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**MIHAIL MANOILESCU'S INTERNATIONAL TRADE THEORIES IN  
RETROSPECT: HOW AND WHEN EMERGING ECONOMIES MUST BE  
PROTECTED?**

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# **Mihail Manoilescu's international trade theories in retrospect: how and when emerging economies must be protected?**

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## **Abstract**

Mihail Manoilescu was one of the main intellectual personalities of the interwar period in Romania. He was known as a politician and a central banker, but also as an economist. From the very beginning of his theoretical and practical career, or at least from the late 1920s till the end of his life, Manoilescu's ideas and theories were marked by a clear continuity and consistency based on the theory of protectionism. His defence of protectionism is generally presented as clumsy and founded on incorrect method. This paper contributes to a testament of Manoilescu's conclusions, the validity of which we test in two different paradigms. Section 2 presents the theory of protectionism formulated by the author. Section 3 tries to interpret Manoilescu's views in modern terms. It presents arguments assimilating his analysis to some post-Marxist presentations of the after-war period. It also develops a Ricardian model proving that Manoilescu's intuitions can be verified in a Ricardian context. The last section concludes.

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*Keywords:* Mihail Manoilescu, theory of protectionism, gains from trade.

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# 1. Introduction

The first aim of this paper is to present Mihail Manoilescu's (1891-1950) concept of protectionism, developed in the inter-war period in Romania and widespread mostly abroad, as his main book was initially published in French, then translated in English and Portuguese. One of the motivations of this reassertion is to promote the study of the Balkan region's economic thought, not only because the national and local traditions of this area of Europe are still unknown to Western readers, but also because some of its thinkers, such as Manoilescu, are very good and original specialists whose works contain underrated presentations on important topics.

The end of the twenties and thirties in the Balkan region coincided with a period of growing interest for the nationalist and the protectionist views, both being frequently associated in the literature (see Pasvolsky, 1928; Berov, *ed.*, 1989; David, 2009). Another motivation of the present paper is to show that, though the twenties were probably more willing to accept protectionist views than other periods, Manoilescu's ideas are not only devoted to illustrating the climate of the period. They are still useful to understand how and when the protectionist views can be analytically supported.

Manoilescu took an active part in developing the economic policy in Romania. A definite technocratic peak in his career was the conception of the aforementioned protective industry tariff in 1927, which subsequently evolved into an all-round theory of industrial protectionism. Manoilescu's book could be seen as the theoretical justification for his 1927 tariff, which was abolished and ridiculed by his main intellectual enemy Virgil Madgearu in 1929 (Madgearu, 1929)<sup>1</sup>. Later, Manoilescu's protectionist theory fit into the model of organic and corporate economy which he put forward in the period 1934-1940, as pointed out by the author himself (Manoilescu, 1934/1938). In this sense, it could be asserted that from the very beginning of his theoretical and practical career, or at least from the late 1920s till the end of his life, Manoilescu's ideas and theories were marked by a clear continuity and consistency based on the theory of protectionism.

Mihail Manoilescu's theory of protectionism and his ideas and personal fate have been well highlighted by both Romanian and western authors (Bobulescu, 2003, pp. 114-123 ; Pohoată, 2007, pp. 3-6; Maneschi, 2008, pp. 130-133; Love, 1990, pp. 62-95; Love , 2009, pp. 103-118). His theory was generally received with criticism by the leading western economists of the time. However, later on Manoilescu became very popular in Brazil and Chile in constructing a model of development for the third world (see Love, 1990, pp. 62-95; Love , 2009, pp. 103-118).

The rest of the paper is organised as follows. Section 2 presents the theory of protectionism formulated by Manoilescu. Section 3 tries to interpret Manoilescu's views in modern terms. It presents arguments assimilating his analysis to some post-Marxist presentations of the after-war period. It also develops a Ricardian model proving that Manoilescu's intuitions can be verified in a Ricardian setting. Section 4 concludes.

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<sup>1</sup> Madgaru wrote an article in the Rumanian supplement of *The Economist* where he violently criticized the industrial tariffs policy ("as an exaggerated revival of mercantilism", "absurdly high customs duties", "speed up the process of industrialization by artificial means", "exaggerated nationalism" etc.). Madgearu as a representative of the *Tsaranist* (Peasant) party was in favor of agriculture development and small and medium landholders, and generally of home market development (Madgearu, 1929, pp. 2-3).

## 2. Main elements of Manoilescu's theory of protectionism

The main task was to construct a theoretical model of international trade that could defend and substantiate the need for a new model of economic development for the peripheral Balkan countries, very poor at the time (see Delaisi, 1929; Rosenstein-Rodan, 1943, pp. 202-211; Gerschenkron, 1962).

Involved in theoretical debates as well as in his practical activities as minister (in Averescu's authoritarian government), Manoilescu was convinced that the free trade principles held by the League of Nations or, as he called it, "the spirit of Geneva", were absolutely detrimental to Romania, holding back its development and serving foreign interests. His great ambition was to demolish Ricardo's theory of comparative advantages underpinning the free-trade ideas. This, however, was to be achieved within the mainstream by using the basic postulates of the classical economic doctrine "to defeat it on its own grounds" (Manoilescu, 1931, p. 81), as the author proposed in his book published in Paris in 1929 (translated into English in 1931, into Italian, Spanish, Portuguese, and in 1937 into German), and in a concise form in his speech to the General Union of Industrialists in Romania held on 7 March 1929, also published in parallel in French and English in 1931 (Manoilescu, 1931) and translated into Bulgarian on his visit to Bulgaria in 1933 (Manoilescu, 1933, pp. 113-127).

