections* in capitalism, rather than in an understanding UE as emerging from the *normal* functioning of the capitalist mode of production on a global scale. To establish such a framework, he first elaborates the theories of value and money which underpin his theory of UE. Against the 'substantialist view', wherein value is understood as a property of a commodity which derives from the abstract labour objectified in it, he proposes a 'processual view', wherein value acts as a 'social algorithm' translating between the market exchange ratio of commodities (the 'extrinisic measure') and the quantity of objectified socially necessary abstract labour (the 'intrinsic measure'). Money, in Ricci's view, is *always* a commodity-in-general, in that it has both use and exchange value; but he differentiates money as capitalist commodity (gold) and money as non-capitalist commodity within capitalism (fiat socially imposed by the state). Money expresses *both* the extrinsic and the intrinsic measures of the exchange value of commodities. In a powerful metaphor, Ricci compares money to an x-ray. Without the x-ray we could not compare the organs of different people, but they are comparable not because they are impressed on the x-ray, but because they are made of a common organic substance: "In the case of money, this common substance is abstract labour, and the human organ is the abstract labour time objectified in the commodity."

These theoretical priors are brought to bear on UE. Critically for its calculation, differences in national labour productivities mean that the application of the international law of value results in the systematic overvaluation of exchange rates of rich countries (the 'Penn effect', a 'puzzle' unresolved in the orthodox economic literature). This is because the national units of average social labour are not comparable since they are founded on different historical and institutional trajectories. When the exchange rate corresponds to its PPP level, national units of labour are "coherently converted in units of universal labour having an identical monetary expression for all countries", but if this is not the case, "a unit of universal labour has a different international monetary expression depending on its national origin", with the difference equal to the margin between the exchange value that a country creates in production ('the intrinsic measure') and that which it is able to realise in circulation (the 'extrinsic measure').

Ricci calculates value transfer between centre and periphery, 1990-2019. The central regions' inflow reaches a peak of 8.5% of their GDP in 2008. Outflows from the emerging periphery correspondingly peaked in absolute terms during the GFC, though fell as a share of their GDP from an average of 20% before the GFC, to single digit levels in the last decade. Outflows from the poor periphery, especially South and Southeast Asia, have grown in both absolute terms and as a share of GDP throughout, exceeding 20% of GDP. Importantly, the relative share of value transfer that occurs via GVCs has steadily increased during the period. An index of dependency on UE, showing the share of potentially available economic surplus received from/transferred abroad, reveals that of all peripheral countries, only China has started to move towards a net neutral position on value transfer.

Ricci's findings should lead many orthodox - and indeed heterodox - economists, to question their belief in the 'progressive' properties of capitalism. In this view, while exploitation under capitalism may not be pretty, in the long-run it leads to technology transfer, rising productivity in the periphery and increases in living standards, that is, catching up. More countries will follow the Chinese example. Abstracting from what this understanding implies for climate breakdown, Ricci's work provides a theoretical framework and empirical evidence with which to counter such facile assertions. It should be of interest, not only to those studying trade and GVCs, but finance, labour studies, value theory, inequality and more. It deserves to be at the centre of a reinvigorated discussion of imperialism and dependency.