

# Mihail Manoilescu theories of international trade 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, a Central Banker but also as an Economist. From the very beginning of his theoretical and practical career, or at least from late 1920s till the end of his life, Manoilescu's ideas and theories were marked by clear continuity and connection based on the theory of protectionism. Its defense of protectionism are generally presented as clumsy and founded on unadapted method. This paper contributes to a testament of the conclusions of Manoilescu 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 views in modern terms. It presents arguments assimilating his analysis to some post-marxists presentations of the after-war period. It also develops a Ricardian model proving that the Manoilescu intuitions can be corroborated into a Ricardian setting. It shows that the Manoilescu intuitions can be corroborated into a Ricardian setting. The last section concludes.

*JEL Classification:* B22, B26, E42

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

## 1. Introduction

The aim of this paper is first to present Mihail Manoilescu (1891-1950) conception of protectionism, developed in the inter-war period in Romania and largely diffused abroad, given that its main book was initially published in French, then translated in English and Portuguese. One of the motivation of this restatement is to promote the study of the economic thought of the Balkan region, not only because national and regional traditions of this region of Europe are still unknown by western readers, but also because some of them, as Manoilescu, are very good and original specialists and their texts offer over-estimated presentations on important topics.

The end of the twenties and the thirties correspond in Balkan to a period of growing interest for the nationalist and the protectionist views, both ones being frequently associated in the literature (see Pasvolsky, 1928; Berov, *ed.*, 1989; David, 2009). Another motivation of this paper is to show that despite the twenties were probably more open to accept protectionist views than other periods, the presentations of Manoilescu are not only devoted to illustrate the climate of the period. They are still useful to understand how and when the protectionist views can be analytically supported.

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Mihail Manoilescu took an active part in developing the economic policy in Romania and a definite technocratic peak in his career was the design of the aforementioned industry protective tariff, which subsequently evolved into an all-round theory of industrial protectionism. Later, this protectionist theory fit into the model of organic and corporate economy, which Manoilescu 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 late 1920s till the end of his life, Manoilescu's ideas and theories were marked by clear continuity and connection 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; Pohoată, 2007; Maneschi, 2008, Love, 1990, 2009). However, this theory has been in general received with criticism from the leading western economists of that time and this is still the case of modern analysts. In the same time, Manoilescu became very popular in Latin America in constructing a model of development for the third world (see Love, 1990).

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

## **2. Main elements of Manoilescu theory of protectionism**

The main objective of Manoilescu was to defend and substantiate the need for a new model of economic development for the peripheral Balkan countries. Involved in the 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 calls it, "the spirit of Geneva" was absolutely detrimental to Romania, held back its development and served foreign interests. One way to reach his goal was then to invalidate Ricardo's theory of comparative advantages underpinning the free-trade ideas. This however was to be achieved from within the currently accepted external trade approach by using the basic postulates of the classical economic doctrine "to defeat it on its own grounds" (Manoilescu, 1931, 81), as the author proposed in his book released in 1929 in Paris (and later on translated into English in 1931, Italian, Spanish, Portuguese, and in 1937 - in German), and in a synthetic 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 in Bulgarian on occasion of his visit to Bulgaria in 1933 (Manoilescu, 1933).

The young Manoilescu was both unsatisfied by the poor level of development of Romania during the twenties and by the usual presentations of the advantages of free external trade. His perception was that a free determination of the terms of exchange was unadapted to the situation of an emerging country, not because there would be something wrong in Ricardo approach but because free trade is unadapted in the case of youngly industrialized countries. It was typically the case with Balkan countries in this period.

Therefore, a new criterion needs to be applied in assessing the trade policy of each emerging country. This criterion has to encompass not only terms of exchange, but also productivity, which now begins to appear as the leading determinant of the development of

emerging economies.

*First*, this criterion, which could be assimilated to a sort of 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 regress (Manoilescu, 1929, 290). But how is this indicator to be maximized?

Hence the *second* assertion of the author, which is also based on empirical observations: the main means of achieving this goal in underdeveloped countries like Balkan countries were at this time, is only by an increase in the overall level of labor productivity of these 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, 6). How could this growth of overall national productivity be realized?

And here, *third*, again starting with facts, Manoilescu argues that an increase in overall national productivity should be based on a change of its structure, *i.e.* should be obtained by expanding the sectors of high productivity at the expense of the low productivity ones. Now, which are these sectors?