In terms of the book's exposition, Manoilescu's approach is similar to Marx's method of abstraction in *Das Kapital*, i.e. "from the concrete to the abstract and back", which is evident from the three main parts of his book – Facts (I), Theory (II), Reality (III). Manoilescu always begins with facts.

Firstly, he saw that Romania and the Balkan countries were poor; the difference between their welfare and that of developed economies was huge. It could be surmised that the exchange between rich and poor countries is unequal, the reason being the doctrine of free international trade and policy. Therefore, a new criterion needed to be applied in assessing each foreign trade policy. Such criterion had to encompass not only exchange but also production, which was beginning to take on a leading role, and treat a nation and national labor as key elements. This criterion, i.e. national welfare, is expressed in a concrete measurable indicator as "capacity of a nation's purchasing power" (*capacité de pouvoir d'achat*), and even more specifically in the net national revenue (*revenu national net*). Its growth is a criterion of progress, while the reverse is a criterion of regression (Manoilescu, 1929, p. 290). How was this indicator to be maximized?

Hence the author's second assertion, which is also based on empirical observations: the main means of achieving this could only be an increase in the overall level of labor productivity of the Balkan economies (which was 3, 4 or even 5 times lower than that of developed economies), defined as "the value of average net production realized by one producer, i.e. by one agent of production in the course of the year" (Manoilescu, 1931, p.6). How could this growth of overall national productivity be realized?

Thirdly, once again starting from the facts, the author believed that an increase in the overall national productivity should be based on a change in its structure, i.e. by expanding the high productivity sectors at the expense of the low productivity ones. Now, which were these sectors?

Obviously, as could be judged from the facts, the high productivity sector was the industrial one, while the low productivity sector was agricultural. The difference, or the so-called sectorial scissors between these two productivities, was much larger within the Balkan region and the other poor countries (3-4 times). “The more backward in general cultural terms a country is, the higher its industrial productivity will be in comparison with that of agriculture, i.e. the greater the contrast between industry and agriculture” (Manoilescu, 1931, p. 11). Consequently, in order to develop the overall productivity, the share of the sectors of above-average productivity needed to be increased and national labor needed to reach a higher productivity (Manoilescu, 1931, p.18). Finally, how could such a result is attained?

The answer is extremely clear: via customs protection for high-productivity sectors, i.e. the industry. The duty on imported industrial goods (or a subsidy for national industry) should make up for the differential in overall productivity *versus* foreign productivity. At the same time, the scissors of domestic productivity should be narrowed, with sectors of below-average productivity converging towards those of above-average productivity. Thus, the sectorial scissors of poor countries would narrow and consequently approach those abroad. Over time, however, new sectorial scissors would open within the industrial sector, which makes protectionism almost an eternal mechanism.

On the whole, protectionism brings with it quick (from the *very first day*) visible benefits and generally does not require sacrifice (“it is non-sacrificial”), which is something new compared to List’s model, where protections produce results while on the move, and - as a general rule - only under certain conditions (Manoilescu, 1929, p. 85; 1931, p. 14, p. 22).

Thus, Manoilescu constructed his model of “internal comparative advantages” based on the productivity of each sector, especially its positioning with regard to a country’s average productivity. This type of theoretical assertions is in contradiction with the theory of comparative advantages, because the positioning, the hierarchy of sectors is different and in actual fact opposite, *i.e.* according to the two theories the specialization should be totally diametrically opposed. Therefore, Manoilescu paid special attention to the critique of the theory of comparative advantages.

Firstly, he believed that Ricardo’s theory does not consider the quality of labor (its heterogeneity) and its national character, *i.e.* Ricardo’s model does not distinguish the deep differences between external and internal exchange. Unlike individual profit, which is generally static, national profit is dynamic and there could be a situation of both positive national profit and individual losses at the same time. “A capitalist’s profit is something of the surface; national profit is what is deep” (Manoilescu, 1929, p. 36).

Secondly, whereas with national exchange labor and the value produced by it remain within the country and are redistributed among its citizens, in an international trade environment the countries with lower labor productivity suffer national labor loss which is in effect an unequal exchange (later on Manoilescu was considered a forerunner of the theory of unequal exchange, see Love, 2009, pp. 103-118; 2011, pp. 15-42). This is so because a monetary exchange between two countries does not reflect the real proportion of the amount of exchanged labor between them, as their structure substantially differs in terms of productivity. A value leaves the country when a commodity produced employing a lower productivity labor is exported to import a commodity produced by using a higher productivity labor. It is labor productivity and not money which is the “actual national medium of exchange” in foreign

trade (Manoilescu, 1929, p. 226) or, as stated in another publication, “the true measure is man himself”:

“Yes, but how do we pay for imported coal? Do we pay with our money or with our products? If we paid with money from a never-ending fund, then Adam Smith’s reasoning would have been valid; we however pay for it with our labor. And how is labor productivity measured? It is measured with the exchange value produced by each individual. If we bring everything down to man, this is because he is both a measure of production and a measure of consumption. A country’s average productivity is the very coefficient of the country’s welfare. This productivity per employee in the course of one year characterizes the entire economic and social life of a given country. Where this productivity is high, the country is happy: it produces a lot and consumes a lot. (Manoilescu, 1931, pp. 18-19). “The true unit of measure of a country’s efforts and performance is *man* who is both a producer and consumer.” (Manoilescu, 1929, p. 160)

All this leads to unequal exchange in terms of labor, because to import coal in Romania and export grain from the country the labor of 10 and 20 workers is required for machines and grain, respectively:

“[...] the labor of 20 workers is needed in the course of one year in order to produce this grain and acquire in exchange the expensive coal, which we could produce in the country with the labor of only 10 workers for one year. (Manoilescu, 1931, p. 20).

