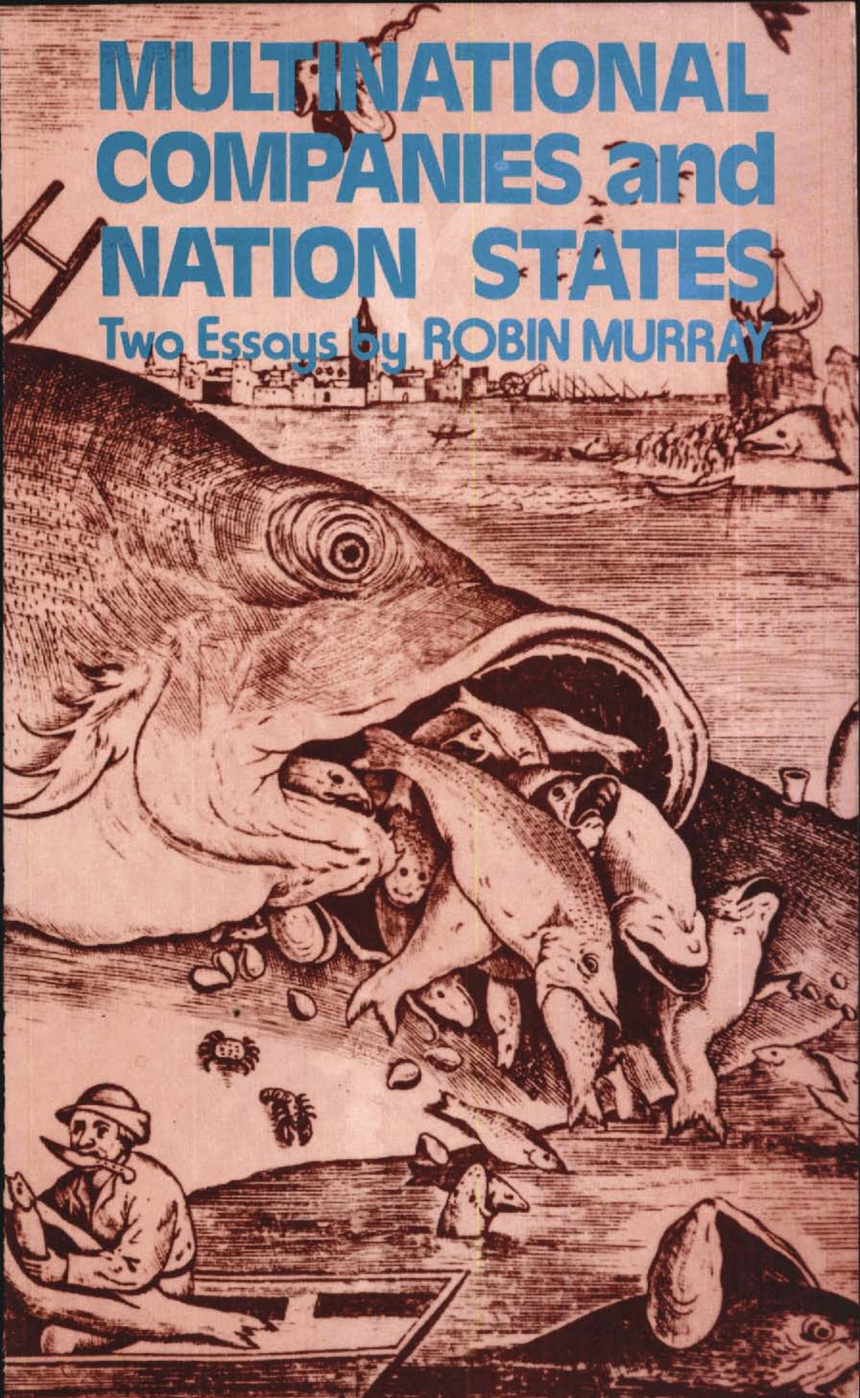
MULTINATIONAL
COMPANIES and
NATION STATES
Two Essays by ROBIN MURRAY

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Robin Murray

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The Internationalisation of Capital and the British Economy

1

I

Introduction

In *Imperialism and World Economy,* Bukharin analyses imperialism in the following way: first he establishes the existence of production relations and exchange relations on a world scale, that is he gives, with evidence, a substantial meaning to the term 'the world economy'; second he discusses a number of alternative forms taken by the division of labour in the world economy, that between town and country, that between firms, syndicates, cartels and trusts, and that between nations; thirdly he seeks to establish the dominance (in an analytical sense) of one of these forms of division of labour – that based on nations – over the others. It is this third question with which this current paper is concerned.

I have cited Bukharin because his manner of proceeding raises questions which are not raised in a good deal of the *corpus* of Marxist writing on imperialism. His main point was to establish the dominance of the national division of the world economy over the corporate division. Kautsky was arguing the converse case, in an extreme form, that the corporate division of labour in the world

economy dominated and indeed gradually eroded the national form of division. Bukharin did not deny the existence and power of the international cartels and trusts: "world finance capitalism and the internationally organised domination of the banks are one of the undeniable facts of economic reality." [1] But for him these international corporate agreements were inherently unstable – often representing business organisations with a low degree of centralisation of capital or highly specialised production branches; and further, "significant as this process (of internationalisation) may be in itself, it is, however, counteracted by a still stronger tendency of capital towards nationalisation, and towards remaining secluded within state boundaries. The benefits accruing to a 'national' group of the bourgeoisie from a continuation of the struggle are much greater than the losses sustained in consequence of that struggle."[2]

Bukharin was accordingly led to analyse what these benefits were. His argument required him to offer a theory of the relationship between the state and its 'national' capital. In responding to this requirement Bukharin brought the Marxist theory of the state into the centre of the Marxist theory of imperialism. Implicitly at least, he brought together two distinct branches of Marxist theory which both before and since have tended to remain apart. On the one hand the state became a concept whose substance had to be established, rather than a category to be accepted as the base unit for analysis. On the other, the relationship of capital and state was given a territorial as well as a more abstract perspective. The state may be rightly shown to perform repressive, ideological, conciliatory or economic functions

in an abstract capitalist system: but in a historical analysis these functions can be shown to relate not merely to the internal operation of the system, but also to the support of this system in the face of competition from other systems.[3]

In a previous paper[4] I tried to develop an approach to the relationship of state and capital both in economic and territorial space. In the course of this analysis, I also suggested, albeit implicitly, that in contemporary capitalism the corporate international division of labour was the dominant form; that while there existed to a heightened degree the contradiction between the internationalisation of productive forces and the territorial division of appropriation (Bukharin's striking general characterisation of imperialism) nevertheless Bukharin's specification of this contradiction no longer held; that the centralisation of states could occur through non-violent as well as violent means; and that, on the other side, Kautsky's characterisation of ultra-imperialism obscured and neglected the contradiction altogether.

In the present paper I want to discuss the implications for a nation state of the internationalisation of capital in relation to a particular experience — that of Britain. I will further limit myself to dealing with only one set of implications, namely the impact of capital internationalisation on the effectiveness of the principal instruments of short-term economic stabilisation policy. Yet in spite of this limitation in scope, and in geography, some conclusions can be drawn which bear both on the contemporary circumstances of Western European states, and on the more general issue of the dominant form of the international division of labour raised by Bukharin.

The paper is in four parts: some introductory remarks on the extent of the internationalisation of capital as it affects the British economy; and then, in sequence, a discussion of the effects of internationalisation on monetary, fiscal and balance of payment policies.

II

British Overseas Investment

One way of gauging the extent of Britain's international financial involvement is to look at the stocks of various forms of external capital asset and liability at any one point in time. In Table 1 we have summarised these stocks under main headings, and compared their growth over time.

If we look at direct investment, we estimate that foreign direct investment in Britain constituted over 10% of the net capital stock of companies in the UK, and that overseas direct investment by UK companies made up nearly 20% of the net capital stock owned by UK companies internationally. These are still relatively small figures but they are rising, with inward investment rising rather faster than outward investment over the period. Further the figures understate the capital controlled by direct investors: foreign investors control large amounts of liquid funds which do not enter national inventories of foreign investment. Raymond Vernon of the Harvard Business School has estimated that the US firms responsible for the $65 b. direct investments abroad in 1968 (measured at book value) control about as much again in liquid funds, and Professor Dunning

TABLE 1

U.K. External Assets and Liabilities. 1962 and 1968

£ million

Item	Assets			Liabilities		
	1962	1968	% change	1962	1968	% change
Monetary						
1. Official	2,060	2,016	-2	3,045	6,125	101
2. Private:						
UK banks external claims & liabilities in:						
sterling	634	1,252	97	1,419	1,602	13
foreign currencies	996	7,051	608	1,028	7,098	590
Other private	747	1,197	60	319	313	-2
Long Term						
3. Official	710	1,116	57	2,670	2,995	13
4. Private						
portfolio*	3,000	5,800	93	1,050	2,200	110
direct investment+	4,885	7,755	59	2,130	3,720	75
extra-sterling area borrowing by UK companies (excl. oil co.s)				5	165	..
Total	13,030	26,195	101	11,665	24,220	208

Notes: * at estimated market value

+ at estimated book value of net assets. Figures for assets exclude the direct investments of UK banks; those for liabilities exclude the direct investments of overseas banks and insurance co's in the UK.

Source: Bank of England Quarterly Bulletin. December 1969 pp. 444-5

implies a similar ratio for US direct investment in Britain when he estimates that US firms controlled $9,000m of assets in British industry at the end of 1965 (as against a declared book value of $4,400m at the same date).[5] There is evidence, though not in the same aggregate form, that similar considerations apply to British foreign investment: raw material firms, such as RTZ or Charter Consolidated, control many times their capital stake in most of their directly productive investments; and the financing strategies surrounding Eurobond issues by British companies confirm that the same is true – though in a less extenuated form – for foreign manufacturing investment in the advanced capitalist countries.[6] It is the capital *controlled* rather than *owned* which is of prime relevance for our argument: a management contract with zero investment may well lead to more control over capital than a minority holding in a joint venture without an accompanying management contract.[7]

The other two items in the table calling for comment are the rise in portfolio investment over the period, and the enormous jump in the external liabilities and claims of UK banks in foreign currencies. As regards the first of these, the doubling in value of both assets and liabilities represents largely capital appreciation (and both are most probably a good deal lower now because of the decline in stock exchange prices). The rise in the UK banks external claims and liabilities denominated in foreign currency on the other hand reflects the remarkable growth of the Eurocurrency market, and London's role in it.[8] Hirsch estimates that London accounts for one-third to one-half of the market, but this figure is now almost certainly too low.[9] We will dis-

cuss the significance of the Eurodollar market for the British state in the following section.

We have looked at the stock of inward and outward international investments. Even more significant is the part played by international firms and banks in the flows at which government policy has been traditionally aimed. Thus while US affiliates own some 10% of the capital stock in the UK, they account for more than 20% of the net fixed capital formation of companies in the UK, with foreign companies of all nationalities raising the figure to 27% in 1965. In that year, we can further estimate that approximately one-third of all net fixed capital formation by British companies took place abroad.[10]

These figures are striking not only because they indicate the importance of foreign companies in capital formation in Britain, but also because they give one indication of the significance of international operations for British companies. Another indication can be seen in the relative importance of foreign markets for British firms. Over the last decade there has been a marked trend for overseas sales (either in the form of exports or overseas manufacture) to increase as a percentage of total company sales. British companies are not yet in the position of Phillips or the Swiss drug companies, but the growing importance of their overseas operations can be seen from Table II.*

These are major firms. The great majority of the

* Table II see page 46

top 100 British firms, from the evidence we have, show a similar trend. It is well known that both exports and overseas investment are highly concentrated in the hands of these large firms. The top 120 firms account for one-half UK exports; the top 50 firms own over four-fifths of UK foreign direct investment. They are international firms both in terms of sales distribution and, in the majority of cases, in terms of the location of capital formation as well. But they also provide an important share of capital formation in Britain, of profits, of loans raised on the British capital market, of taxes and so on. When we add to this share, that of foreign firms investing in the UK, we get a picture of principal internal flows within the British economy (manufacturing, sales, investment, profits, company tax, even employment) being dominated by firms with an international spread.