Obviously, as could be judged from the facts, industry is a high productivity sector, while agriculture is a low productivity one. The difference, or the so-called sectorial scissors between these two productivities, is much larger with the Balkan 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, 11). Consequently, in order to raise overall productivity, the share of the sectors of above average productivity needs to be increased and national labor needs to climb the ladder up to higher productivity (Manoilescu, 1931, 18). And finally five, how could such climbing up is to be attained?

The answer is extremely clear - via customs protection for high-productivity sectors, *i.e.* 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. In parallel, the scissors of domestic productivity should be narrowed, with sectors of below average productivity converging toward those of above average productivity. Thus, the sectoral scissors of poor countries would narrow and so come closer to those abroad. Over time, however, new sectorial scissors will open already within the industrial sector, which makes protectionism almost an eternal mechanism.

On the whole, protectionism brings with itself quick (from the very first day) and visible benefits and in general it does not require sacrifice, which contrasts with List’s model where protections produce results while on the move, and, as a general rule, only under certain conditions (Manoilescu, 1929, 85; 1931, 14, 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 approach is in contradiction with the theory of comparative advantages which Manoilescu paid special attention to criticize.

*First*, he considers as an important limit that Ricardo's theory does not take account of the quality of labor (its heterogeneity) and its national character: according to Manoilescu, Ricardo's model does not distinguish the differences between external and internal exchange. Unlike individual profit, which is generally static, preset, national profit is dynamic and a situation with aggregate profit and individual losses is possible. "A capitalist's profit is something of the surface; national profit is what is deep" (Manoilescu, 1929, 36).

*Second*, 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<sup>1</sup>. This is so because a monetary exchange between two countries does not reflect the real proportion of the amount of exchanged labor between the two countries whose structure substantially differs in terms of productivity. A value leaves the country when a commodity is exported, for the production of which a lower productivity labor is employed, 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, 226), or as stated in another publication "the true measure is man himself". In international trade money does not account for labor productivity.

"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, 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, 160). All this leads to "unequal exchange" in terms of labor, because to import coal in Romania against grain exported to another the country, the labor of 10 and 20 workers is required in each country: "[...] 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, 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, 198).

### **3. Interpreting Manoilescu's approach of the "losses of trade"**

Manoilescu's version of the gains of trade was diversely received by the reviewers of the period. The reception of Viner (1932), Condliffe (1933), Ohlin (1931), Otto v. Mering (1933),

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<sup>1</sup> Later on, Manoilescu was considered a forerunner of the theory of unequal exchange, see Love, 2011

and Oulès (1934), and more generally of the relative advantages theory defenders was negative while the positive reviews were somewhat an exception, as for instance the reviews of Pasvolsky (1932), and later of Kalecki (1938) and Hagen (1958). The most thorough analysis of the Romanian author's theory is made by Firmin Oulès, who wrote a special monograph (Oulès (1934a)). Within two hundred pages, Oulès reviews in great detail the basic postulates of the theory, which he attributed to the theories of international trade based on productivity, and shows its weaknesses at the 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]). But both Manoilescu's, and Hecht's conclusions are wrong because 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 drawn/ found between the theory of the Romanian author and that of Karl Marx.

Manoilecu's writings were also received with criticism in the Balkan countries as well, such as by the authority in agrarian and industrial economy and foreign trade Gheorghe Tasca (1937) and the two leading Bulgarian economists in the area of foreign trade Georgi Svrakov (1936 [1934/1935]) and Konstantin Bobchev (1933, 1935). Recently, Roxana Bobulescu and Joseph Love presented an in-depth and exhaustive analysis of Manoilescu's theory indicating its main shortcomings, debatable points and but also original ideas (Bobulescu, 2003; Love, 2009). In the same vein were most of the critiques by other Romanian authors (Pohoat, 2007; Maneschi, 2008). They are mainly concerned with Manoilescu's misconception of productivity, not taking account of productivity of capital, also with the presence in each country of the so-called "non-competing groups" and other weak components of Manoilescu presentation.

Here we would like to propose possible interpretations of Manoilescu's theory, which in a sense brings in new ideas and could help us understand the internal contradiction of the model of the Romanian economist. The first one is in the line of Marxian and post-Marxian theory, and the second one is inspired by "neo-ricardian" reading of Ricardo's theory of international trade.

