Journal of Economics and International Trade
Vol. 7 No. 1 pp. 12-23 (2025)
ISSN: 2800-1699 E-ISSN: 2830-8662

Critique of the Theory of Unequal Exchange

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Received: 07/04/2024 Accepted: 02/12/2024 Published: 31/12/2025

Abstract:
This research critically examines the theory of unequal exchange in international trade by re-grounding it in the scientific formulation of the Law of Value, wherein value is determined by the total socially necessary energy required for production.
The study shows how disparities in production techniques, wage structures, and stored labor between developed and underdeveloped countries result in systematically distorted exchange relations, whereby surplus value is continuously transferred from the periphery to the core.
Rather than attributing this to market anomalies, the study argues that the unequal exchange reflects the systemic suspension of the value law, due to global inequalities in technological dominance and control over labor reproduction.
Ultimately, the research calls for a reformulation of value theory that recognizes stored and surplus labor energy as fundamental to understanding exploitation within the global capitalist system.
Keywords: Law of Value, Unequal Exchange, Surplus Value, Global Capitalism, Socially Necessary Energy.
Jel Classification: B51,F63,O19,P16,Q43,F13.

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1. Introduction:

Since its formalization by David Ricardo (1817), the theory of comparative advantage has served as the cornerstone of mainstream international economics, positing that trade benefits all participants through specialization. This optimistic view, however, has been persistently challenged by traditions highlighting inherent inequalities. Karl Marx's (1867/1992) intervention, rooting exchange in the labor theory of value, provided a radical counterpoint, suggesting that trade could mask exploitation. The 20th century witnessed the emergence of powerful structuralist critiques, notably from dependency theorists (Amin, 1978; Frank, 1966) and proponents of the "unequal exchange" thesis (Emmanuel, 1972), who argued that the global system is fundamentally structured to transfer surplus from a "periphery" to a "core."

Despite these advances, a persistent theoretical gap remains. Many critiques, while accurately describing asymmetric outcomes, often position themselves *outside* or *against* the law of value, portraying unequal exchange as its negation rather than a specific manifestation of its constrained operation. Furthermore, the classical Marxian focus on abstract labor-time as the substance of value faces limitations in analyzing a global economy characterized by vast, persistent, and technologically enforced differentials in productivity and social reproduction.

This study proposes a theoretical synthesis and advancement. It returns to and reinterprets the scientific Law of Value, defining its substance not as homogenous labor-time but as **socially necessary energy**—a measurable quantum encompassing the direct human labor (living energy), the labor crystallized in means of production (stored energy), and the uncompensated labor appropriated by capital (surplus energy). This reformulation, measured in a proposed unit of the Necessary Calorie (N.C.) (Zaki, 2025), allows for a materialist and quantifiable analysis of value flows that transcends the veil of monetary prices.

The central thesis is that the apparent inequities of global trade are not evidence of the law of value's inapplicability at the international level. On the contrary, they are the direct result of its **structured and systematic obstruction** by core capitalist states. This obstruction is achieved

through historical processes (colonialism, primitive accumulation), technological monopolies, control over financial and monetary systems, and the imposition of conditions that prevent the equalization of production and reproduction standards globally. Thus, "unequal exchange" is recast as a *symptom* of a deeper pathology: the global interruption of the law of value, leading to a chronic hemorrhage of surplus energy from peripheral social formations.

2. Literature Review: From Comparative Advantage to Structuralist Critiques

The intellectual lineage of this study traverses several key schools of thought. The classical foundation lies in **Ricardo's (1817) theory of comparative advantage**, which abstracts from capital mobility and absolute productivity differences to argue for mutual gains from trade. **Marx (1867/1992, 1991)** accepted the possibility of profit from foreign trade but embedded it within his value theory, noting how more productive capitals can extract super-profits by selling commodities above their individual but below their international value—a temporary advantage under competitive conditions.