Manoilescu formulated in his own way a law, the observance of which had to underlie a new model of development of the Balkan countries:

“It is better to produce expensively expensive things than produce cheaply cheap things (Manoilescu, 1929, p. 198).

### **3. Interpreting Manoilescu’s approach of the “losses of trade”**

We should immediately say that Manoilescu’s theory quickly spread among the leading Western economists (the proponents of the classical and neo-classical schools) and was generally received with criticism, as evident from the reviews by Viner (Viner, 1932, pp. 121-125), Condliffe (Condliffe, 1933, pp. 143-145), Ohlin (Ohlin, 1931), Otto v. Mering (Mering, 1933), and Oulès (Oulès, 1934, 1936), while the positive reviews were somewhat an exception, as for instance Pasvolsky (Pasvolsky, 1932, pp. 477-478), and later on Kalecki (1938) and Hagen (Hagen, 1958, pp. 496-514)<sup>2</sup>. The most thorough analysis of the Romanian

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<sup>2</sup>According to Love, 2011, Werner Sombart also had a positive attitude to this theory and to Manoilescu’s ideas in general. Manoilescu himself, in his speech in Sofia, mentioned Sombart as one of the few economists whose theory was similar to his own, namely regarding the unequal exchange among industrial and agrarian economies, which received income gratis (“*so-zu-sagen gratis*”) (JBES, 1933, p. 682). Mentioning Sombart in his speech is indicative of Manoilescu’s Marxist approach, because most of Sombart’s theories are some variations of the basic postulates of Marxism. Not accidentally, in his famous critique of Marx’s labor theory of value, Eugen von Böhm-Bawerk dedicated a whole essay with the eloquent title “Apology of Werner Sombart” (Böhm-Bawerk, 2002 [1896]).

author's theory is made by Firmin Oulès, who wrote a special monograph (Oulès (1934a). Within two hundred pages, Oulès reviews the basic postulates of the theory - which he attributed to the theories of international trade based on productivity - in great detail and points out its weaknesses on a theoretical and empirical level. According to Oulès, Manoilescu's theory is not new and can almost entirely be found in John Hecht's book (1925 [1921]). Both Manoilescu's and Hecht's conclusions are wrong, as they are primarily based on the incorrect understanding and measurement of productivity. Oulès's book is interesting also because he repeatedly mentions the parallels which can be found between the Romanian author's theory and that of Karl Marx.

Manoilecu's writings were received critically in the Balkan countries too, as in the case of the authority in agrarian and industrial economy and foreign trade Gheorghe Tasca (Gheorghe Tasca, 1937, pp. 1-69) and the two leading Bulgarian economists in the area of foreign trade Georgi Svrakov (Svrakov, 1936 [1934/1935], pp. 1-73) and Konstantin Bobchev (Bobchev, 1933, pp. 197-216; 1935, pp. 195-211). As mentioned, Roxana Bobulescu and Joseph Love have recently presented an in-depth exhaustive analysis of Manoilescu's theory, indicating not only its main shortcomings and debatable points but also its original ideas (Bobulescu, 2003, pp. 114-123; Love, 2009, pp. 103-118; Love, 2011). In the same vein were most of the critiques by other Romanian authors (Pohoata, 2007, pp. 3-6; Maneschi, 2008, pp. 130-133). All critics (old and new) of Manoilescu's theory are mainly concerned with his misconception of productivity, his not taking into account the productivity of capital, also considering the presence in each country of the so-called "non-competing groups" and other weak components.

### **3.1. A post-Marxist theory of protectionism**

Here we suggest a possible interpretation of Manoilescu's theory, which in a sense includes new ideas and might help us understand the internal contradiction of the Romanian economist's model. To put it straight, this has to do with a number of similarities (either conscious or intuitive) with the labor theory of value and exploitation advanced by Karl Marx<sup>3</sup>. What is it all about?

First of all, it is quite obvious that working out the conceptual framework and substantiation of unequal exchange and exploitation among countries - tasks which Manoilescu had set out to resolve in his book - required delving at a much deeper analytical level than that of prices. This is concerned with theoretical reasoning at the analytical level of "value" (exchange value, use value, surplus value, labor content of value, labor productivity), as well as comparing, measuring and aggregating various types of concrete labor, etc. That is exactly the analytical level at which Manoilescu's theory is positioned.

Secondly, as is known Ricardo resolved the problem of measuring one type of labor against others by proposing a firmly fixed ratio of wages across the various types of labor. Taussig (Taussig, 1921, 1927) took a series of steps towards a more realistic accounting for different

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<sup>3</sup>As already mentioned, Firmin Oulès repeatedly underlined the similarities between Manoilescu's theory and that of Marx as early as 1934 (Oulès, 1934a, p. 262, p. 278, p. 286, p. 291, p. 296, p. 317, pp. 377-379). Unfortunately, he does not go any further; he mainly emphasizes similarities in polemical style, in method, and especially in the desire to show the possibilities for exploitation and unequal exchange. While with Marx it comes to social groups (workers and capitalists), in Manoilescu it comes to nations (industrial and agricultural).

labor classification, but on the whole remained within the Ricardian conception of the labor theory of value.