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

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 and which, as is known, bring up logical problems both within an individual country and in an international exchange setting. What is it all about?<sup>2</sup>

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

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<sup>2</sup>As already mentioned, Firmin Oulès as early as 1934, repeatedly underlined the similarities between the theory of Manoilescu and that of Marx (Oulès, 1934a, 262, 278, 286, 291, 296, 317,377-379). 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).

which Manolescu's theory is positioned.

*Second*, as is known, Ricardo resolved the problem of measuring one against other types of labor by proposing firmly fixed ratio of wages across the various types of labor. Taussig (1921, 1927) made a series of steps toward a more realistic accounting for different labor classification, but on the whole remained within the Ricardian conception of the labor theory of value.

*Third*, similarly to Taussig, Manolescu questioned the rationality and sustainability of Ricardo's theory from the perspective of quantifying labor, but he followed a different line of analysis and proposed different type of solutions to scaling different types of labor again within the labor theory of value. Although Manolescu did not mention it explicitly, he looked for solution in the same direction which Marx offered with all its advantages and, most of all, with all its flaws. This similarity is also evident from Manolescu's ambitions, who, according to Joseph Love, compares his achievement to that of Marx (Love, 2009) and from what we have seen so far, in his speech in Sofia Manolescu declared that he had found "a socialism of peoples, which is more essential and more revolutionary than the socialism of classes" (JBES, 1933see also Manolescu, 1929, 286). In our opinion, Manolescu 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.

*Forth*, we know that Karl Marx resolved 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 labor - individual, concrete labour - are equated to social, abstract labor, labor as expenditure of human energy. This way, labor products are equated to commodities of exchange value. Despite the variation of price vis-à-vis value in each particular case the movement (as a result of demand and supply discussed in volume three) of the products of labor becoming commodities are exchanged according to the amount of abstract labor or socially required labor costs input 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 consumption 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 labour; in reality this determines only the degree of effectiveness of productive activity directed towards a given purpose within a given period of time. Useful labour becomes, therefore, a more or less abundant source of products in direct proportion as its productivity rises or falls. As against this, however, variations in productivity have no impact (whatsoever) on the labour itself represented in value. As productivity is an attribute of labour in its concrete useful form, it naturally ceases to have any bearing on that labour as soon as we abstract from the concrete useful form. The same labour, therefore, performed for the same length of time, always yields the same amount of 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 labour, and therefore the amount of use-values produced by it, also brings about a reduction of value of this increased total amount, if its cuts down the total amount of labour-time necessary to produce the use-values." (Marx, 1976 [1867], 137) .

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 less 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, within a national economy a free movement of labor and capital exists, which dynamically leads 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 under certain conditions redistribution among the different groups via the mechanisms of state could also take place.

*Five*, quite another is the situation with international exchange, where Marx's law of value operates in a different way. 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 Marx's followers took further his theory of value in international exchange (Arghiri Emmanuel, Samir Amin, Charles Bettelheim, Christian Palloix, etc.) came to the conclusion that the law of value displays reverse causality.

This way, value is transferred from the countries of lower to those with higher productivity, the first being exploited and playing the role of the laborers in Marx's model, while the latter are exploiters and occupy the positions of capitalists. It is clear that from a country's or a nation's standpoint, ways could be sought to eliminate such nonequivalence of exchange, and as a rule (and once again under specific conditions) both capitalists and workers in a given country could share a common national interest. It consists 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, amounts to the same thing - more exchange use-values by the same value. This is Manoilescu's model who 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.

Here, 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, the leading role here in price formation is played by use-value rather than by exchange value. That makes it difficult to determine the internationally necessary labor costs. And even where such measurement, such category does exist (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. This way, value is transferred from the countries of lower to those with higher productivity, the first being exploited and playing the role of the workers in Marx's model, while the latter are exploiters and occupy the positions of capitalists.

According to Joseph 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 a theory of protectionism (Emmanuel, 1969, 37). According to Emmanuel himself: "there is a category of countries, which whatever they undertake, whatever they export, they will always exchange more national labor against less foreign labor. This is the fundamental question among those that we will try to find answers to" (Emmanuel, 1969, 50). Emmanuel mentioned again Manoilescu in his other book on the profit and crises (Emmanuel, 1974, 13).

