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DIFFERENCES BETWEEN INEQUALITIES AND UNEQUAL EXCHANGE: COMMENTS ON THE PAPERS BY CHAVES AND KÖHLER

(Diferencias entre Desigualdades e Intercambio Desigual: Comentarios sobre los artículos de Chaves y Köhler)

Resumen

La crítica de Köhler de los salarios globales, donde presenta el concepto de productividad con gran claridad combina muy bien con la presentación que Chaves hace del modelo de Köhler de Intercambio desigual. Emerge una breve y sólida posición común. Cuando escribí que “la dimensión de no-equivalencia en un sentido estricto y lógico” sólo puede mostrarse al comparar salarios reales, secundaba plenamente el uso de Köhler de datos en Paridad de Poder Adquisitivo (PPA). En los 80, me referí expresamente a la investigación en comparaciones en PPA que han tenido lugar durante algún tiempo. Así pues, me alegra que canalice el progreso hecho por la investigación en PPA hacia la teoría de intercambio desigual.

Palabras clave: Intercambio Desigual, Paridad de Poder Adquisitivo, Tasas de Cambio.

Abstract

Köhler's critique of global wages, where he presents the concept of productivity with great clarity, combines very well with Chaves' presentation of Köhler's model of Unequal Exchange (UE). A brief and solid common position emerges. As I wrote that “the dimension of non-equivalence in a strict, logical sense” can only be shown by comparing real wages, I fully second Köhler's use of Purchase Power Parity (PPP)-data. In the 1980s, I explicitly referred to the research on PPP comparisons that had been going on for some time. Therefore I am glad he taps the progress made by PPP-research for UE-theory.

Keywords: Unequal Exchange, Purchase Power Parity, Exchange Rates.

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These two papers have a great merit: re-stimulating the debate on Unequal Exchange (UE), which has virtually vanished from academic debates during the era of neo-liberalism. Ironically, critical theoretical analysis subsided largely at the very time when new and stronger forms of dependence and anti-developmental policies emerged. Chang (2005, p.20) concludes on the basis of historical evidence that "policy space for developing countries has been constantly shrinking over the last quarter of a century and it is at the risk of shrinking even further, to the point of making the use of any meaningful policy for economic development impossible." He is concerned that this "could spell the end of development." (*ibid.*, p.21) Denying development is equivalent to making UE permanent, locking in and aggravating present disadvantages. Reconsidering the impact of trade on Southern Countries is therefore urgently needed.

Köhler's critique of global wages, where he presents the concept of productivity with great clarity, combines very well with Chaves's presentation of Köhler's model of UE. A brief and solid common position emerges. As I wrote that "the dimension of non-equivalence in a strict, logical sense" can only be shown by comparing real wages (Raffer 1987, p.193), I fully second Köhler's use of PPP-data. In the 1980s, I explicitly referred to the research on PPP comparisons that had been going on for some time. Therefore I am glad he taps the progress made by PPP-research for UE-theory.

Unfortunately, my measurement problems (Raffer 1987, p.194) were not solved by Köhler (cf. Köhler & Tausch 2002, p.xiii) as also Chaves wrongly believes. Physical productivity differences and thus the problem of homogenising labour units remains as unsolved as it was in 1987. I believe that my proposal to use differences in common industries (Raffer 1987, p.196), though inelegantly clumsy, is the only workable way. Köhler simply assumes the problem away, "assuming that the physical productivities are very similar", or stating "physical labour productivity is most likely identical" without any sound, empirical proof. At the end of his paper Köhler himself contradicts this assumption of more or less equal physical productivity. He rightly postulates that "it is important to improve both physical and value productivity", then giving advice how to improve physical productivity in order to increase low

wages. This makes a lot of sense only if physical productivities are not roughly equal anyway.

Indeed, "identical physical labour productivity does not necessarily lead to an identical wage", otherwise UE would not exist. There is ample evidence that PPP-wage differences are larger than physical productivity differences. Examples such as Köhler's dentists underline his point plausibly and anecdotally. The existence of UE need not be discussed (Raffer 1987, p.194).

The generally accepted definition of UE is double factorial terms of trade $\neq 1$. A precise calculation of the size of inequality in exchange thus needs to operate with the relation of physical productivities. Factor incomes per unit must be homogenised, recalculated to units of identical productivity. This is relatively easy for, say, shirt-makers, but a real problem for larger sectors or whole economies.

Assuming productivity differences away still allows interesting research on inequality, but falls short of measuring UE.

It is not "widely believed that international wage differences are a result of international productivity differences", though. Most if not all economists are familiar with the difference between physical and value productivities. Köhler's example called "Situation (3)" may serve to show this. If physical labour productivity doubles, and the price of computers falls to one quarter, value productivity per worker decreases indeed by half. *Ceteris paribus*, this worker is now able to buy 4q computers instead of q, real income (or purchasing power) has increased, which he is likely to note, although nominal income remains constant.

The difference between official exchange rates and PPP, ERD, could only measure UE if labour were homogenous globally. This very much remains to be proved rather than assumed. While providing valuable insights into global disparities, Köhler's transfer value (Köhler & Tausch 2002, p.xi) only measures differences between exports valued at PPP and at the going exchange rate. While one can argue that different incomes for homogenous factors of production is a market imperfection and violates the very basic conditions upon which neoclassical market theory is based - moral theology might speak of injustice - there is little reason why there should be no difference



between the two exchange rates. Differences in exchange rates may, but are unlikely to be the same as differences in standardised factor incomes.

Köhler does not compare sweatshirt-makers in Haiti with sweatshirt-makers in the US, where physical productivity could be compared relatively easily, but with US labour in transportation, and retail sales, which might well be remunerated differently from textile workers. Comparing PPP-wages of sweatshirt-makers corrected by productivity differences (if any) would measure UE - Köhler's comparison does not do so.

In a dualistic Southern economy, labour units in the export sector might theoretically be sufficiently well paid in PPP-terms that employees may enjoy better real incomes than their colleagues in the North. Indian reactions to the

German "green card" idea for PC-experts seems an example where this might be so. Still, in Köhler's model, all exchange would be unequal as long as ERD differs from zero. In a Köhlerian world with homogeneous productivity and equal pay in PPP-terms, UE would still exist if ERD is non-zero. One may well argue that this cannot happen in a perfectly neoclassical world, but Köhler's world is certainly not perfectly neoclassical. Finally, if a developing country's currency is overvalued ($PPP > \text{market exchange rate}$) - does this country benefit from UE or is this theoretical possibility simply excluded?

While providing interesting insight into the effects of global trade, Köhler's approach is not a model of UE. It helps understand global inequalities, but does not explain UE.

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