Thirdly, Manoilescu questioned the rationality and sustainability of Ricardo's theory from the perspective of quantifying labor similarly to Taussig, but he followed a different line of analysis and proposed another type of solution ranking different types of labor but again within the labor theory of value. Although Manoilescu *did not mention it explicitly*, he was looking for a solution in the same direction offered by Marx, with all its advantages and – above all – with all its shortcomings. This similarity is also evident in Manoilescu's ambitions. According to Joseph Love, he compared his achievement to Marx's (Love, 2009, pp. 103-118) and, from what we have seen so far, in his speech in Sofia Manoilescu declared that he had found “a socialism of peoples, which is more essential and more revolutionary than the socialism of classes” (JBES, 1933, pp. 680-684); see also Manoilescu, (Manoilescu, 1929, p. 286).

In the fourth place, we know that Karl Marx proposed to resolve the issue of measuring one against other kinds of labor (and thereby value) through his concept of the twofold character of labor (volume one of *Das Kapital*). According to this theory, all kinds of individual concrete labor (base of the use value) are equated via the market process to social abstract labor, labor as pure expenditure of human energy (base of the exchange value). This way, labor products as use value are reduced to exchange of commodities having exchange value<sup>4</sup>. Despite the deviation of price from value in each particular case (as a result of demand and supply movements discussed in volume three of *Das Kapital*), the products of labor becoming commodities are exchanged according to the amount of abstract labor input (socially necessary labor costs) to produce them. This way, the roots of exchange value and of value are to be found in the area of production. According to Marx, when labor productivity increases, an equal use value with an equal exchange value is produced, at the core of which are labor costs (“socially necessary labor costs”). Or, according to Marx himself in volume one of *Das Kapital*:

“By ‘productivity’ of course, we always mean the productivity of concrete useful labor; in reality this determines only the degree of effectiveness of productive activity directed towards a given purpose within a given period of time. Useful labor becomes, therefore, a more or less abundant source of products in direct proportion to the rise or fall of its productivity. On the other hand, however, variations in productivity have no impact (whatsoever) on the labor itself represented in value. As productivity is an attribute of labor in its concrete useful form, it naturally ceases to have any bearing on that labor as soon as we abstract from the concrete useful form. The same labor, therefore, performed for the same length of time, always yields the same amount of

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<sup>4</sup> Marx was aware of the differences stemming from labor qualifications and proposed to resolve the issue by saying that the complex (qualified) labor is simple labor raised to a certain power, i.e. multiplied by a given coefficient. These two reductions (concrete to abstract and complex to simple) are disputable and underlie the numerous criticisms levied at Marx's theory starting from the Austrian school and Böhm-Bawerk's famous critique. If we ignored the whole range of issues touched by Böhm-Bawerk, even the very assumption of the process of reduction, which is social by nature, comprises in itself a process of circularity because such reduction could not be anything else but that which takes place via the mechanisms of market through exchange, where prices and money are involved. In other words, instead of the logical appearance of money and prices following labor and value analysis (which is Marx's basic logic), these (prices and money) are wedged in the very formation of value, in determining the social “*crystalised*” labor, in measuring the concrete types of labor.



value, independently of any variations in productivity. But it provides different quantities of use-values during equal periods of time; more, if productivity rises; fewer if it falls. For this reason, the same change in productivity which increases the fruitfulness of labor, and therefore the amount of use-values produced by it, also brings about a reduction of value of this increased total amount, if it cuts down the total amount of labor-time necessary to produce the use-values.” (Marx, 1976 [1867], p. 137)<sup>5</sup>.

Labor productivity, which Marx examines in detail in the chapters on relative surplus value, is a way to increase the surplus value or the exploitation of labor power in a given amount of labor and labor time, because its increase leads to the production of the same amount of use-value at individual labor costs lower than the socially required ones. In this case, the difference in surplus value is expropriated by the capitalist and this exacerbates exploitation. However, a free movement of labor and capital exists within a national economy, dynamically leading to constant overcoming and emergence of individual advantages driven by changes in individual labor productivities. It could be assumed that within a given national economy the new value thus produced as a result of labor productivity would stay within that country and redistribution among the different groups could also take place under certain conditions via the public redistribution. In our opinion, Manoilescu did not master well the theory of value, of surplus value, and the dual character of labor developed by Marx, and therefore his analytical searches were mostly intuitive. Otherwise he would have had much better arguments for his theory and would have referred to Marx's analytical categories.

The fifth point is that the situation regarding international exchange, where Marx's law of value operates in a different way, is quite different. Marx failed to work out the range of problems of international trade (although he intended to in a fifth volume of *Das Kapital*), but nonetheless his followers (Arghiri Emmanuel, Samir Amin, Charles Bettelheim, Christian Palloix, etc.) took his theory of value in international exchange further and generally (with differences of course) came to the conclusion that the law of value displays reverse causality. In this case, due to the lack of a free movement of labor, as well as the absence of a world government, it is exchange and not production which determines the formation of value. Thus, here the leading role in price formation is played by use-value rather than by exchange value. In the first place, this makes it difficult to determine the internationally necessary labor costs, and secondly, even where such measurement does exist (when national labors are reduced to international abstract labor), the surplus value remains within the country of higher productivity and there are no mechanisms to redistribute it.

According to J. Love the representatives of the theory of unequal exchange, especially in Latin America (either Marxists or not), have considered Manoilescu their forerunner (Love, 2009). In his pioneering book *L'échange inégal*, where Marx's law of value in national exchange is opposed to that in international exchange, Arghiri Emmanuel explicitly argues that Manoilescu's book is the only exhaustive effort to create an original theory of protectionism (Emmanuel, 1969, p. 37). According to Emmanuel himself: “[...] there is a category of countries which, whatever they undertake, whatever they export, will always exchange more national labor against less foreign labor. This is the fundamental question among those which we will try to find answers to” (Emmanuel, 1969, p. 50). Emmanuel mentioned

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<sup>5</sup> The same texts supplied with explanations were included by Marx in his *Critique of Political Economy* (Marx, 2009 [1859]).