As regards Samir Amin, despite his different understanding on socially necessary labor, he in a similar to Manilescu way defines the unequal exchange through productivity, namely a situation in which differences in wages between countries do not compensate for differences in productivity (see Roffinelli, 2013 ).

And finally *six*, it is clear that from a country's or a nation's standpoint, ways could be sought to eliminate such non-equivalence of exchange, and as a rule (and once again under specific conditions) both capitalists and workers in a given country could share a common national interest. It consists 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, amounts to the same thing – more exchange use-values by the same value. The protectionism and customs tariffs are appropriate measures for stopping transfer of value and finally exploitation between nations.

This is Manoilescu's model who 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 with that of Marx's makes it vulnerable to the same criticisms that are addressed to Marx's model and discredit it. It boils down primarily to the impossibility of commensuration different types of labor and the transformation process from value to prices.

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

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

From the restatement of Ricardo conception in the second part of the last century, after the publication of its complete works by Piero Sraffa, this interpretation is generally challenged. It would be more precise to say that Ricardo, as in other places in *The Principles of Political Economy*, as also in other of his previous or following writings, supposes a uniform rate of profit in the economy. The third paragraph of the Chapter 7, untitled "On Foreign Trade" begins indeed by 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 in the *Essays on Profits* where the input and the output are physically homogeneous. In the text of *Principles*, the uniform "rate of profit" is generally considered, in a Smithian tradition, as the result of competition among producers<sup>3</sup>.

From the works of Sraffa (1960), this uniform rate of profit is expressed by the conditions 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 labeled "basic" when they contribute directly or indirectly to the production of other commodities. They are non-basic

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<sup>3</sup> this interpretation of the rate of profit uniformity has been the origin during the eighties of the so called "gravitation theory" literature ; see for instance, Arena, Froeschlé and Torre (1990).

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”, this last being generally interpreted in modern literature more as a “rate of return” than as a rate of profit strictly speaking.

We the first 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 conclusions on the advantages of trade are valid. We then introduce an assumption made by Manoilescu on the differentiation of labor productivity - which we reinterpret as an assumption of a differentiation of the “rate of return” among industries. We then prove that, under some condition that we clarify, Manoilescu 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 for a given country a “gain of external trade” when the two following conditions are verified:

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

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

Without loss of generality we represent the economy before external exchange by a two sectors model with one single basic good - the 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 wages costs under their real form, *i.e.* by the way of the amount of basic good their make the consumption possible by wage-earners. We also suppose one single non-basic good - the 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. Last, 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-Froebenius 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 one) with:

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

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

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

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

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

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

Consider first the case 2,  $p_{12}^i > p_{12}$ . Here, the difference of the international and domestic prices of the two commodities encourages the domestic country to import the good 1 in exchange of an export of an increased production of good 2. Proposition 1 precises 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 the 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 the gain is then always satisfied. To verify the second one, we calculate the amount of good 2 which can be produce under the usual condition of production of the domestic country. If we consider that all workers are employed to the production of the non-basic good, its production is increased to at a level  $1 + (1/x_{21})$  units. This quantity must cover the input of non-basic good necessary to produce it  $x_{22} + x_{22}x_{11}/x_{21}$ , 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 verify 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 to buy 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  $x_{22}$  ■