The domination is even more marked in terms of balance of payments flows. What is true of direct investment flows (by definition) is also true of return flows of profits from abroad (by definition). What is true of exports, is also true of trade credits. We will discuss in more detail in section IV the impact of international ownership on the balance of payments. Our point here is merely to indicate the extent to which capitalist activity in Britain is now dominated by international companies — whether of British or foreign origin.

III

Monetary Policy

The internationalisation of capital in the form of international companies might be expected to blunt domestic monetary policy because such companies have a privileged access to funds that remain relatively unaffected by changes in British monetary policy. Such funds might be of two kinds: internal or external. In terms of internal funds international companies, like large national firms, certainly have available large amounts of internally generated surplus. Prior to the Johnson restrictions on direct investment, US firms provided the majority of their financial needs from internal sources: of total funds of $14.8 b. raised for US overseas business in 1965, 22% came from US sources (in part from funds internal to the firm in the US). 46% came from reinvested earnings (net income plus depreciation and depletion minus income paid out) and 32% came from external foreign sources.[11] Since the tightening of restrictions, flows from the US have fallen, and those from external foreign sources have risen, but it still appears that internal funds compose the major part of overseas financing. We have no breakdown of total funds for US subsidiaries in Britain. Board

of Trade figures do show that new net investment (at book value) by foreign companies in the UK in 1968 was financed 62% by unremitted profits, – 10% from changes in indebtedness on inter-company accounts, and 47% from net acquisitions of share and loan capital: and these proportions hold equally for US investment.[12] In fact foreign companies are restricted by regulation from using the British capital market for capital investment: had we figures for sources of working capital of foreign companies these would probably show a much higher proportion of funds borrowed from British financial institutions.

British firms similarly have access for their British investment not only to undistributed earnings and depreciation provisions on their British operations, but surplus funds generated from their overseas affiliates. Net earnings on UK foreign investment amounted to £568m in 1968, with depreciation provisions coming to £229m. A large part of this total is re-invested overseas, but a proportion is returned either as remitted profits, or as disinvestment from the sale of share and loan capital, the receipt of dividends in excess of profits, the repayment of credit previously extended on UK exports and the repatriation of working balances. In 1968 remitted profits plus other net receipts came to £348m (though much of this was remitted only on paper), while gross disinvestment totalled £197m (as against a gross investment of £607m).[13]

It should be made clear that as far as internal sources of finance are concerned it is the size of the international firms rather than their international nature that is important. Were the internal market

large enough to accommodate national firms of a similar scale, there would be no question of distinction. But as far as Britain is concerned, the size of the internal market cannot accommodate such size in most sectors: firms are driven abroad for markets and raw materials; accumulation leads to extra-territorial extension. It is in this way that international firms operating in Britain can be said to have a privileged access to one form of capital more or less insulated from domestic monetary policy (i.e. *internally generated funds*).[14]

The second source of capital to which international firms, and particularly American firms, have privileged access is the international capital market: particularly the Eurodollar and Eurobond markets. The remarkable rise of the Eurodollar market is well known. From a size of $5b. in 1963 it rose to an estimated $35b. by the end of 1969. International firms have played a prominent part in the market on both the demand and the supply side. On the side of demand, international firms have used Eurodollars for both transaction and speculative purposes. In Sweden and Canada we know that corporations hold Eurodollars on current account to meet working capital needs: much intra-firm trade is financed with Eurodollars, as are the issues of long-term securities in Europe, particularly those denominated in dollars.[15] As far as speculation goes, the evidence is less authoritative: all one can say is that those most closely involved with this market appear to assume that Eurodollars are used to finance speculation, and this assumption became an outcry (in some quarters) during the Deutschmark crisis of May 1969.[16] On the supply side international firms have used the market for short-term

investment of transaction funds and excess cash balances (Squib in Ireland for example,) and for short-term investment of money raised on the European security market, (capital is raised in advance of need and is invested meanwhile – thus in the 18 months up to June 1966 US corporations raised $530m of foreign funds through their affiliates, though they used only $157m. for direct investment outside the US during the same period, and are said to have invested a good deal of the balance on the Eurodollar market.[17])

A similar pattern is observable on the Eurobond market. This market, which has served as a market for long term debt as against the short – and increasingly medium-term function of the Eurodollar market, has grown from a figure of $164m. in 1963 to $3517m. in 1968 – altogether a total of $8.6b. worth of bonds having been issued over that period or 75% of all international bond issues (foreign bond issues totalling $2.9b. over the same period). Government and para-government bodies were the predominant issuers in the early years of the market (accounting for 94% of the issues in 1963 and 80% in 1964). They have now been superceded by corporations (accounting for 77.5% of the issues in 1968), who were forced to turn to the market because of the Interest Equalisation tax of 1963, and the Johnson measures of 1965 and 1968.

In both the Eurodollar and the Eurobond markets international firms, and particularly American firms, have had a clear advantage over national ones. In the Eurodollar market, it is the large international firms which have the credit names to satisfy the

Eurodollar lenders; they commonly have extensive relationships with the US banks whose branches play so important a part in the market; and their size allows them to deal in a market (whose transactions are for seldom less than $1m) in a way which is not open to most national British firms. Chase Manhattan put it thus: "only large companies with excellent credit standing are ordinarily eligible for Eurodollar credits . . . even relatively strong overseas subsidiaries of major American companies are frequently required to supply the lending bank with a parent-company guarantee, insuring the lender that an unquestionable source of dollars is in reserve should the subsidiary's own dollar sources fail."[18]

In the Eurobond market the point is even clearer. The usual range of an issue is $10-25m. It will typically involve 3 or more managers, a further twenty banks and investment houses in the underwriting group, and up to 80 or so other financial institutions in the selling group: both underwriting and placement houses will be selected by the banks who are managing the issue to ensure a wide geographical spread. Thus the bonds are internationally underwritten and internationally placed. They are sold very much on the name of the issuer and accordingly the large international companies have had a clear advantage. Again in the words of a bank, this time Morgan Guarantee: "in their investment decisions of Eurobond and note issues they (the investors) have been inclined to weigh heavily the prominance of the company, its sponsorship, and their own familiarity with one or the other. These factors have helped the large, internationally known US corporation to obtain the best terms."[19] To this we

should add that the popularity of convertibles (as a better guard against inflation, and because of the more generous returns offered by convertibles as against the dividend of the underlying stock) has also favoured the large American companies. European firms with the exception of the Dutch have found difficulty in floating convertibles: international investors clearly favouring those bonds convertible into US common stocks.

The point I have wanted to establish is that, in the British economy, international firms, particularly American ones, have a privileged access to the resources of the Eurocurrency markets. As in the case of internal funds, a large part of this privilege comes from size: but there is evidence that in the raising of loans on the Euromarkets the fact that a company has an international spread of operations is a significant advantage.

The access of international firms to substantial internal sources of finance and to the international capital market will clearly have an adverse effect on government policy aimed at restricting domestic investment by the availability or price of credit.[20] But the effect of the international capital market on British monetary policy can be put more generally. For it is now an established theorem in the neo-classical international monetary literature that international capital flows weaken the effects of domestic monetary policy under a system of fixed exchange rates. "In a world of perfectly mobile international capital, monetary policy will be completely frustrated by monetary flows, at least for any small or medium-sized country, in its efforts to change domestic interest rates relative to the level of rates prevailing internationally."[21]

In Britain an increase of the interest rate, through the bank rate or a decrease in the money supply, will cause an inflow of foreign capital into the country (responding to higher interest rates). If the effect of the inflow is not sterilised, reserves will increase as will the money supply on certain assumptions. The inflow of capital will mean that the Bank is offered dollars which it buys with Treasury Bills. The question then becomes, what will the holders do with the Treasury bills. If they buy government debt, monetary policy would be safe, for the government would, in effect, be borrowing the amount of the inflow to finance the exchange authorities purchase of the foreign exchange. If, on the other hand, the demand of the holders of the Treasury bills is for bank deposits or local authority debt then there would be an effect. In the first case, for example, bank liquidity would increase, as a multiple of the new Treasury bill holding because of the liquidity ratio. The increase in the money supply would then counteract the putative disinflationary effects of the original rise in the interest rate. The more perfect the international capital market the weaker the effect of monetary policy on domestic income. Given that the development of the Euromarkets has been so closely bound up with the internationalisation of corporate capital, and given the impact of these markets on the international mobility of short-term capital, and thus on domestic monetary policies, we can see here a further form in which the growth of international firms has challenged the state's short-term stabilisation instruments. [22]

On the other hand the British state still has powers to counteract such a challenge. Sterilisation is possible.[23] Credit derived from currency loans by

domestic banks to domestic corporations could be restricted or prohibited. Limitations could be placed on corporate borrowings from foreign banks, or on the ability of domestic banks and corporations to place dollar acquisitions on the market. The bank could impose restrictions on the convertibility of dollars acquired in the Eurodollar market (as did the Italian exchange authorities with their special permits for convertibility), or specify specific reserve requirement for deposits derived from borrowing in the Eurodollar market (as did the US in 1969). It could by restrictions or reserve requirements compel banks to re-export any balances accepted in the market – thus in Italy banks were required not to acquire net liabilities in foreign currency. Finally the Bank could intervene in the forward market to change the cost of cover and therefore the relative benefits of arbitrage via the Eurodollar market, (again the US in 1961).

These measures are quite within the power of the Bank, and as we have seen a number have been implemented by other exchange authorities. In fact in the British case controls are weak. Clearing banks face limitations on borrowing in the Eurodollar market: reserve ratios apply to foreign as well as home deposits. But there are no such limitations on non-clearing banks, who may onlend swapped Eurodollars to local authorities and finance houses. When Eurodollars have been borrowed for a switch into sterling, there is no need to rebuy dollars for repayment of loans in the premium market: i.e. the dollar premium does not apply. There is a cash deposit scheme under which the Bank of England can call forth cash deposits upon which the Treasury bill rate will be paid against sterling deposits taken

from non-residents, and whereby it can also require a higher percentage of cash deposits on those deposits recruited by the non-clearing banks from overseas residents. But these measures have, in the main, not been implemented. Taken together, while some regulations do exist for limiting the freedom of capital in the UK to use the Eurodollar market, there is little effective sterilisation of the impact of the international money market on the British economy.

The reason is, of course, clear. British domestic policy has been dominated by balance of payments considerations. In the neo-classical theorem, with free international capital movements and fixed exchange rates, monetary policy does not affect the level of income but it does affect the reserves. An inflow of short-term international capital (say in the form of Eurodollars switched into sterling) benefits the balance of payments in the short-term. Since domestic policy has so often been implemented less because of the 'overheating' of the domestic economy than because of balance of payments pressure, the improvement of the balance of payments through short term capital inflow makes it that less necessary for monetary policy to have a restraining effect on domestic economic activity.[24]

To allow international short-term capital to play this role in national economic stabilisation is, to say the least, to build a strategy on a pile of sand. Indeed the vulnerability of the British economy to the flight of short-term capital has been a major factor in the reduction of the economic power of the British state and to what has been called elsewhere the crisis of incorporation faced by British capitalism since the end of the 2nd world war. That is to

say, the internationalisation of capital particularly in the form of the Eurocurrency markets, has had effects far wider than the erosion of domestic monetary policy. At this point, however, our concern has been to establish the more limited result.

IV

Fiscal Policy

In our discussion of monetary policy we saw that the internationalisation of corporate capital had two effects: one was to diminish the overall effect of monetary policy particularly as it applied to international firms; the second was to de facto weaken the competitive position of national capital since, following our argument, a rise in the price of availability of credit would hinder accumulation by national relative to international capital. Our principal emphasis was on the first of these points. When we come to fiscal policy again both points hold: but, our emphasis will be on the second, the degree to which fiscal policy has weakened national relative to international capital.