The mid-20th century saw a decisive shift with **Structuralist and Dependency theories**. Prebisch (1950) and Singer (1950) identified a long-term decline in the terms of trade for primary commodity exporters. Frank (1966) and Amin (1978), who conceptualized a global capitalist system generating «development of underdevelopment» in the periphery, radicalized this. The most direct economic model was provided by **Emmanuel (1972)**. His theory of unequal exchange argued that wage differentials, institutionalized and politically maintained, led to a systematic transfer of value from low-wage to high-wage countries, even for equal organic compositions of capital.

Subsequent debates, such as those involving **Sraffa (1973)** and the neo-Ricardians, shifted focus to physical input-output systems and the theory of the "standard commodity," largely abandoning the classical search for a value substance. Meanwhile, **World-Systems Theory** (Wallerstein, 1974) provided a historical-sociological framework, emphasizing the core-periphery division of labor as a permanent feature of the capitalist world-economy.

More recently, scholars have sought to integrate ecological and energy dimensions. **Biophysical economics** (Georgescu-Roegen, 1971; Daly, 1997) and analyses of **ecologically unequal exchange** (Hornborg, 1998; Dorninger et al., 2021) highlight the net transfer of material resources and embodied energy from South to North. This study builds on this trajectory but recenters the energy paradigm within a reconstructed *value* theory, rather than treating it as a separate ecological metric.

3. Theoretical Framework: The Scientific Law of Value as Socially Necessary Energy

The cornerstone of this analysis is a reformulation of value theory. Classical political economy, from Smith to Marx, posited *abstract social labor-time* as the substance of value. While revolutionary, this formulation carries an abstraction—time as a measure—that can obscure the concrete, material, and energetic basis of production.

This paper proposes that the true substance of value is **socially necessary energy**. Every commodity is the crystallization of a quantum of energy expended under socially normal conditions of production. This energy triad consists of:

- **Living Energy (L):** The metabolic and mental energy expended by workers during the direct production process.
- **Stored Energy (S):** The energy previously expended and embodied in the means of production (raw materials, machinery, infrastructure). This includes the "stored labor" in the worker's own education, health, and training.
- **Surplus Energy (Σ):** The portion of living energy expended by workers that is not compensated by their wages, appropriated by the capitalist class.

Thus, the Total Value (TV) of a commodity can be expressed as: **TV = S + L + Σ**, where all components are measurable in a common energetic unit, the **Necessary Calorie (N.C.)**. This unit represents the socially average energy required to perform a given productive task within a specific socio-technical context.

This framework transcends the nominalism of price analysis and the abstraction of pure labor-time. It allows for a direct comparison of the real energy content of commodities exchanged between nations with vastly different technological bases and wage levels. The "law of value" becomes the law governing the equivalence of commodities based on equal quantities of socially necessary energy. Trade appears "unequal" when the exchange ratios of money prices (grams of gold, dollars) systematically deviate from the ratios of total embodied energy (N.C.), a deviation rooted in structural asymmetries.

4. Research Methodology This study employs a multi-methodological approach:

- **Critical-Dialectical Analysis:** Grounded in Marxist political economy, this method examines the contradictory dynamics of global capitalism, tracing how surface phenomena (prices, trade balances) emerge from underlying contradictions in value production and realization.
- **Historical-Structural Method:** This traces the evolution of the global division of labor from colonialism to neoliberal globalization, examining how historical processes (extraction of precious metals, colonial trade patterns, debt regimes) created and entrenched the structural conditions for unequal energy flows (Wallerstein, 1974; Amin, 2010).
- **Comparative Framework:** It systematically compares productive techniques, wage structures, and social reproduction costs between representative core and peripheral economies.
- **Quantitative-Proposed Metric:** The analysis is framed by the proposed **Necessary Calorie (N.C.)** unit, offering a conceptual basis for quantifying value disparities beyond monetary expression. While full empirical operationalization is a future research agenda, the framework guides a qualitative energy-centric analysis of exchange.

5. Part I: The Law of Value, Differential Profit, and the Genesis of Unequal Exchange

Marx’s (1991) analysis of foreign trade begins within the logic of the law of value. He acknowledges that a country with higher productivity can sell its commodities above their individual (national) value but below their international (social) value. This yields a higher rate of profit, analogous to a capitalist using a superior technique domestically. As Marx notes, "The

country placed in the more favorable position takes in exchange more labor than it gives" (Capital, Vol. III, Ch. 14).