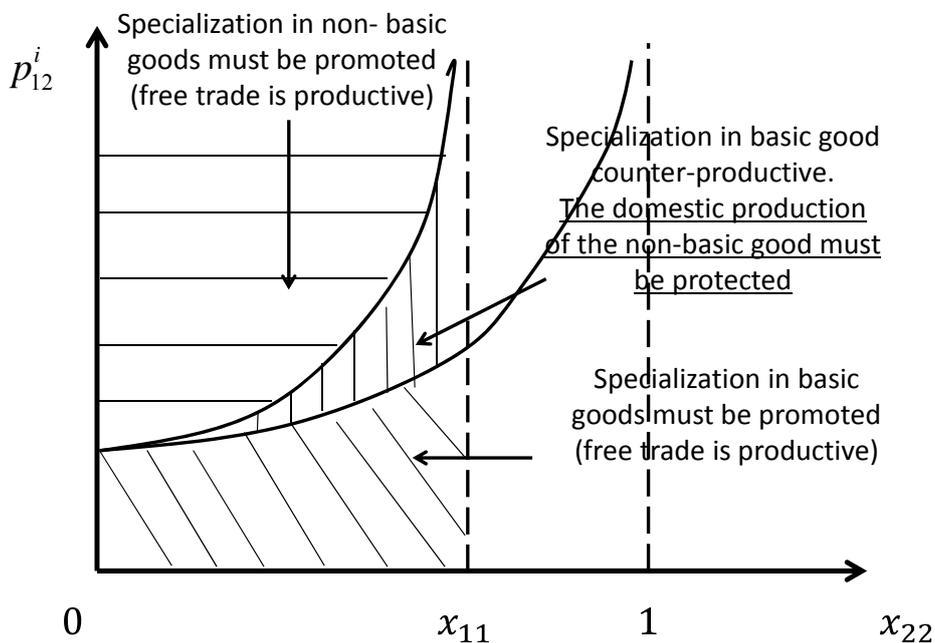
Consider now the case 1,  $p_{12}^i < p_{12}$ . Here, the difference of the international and domestic prices of the two commodities encourages the domestic country to import the good 2 in exchange of an export of an increased production of good 1. Proposition 2 defines the

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 examine for the domestic country is in the production and export of the good 1, against the import of the good 2. The workers previously employed the production of the 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 the 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 verify 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 bigger is  $x_{22}$ , larger is the spread between the values of  $p_{12}^i$  fulfilling both conditions. Figure 2 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 the good 1 since external trade then increases the productivity of the non-basic good, then the domestic profit. But this specialization would not allow the domestic country to buy the same quantity of good 2 that the quantity available in the surplus

product in autarky. With the possibility to increase 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 increased of the no,-basic good in the new surplus after trade.

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

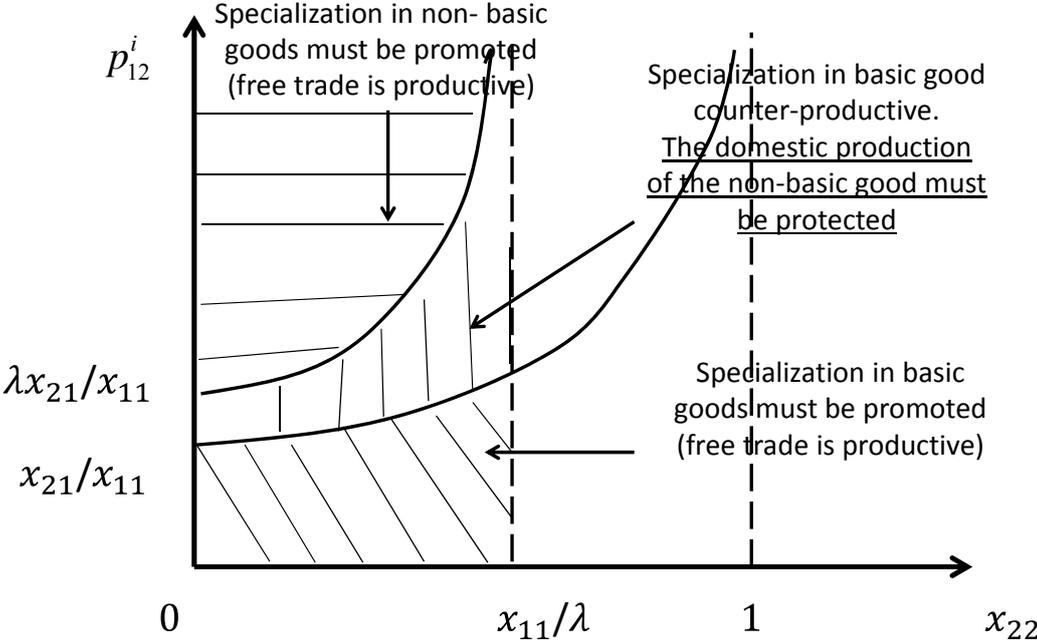
We then suppose that there is a differentiation of the industrial return. While the factor of return of the basic good is now given by  $(1 + r)$ , the return of the non-basic good is given by  $\lambda(1 + r)$  with  $\lambda > 0$ . When  $\lambda < 1$ , the rate of profit in the production of the non-basic good is lower than in the production of the basic good and 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 renew the intermediate steps of the proof of propositions (1) and (2): we obtain the same results, except that the domestic price  $p_{12}$  expresses now 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 the non-basic good