In neo-classical theory, while international capital mobility reduces the effectiveness of monetary policy it increases the effectiveness of fiscal policy. Say there is a tightening of fiscal policy. Taxes will rise or government expenditure will be cut. Either way, government debt falls; this will depress interest rates and ease credit. Further the fall in GNP will lead to an improvement on current account, an in-

crease in reserves, and an expansion of the money supply. The easing of the monetary situation thus serves to counteract the restrictive fiscal policy. This argument applies to an economy with no international capital mobility. The introduction of such mobility changes the situation, for the fall in interest rates now leads to an outflow of capital through the exchanges, a decrease in reserves and a tightening of the money supply. The counteracting monetary effect is itself counteracted, and fiscal policy takes full effect.[25] According to the neo-classicals what international capital mobility takes away from monetary policy it gives back via fiscal policy. Stabilisation is safe.

It is not at all clear that such symmetry hold for Britain. To begin with fiscal policy has been far from successful in stabilising demand. It is as well to recall Dow's well known conclusion on British macro-management in the 1950's: "as far as internal conditions are concerned . . . budgetary and monetary policy failed to be stabilising, and must on the contrary be regarded as having been positively destabilising. Tax reductions were made in two or three steep steps, and changes in the regulation of credit were extremely severe."[26]Dow considered that fiscal policy could have a positive effect, if tax changes were made more gradually, but he still had to admit that demand would fluctuate because of cycles in the growth of overseas demand, that it would be difficult to eliminate fluctuations in investment in stocks, that controlling investment by financial means takes time to take effect, and that the disproportionate emphasis on consumers' expenditures on durables "is not a useful way of trying to control the economy."[27]Thus even in the

50's when the degree of internationalisation was lower, fiscal policy was a far from sharp instrument of domestic macro-management.

The increased presence of international firms in the British economy is likely to further limit the scope of fiscal policy. First US affiliates in particular appear to have a higher export/total output ratio than do corresponding British firms. The share of US firms in British manufacturing exports is 75% larger than their share of UK manufacturing output, and this holds for sectors as well as in the aggregate.[28] It is noteworthy also that the proportion of exports to GDP for the economy as a whole is rising. In 1962 exports of goods and services stood at 22% of GDP and by 1969 this had risen to 25%. A similar increase holds for exports and re-exports (from 16% up to 18.5%). Foreign demand for output from UK-located plants – one of Dow's 'basic causes of instability' – has thus been growing relatively over time.

Secondly, the growth of international firms in the British economy is likely to decrease the effectiveness of depreciation allowances as a short-term instrument, because of the privileged access of such firms to alternative sources of funds as discussed in the previous section.

Furthermore, as far as incoming foreign investment is concerned, the size of these allowances, plus on occasion, other financial rates, may actually be fixed over the long-term at the time the original investment is made. This abdication of the flexibility of financial policy instruments has certainly been common abroad (most clearly in underdeveloped countries but also in the Common Market).

Thirdly, where fiscal policy clearly does have an effect, on consumer expenditure, and where such effects run counter to the interests of major international firms, there is clear evidence that the political power of these firms is brought to bear on governments to change the measures. The international motor firms in Britain have applied just this kind of pressure against the HP and tax restrictions on the domestic motor market over the past few years.

Taken together these factors make up a growing limitation to the overall effectiveness of fiscal policy. But they are far from negating the effects of such policy. Fiscal policy can still have a decisive effect on the domestic economy, but – and this is the second major point I want to make in this section – the effect can only be achieved at the cost of national capital and labour. Those measures which do have effect on the level of domestic activity are those aimed at sectors and classes which cannot get round them. Controls on the level of real spending power (direct and indirect taxation), changes in national insurance contributions and health charges, the limitation of government expenditure notably in the field of public and social services, clean air and so on: these are the forms of regulation which the British state has increasingly resorted to. And when it is a question of cutting investment grants, depreciation allowances, initial grants and so on, it is likely to be the smaller national firms most seriously affected.

One further discrimination exists in the field of taxation. International firms have the powers to pay a less than proportionate amount of tax. In the first place, foreign investors often obtain substantial

tax and depreciation concessions as a condition for their initial entry. Over the last decade these concessions have increased in size and range as countries have effectively bid against each other for the privelege of acting as hosts to foreign investors. In Belgium the fiscal authorities have powers of discretion to waive the 'taxe mobiliere' on the fixed capital on manufacturing enterprise. American enterprises in the Italian South have often succeeded in winning exemption from municipal and provincial taxes (although such exemption is not recognised in the official Italian programme on aids to foreign investment).[29] Certainly the Commission in Brussells is concerned with this competitive bidding away of tax revenue and has estimated that taking the EEC as a whole, the existing amount of foreign investment could have been attracted with aids half the size. Keith Joseph reflected a similar concern when he proposed an international agreement between members of GATT on the level of foreign investment aids.

Once established, international firms have further limited their tax payments of tax or quasi-tax-havens. This is an often quoted phenomena, though I know of no study which has shown the aggregate effect of such surplus-switching on the British (or indeed any other) economy. Yet it undoubtedly does happen. The oil companies with their high transfer price on crude imports (resulting commonly in losses being shown for UK operations) is an established example. So is the drug industry: we have the evidence of the Sainsbury Commission, and we know too that Squib switched profits to Ireland from her British exports by transfer pricing, and more recently to Panama.[30]Many international consumer durable firms (such as Electrolux) maximise

post-tax surplus realisation internationally, as do electrical firms. More generally Piccione has recently given an account of the operation of tax haven companies by US firms, specifically in Switzerland. He cites the following as having 'THC's' in Switzerland: Chrysler, Dow Chemical, General Electric, Du Pont, US Rubber, Controls of America, General Mills, Singer, & Sunbeam – though some have been recently modified following changes in US tax laws and Swiss regulations.[31] There are no figures on how far these tax haven companies affect the profits of their sister-affiliates in the UK: certainly the UK Customs take considerable trouble to prevent the transfer of funds through the exchanges by transfer pricing. Nevertheless on almost all these goods some such transfer is possible, even if the limits are often uncomfortably narrow.

In these two ways, through initial concessionary agreements and profit transfers, international firms are able to lower their tax payments to the British government. As a result, either government revenue is lower or non-international sources are required to pay higher contributions than they otherwise would. Whichever happens national capital will tend to suffer relatively to the international firms.[32]

V

Balance of Payments Policies

The impact of international firms on *short-term* macro-policy instruments has been most significant in the field of balance of payments policies under fixed exchange rates. We will discuss three aspects of this impact: speculation, exchange controls, and changes in the exchange rate.

By speculation I mean financial transactions which are intended to minimise losses (hedging) or maximise profits (pure speculation) as the result of a change in the exchange rate. If a firm suspects that a particular currency is likely to be devalued, it may follow any or all of the following policies: increase local borrowings; decrease holdings of locally denominated cash or near cash assets; increase the stock of imports; hold up exports; speed up import payments and slow down export receivables; follow a similar policy of leading and lagging on other intra-company international transactions, debt payments, trade credits, dividends remittance or fees and royalty payments. In all these transactions the aim is to decrease assets and increase debts denominated in the currency which is likely to be devalued.[33]

As far as leading and lagging of payments is concerned the evidence is quite clear that this played an important role in the pre-devaluation instability. Renton and Duffy in an econometric analysis of the balancing item in the Balance of Payments accounts have shown that many of the most marked swings in the balancing items have been in periods characterised by uncertainties about exchange rates, 1958 (2), 1959(4) – 1960(2), 1965(3) and 1967(2 - 3). The particularly violent swings in the balancing item in 1966(4) and 1967(1) – in all there was an adverse balance of £231m on the balance of monetary movements in those two quarters – they trace to a large underestimation of exports and to an even larger over-estimation of imports. They write, "these errors were probably due to extensive leading and lagging in the payment for imports and exports as a result of renewed fears of a sterling devaluation engendered by the seamans' strike."[34]

Fortune (September 15th 1968) claimed that most firms with European subsidiaries asked them to defer payment for goods from the UK for 6-7 months prior to devaluation. International Harvester, Texas Instruments, and IT & T were all protected by hedging, the first two having sold short on sterling. One study showed that 19 out of 22 firms asked had fully hedged their UK investment. Singer announced in their President's annual report for 1967 that their "assets were fully protected by borrowing and hedging operations." BP prepared themselves successfully for devaluation for over two years in spite of the fact that their chairman recently announced that his aim was to run BP in support of the British national interest.[35] ICI, Dunlop, and Bowater were all said to have hedged extensively, as

were IBM.[36] For many of these firms their financial management may be said to be defensive, a prudent protection of the value of their assets: others (Esso and Mitsui for example as well as International Harvester) actively speculate, and their departments of international financial management are reputed to be among the highest profit earners in the firm.[37]

In part international firms play a significant part in hedging, speculation and leading and lagging because of their importance as traders, and their responsibility for large quantities of the finance flowing through the exchanges. But the fact that these flows are intra-firm transactions, and that many of these firms have extensive, centralised, international financial management, does suggest that such forms of balance of payments instability will be more prevalent when international firms dominate international flows, than in an era of predominantly national capitals.

Hedging, of course, has a cost, either directly (in the form of higher interest rates on locally raised working capital) or in the form of profit foregone. Similarly speculation can have a negative as well as a positive outcome; Phillips for example suffered substantial losses on their speculation against sterling. The State can in principle negate the effects of speculation by holding larger reserves, but this too has a cost, in both political and economic terms. Britain has incurred this politico-economic cost by her borrowing and stand-by arrangements with central banks and the IMF: speculation by international firms has directly contributed to the weakening of the UK's economic independence in the face of European and American financial capital. Thus while in principle speculative activity can be offset

by the state, in historical practice Britain has been unable to do so without laying herself open to further incorporation into a US-dominated international capitalism.

When we turn to exchange controls we find a similar consideration applying. Formally, Britain has severe exchange controls as far as extra-sterling area transactions are concerned. Dollars required for portfolio investment have to be bought in the premium market; that is to say, they are subject to an independent floating exchange rate which at times (April 1969) has risen up to 60% above the official sterling/dollar exchange rate. In May 1966 new exchange control rules were introduced which forced UK companies to finance direct investment outside the sterling area via the premium market, and at about the same time the Bank activated its powers under the 1947 act to require British companies to repatriate some two-thirds of their extra-sterling area profits. These profits, like profits from portfolio investment, have to be remitted at the official rate of exchange and not via the premium market.

As far as incoming capital is concerned, exchange controls are directed mainly at ensuring that the foreign company will be largely self-financing: a prospective investor has to show that sufficient assets are being transferred from abroad to enable business to be conducted without forseeable need to borrow money domestically, except for working capital. Foreign investors have to satisfy two other conditions as interpreted by the Treasury Foreign Exchange Committee: the purchase price for new investments must be fair; and the investment should make an appropriate contribution to reserves in

terms of foreign capital inflow.[38]

The controls have undoubtedly had some effect. Investment in the non-sterling area from sources other than unremitted profits showed a small rise (an average of £61m p.a. for the period of 1966-68, as against one of £54m for the period 1963-65) though proportionately its importance declined.[39] Yet overall the controls have been administered in such a way that it is the means of finance rather than the amount invested which has been chiefly affected. John Chown puts it in this way: "Fortunately since 1966 the Bank of England and the Treasury have used considerable ingenuity to make sure that the need to protect the reserves does not interfere unduly with the overseas expansion of British business. As a practical matter few really viable overseas ventures are hindered by exchange control."[40] The Bank has allowed exports to foreign subsidiaries not to be paid for but treated as a contribution to capital; it has allowed back-to-back finance (provided the UK company puts up 15% of the capital involved as a deposit with the Bank in premium dollars) and permitted foreign currency borrowing with a parent company guarantee (interest being paid at the official rate of exchange). It has in short interpreted the regulations liberally since the interests of British international firms were at issue.

The controls on inward investment have also been used with effect, but again not so much to limit investment as to improve the terms under which foreign firms have entered. British governments have firmly refused to protect their national capital by restricting the inward flow of foreign investment, and they have equally avoided placing any restric-

tions on the repatriation of profits.

The point I am making therefore is that while British governments undoubtedly have the power to affect capital movements through exchange control they have been careful to limit the effects of these controls on the freedom of capital movement by international firms.

