Profit Rate, Labour Exploitation and Foreign Trade: a 'Marx-Ricardian' Approach

Topic:
Author: Pablo R. Liboreiro
Co-Authors: Fahd Boundi

Purpose â€“ The relationship between foreign trade and income distribution is usually analyzed using general equilibrium models that are based on the neoclassical theory of factor proportions. However, this is not the only possible approach to the problem: classical economics' theory of value as originally developed by Ricardo and others also allows a quantitative approach to the topic.

Methods & Data â€“ In the present study, the classical theory of value as formalized by Morishima is assumed, in order to estimate the effect of foreign trade on the value of reproduction of the labour force and, therefore, on the wage-profit schedule. To this end, the amount of labour embodied in the means of reproduction of the labour force is estimated taking into account foreign trade: either considering the amount of homogeneous labour embodied in the exports needed to get wage-goods from abroad, either considering the amount of homogeneous labor embodied in imported wage-goods. To get some figures, use is made of WIOTs compiled in WIOD considering 43 countries and 15 years.

Findings â€“ The results of this study show that, for almost all the countries in the sample, foreign trade reduces the value of the means of reproduction of the labour force, thereby allowing a higher profit rate. Only for a few developing countries (China, Indonesia, India) does the effect seem to be the opposite.

Implications â€“ The results of the present study have policy implications. Indeed, the figures show that, in an open economy, a decrease in the labour share may not imply an increase in the rate of labour exploitation; actually, it may be the effect of a change in the terms of trade. Thus, it seems possible to reduce the exploitation of labour without affecting the rate of profit much by taking advantage of trade specialization.

Novelty â€“ The novelty of the present study lies in the fact that it is one of the first studies that analyzes - taking into account a large set of countries and years - the relationship between foreign trade and income distribution as proposed by the classical theory of value. Additionally, the present study also proposes a method to measure the use of production factors worldwide in homogeneous units.