Manoilescu again in his other book on the profit and crises (Emmanuel, 1974, p. 13). As regards Samir Amin, despite his different understanding on socially necessary labor<sup>6</sup>, he defines the *unequal exchange* through productivity in a way similar to Manoilescu, namely as a situation in which differences in wages between countries do not compensate for differences in productivity (see Roffinelli, 2013).

And finally, it is clear that ways could be sought to eliminate such non equivalence of exchange from a country's or a nation's standpoint, and as a rule both capitalists and workers in a given country could share a common national interest. It could consist in stopping the outflow of value and raising the overall level of productivity; thus they would produce the same amount of international use-values by means of lower value, or more exchange use-values by the same value, which amounts to the same thing. The protectionism and customs tariffs are appropriate measures for stopping transfer of value and finally exploitation between nations.

This is Manoilescu's model: he believes that in an international exchange setting behind the equivalence of exchanged use-values there is an unequal exchange of value, and ultimately of national labor. It is clear that the similarity of Manoilescu's model to Marx's makes it vulnerable to the same criticisms addressed to the latter and which discredit it. It mainly boils down to the impossibility of comparison between different types of labor and the transformation process from value to prices.

### **3.2. A Ricardian interpretation**

Manoilescu's writings on protectionism contain repeated attacks against the Ricardian theory of external trade. These attacks are a way for him to develop an original - if not perfectly rigorous - criticism against the classical theory of the advantages of trade, but also a way to explain his own views step by step. Manoilescu's attack is founded on an argument of different productivity of labor which is missing in Ricardo's approach in Chapter 7 of *The Principles*. It is difficult to follow Manoilescu in this appreciation completely: is there an underlying assumption of equal productivity of labor in Ricardo's presentation?

Since the reassertion of Ricardo's conception in the second part of the last century following the publication of his complete works by Piero Sraffa, this interpretation has been generally challenged. It would be more precise to say that Ricardo, as in other parts of *The Principles of Political Economy* and also in other of his previous or following writings, supposes a uniform rate of profit in the economy. The third paragraph of Chapter 7, entitled "On Foreign Trade", actually begins with the following words: "The profits of different employments have a tendency to conform to one another: to advance and recede together". In this book, the uniform "rate of profit" cannot be interpreted as a simple index of the productivity of agricultural goods like in the *Essays on Profits*, where the input and the output are physically homogeneous. In the text of *The Principles*, the uniform "rate of profit" is generally considered, in a Smithian tradition, as the result of competition among producers<sup>7</sup>.

Since Sraffa's works (1960), this uniform rate of profit has been expressed by the conditions

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<sup>6</sup> Samir Amin's theory claims we can observe the formation of global (world) socially necessary labor, which is closely related to the processes of globalization (Roffinelli, 2013).

<sup>7</sup> During the eighties this interpretation of the rate of profit uniformity gave rise to the so-called "gravitation theory" literature; see for instance, Arena, Froeschlé and Torre (1990).

of production of the so-called “basic commodities”. In the Ricardian approach - then legitimated by subsequent progresses of linear algebra - a distinction is indeed introduced between basic and non-basic commodities. Commodities are labelled as “basic” when they contribute directly or indirectly to the production of other commodities. They are non-basic goods in the opposite case. When wages are advanced to workers (and not paid on the surplus), workers’ consumptions can be substituted to wages in the expression of inputs: consumption goods are then by nature basic goods, as they contribute directly to the production of other goods. The production system presented by Ricardo in the *Essays on Profits* is then a particular case of an economy where the basic goods contribute by themselves to the determination of the “rate of profit”, the latter being generally interpreted in modern literature more as a “rate of return” than as a rate of profit strictly speaking.

Our first step is to choose an elementary economy where the rate of return is determined by the conditions of production of basic commodities and prove that within this context Ricardo’s conclusions on the advantages of trade are valid. We then introduce an assumption on the differentiation of labor productivity made by Manoilescu - which we reinterpret as an assumption of a differentiation of the “rate of return” among industries. We then proceed to prove that, under certain conditions, Manoilescu’s assertion can be rationalized.

### **3.2.1. The limited validity of the classical assertion on the gain of external trade when the rate of return is uniform**

We suppose that there is a “gain of external trade” for a given country when the following two conditions are verified:

1. International trade does not decrease the rate of return of the countries participating in the external exchange
2. International trade does not decrease the amount of the surplus of goods available in the countries participating in the external exchange

In accordance with Ricardo’s presentation, we present his assertion in the following way: *A given country gains by trading with another country, as long as the two countries have different relative efficiencies in producing two goods.*

We represent the economy before external exchange with a two-sector model with one single basic good - good 1. The basic good is a good of first necessity, a wage-good assimilated to an agricultural good. This good provides an expression of wage costs under their real form, *i.e.* by the amount of basic goods consumed by wage-earners. We also suppose one single non-basic good - good 2, which could be assimilated to an industrial good. We suppose full employment, *i.e.* that the unit production of good 1 is necessary and sufficient to feed all employed workers given the current level of wages. Lastly, we take by convention the level of output of each good as the unit of measure of quantities. The unit matrix  $\mathbf{Y}$  figures the matrix of outputs (goods in columns, industries in line) and the matrix  $\mathbf{X}$ , the matrix of inputs, with:

$$\mathbf{Y} = \begin{pmatrix} 1 & 0 \\ 0 & 1 \end{pmatrix}, \quad \mathbf{X} = \begin{pmatrix} x_{11} & 0 \\ x_{21} & x_{22} \end{pmatrix}$$

Where the generic element  $x_{ij}$  represents the amount of input  $j$  necessary to produce the unit

quantity of good  $i$ . The vector  $\mathbf{p} = (p_1, p_2)$  represents the relative prices and the scalar  $r$  the uniform rate of return of the economy. The net quantity of goods available after production is given by the vector of “surplus”  $\mathbf{s}$ , with  $\mathbf{s} = (1 - x_{11} - x_{21}, 1 - x_{22})$ . It corresponds to the consumption of profit-earners.