Yet we should also note that this power is far from absolute even were it to be used to seriously curb the investments of international firms. We have already mentioned ways in which international firms can circumvent exchange controls: transfer pricing; the payment of fees and royalties at various rates; the scheduling of intra-company debt; the allocation of overheads internationally; the timing of dividend payments, trade payments and so on. These are all bound by limits, but taken together they allow a considerable volume of funds to be transferred through the exchanges without control. Further there is much back-to-back financing which it is most difficult to detect if it is undeclared, while at crisis periods there is at least some straight smuggling. Where controls are too severe and/or unavoidable, politico-economic pressure may be applied. The CBI campaign against the overseas investment curbs has been one example — an informally successful one as we have seen.[41] At a time of international expansion the difficulty of enforcing exchange controls may not be serious; but it would become critical in the event of an international crisis.

We will now consider the effect of the internationalisation of capital on changes in the exchange rate. It has traditionally been assumed that a de-

valuation will have its most significant effect in the short run. Given that the price elasticity of demand for British exports is greater than unity, and that British export prices fall in dollar terms, then export receipts will rise. In the long run, however, this competitive advantage to the devaluing country will tend to be eroded by domestic inflation following on high import prices and wage demands. The domination of the exchanges by international firms is likely to alter this picture for the following reasons:

(i) international firms mostly operate in oligopolistic markets where prices are sticky; it may not be profitable to the exporting firm to start a price war by lowering final prices by the amount of the devaluation.[42]

(ii) international firms tend to allocate national markets to different sources of the firm's supply, (this is true of the car industry and electronics); markets which after a devaluation it would have been profitable for a British exporter to enter would accordingly be ruled out if that exporter were a subsidiary of an international firm.

(iii) alternatively markets may be allocated by an international oligopolistic agreement, with the same consequence as in (ii). The metal container market in Western Europe is divided and frozen in exactly this way.

(iv) the British plant may be part of an intra-firm international division of labour. The sterling component of the final product may be so small as to make an insignificant difference to the total cost and would certainly be unlikely to justify a price change in the end product. Let us assume

that the British export in question is a part composing one tenth of the value of the final product. An effective devaluation of 10% (after making allowance for the cost of imports etc.) would make a difference of 1% in the total cost of the final product.

Such an international division of labour is a growing feature of international corporate production. IBM are the best known example (the exports from the Greenock factory were significantly unaltered as a result of the 1967 devaluation), but other companies have moved and are moving towards similar national specialisation (Ford and Massey Ferguson are two examples).[43]

(v) exports may be the subject of an agreement between a foreign firm and the British government *ab initio*. Such an agreement was made with Chrysler when they took over Rootes: in this case the requirement was that Rootes should have as high an export percentage as the average for the British car industry, so that in this instance Rootes would probably have increased their exports after devaluation.

I don't wish to over-emphasise these points. A number of them apply in only a rudimentary fashion. Furthermore most econometric analysis suggests that British exports are sensitive to variations in relative export prices (most guesses on the price elasticity of substitution between British and world exports of manufactures to the industrial countries centre round -1.5 to -2.0 for the short term and –2.5 to –3.0 for the long term).[44] On the other hand, in support of our argument, there does appear to be a tendency towards a division of labour

internationally within the firm, and towards more trade becoming intra-firm trade (The Board of Trade in their Journal of 16.8.68 estimated that 22% of British exports were intra-firm transactions). We know, too, from micro evidence that international firms exporting from the UK to others of their subsidiaries do not alter their short term flow of goods in response to exchange rate changes. This is born out in the macro statistics on the monthly volumes of manufactured goods exported from the UK. Volumes were slow to rise after devaluation (if we exclude the effect of leads and lags), and the overall sluggishness of response by exports to devaluation (which seemed to puzzle some commentators) cannot all be ascribed to long lead times on engineering goods.

Devaluation may be expected to have less of a short-term effect on exports than it would have done in a system of purely national capitals. Its limited effect on imports in the short-term is better established as far as Britain is concerned, and this short term inelasticity has been connected with the existence of administered trade (intra-firm transactions and long-term contracts). Will devaluation have any effect at all? Micro evidence suggests two possible ones: first a discouragement of capital repatriations, and secondly an encouragement of new acquisitions within the UK. In Britain not only have both these results occured but they have been intimately linked.

After devaluation earnings on foreign investment in Britain rose from £216m. in 1967 to £312m. in 1968, at least part of the rise being accounted for by windfall profits from exports. Of this total, £112m. was remitted as against £92m. in 1967, but

the amount re-invested rose from £97m. in 1967 to £164m. in 1968. Foreign companies, particularly US companies, extended their stake in the British economy by re-investing the profits which they derived from the short-term benefits of devaluation. Devaluation, which the Labour Government had been forced into by the competitive decline of national capital and by speculation, and which they hoped would give them a push into some notional 'virtuous circle', in fact served only to extend the degree of Britain's incorporation.

VI

Conclusion

On the basis of the above, I would suggest three summary conclusions. First, the effectiveness of a number of these measures has been curtailed by the *internationalisation of capital*: in monetary policy (even where sterilisation is possible), in fiscal policy (particularly in respect to the growth of foreign demand), in the field of exchange controls, and in exchange rate policy. Second, the particular long-term crisis in which Britain finds herself, a crisis which we referred to as a crisis of incorporation, has constrained governments in such a way that they have not implemented policies which remain potentially effective instruments of control. Third, measures which governments have taken to stabilise the economy have born particularly heavily on national capital and the working class. We saw this to be the case with both fiscal and monetary policy: but it is more generally true. The hardy perennial of deflation policy has hit most of those relying on the home market. Unit costs rise, accumulation is limited, and competitiveness falls. It

has been as if government policy was actually charged with weakening national capital prior to its incorporation in larger international capital units, or indeed with weakening the national economy prior to its incorporation into a larger political identity. Returning to the point with which we begun, Bukharin's discussion of the international division of labour, from British experience at least it is the corporate rather than the national division of labour that dominates and determines the features of the international economy.

TABLE II AND NOTES

The Degree of International Involvement of Major British Corporations, 1969

– all figures in percentages

Rank in Times 1000	Company	Sales Abroad			Profit from overseas operations	Taxes paid abroad	Net assets abroad	Employment abroad
		Total	Ov.Subsid.	Exports				
35	Union International	–	–	2	–	99	–	–
43	Burmah Oil[a]	–	–	6	98	97	–	75
17	Dalgety	91	91	0	97	100	–	84
3	B.A.T.	90[b]	89	2	87	95	85	94
2	B.P.[c]	90	–	–	–	100	–	63
27	R.T.Z.	86[d]	81	5	96	98	82	–
5	Unilever	–	–	2[e]	–	79	–	69
25	Con.Tin Smelters	–	–	7	72	82	–	–
38	Coats Paton	67	59	8	80	90	57	48
49	Tate and Lyle	–	–	9	–	67	–	–
14	Dunlop	65	57	8	72	89	–	48
19	Hawker Siddley	57	37	20	–	29	34	21
48	Ranks	–	–	17	–	57	–	23
39	Bowater[f]	53	51	2	62	68	69	58
4	I.C.I.	52	34	18	27	23	–	26
18	B.I.C.C.[g]	49	34	15	58	68	30	26
8	British Leyland	49	–	–	40	85	–	10
10	Courtaulds[h]	39	23	16	–	31	–	16
12	G.K.N.	38	30	8	29	30	26	27
9	G.E.C.[h]	38	22	16	10	17	15	–
36	C.T. Bowring[i]	35	–	–	–	8	–	–
30	Reeds Paper	33	30	3	29	25	–	23
33	Rolls Royce	–	–	33[j]	–	6	–	3
40	Amalgamated Metals	–	–	5	53	40	–	–
42	Cadbury Schweppes[k]	32	28	4	36	35	–	30
13	Associated British Foods[h]	30	29	1	40	40	–	–
44	Lucas	26	12	14	–	22	–	12
34	Tube Investments[l]	24	10	15	17	27	9	7
21	Distillers[h,m]	–	–	23	–	10	–	–
45	Allied Suppliers	19	18	2	32[n]	30	–	–
37	Sears Holdings[h]	19	9	10	7	9	–	–
22	G.U.S.[h]	15	12	2	10	11	–	–
26	Allied Breweries	10	9	1	–	5	–	–
24	Rank Hovis McDougall	9	8	1	–	9	–	6
41	Thorn[h]	–	–	9	5	8	–	–
50	Boots Pure Drug[h]	5	2	2	4[o]	3	–	–
32	Unigate[h]	3	2	1	7	5	4	5
6	Imperial Tobacco	–	–	–	–	3	–	–
23	Marks & Spencer[h]	2	0	2	0	0	0	0
29	Bass Charrington	–	–	1	–	1	–	–
47	Tesco	0	0	0	0	0	0	0

The firms covered are the top 50 from the 1970/1 Times 1,000, with the exception of four private companies, Shell Mex & BP (7), Metal Traders (20), Shipping Industrial Holdings (28) and Czarnikow (46); four companies controlled from abroad, Esso (11), Ford (15), Gallaher (16), Woolworths (31), and finally Shell Transport and Trading (1) for whom we could obtain none of the relevant breakdowns. Figures are for 1968/69 or 1969 except where specified. A dash indicates that the figures were not available.

a. Burmah Oil derives 50% of its profits from franked income from Shell and BP; the figures in the table exclude this holding.

b. Figures for sales abroad are estimated from 1968 data.

c. BP figures exclude Sohio.

d. Sales figures include intra-group sales comprising 9% of total turnover.

e. Export figures are assumed to include intra-firm exports, and have therefore been compared to total sales including intra-firm sales.

f. Sales figures for 1967, and net asset figures for 1960.

g. Net asset figures for 1965, employment figures for 1966.

h. Figures for year 1969/70, save GEC net asset figures (1968/69).

i. The figure of 35% of sales abroad represents almost entirely premium income in foreign currency: it excludes shipping income, foreign commodity sales, and foreign investment income.

j. Export figures are for proportion of total revenue from all foreign sources, almost all of which is from exports; exports and total sales figures include indirect exports.

k. Sales figures include intra-firm exports.

l. Figures are for the 17 months to December 31st 1969, save for profits which are for the calendar year 1969.

m. Distillers have 47% of their turnover outside the UK and Europe.

n. Profits abroad include profits on exports.

o. Estimated for 1967/8.

FOOTNOTES

1. N. Bukharin. *Imperialism and World Economy.* Martin Lawrence 1927. p.60.
2. ibid. p.138
3. It is interesting how rarely this defensive/aggressive function of the state vis-a-vis other national capitals is included in Marxist theories of the state. Even Ernest Mandel, in his recent pamphlet *The Marxist Theory of the State* (1969) makes no mention of it.
4. *The Internationalisation of Capital and the Nation State.* Paper to the first Socialist Economists Conference. London. January 1970. The current essay is an elaboration in the context of the British experience of certain points made briefly in the last section of the above paper. Published in Number 10 of *The Spokesman.*
5. J.H. Dunning. *The Role of American Investment in the British Economy.* PEP. February 1969. p.126.
6. For a list of major Eurobond issues from 1965-8 see: *Morgan Guaranty Trust Company. The Financing of Business with Eurodollars.* Revised edition. April 1969. For evidence of the use of the Eurodollar market by American and British drug companies, see: ed. G. Teeling-Smith. *Innovation and the Balance of Payments: the experience in the Pharmaceutical Industry.* Office of Health Economics. 1967. pp.79 and 82.
7. It should be noted that we have been dealing with the book value of investment. If we included investments at market value British investment abroad, and (probably) foreign investment in Britain would amount to a larger figure than we have quoted. Thus Reddaway estimated that the market value of the companies he surveyed (excluding oil) exceeded the book value by 36% at the end of 1964. see: W.B. Reddaway et al. *Effects of UK Direct Investment Overseas. Interim Report.* Cambridge, 1967, p.56.
8. This item in the Table is not entirely made up of Eurocurrency transactions. It also includes the Bank of England's foreign currency balances held with their corres-

pondents abroad (working balances for their day-to-day business overseas) as well as balances held on behalf of UK customers who have exchange control authority to retain foreign currency.