This is **unequal exchange in its primary form**: an exchange of unequal quantities of labor-time. However, in Marx's competitive model, this is a *temporary* advantage. Capital mobility (or the diffusion of technology) should eventually equalize production conditions, causing the super-profit to dissipate. The international social value would adjust downward.

The critical divergence in global capitalism is that the mechanisms of equalization are **structurally blocked**. Core states, through intellectual property regimes (Patel & Pavitt, 1991), sanctions, and political control, actively inhibit the free flow of advanced technologies to the periphery. What appears in core theory as a "temporary" differential becomes a **permanent structural feature** of the system. The law of value is prevented from functioning as a global equalizing force, freezing a condition of permanent differential productivity and, consequently, a permanent potential for value transfer. This blockage transforms a dynamic feature of competitive capitalism into a static pillar of imperialist appropriation.

6. Part II: Price Divergence, Historical Asymmetries, and the Reproduction of Dependency

The historical influx of plundered gold and silver into Europe, as noted by classical economists and Marx, initiated a long-term divergence in price levels between colonizing and colonized regions (Mises, 2006). This was not a simple monetarist inflation but a profound shift in the monetary expression of value tied to primitive accumulation. Europe experienced a secular rise in nominal prices, while colonized regions, drained of monetary metals, saw their price levels repressed or structured around export enclaves.

This historical price divergence created an enduring structural asymmetry. Even after the demise of the gold standard and the rise of fiat currencies, this asymmetry is reproduced through the hierarchical international monetary system, with the US dollar acting as the world's key currency (Amin, 2010). Core central banks' monetary policies, which profoundly affect global liquidity and

exchange rates, are set with domestic priorities in mind, often exacerbating instability in peripheral economies (Rey, 2015).

The consequence is a double movement in exchange: Core commodities, bearing a high nominal price tag due to this historical-institutional legacy, are exchanged for peripheral commodities with depressed nominal prices. When analyzed through the energy-value lens, this price ratio rarely corresponds to the ratio of total embodied energy (N.C.). The periphery must export a greater mass of energy-embedded commodities to import a smaller mass of energy-embedded core manufactures, representing a net loss of social energy.

7. Part III: The Worker as Accumulated Capital: Stored Labor and Global Wage Disparities

A pivotal but under-theorized element in unequal exchange is the value of labor-power itself. Emmanuel (1972) focused on institutional wage differences but did not fully ground them in value theory. This study posits that the labor-power of a worker in the core embodies a vastly greater quantity of **stored energy** than that of a peripheral worker.

This stored energy is the cumulative product of social investment: advanced education, healthcare, nutrition, housing, and access to information and technology—all measurable in N.C. The reproduction of a German engineer requires a far greater social energy input over a lifetime than the reproduction of a Bangladeshi garment worker (Hickel et al., 2021). Consequently, the *value* of the core labor-power is higher. Its monetary expression (wage) is not merely a political artifact but reflects, however distortedly, this real energetic content.

Therefore, when a core worker and a peripheral worker each expend one hour of living energy (L), the *total value* they add to a product is different. The core worker's hour transfers not only their immediate living energy but also a share of the immense stored energy they embody. The wage differential, consequently, is not merely a cause of unequal exchange but is itself an *effect* and an *index* of a deeper global inequality in the social energy invested in human capacities. This creates a perverse "competitive advantage" of poverty for the periphery, attracting capital precisely because the low wage reflects a low social-energy cost of labor reproduction.

8. Part IV: The Suspension of the Law and the Mechanics of Surplus Value Drain

The ultimate mechanism of unequal exchange is the **systematic suspension of the law of value's equalizing tendencies** at the global scale. This suspension operates through several channels:

1. **Technological Monopoly:** Core corporations, backed by state-enforced patents, maintain a stranglehold on advanced productive techniques, preventing the global equalization of the "socially necessary" production conditions.
2. **Financial and Debt Architecture:** International financial institutions impose structural adjustment programs and liberalization policies that lock peripheral economies into low-value-added production, privatize public assets, and enforce austerity, crippling their capacity to invest in social energy accumulation (education, health) (Stiglitz, 2002).
3. **Control of Reproduction Conditions:** The core, through its pharmaceutical, agribusiness, and tech monopolies, controls access to the very means (seeds, medicines, software, knowledge) necessary for social reproduction in the periphery, creating inelastic demand for its high-priced exports.