All components of  $\mathbf{Y}$  and  $\mathbf{X}$  being given,  $\mathbf{p}$  and  $r$  are solutions of the system (1):

$$\mathbf{Xp}(1 + r) = \mathbf{Yp} \quad (1)$$

This system solves in the general case using the Perron-Frobenius theorem. In our simple bi-sectorial case, the solution is trivial: given the decomposability of the matrix  $\mathbf{X}$ , the rate of return  $r$  is obtained as the rate of return of the production of the basic good (here the good 1) with:

$$r = (1 - x_{11})/x_{11}$$

and the relative price  $p_{12} = p_2/p_1$  in autarky can be easily expressed as

$$p_{12} = \frac{x_{21}}{x_{11} - x_{22}}$$

Let us now suppose that international prices are given by  $p_{12}^i = p_2^i/p_1^i$ . Two cases which express the difference of productive efficiency of the two goods are then possible:

case 1:  $p_{12}^i < p_{12}$

case 2:  $p_{12}^i > p_{12}$

First, consider case 2,  $p_{12}^i > p_{12}$ . Here, the difference between the international and domestic prices of the two commodities encourages the domestic country to import good 1 in exchange for an export of an increased production of good 2. Proposition 1 clarifies the conditions of validity of this result.

**Proposition 1.** *When the return is uniform among industries and when the price of the non-basic good is comparatively higher internationally, there is always a gain of trade for the domestic country to specialize in the production of the non-basic good.*

*Proof:* Given the comparison of  $p_{12}^i$  and  $p_{12}$  and considering that  $p_{12}$  is obtained by the equation  $(x_{21} - x_{22}p_{12})(1 - r) = p_{12}$  with  $r = (1 - x_{11})/x_{11}$ , it is easy to verify that applying the international prices to the equation of production of good 2 increases the domestic rate of profit from its initial amount  $r = ((p_{12} - x_{21})/x_{22}p_{12}) - 1$  to its new level  $r' = ((p_{12}^i - x_{21})/x_{22}p_{12}^i) - 1$  higher than  $r$ . The first condition of gain is then always satisfied. To verify the second one, we calculate the amount of good 2 which can be produced under the usual conditions of production in the domestic country. If we consider that all workers are employed in the production of the non-basic good, its production is increased to level  $1 + (1/x_{21})$  units. This quantity must cover the input of non-basic goods necessary to produce this new quantity,  $x_{22} + x_{22}x_{11}/x_{21}$ , the previous surplus in good 2,  $(1 - x_{22})$ , and allow to buy internationally 1 unit of good 1, necessary to produce this output and to maintain

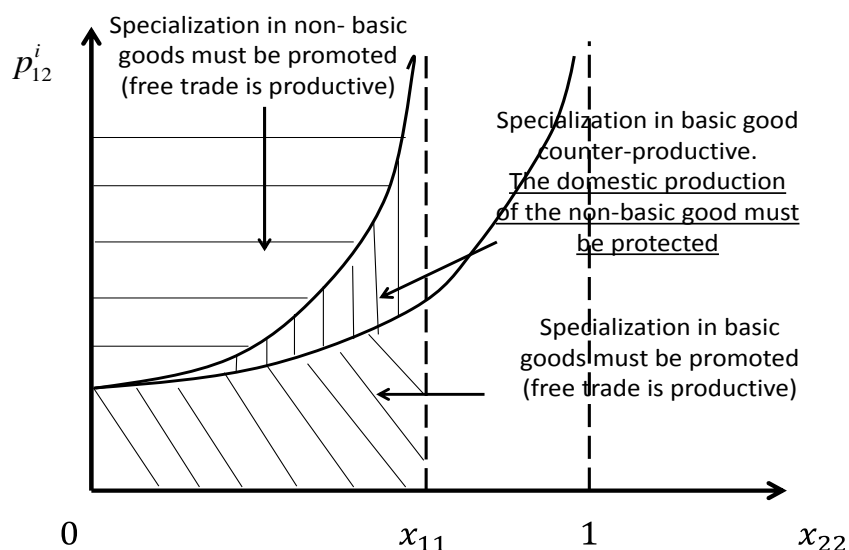
full employment. One verifies that the quantity of good 2 available for international exchange is then  $x_{11}(1 - x_{22})/x_{21}$ . Given the relative values of  $p_{12}^i$  and  $p_{12}$ , a sufficient condition for the possibility of buying more than 1 unit of good 1 on the international market, is then  $x_{11}(1 - x_{22})/(x_{11} - x_{22}) > 1$ , which is always verified given the definition of  $x_{11}$  and  $x_{22}$  ■

Now consider case 1,  $p_{12}^i < p_{12}$ . Here, the difference between the international and domestic prices of the two commodities encourages the domestic country to import good 2 in exchange for an export of an increased production of good 1. Proposition 2 defines the conditions of validity of this result.