9. F. Hirsch. *Money International.* Allen Lane, 1967, pp. 168-173. The bulk of the business is handled by 40 banks.

10. J.H. Dunning. op. cit. p. 120. We should also note that the direct investment figures we have been using are net of disinvestment. Gross flows are higher. In 1968 while net outward investment from the UK was £410m the gross figure was £607m and for inward investment the figures were £283 (net) and £475 (gross). see: *Business Monitor.* (Board of Trade). Misc. Series. M4. *Overseas Transactions.* HMSO, 1970. Tables 7 & 14.

11. Department of Commerce. *Survey of Current Business,* Jan. 1967.

12. *Business Monitor.* op. cit. Tables 10 & 29.

13. ibid. Tables 7,9,24.

14. Theoretically neo-classicals might argue that there is no difference between internal and external funds; that a rise in the interest rate on external funds raises the opportunity cost of internal capital. However internal are quite distinct from external funds in that they are effectively cheaper, because of (i) tax considerations, (ii) transaction costs, (iii) implicit disclosure costs.

15. R.H. Klopstock. *The Eurodollar Market. Some unresolved Issues. Princeton Essays in International Finance* no. 65, 1968. see also: E. Chalmers (ed) *Readings in the Eurodollar.* Griffith, 1969. p.10.

16. Article by Anthony Thomas in the *Times Business News,* 12.6.69.

17. E. Chalmers, op.cit. p.56, and S. Pizer and F. Cutler, *Foreign Investments 1965-1966* in *Survey of Current Business,* September 1966.

18. Chase Manhattan Bank. *Eurodollar Financing,* 2nd ed. Sept. 1968, p.16.

19. *Morgan Guaranty Trust Company,* op. cit. p.12.

20. D. Brash. *American Investment in Australian Industry*. Australian National University Press, 1966, pp.91-2. It is interesting, too, that Dow suggests that restrictions on Building Society lending and H.P. controls were the important instruments of British monetary policy in the 1950's (to both of which we would not expect our argument to apply) whereas the impact of restriction on advances was negligible. J.C.R. Dow. *The Management of the British Economy 1945-60*. Cambridge, 1964, p.260.

21. R.E. Caves and G.L. Reuber. *Canadian Economic Policy and the Impact of International Capital Flows*. University of Toronto Press, 1969, p.48. see also R.A. Mundell, *Capital Mobility and Stabilisation Policy under Fixed and flexible exchange rates*. *Canadian Journal of Economics and Political Science*, XXIX Nov. 1963, pp.475-85.

22. O. Altman. *Eurodollars: some further comments*. IMF *Staff Papers*, March 1965, p.10.

23. Even this has been challenged. Klopstock writes: "The efficacy of the controls and restrictions should not be overestimated. The international economy is dominated by *multinational corporations* financed by banks whose network of branches or affiliates stretch over several countries. In such an environment controls applicable only to a few countries or to a limited group of financial institutions do not always work well. And rigidities of interest rates in domestic loan and deposit markets often cause funds to move through the markets perversely contrary to central bank objectives and despite appropriate regulations." Klopstock, op. cit. p.22. This lends further to support to our general argument.

24. It should also be noted that the domination of London in the Eurodollar market has increased the city's invisible earnings on current account.

25. It has been traditionally assumed that the expenditure effects of fiscal policy outweigh the monetary effects by a considerable margin. Rhomberg's study of the Canadian economy(*Journal of Political Economy*, February 1964) suggests that the converse holds. See Caves and Reuber, op. cit. pp. 51-2.

26. Dow, op. cit. p.384.

27.ibid. pp. 406-12.

28.J.H. Dunning, op. cit. p.148.

29.U. Piccione, *Strategie Operationelle des Investissements Americains a l'etranger.* Annex VII of *Les Investissements Directs Des Pays Tiers dans le C.E.E.* CCE. 1969, p.10.

30.*Report of the Committee of Enquiry into the Relationship of the Pharmaceutical Industry with the NHS.* 1965-67. Cmnd. 3410.

31.Piccione, op. cit. pp. 11-21, and 39-42. It is interesting that in 1967 Switzerland had the fourth highest stock of US investment of all European countries, and that in the same year the volume of re-invested earnings by US overseas affiliates was higher in Switzerland than in any other country in the world.

32.What is true of firms is also true of individuals. The internationalisation of corporate capital has widened the possibilities for highly paid managers, consultants, and indeed capitalists to realise at least part of their income in low tax countries.

33.A brief but useful article on hedging is: B.A.Lietner, *Management risks in foreign exchange* in: *Harvard Business Review.* March/April 1970.

34.G.A.Renton and M.Duffy. *An Analysis of the U.K. Balancing Item. London Business School Econometric Forecasting Unit Discussion Paper No.6. October 1968.*

35.Article on B.P. by Barton William-Powlett in: *Times Business News.* January 5th 1970.

36.The reference is from an interview with Charles Levinson, secretary-general of the International Federation of Chemical and General Workers Unions, Geneva, published in the *Guardian*, n.d. He is quoted as saying, "Multinational corporation money management has become a major aspect of their international policy . . . Because of the vast amount involved this has become virtually another area of banking, and as the multinational company grows it will increasingly exercise a dominant influence on exchange rates and speculation. Such acti-

vities by some of the major British companies like ICI, Dunlop, Bowater, etc., have contributed much more to the recurring weakness of sterling than any number of strikes or consumer buying."

37. A number of references in this paragraph are taken from: Louis Turner *The Rise of the Multinational Company*. Hamish Hamilton. 1970. p.87.

38. For the first part of this paragraph see: *Bank of England: A Guide to United Kingdom Exchange Control;* and for the second part of the paragraph see Dunning. op.cit. pp.161-2.

39. Components of UK Overseas Investment 1963-1968

Sterling Area	1963	1964	1965	1966	1967	1968
Total	135	161	186	119	142	177
Unremitted profits	71	98	100	89	94	119
Other sources	64	63	86	29	48	58
Non-Sterling Area						
Total	100	102	122	157	139	233
Unremitted profits	47	49	66	94	95	157
Other sources	53	53	56	64	44	76
Total	236	263	308	276	281	410

Source: *Business Monitor.* M4 Overseas Transactions. *HMSO. 1970.*

40. John Chown. Exchange Control. *Financial Times,* 17.12.1969.

41. Ways and means of circumventing the restrictive effects of the dollar premium for portfolio investment are discussed in: John Whittaker, *Minimising the Burden of the Dollar Premium, The Investment Analysis* October 1969 The three strategies suggested all take a large part of the return in capital gains which, unlike dividends, the premium does not scale down.

42. In formal terms, devaluation effectively cuts the exporters marginal cost measured in dollars. However, if the post-devaluation marginal cost schedule still passes through

the discontinuity in the marginal revenue schedule of a kinked demand curve, then it will not be worth the exporter cutting his prices.

43.L. Turner. op. cit. pp.16-25.

44.M. Duffy and A. Renton. *A Model for Forecasting U.K. Exports of Manufacturers to Industrial Countries. London Business School Econometric Forecasting Unit Discussion Paper No.9* August 1969.

2 The Internationalisation of Capital and the Nation State

I

Introduction

Liberal models of the international economy, as of international relations in general, still spring predominantly from an early utilitarianism. The nation state is treated as the basic category in the world: the atom of the system. States are assumed to be rational, self-conscious, self-determining units, analogies of economic man. International relations, whether political or economic, are above all relations between these independent states whose conduct is assumed to be based on the principle of maximising their own net benefit subject to internal and external constraints.

Developments in the structure of economic organisations since 1945, especially the rapid growth of international firms, have bought into question the dominant role in international relations of inter-national state relations. International institutions have grown up, like the IMF, the World Bank or the largest of the international corporations themselves, which have a greater significance than many national states, developed or underdeveloped. Raymond Vernon, the head of

the Harvard Business School Research Programme on the international firm, puts the point in this way: "*the advanced world, carried* ebulliently on the crest of a technological revolution in transportation and communication, has absentmindedly set up a virile system of international institutions and *relationships that sit alongside the system of* nation-states." 1 Moreover, together with the appearance of these international institutions comes a weakening of the nation states themselves: Kindleberger for *example argues that "the nation* state is just about through as an economic unit." 2

The rapid post-war expansion of international firms has therefore brought into question the analytical primacy of the basic elements of the liberal model of the international system, and in doing so, has raised to the forefront the question of the relationship between political and economic organisation. For it now appears that, for certain countries at least, there is no longer a one-to-one correspondence between the two. An editorial in *Fortune* summed up this view: "the real point is that business everywhere is outgrowing national boundaries and, in so doing, is creating new tensions between the way the world is organised politically and *the way in which it will be increasingly* organised economically". 3 Now while this territorial non-coincidence is a common observation, there is little developed analysis by, let alone agreement between, *liberal writers on the subject as to* the consequence of such non-coincidence on political organisation. In this they are reflecting a more general lack of attention in Anglo-Saxon economic theory to the *structural relationship between* private capital and public power.

In contrast to the atomistic liberal model, Marxist writers have tended to see the international economy not as an aggregation of national economies, but as a total system of capital accumulation in which nations are sub-ordinate structures. Trotsky for example writes that the world economy should be seen "not as the simple addition of its national units, but as a powerful independent reality created by the international division of labour and by the world market which dominates all the national markets". 4 Marx himself emphasized that capitalist production was indissolubly linked with foreign trade 5 and that the capitalist division of labour was an international one. "Thanks to the machine, the spinner can live in England while the weaver resides in the East Indies." 6 The international division of labour represents an advanced stage of the socialisation of production.

Within the world economy some national capitals are more powerful than others. Their territorial expansion is the subject matter of the Marxist theories of imperialism, yet it is an expansion into fundamentally pre-capitalist areas. The political organisations of the imperialist powers are in this case expanded alongside the territorial expansion of their economic organisations: the one-to-one relationship is preserved at the expense of the pre-capitalist public structures of the imperialised regions.

The post-second-world war developments of colonial liberation and the interpenetration of the advanced capitalist states themselves has now raised the question of what we called 'territorial non-

coincidence' which liberal writers have registered but not answered. The issue is whether, with an increasingly interdependent international economic system, national capitalist states will continue to be the primary structures within the international economic system, or whether the expanded territorial range of capitalist production will require the parallel expansion of co-ordinated state functions, either through the de facto annexation of weaker nations by the stronger, or through some form of supranational state.

This does of course regenerate the Kautsky/Lenin controversy on ultra-imperialism. Kautsky suggested the possibility of "a new ultra imperialist policy, which will introduce the joint exploitation of the world by internationally united finance capital in place of the mutual rivalries of national finance capital." 7 In his reply Lenin argued that the international alliances which Kautsky observed were no more than truces between wars: for these alliances were based upon the economic, financial and military strength of the parties at the time of the formation of the alliance, and since these strengths develop unequally between nations the alliances would inevitably become anachronistic. The necessary rivalry between capitalist states would remain. 8 Secondly while Lenin regards as indubitable the "growing international interweaving between the cliques of finance capital" which Kautsky saw as a basis for his forecast, he cites the armament industry to support the thesis that the internationalisation of capital may increase rather than reduce national rivalry. "Interlinked on a world-wide scale, capital is thriving on armaments and wars." 9

While we may agree with Lenin's castigation of Kautsky's position as 'lifeless abstractions' which mystify rather than reveal international antagonisms as they then existed, we should also note that Lenin does not discuss the consequences for the power and independence of nation states resulting from the interpenetration of national capitals. Certainly there is a tendency in twentieth century Marxist writing on the world economy to infuse the nation state with an independence set apart from the range and power of its own national capital. Nation states become an entity without substance. 10

This, in part at least, reflects the predominantly political treatment which the state has received in Marxist literature. Until recently it was primarily the repressive role of the state in capitalism which has been emphasized: two recent works, by Miliband and by Poulantzas, have brought out its ideological function. 11 What is remarkable is how little attention has been given to the economic role of the state in capitalism, and it is this which seems to me to be central to any discussion on the robustness of the nation state in an era of interpenetration of national capitals, the subject raised without a satisfactory answer in the Lenin/Kautsky debate.