The result is a continuous **drain of surplus energy (Σ)**. Surplus value generated in the periphery does not fully accumulate there. A significant portion is siphoned off through multiple channels: profit repatriation by multinationals, interest payments on sovereign debt, and the unfavorable terms of trade described above. This leaked surplus energy is then available for reinvestment in core innovation, further widening the technological and energetic gap. This is the dynamic of **underdevelopment**: not an original state, but an active process of sapping the energy surplus necessary for autonomous development.

9. Case Study Illustrations: Contemporary Dynamics in North-South Exchange

- **Digital Economy & Intellectual Rent:** The trade between a Silicon Valley software firm and an African agricultural exporter exemplifies modern unequal exchange. The software, requiring immense stored energy (R&D, highly educated labor) but minimal marginal reproduction cost, is sold at monopoly prices. The agricultural product, requiring significant living energy under harsh

conditions but little valued stored energy, is sold in highly competitive markets. The energy-value ratio is massively skewed.

- **Pharmaceuticals and Patents:** The TRIPS agreement enforces a suspension of the value law for life-saving drugs. The socially necessary energy to produce a generic antiretroviral is low, but patent monopolies allow core pharmaceutical companies to charge prices hundreds of times higher than the material production cost, effectively draining social energy from Global South healthcare budgets.
- **Global Value Chains (GVCs):** While GVCs diffuse production, they centralize control and capture of surplus energy. Lead firms in the core design, brand, and market products, appropriating the lion's share of value (energetic and monetary), while low-wage assembly in the periphery contributes living energy but captures minimal stored energy or surplus energy (Milberg & Winkler, 2013).

10. Discussion: Beyond Unequal Exchange—Towards a Theory of Structural Value Disruption

This study argues that the concept of "unequal exchange," while descriptively useful, must be subsumed under a broader theory of **Structural Value Disruption**. The problem is not simply that exchanges are unequal in price, but that the global system is engineered to *prevent* the law of value from functioning as a framework for equitable exchange based on equal quantities of social energy. The "unequal" outcome is a symptom of this deeper structural distortion.

This reformulation shifts the political imperative. It moves the debate from moral claims about "fair prices" to a scientific and political project focused on dismantling the structures that block value equalization: patent regimes, unequal financial architectures, and the external control over conditions of social reproduction. The goal for peripheral development becomes the *autonomous accumulation and control of social energy*—in both its material (technology) and human (health, education) forms.

11. Conclusion

This paper has argued that the persistent imbalances in global trade are intelligible only through a reconstituted scientific Law of Value, understood as the law governing exchanges of socially necessary energy. The apparent inequities are not a failure of this law but a consequence of its deliberate and structured suspension by the advanced capitalist core through historical, technological, and financial means.

"Unequal exchange" is the visible form of a continuous global drain of surplus energy from periphery to core, perpetuating underdevelopment and dependency. Addressing this requires strategies that go beyond terms-of-trade negotiations. It demands:

- **Technological Sovereignty:** Breaking monopolies on knowledge and building endogenous technological capacity.
- **Financial Reregulation:** Challenging the debt architecture and capital flight mechanisms that drain surplus.
- **Investment in Social Energy:** Prioritizing massive public investment in education, healthcare, and infrastructure to raise the stored energy content of the labor force and society as a whole.
- **South-South Cooperation:** Building alternative circuits of trade and technology transfer based on principles of complementary development and shared energetic advancement.

Ultimately, achieving equitable trade is inseparable from the project of reclaiming national and popular sovereignty over the processes of production and social reproduction. It necessitates a move from a global system that disrupts the law of value to one that permits its full and equal application, where exchanges reflect true equivalences in social energy, fostering mutually reinforcing development rather than hierarchical extraction.

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