**Proposition 2.** *When the return is uniform among industries and when the non-basic good is comparatively more efficiently produced internationally, there is not always a gain of trade for the domestic country to specialize in the production of the basic good.*

*Proof:* Given the comparison of  $p_{12}^i$  and  $p_{12}$ , the relevant specialization to be examined for the domestic country is in the production and export of good 1, against the import of good 2. The workers previously employed in the production of good 2 are now redirected to the production of the basic good. This additional production which uses the quantity  $x_{21}$  of good 1, corresponds to the quantity  $x_{21}/x_{11}$  of good 1. Given the international price, this amount of good 1 is exchanged internationally against  $x_{21}/x_{11}p_{12}^i$  units of good 2. This quantity has to be compared with the initial surplus in good 2 is  $(1 - x_{22})$ . This quantity of good 2 can be obtained by trade only if  $p_{12}^i < x_{21}/x_{11}(1 - x_{22})$ . Given the definition intervals of  $x_{11}$  and  $x_{22}$ , one verifies that  $\{p_{12}^i < p_{12}\} \not\Rightarrow \{p_{12}^i < x_{21}/x_{11}(1 - x_{22})\}$  ■

The gain from trade obtained by the specialization of the domestic country in the production of the basic good is then conditional. The comparison of the two conditions on the value of  $p_{12}^i$  exhibits that the bigger  $x_{22}$  is, the larger is the spread between the values of  $p_{12}^i$  fulfilling both conditions. Figure 1 summarizes these observations: if the abscissa measures  $x_{22}$  and the ordinate  $p_{12}^i$ , the dashed portion of the map represents, for a given  $x_{11}$ , the values of  $x_{22}$  and  $p_{12}^i$  such that the two conditions of specialization are not validated despite  $p_{12}^i < p_{12}$ . In this case, the production of the (non-fundamental) good 2 must be protected.



**Figure 1:** International specialization with a uniform rate of profit

In conclusion, the protectionist attitude is justified when  $x_{21}/x_{11}(1 - x_{22}) < p_{12}^i < x_{21}/(x_{11} - x_{22})$ . In this case, the international prices encourage the domestic country to specialize in the production of good 1 since external trade increases the productivity of the non-basic good first, then the domestic profit. But this specialization would not allow the domestic country to buy the same quantity of good 2 as the quantity available in the surplus product in autarky. With the possibility of increasing the population of workers and the quantity of inputs of good 1, it would have been possible to produce a sufficient quantity of good 1 and to exchange it against the required quantity of non-basic good. With the full employment of resources, the basic good production is not sufficient to obtain via external trade an increase of the non-basic good in the new surplus after trade.

### 3.2.2. The validity of Manoilescu's assertion on the gain from protectionism when the rates of return are differentiated

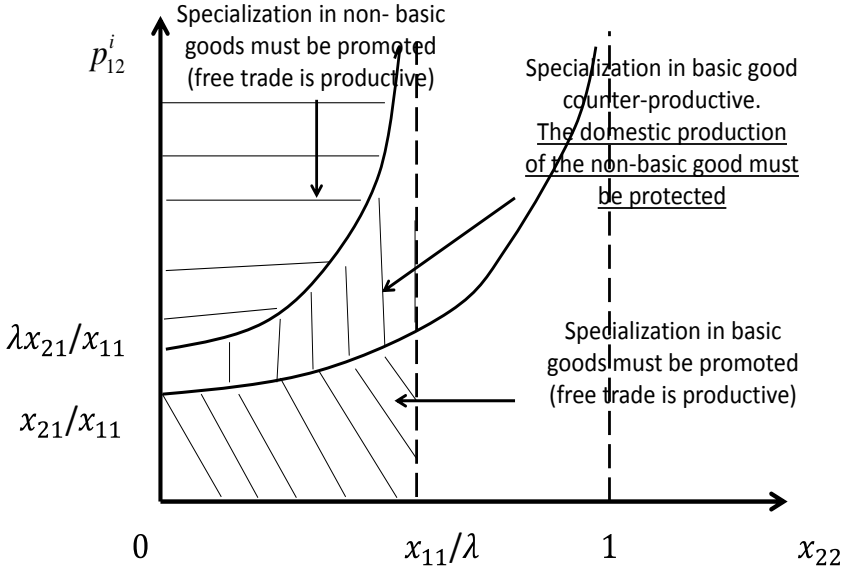
We then suppose that there is a differentiation in the industrial return. While the factor of return of the basic good is now given by  $(1 + r)$ , the return of the non-basic good is given by  $\lambda(1 + r)$  with  $\lambda > 0$ . When  $\lambda < 1$ , the rate of profit in the production of the non-basic good is lower than in the production of the basic good, and it's the opposite when  $\lambda > 1$ . The first case can correspond to a situation such that the return of the non-basic good is so weak that it has a negative influence on the rate of profit.

The analysis of these two cases provides the following results.

**Proposition 3.** When  $\lambda > 1$ , i.e. when the rate of profit is larger in the production of the non-basic good than in the production of the basic good, propositions 1 and 2 still hold.

*Proof:* We repeat the intermediate steps of the proof of propositions (1) and (2): we obtain the same results, except that the domestic price  $p_{12}$  is now expressed as  $p_{12} = \frac{\lambda x_{21}}{x_{11} - \lambda x_{22}}$  ■

Figure 2 represents the different cases of gain of trade and of autarky in this case.