Thus I would argue that in spite of its underlining of the trends of accumulation and centralisation of capital, and in spite of its discussion of the political role of the state, Marxist theory has not brought these two aspects of analysis together to clarify the problem of the substance and the adequacy of nation states at a time of international centralisation and concentration. There is as yet no

adequate approach to the issue we first raised, that of territorial non-coincidence. As a result recent Marxist forecasts of the political implications of the internationalisation of capital have been as uncertain, unsubstantiated, and in some cases as 'lifelessly abstract' as those made by liberal writers.

In what follows, I have tried to sketch out the factors which seem to me important in developing a more adequate approach. There are three main sections: (i) discusses the structural role of the state in capitalism; (ii) covers the relationship between state and capital at a time of capitalist territorial expansion; (iii) deals with this relationship as it pertains in the contemporary world economy.

II

The Structural Role of the State as an Economic Instrument in Capitalism

I want to suggest in this section that the state is an objective structure in any capitalist system, that, contrary to liberal models, capitalism cannot be analysed as a system without taking account of the role of the state, and that, more particularly, in the process of capitalist production and reproduction the state has certain economic functions which it will always perform, though in different forms and to different extents. It is these economic functions with which we will be concerned, for, in tracing the territorial expansion of individual company capitals, one of the central points at issue will be what bodies perform these structural economic functions for the expanded capitals. If the performance of certain economic functions by a state body is a *Sine Qua Non* of any capitalist system, the territorial expansion of that system will imply the need for the performance of state economic functions in the expanded territory.

Two points should be made immediately clear. First, state economic functions for any given capital or coherent body of capitals need not be

exercised by a single authority, though commonly there will be a dominant authority. Second, the body or bodies which perform these functions are not necessarily the governing authorities of nation states. For when we talk of 'state' economic functions we refer to what may most aptly be called *economic res publica*, those economic matters which are public, external to individual private capitals. These public economic matters may be dealt with by a grouping of private capitals, by national governments, or by international public bodies. For the moment we are more concerned with the character of these public matters than with the bodies that deal with them.

I will distinguish six economic *res publica*, or state functions. 12

1. The guaranteeing of property rights: for Engels the primary function of the state. This guarantee is backed by forces of law: the police and armed forces. In modern capitalist states, one interesting area of its active application is in the protection of the integrity of self-declared fishery limits. Or, to take another example, in Britain there is a demand by the private sector for the extension of the guarantee to the 'sanctity' of private information in the form of heavier sanctions against industrial spying.

2. Economic liberalisation. This involves the establishment of the conditions for free, competitive exchange: the *abolition* of restrictions on the movement of goods, money or people within the territorial area and the *standardisation* of currency, economic law, weights and measures and

so on. The process characterises the early stages in the establishment of an expanded territorially distinct system and is the substance of the neo-classical formulation of economic integration as the absence or progressive elimination of discriminations, (see for example Bela Balassa, Theory of Economic Integration 1962). Indeed one of the clearest current examples of such liberalisation is the European Common Market. The double process of the abolition of restrictions and standardisation within the Common Market is the principle characteristic of the decade which has followed the coming into force of the Treaty of Rome: though it is a process nowhere near complete. Within advanced capitalist countries economic liberalisation is primarily 'regressive' in character and takes the form of anti-monopoly legislation, action against restrictive practises, including resale price maintenance, and restrictions on trade unions and the use of labour's power.

3. Economic orchestration: a matter which includes the regulation of business cycles, and economic planning. The advancing role of public bodies in this case contrasts with their retiring role in the case of economic liberalisation, and it is this more active form of intervention which distinguishes the social democratic view of economic integration from the neo-classical one. The former sees economic integration as not simply the removal of discriminations but the pursuit of an economic policy aimed at productivity harmony: "to integrate is to increase for a given space the compatibility of the plans of a group of decision centres which

together form a single economic system" (*Maurice* Bye in Revue Economique 1958), 13. The state is in this case most clearly the factor of cohesion of an *economic* formation, playing an increasingly strong ideological role vis a vis the productive system, (see the National Plan of 1965 where the propaganda function of the Plan is stated to be among the most important).

4. Input provision. Public bodies have been required to secure the availability of key inputs at low cost:

(a) Labour. States have acted to ensure (i) the existence of a proletariat, either directly or indirectly; see for example the statutory extension of the working day in England, the Stein-Herdenberg reforms of agrarian relations in early 19th century Prussia, or the results of the French credit policy in Indochina in the colonial *period:* (ii) the training of proletariat, visible both in public education systems or current industrial training schemes: (iii) the control of wages of a proletariat, for examples of which we need go no further than the contemporary incomes policies of advanced capitalist countries. It is particularly interesting in respect to the question of labour provision that Swedish social democratic governments have put the main emphasis of their post-war economic policy not on nationalisation (of which there is probably less than in other advanced Western European countries) but on the control of the labour force — its size, its quality, and its redeployment. 14

(b) Land. A market for land has been required

not only for the development of commodity agriculture (see the state's role in the English enclosure movement) but also for the siting of public utilities, notably transport and housing (see the right of 'eminent domain' given to private corporations in the United States in the 19th century which enabled those developing public utilities to compulsorily acquire any land needed for their operations. 15

(c) Capital. Governments have acted to ensure the supply of finance to industry through (i) the establishment and backing of a national banking system and private money market, as exemplified in the post-war history of certain countries in the British Commonwealth as well as in the history of French banking; (ii) the establishment of Funds for particular industrial projects; (iii) the granting of credits, and subsidies in other ways, including tax allowances, investment grants, special interest rates and so on: in France for example in the early 1960's it was estimated that 80% of business borrowers were servicing their loans at rates of interest below the market rate, and one calculation for Britain suggests that about half of all private fixed capital formation in the country is effectively financed by the government. 16

(d) Technology. The role of advanced capitalist states in the development of technology is well documented: the Department of Defence is estimated to finance over half of all R & D done in the US, with figures up to 90% for the aviation and spacecraft industries, and 85% for electronics, for all government R & D financing.

Governments have also been active importers of foreign technology: the French government introduced new industrial processes from abroad by the import of machines and skilled labour in the 17th century, as did the Japanese in the early period of their industrial revolution. The state's pronounced role in the development of new technology rests on four factors: (i) technological research and development involves high risk; (ii) it is subject to economies of scale; (iii) it is by its nature closely connected to academic institutions, which have been public and financed by the state; (iv) technology has always been closely bound to the military which in turn is almost always controlled and financed by the state: indeed it would be strange to find new military technology whose development was not considerably funded by a state. 17

(e) Economic infrastructure, particularly energy and communications. These sectors are distinguished not only by their being 'natural monopolies' but by being inputs common to almost all productive activity: there is accordingly a particularly clear interest in the presence of cheap, secure supplies of these services. In Risorgimento Italy, the first years of the new state were characterised by a frantic burst of railway building by the government, and although the new system was sold to private capital in 1865 the financial visissitudes of the latter caused the government to return and by 1905 control the bulk of the system. In Germany, too, the railways were increasingly a state system after 1871, with notably low rates, while in Japan in the decade after 1868 it was

the state which built and operated railways and telegraph systems, opened coal mines and established agricultural experimental stations. The public control of these utilities in contemporary Western Europe, and the system of regulation in the United States is well known: what should be emphasised of course is their controlled rates to industry – controls which are in the process of being given their ideological rationale in the form of the theory of marginal cost pricing. 18

(f) General manufactured inputs. These comprise those manufactured products with the strongest forward linkages for the economy in general, or for a key sector in the economy. They tend to be less general than the utilities discussed above, and are less directly controlled by the state though often regulated. Steel is a prime example, publicly owned in Britain, Austria and to a lesser extent in Italy. Austria has nationalised a variety of electrical and engineering firms. In Italy IRI plays an important, though minority role in the cement industry. The Japanese government in the same period as it set up public utilities, also established iron foundaries, shipyards, machine shops and model factories to manufacture cement, paper and glass.

5. Intervention for social consensus. Here the public function is concerned to mollify the most manifest disruptive effects on and exploitation of non-capitalist classes. It covers:

(a) the prevention of public external diseconomies such as pollution, the degradation of land and townscape, or wide regional disparities.

(b) the regulation of conditions of work, includ-

ing the enforcement of industrial safety, the limitation of working hours, and some wage setting such as minimum wages or equal pay for women.

(c) the regulation of conditions of sale, as in the Swedish state consumer protection system, trade description laws, or the nationalisation of pubs in Carlisle by Lloyd George to control drinking by munitions workers at Gretna.

(d) certain aspects of social security, notably unemployment provisions.

(e) ideological functions vis a vis the productive system, carried out not only by the more general cultural institutions such as the education system, and the communications media, but by specific institutions like the Prices and Incomes Board.

6. The management of the external relations of a capitalist system. No national capitalist system is closed. The organisation of the relations of this system with foreign systems, both within and outside the domestic territory of the system has been a prime function of states at all stages of capitalist development. One part of this function is aggressive: the support of the state's own capitalists in their expansion into foreign economic and territorial space. It involves the attack on monopolistic walls which discriminate against domestic capitalists, such as tarriff barriers, exchange controls, discriminatory taxation, unfavourable purchasing policies by foreign monopolists or states. It also involves the support of domestic capitalists in competitive

foreign markets, and the attempt not merely to reduce foreign discrimination but to build up monopolistic positions for domestic capitalists abroad.

A second part of the function is defensive, and consists in defending quasi-monopolistic positions established by domestic capitalists relative to foreign capital. It involves the maintenance of discriminations against foreign capital, tarriffs, exchange control, purchasing tied to domestic capital: the maintenance of preferential trading areas and monetary zones favourable to the domestic capital: the restriction of the carriage of goods abroad to national ships or airlines: and the maintenance of the property rights of nationals overseas.

The instruments used in the performance of these functions are: (i) military power, whether defensively against a foreign force, or aggressively in terms of punitive expeditions or of more permanent annexations. The defensive use of force has usually been over the challenge to property rights, not only in domestic territory but the nationalisation of property overseas: we have already mentioned fishing as a less publicised area where military power is common, and it is interesting to note that over and above the defence of fishery limits, the British Government sent a gunboat to support British trawlers during the Icelandic fishing dispute from 1958-61, asserting in this case a right to what it as a state regarded as common property. (ii) aid, or foreign public assistance, which is used in two forms. First it lends support to national firms engaged in foreign competition through lowering

costs (either by direct subsidisation as in the case of French fine linen exports in the 18th century, or through export credit and foreign investment guarantee programmes such as those provided by the FCIA, the Export-Import Bank and AID in the United States) and/or by tieing markets (AID financing tied to US exports now accounts for 85 - 90% of total AID financing, while a total of 4% of all US exports are now financed by direct loans to the purchaser from the US government). Second the threat of withdrawing an established aid flow or withholding a new aid flow acts as a protection to the property rights of domestic firms in the foreign country, as well as an inducement to the receiving country to lower discriminations against the donor's capital: the effect of the Hickenlooper amendment on recipients of US aid lies as much in the threat as in the execution, 19 (iii) commerical sanctions, in the form of trade boycotts (South Africa, Rhodesia, newly independent Guinea, the Middle East, Cuba, North Vietnam, China) quotes, or tariff changes; (iv) financial sanctions in terms of the blocking of funds (the post-war history of the US film industry in Britain presents an interesting example where following the imposition of a 75% customs duty by the UK and a subsequent 8 month boycott of Britain by the US cinema industry, an agreement was reached that no more than $17m. of US film earnings in the UK would be allowed to be repatriated: (these controls lasted until 1961), or the establishment of exchange premiums. (v) government controls within domestic territory, such as the reserving of certain sectors for domestic industry,

the prevention of particular takeovers, discriminatory buying policies and so on. 20

Over and above the function of partiality to domestic capital vis a vis foreign competitors, whether this partiality is offensive or defensive, the state has the second function of co-ordinating or orchestrating domestic/foreign economic relations in the form of supervising the Balance of Payments. We will have cause to discuss the contradictions that exist between these two functions in dominated states in the third part of the paper.