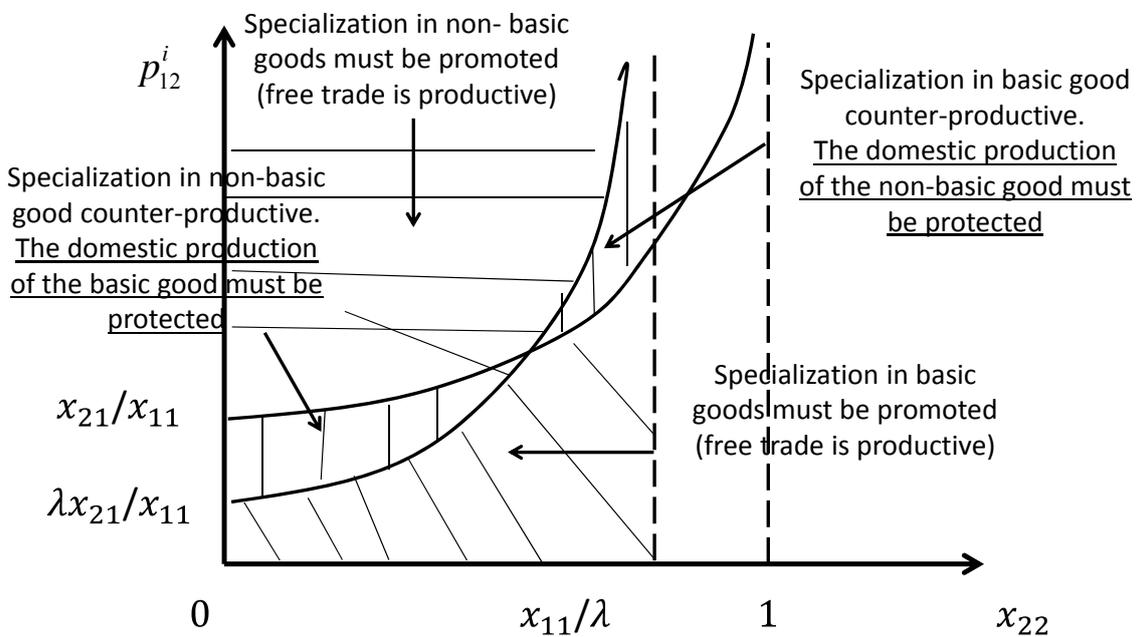
We then consider the case where  $\lambda < 1$ , i.e. the case where the rate of profit is smaller in the production of the non-basic good than in the production of the basic good. In this case,

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 renew 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 orthant, 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  $\{x_{22}, p_{12}^i\}$  such that the production of the basic good must be protected despite it is 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 the non-basic good

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

## 4. Conclusion

In this paper we presented two new interpretations of the theory of protectionism by Manoilescu. With the first interpretation, we argue that Manoilescu captures some of the basic ideas of the Marx's theory of value, especially post Marxist interpretations of value and surplus value generated in foreign exchange. In this light, the formation and distribution of the value of

trade between nations presents interesting specificities when it is compared with domestic exchange. While within the country the surplus value is generated inside the production process, in the foreign exchange the main source of surplus value is the exchange itself (by its nature, it is not an equivalent exchange of labor). While developing this conception, Manoilescu provides a defense of industrial protectionism which could help limiting 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 the prices.

Our second interpretation is founded on a reinterpretation is founded on a Ricardian setting. Commodities are produced by commodities; wages paid in advance to workers 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 good) and a single non-fundamental good (which could be assimilated to industry or services). We suppose full employment and a surplus-product made only by non-basic commodities. We determine 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 examine 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 according the productivity of industry and the level of international prices, the industrial sector should or not be protected. These results confirm in a different setting Manoilescu's prediction. We extend the model in supposing differential rates of profit. We then find that in some circumstances, the opposite scenario can also emerge. This case could be interpreted with a consideration to more contemporaneous contexts: in some cases, traditional domestic sectors should then be protected even if the law of comparative advantages suggests another solution.

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