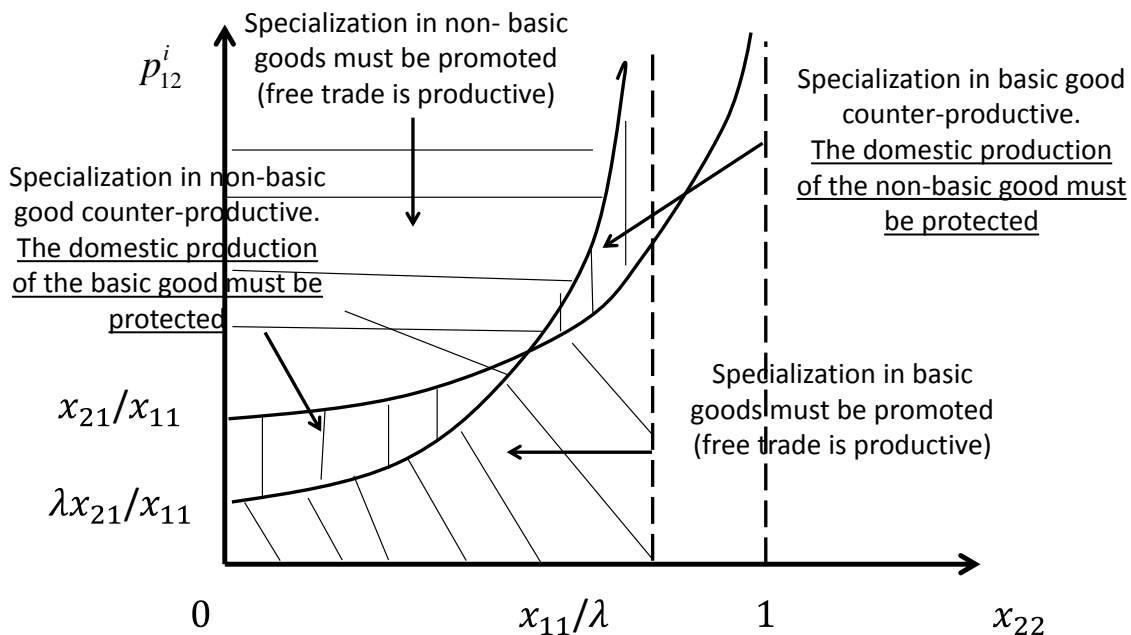
**Figure 2:** International specialization with a higher rate of profit in the production of non-basic goods

We then consider the case where  $\lambda < 1$ , i.e. the case where the rate of profit is smaller in the production of the non-basic good than in the production of the basic good. In this case, Proposition 1 no longer holds and we obtain Proposition 4:

**Proposition 4.** When the rate of profit is smaller in the production of the non-basic good than in the production of the basic good, and when the basic good is comparatively more efficiently produced internationally, there is not always a gain of trade for the domestic country to specialize in the production of the non-basic good.

*Proof:* We repeat the intermediate steps of the proof of proposition (1) and following. We then observe that the equations  $p_{12} = \frac{\lambda x_{21}}{x_{11} - \lambda x_{22}}$  and  $p_{12} = \frac{x_{21}}{x_{11}(1-x_{22})}$  intersect in the semi-positive part of the plan, determining four possible zones. One of them is such that  $p_{12}^i > p_{12}$  and  $p_{12}^i < \frac{x_{21}}{x_{11}(1-x_{22})}$ : it corresponds to pairs  $\{x_{22}, p_{12}^i\}$  so that the production of basic goods must be protected despite it being relatively expensive domestically ■

Figure 3 summarizes the situation when  $\lambda < 1$ .



**Figure 3:** International specialization with a lower rate of profit in the production of non-basic goods

These two propositions do not strictly correspond to the cases developed by Manoilescu, but they show that when the return is differentiated among sectors, there are new cases where protectionism can be encouraged. Proposition 4 is particularly counter-intuitive as it encourages protectionism in the production of non-basic goods when the international price of these goods is lower and when its domestic return is weak. This case is very close to Manoilescu's proposition.

## 4. Conclusion

In this paper we presented two new interpretations of Manoilescu's theory of protectionism. With the first interpretation we argued that Manoilescu captures some of the basic ideas of Marx's theory of value, especially post-Marxist interpretations of value and surplus value generated in foreign exchange. That being so, the formation and distribution of the value of trade between nations presents interesting specificities when it is compared to domestic exchange. While the surplus value within the country is generated inside the production process, the main source of surplus value in foreign exchange is the exchange itself (by its nature, it is not an equivalent exchange of labor). While developing this conception, Manoilescu provides a defence of industrial protectionism which could help limit the leakage of value from agrarian to industrial countries. Clearly, the similarities with the theory of Marx and post-Marxists automatically entails criticisms which have been repeatedly addressed to the Marxian labor theory and are mostly associated with the impossibility of



commensurability of different types of labor and the transition from value to prices.

Our second interpretation is founded on Ricardian setting. Commodities are produced by commodities; wages paid to workers in advance then take the form of wage-goods or fundamental goods in the production of each commodity. In this context, we have limited the analysis to a bi-sectorial setting with one single fundamental good (which could be assimilated to agricultural goods) and a single non-fundamental good (which could be assimilated to industry or services). We supposed full employment and a surplus-product made up only by non-basic commodities. We determined the production prices and profit of a domestic economy, first in autarky, then in the case where the comparative advantages principle is applied to determine international specialization. We examined the consequences of foreign trade both on the domestic rate of profit and on the available surplus.

When the rate of profit is uniform among sectors (which could be analyzed as the result of free competition), the consequences of opening the economy are asymmetric. When there is a competitive advantage for the production of industrial goods, no protection must be built around the domestic agricultural sector. In the opposite case and depending on the productivity of industry and the level of international prices, the industrial sector should be or not be protected. These results confirmed Manoilescu's prediction in a different setting. We extended the model in supposing differential rates of profit. We then found that under certain circumstances, the opposite scenario can also emerge. This case could be interpreted in contemporaneous context: in some cases, traditional domestic sectors should then be protected even if the law of comparative advantages suggests a different solution.

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