These six functions seem to me the primary functions of a capitalist state; the guaranteeing of property rights; economic liberalisation; economic orchestration; input provision; intervention for social consensus; and the management of the external relations of a capitalist system. Five further functions suggest themselves. (i) the role of the state in securing demand in the form mass purchases from the private sector on long-term contract; private capital is here acting as quasi-agent for the state, and this character is made explicit in the management contracts concluded by firms like Booker Brothers and ENI with the governments of underdeveloped countries; (ii) the state as a taxation authority, a function whose importance is particularly evident in the development of capitalist economies; (iii) the state as the enforcer and protector of particular monopolies *within* a capitalist system; (iv) the state as a provider of first aid to ailing sectors and firms: we have mentioned above the relationship of the Italian state to its railways in the 19th century: the salvaging of four major

banks by the Weimar Republic in 1931 and their return to private owners in 1937 when they were assured of good profits is a further instance; (v) the state as an absorber of surplus: a point emphasised by Baran and Sweezy in their 'Monopoly Capital'.

I have not included these among the primary functions since they all follow from those we have included. Thus to take the question of 'first aid', it is notable that such action has been principally directed either towards those sectors producing general inputs or to those sectors which are important in foreign relations, whether in the field of exports, invisible earnings or military power. If we look at those industries which have been nationalised in the advanced capitalist countries – a solution almost always accompanied by the ultimate in first aid, namely handsome compensation, these are most commonly in the sectors providing basic inputs; there are a few in the export sector (Ireland has a number of public manufacturing concerns in this category); and almost none in the sector producing manufactured goods for final consumption (the public interest in Renault and Volkswagen is an exception, born from particular circumstances). First aid, in the form of subsidies, restructuring, and credits to particular firms, follows this pattern. I have therefore treated it as a secondary function deriving from the provision of basic inputs and the management of external relations. I would argue that the other functions are secondary in a similar manner.

The point about the primary functions is that they are found in some form at all stages of capitalist development: though the degree to which they are carried out by public bodies as well as the

type of public bodies which carry them out will vary. Among the factors causing such variation we may distinguish five:

(i) the degree of international competition or to put it more strongly, critical rivalry. This is perhaps strongest in war-time and the penumbra of preparation and recovery that surrounds war: such periods feature heavy public activity in all of the functions. But similarly the developing industries in early periods of industrialisation tend to face critical external competition, as List emphasized: Japan, Germany and Italy all exemplified the principle of strong government direction of the early days of their national systems of political economy. Currently it is notable how sharp an increase in public activity followed the return to convertability of Western economies in 1958. 21

(ii) the stage of capitalist development, for the increase in the division of labour within a system, the increase in mutual interdependence, heightens the vulnerability of the system to the failure of particular parts of the system.

(iii) the strength of the labour movement, since a strong movement will win concessions in the form of greater public activity in the field of measures aimed at social consensus: further by raising the cost of labour, a strong labour movement may (a) weaken the capital's competitive position vis a vis foreign capital; (b) lower the rate of profit to critical levels in sectors producing general inputs.

(iv) the traditional ideology with respect to the role to be played by government.

(v) the degree of centralisation of capital within the economy.

This last point is important, for it should be re-emphasized that the functions we have called public are not universally exercised by government or public bodies. They may be performed by the private firms themselves. For these functions arise from what can be described as external economies: whether they be Marshallian as in the case of fish conservation or specialised labour provision, i.e. where they are external to the firm but internal to the industry; or economies which are external to the firm and industry but internal to the productive system, such as the provision of basic inputs and the establishment of the necessary conditions for free exchange; or, finally, where they are external to the firm, the industry and the productive system, but internal to the society.

The fact that such external economies exist does not mean that single firms will not themselves undertake the function. Many firms have their own police force: the East India company had its own army; US corporations are currently engaged in cutting down their own pollution of the atmosphere because of their fear that such external diseconomies will harm their company image. Firms build their own roads, railways, and generating plants: they run their own training schemes, and welfare systems. The point is rather that these are all activities which may be relatively costly for the firm itself to undertake. Where there are indivisibilities, as in the basic utilities, it will clearly cost less to spread fixed costs over many firms. Where it is difficult for a firm to privatise the output from

its investment, as in the case of labour training and some kinds of research, the firm will clearly prefer the investment to be shared by those who benefit. Where there is high risk, a firm will clearly prefer a large body which is more indifferent to risk to finance the project. Private capital is also invariably reluctant to be seen to be the organisers of armed forces and police.

In underdeveloped countries, where a firm or small group of firms, *are* the economy, these functions often are performed by the firms themselves: though they will always attempt to obtain contributions from others who benefit from their investment. But within the developed economies themselves the size of the major firms means that some of the external economies are becoming internal, and that, in the field of communications in particular, firms are providing some of their own services. The British Steel Corporation owns the largest private air fleet in Britain. Fords Europe have the largest internal telephone system in Europe. AT & T have an internal communications system which gives them decisive competitive advantages.

Thus the public functions we have discussed are latently public by their nature, the degree to which they are exercised by public authorities will not be constant.

This section has been concerned with the role of the state in capitalism treated as an economic space. The next section will treat of the relationship of state and capital in territorial space.

III

State and Capital in Territorial Space

The socialisation of production under capitalism, the widening division of labour and interdependence between capitals, has a territorial as well as an economic dimension. As Mandel puts it: "In place of the fragmentation of patriarchal, slave-owning or feudal society into thousands of tiny cells, each one independent of every other, with only rudimentary links (particularly exchange links) between them, there has come the world-wide relationship between men." 22 . Capitalist systems developed in territorially identifiable areas, often in areas which had already been made identifiable by pre-capitalist states. During the national period of capitalism, the roots of both private capitals and the states which performed the public functions we have described above, were territorially coincident and predominantly exclusive. Both capitals and states extended beyond their own boundaries: we have already noted that from the first, capitalist systems have an international dimension. But the bulk of their activities covered the same geographical space.

When any capital extends beyond its national

boundaries, the historical link that binds it to its particular domestic state no longer *necessarily* holds. A capital which has extended itself in this way will require the performance of the primary public functions for its extended operations. But the body which performs them need not be the same as the body that performs them within the area of the capital's early development. The domestic state may perform the public functions abroad for its own national capital. A national state body is not territorially limited in its range of activity, even though it may be territorially identified over an exclusive area. But the geographic coincidence of the economic ranges of an extended capital with its domestic state must be empirically established and cannot be assumed.

We can identify five possible executors of the state functions for the overseas operations of an extended capital:

(i) as we have already mentioned, the *domestic state* may perform these functions directly, which for the majority of the functions will involve the extension of the state's own boundaries through annexation. Since this involves an extension of the national defendenda, a considerable cost, and usually a problem, to say the least, in the performance of the function of ensuring social consensus in the foreign territory, the geographic expansion of the domestic state is a method less preferred from a capitalist point of view for fulfilling the state functions overseas. It will be supported when alternative systems are economically or politically impossible.

(ii) the arrangement that foreign state structures

should perform them. Such an arrangement may be made by the capital itself or its domestic state, either through persuasion, pressure or intrigue. The foreign state becomes in effect a macro-political agent. It is an arrangement which forms the basis for any conception of economic *neo-colonialism:* though the existence and degree of neo-colonialism will depend on the extent of the concessions to the foreign state to induce it to perform the functions in question.

The guaranteeing of the property rights of the extended firm, and the prevention of major discriminations by the foreign state against it are backed by the type of negative sanctions outlined above in the section of the management of external relations. The provision of basic inputs, as well as the establishment of organisational structures to carry out the normal business of a capitalist state (police forces, mass media, tax authorities, economic 'orchestrators') are on the other hand often directly funded. In underdeveloped countries economic services for a particular area may be financed, planned and technically supervised by the public authorities and private contractors of the domestic state after an exploitable resource has been discovered by one of its capitalists abroad. If one looks at foreign extractive firms operating in Africa, for example, they have almost without exception got finance for necessary infrastructure from their domestic governments or international agencies – though this finance is channelled through the host government. 23 The establishment of organisational structures may again involve seconded nationals from the home

country directly fulfilling the function or the training of host nationals in domestic or host country institutions. One of the early actions of the Americans in Vietnam after 1954 was the dispatch of a Michigan State University Group to advise President Diem's brother Nhu on police organisation. By 1956, 600 policemen had been trained, 12,000 civil guard or militia, and a scheme instituted to fingerprint the whole South Vietnamese population. This, like the financing of other organisational structures, would come under the heading of technical aid – though technical aid of course covers a wider field.

The performance of public functions by foreign agent states is accomplished therefore by a mixture of positive supplies channelled through the agent states, and negative threats and sanctions. It is not limited to underdeveloped countries: Marshall aid is in many ways parallel as far as Europe is concerned. What I would argue, and this relates to the point I made at the end of the sub-section on geographical expansion is that neo-colonialism in its various degrees is the more normal way for a home state to ensure the fulfilment of state functions for its capital in weaker areas *abroad* and that direct annexation is a departure from this norm. Annexation may result from a foreign state refusing to act as agent, from the absence of a foreign state capable of carrying out the functions, or from the lack of concern by the expanding capital for a consensus in the area in which it is operating. The relationship, of colonialism to neo-colonialism has many other facets, but in one sense we could see the colonial period as a necessary stage for

the establishment of neo-colonialism in those regions.

(iii) the extended capital may itself perform the functions, either singly or in conjunction with other capitals. We noted above examples of this in the field of policing and input provisions. 24 It also extends to the threat of negative sanctions on foreign states discriminating or nationalising the firms in question: the international oil majors have exercised oligopolistic solidarity against national governments on a number of occasions — notably against Iran after the nationalisation of Anglo-Iranian. 25 Non-ferrous metal and bauxite corporations have exercised similar threats in the form of withdrawing key inputs or closing international markets.

(iv) foreign states may already be performing or be willing to perform the functions of their own accord. Most advanced capitalist countries would extend protection of property rights, freedom of exchange, input provision, macro-orchestration and consensual intervention to foreign investors in their country. The major function which they may be reluctant to perform is that of partiality vis a vis other foreign interests, and impartiality in terms of their own domestic capital. Of course, many of the instruments used by a state to favour its own national capital, will also apply to foreign capital who have invested within the national boundaries. This is true to tariff and monetary agreements, export credits, services of commercial branches of the country's embassies abroad and so on. Indeed it is often this ability to enjoy the mono-

polistic discriminations of foreign countries that induces a firm to invest abroad: US firms invest in Britain to more cheaply service their export markets in the Sterling Area or EFTA. There are instances, too, as with ICI in Argentina, where a firm negotiates a favourable discrimination from a foreign government as a condition for investing in the country. Smaller countries, such as Ireland, go even further than this by making general offers of monopolistic advantages to foreign investors which exceed those offered to their national capital. The one notable exception to this picture of discriminations operating in favour of foreign investors comes in the field of government purchasing: the reason is clear in the case of military contracts, but the UK government for example operates the principle more generally. It openly favoured British firms in the allocation of North Sea drilling blocks, while in the computor field IBM claim that they supply only 2 out of the 72 computors used by the government. 26 Yet even this unfavourable discrimination is a priori limited to countries which have national producers of the contracted products, which in the field of advanced technology tends to be few. The overall picture therefore, is one of remarkably little discrimination against foreign capital which invests in a host country: extended capital has been able to rely on host governments to fulfil the public functions certainly as far as the advanced capitalist countries in Europe are concerned.

(v) the final group of executors of state functions are existing state bodies *in co-operation with each other*. Instances of such co-operation can

be found in the following fields:

(a) property protection (mutual investment guarantees, international policing, extradition treaties, military alliances).

(b) implementation of free exchange and standardisation between countries. (free trade areas, customs unions, common markets – which attach greater importance to standardisation, monetary unions).

(c) mutual orchestration – a function performed to some extent in the IMF, the OECD, and in the BIS by central bankers.

(d) provision of inputs; the co-operation arising for reasons of scale as in technological co-operation, or in the provision of power supplies, or because the service is transnational such as the Tan Zam railway.

(e) the exploitation of international resources, as is the case in river development schemes, or the numerous international fish conservation agreements.

(f) supervision of mutual economic interests vis a vis other economic powers: OPEC and the meetings of the four major copper producing countries in the underdeveloped world are examples of this form of co-operation; multilateral aid agencies could also be seen in this light.

In contrast to the intranational public functions we noted being fulfilled by foreign states, these co-operative agreements are aimed at transnational functions. But many of them have been far from successful in fulfilling their aim: this is notably so in the field of inter-governmental

technological co-operation, in fishery regulation or in OPEC. Even where the co-operation has been more successful, the success is in most cases temporary: those involving international external economies (economies which are external to the nation but international to the capitalist world economy) particularly in the fields of free exchange and mutual orchestration, may be thought unlikely to survive a major international depression. The conditions for the establishment of a more permanent form of integrated co-operation, a de facto international state body, we will discuss in a moment.

The line of argument up to this point has been that a national capital extending abroad will require the primary public functions we outlined in Part I to be performed: but that the performance need not be undertaken by the capital's home government. There is no necessary link between the extended capital and its home government in the extended area. The body or bodies which do perform the functions may differ according to whether the functions are to be undertaken *within* areas with already constituted capitalist states, *between* areas with already constituted capitalist states, or *within* areas without already constituted capitalist states. In each case the home government could perform the functions: but in each case there are alternatives: and there is also the possibility — a very real one which we have underplayed until now — that the contradictions of the international system will be such as to prevent the fulfilment of the functions at all. The outcome for any one extending capital will depend on the power of its domestic government, both economic and political,

to 'follow' its own capital, on the territory of extension, and on the particular form taken by the extension. It is this last point about the form of extension which I now want to take up.

Extending capital is not homogeneous, even though many discussions of overseas investment and its implications treat it as such. More particularly the interest of the capital in the types of public function to be performed, and the bodies to perform them will differ according to the following factors:

(i) the degree of productive centralisation, that is to say the degree to which foreign markets are served by output whose production and input supplies are concentrated in one country. Those companies with a high export-foreign sales ratio stand at one pole: those serving foreign markets from production and input provision in the market concerned stand at the other. Steel and parts of the electrical industry would stand nearer the first pole: service industries nearer the second. Clearly those with centralised production, will be most concerned with the establishment and maintenance of conditions of free international exchange. Productive centralisation with high trade:foreign sales ratio is a characteristic of the early period of capitalist international expansion, and is reflected in the frequent international disputes over tariffs that occured prior to this century.

The conflicting pressures relating to the international centralisation of production – economies of scale tending towards centralisation on the one hand, transport costs, tariff barriers,

spare part and market servicing requirements tending towards decentralisation on the other – leads commonly to *regional centralisation of production.* This is true of consumer durables in particular, as well as other branded goods (Colgate-Palmolive or Mars products for example). South-East Asia may be served from Australia or Malaysia, Central America from Mexico, EFTA from Britain, and the EEC from Holland. Such companies will again have a primary interest in regional free trade.

(ii) *stage of overseas company development.* Many companies have expanded abroad by what might be called an ink-blot strategy. They expand outwards from existing operations both territorially, and structurally. In consumer durables for instance one notes an expansion path which involves exporting through overseas agents, exporting through company marketing organisations, local assembly, local full production, then regional centralisation of production or regional division of labour in production, and in some cases the development of an international division of labour in production. 27 Such expansion paths have been followed by some US companies in Europe in the post-war period, with a number now reaching the stage of productive centralisation or regional division of labour within the EEC. It is instructive that by the end of 1968 there were over 800 European headquarters groups in Brussels, though it is the productive rather than organisational division of labour with which we are primarily concerned. 28 Thus the stage of company development will be one of the factors

determining the degree of productive centralisation or, an equally important point, the degree of *international division of labour in production.*

(iii) *forms of international flow.* Certain firms are principally concerned with the international flow of information and personnel rather than goods. Many service industries have this characteristic: with decentralised production served by a centralised information and management system advertising, management consultancy, data processing, film production, hotel management, and department stores all exemplify the point. They may either work on a management contract (like many of the Hilton hotels) or raise capital in the local market on the strength of their international name in order to fund local operations. The size of the overseas interests in the general field of management services, licensing, leasing, and so on can be guaged by the receipts of US companies of royalties and fees. In 1968 these totalled \$1.28b., comprising \$0.54b. in the form of royalties, license fees and rentals and \$0.74 in the form of management fees and service charges. These figures compare with total earnings of US direct investment abroad in the same year of \$7.0b. The important feature of this type of international operation is that in general the movement of people and information is not subject to the same restrictions as the movement of goods: though they are subject to restrictions on the movement of capital. Be that as it may, firms such as those we have discussed, may in general be presumed to be less concerned with international exchange restrictions than firms

depending on the international movement of goods.

(iv) *degree of dependence on state partiality.* Some companies by the nature of their operations depend more heavily on their domestic state for preferential aid. This is true of the contracting industry, of exporters to and investors in underdeveloped countries, and of firms whose sales may be predominantly in the home market but whose inputs they produce or buy from abroad. These firms will be concerned to see the maintenance of the strength of their domestic states in international markets.

(v) *the strength of foreign competition.* Where domestic states are incapable of providing preferential protection and aid to firms highly dependent on them either in domestic or foreign markets, there will be an interest among firms in this position to either transfer to stronger state structures or to encourage its own state structure to co-operate with others. There are few examples of the former move – Mars changed nationalities principally because of the rationalising of its international operations by its founder – but in respect to the latter, European firms have evidently favoured inter-governmental European co-operation because they regard their domestic governments as inadequate in the field of protection.

We are now in a position to make an important distinction. There are some firms whose main concern with respect to their extended capital is the *intranational* performance of public functions. The current system of nation states may be largely ade-

quate, say, of decentralised production. For some indeed the current system shows positive advantages. We have noted already how some capitals have expanded abroad precisely in order to take advantage of other nations' sets of discriminations. We may add to this the fact that companies which are financially centralised internationally may in effect play off rival states against each other, locating where incentives are greatest either for production or profit retrieval. Given that the performance of public functions has to be paid for, such firms may minimise the costs (in terms of taxation) of the services they receive. The system of tax havens has given rise to what might almost be called flagless capitals, firms registered in Curacao, Malta or Luxembourg operating internationally under public 'umbrellas' financed by rival capitals. Thus even where there is extensive territorial non-coincidence between domestic states and their extended capitals, this does not imply that the system of atomistic nation states is outdated. The remark by the editors of Monthly Review that "multinational corporations and nations are therefore fundamentally and irrevocably opposed to each other" 29 is not necessarily true.

In contrast, there are other firms whose interests lie not only in their intranational performance of public functions for its extended capital, but the *inter-national* performance of them as well. We noted the following types of capital to whom this applied:

(a) those principally engaged in servicing foreign markets by trade.

(b) those with regionally centralised production.

(c) those operating with an international or regional division of labour in production.

(d) those concerned with an international exchange of goods rather than information or labour;

(e) those whose domestic government gave insufficient partial support in the face of foreign competition.

Again, the fact these interests in favour of the international performance of state functions exist does not mean that the system of nation states cannot contain them.

A dominant state may perform them. States in co-operation may perform them. Or the interests in the current national-based system, that is to say the national bourgeoisies and those international firms discussed in the previous paragraphs, may be powerful enough to cause a disintegration in the system. Finally, those firms pressing for international co-ordination for defensive reasons may sacrifice their identity by merging or being taken over by capital from the dominant country. This spirit of submission is characteristic of leading firms in the countries of Southern Europe: they opt for being second in Rome rather than first in a village, when it comes to a question of their identity in the face of foreign competition. Greek capital's position on their country's proposed association with the EEC provided an interesting instance of this.

At the same time, while we should note the fact that there is no necessity for the internationalisation of capital to imply the passing of the nation

state, even where the performance of international state functions is concerned, nevertheless there may be *capitals who come to back the setting up* of unified international state power because of the insufficiency of the alternatives. If the capital is dominant its own state may be unable to impose international *co-ordination either directly or indirectly*.

If the capital is threatened, it may nevertheless feel itself strong enough to resist within a wider co-ordinated territory. Finally, we have noted above the difficulties of achieving such co-ordination through mutual co-operation between nation states: though forms of co-operation may constitute a stage in which the forces in favour of a unified international co-ordinated power are strengthened.

If we look at the economic origins of the 2nd Reich for example, we note that the establishment of the customs union by Prussia in 1818 and its later extension as the Zollverein in 1834 appear to be the result of the need to raise revenue from customs duties plus a certain administrative convenience rather than the response to an expanding capital seeking a wider area of discriminated protection. Thus the tariff on transit goods stood much higher in 1818 than the relatively low import duty. Yet the liberalisation within the area furthered industrialisation, encouraged the development of a bloc system of transport (Prussian landowners who had opposed railways accepted them in the 1840's) and, in Kemp's words, "established vested interests in the further consolidation of this preliminary unity." 30 Protective tariffs were heightened, particularly on British pig iron and cotton yarn, weights and measures, commercial and civil law were all standardised, and mining

rights were changed to make them more accessible to capitalist exploitation. By the end of the Franco-Prussian war, again to quote Kemp, "the business middle class did not mind so much how unification was to be achieved, or under whose auspices, as long as they could depend upon stable and orderly government at home and backing for their enterprise abroad." 31 International liberalisation brought about through co-operation led to an internationalisation of capital which then required a unified co-ordination of state powers covering the expanded territory.

In Italy, too, there existed strong capital interests for unified political control over a territory which had many state authorities. In this case unity was supported to achieve liberalisation rather than consolidate it: North Italian capital, particularly in Lombardy, being hostile to customs barriers imposed by the Austrians which cut them off from the weaker systems of the South. In this case, even more than in the German one, the discordance in the interests of particular capitals and their territorial state structures is eminently clear: so, too, are their reasons for supporting a territorially consolidated state structure in both Italy and Germany. 32 Both are cases, albeit at a different stage of capitalist development, of the extension, or would-be extension, of capital calling forth new forms of political structures: and are consequently of central interest to the subject-matter of this paper.

What I have wanted to suggest in this section is a framework for analysing the consequences for political organisation of a territorial expansion of

capital. I have intentionally depicted capital as politically opportunist: Germany exemplified the point but one could look equally well at the support that foreign firms have given to liberation movements in Africa. I have tried to outline the alternative forms of state organisation which present themselves to such an opportunist capital, and the distinctions within the body of extending capital which may be thought to lead to differing interests among them. I have not devoted much attention to the strength and interests of what one might call the stranded nation states in a period of internationalisation. This is clearly important for any discussion of the continued critical rivalry between nation states in an era of expanding capitals. Section III will therefore turn to this in the context of some suggestions on the contemporary international economy in the light of the previous discussion.

IV

Capital and State in the Contemporary World Economy

1. *Internationalisation.* The period since 1950 has been characterised by a major increase in the internationalisation of capitalist economies, in the form of trade, investment and finance capital. In terms of direct investment alone the OECD calculated that by the end of 1966 for DAC countries foreign investment totalled $90b., of which US firms accounted for $54.5b, and UK firms $16b. US direct investment abroad has now risen over five times its total in 1950. International trade has been growing, too at an astonishing speed, while more recently we have seen the development of truly international *private capital markets.* In five years since 1963 the international bond market has grown by 900%; by the end of 1968 $11.4b. worth of bonds had been issued on the international capital market, 75% of them Eurobonds ($8.6b.); while on the short-term market it is now estimated that there are now in the region of $35b worth of Eurodollar deposits as against a figure of $5b for 1963.

This process has led to the increasing importance of foreign economic territory for sales, profits, and finance for major capitalist firms. Of the 100 largest US firms in the 1967 Fortune list, 62 had production facilities in 6 or more nations: for European firms the figures are only slightly smaller. Even more significantly, in 1965 *81 US firms* operating internationally had over *25% of their* sales or earnings derived from overseas operations, with *11 of them over 50%*, and International Packers deriving as much of 96% of their sales revenue from abroad. 33 On the financial side US firms have in recent years funded about 40% of their overseas operations from cash flows generated abroad, 35% from external sources abroad, and 25% from capital transfers from the US. This last figure was heavily reduced after the Johnson measures in 1968, being largely replaced by borrowings on the Eurodollar market. The monetary restrictions in the US domestic market have caused a considerable inflow of Eurodollars into the US in the form of transfers from US branch banks abroad to their head offices, with their peculiar form of international liability.

The important point about these developments is that, being concentrated for the most part in the markets of developed capitalist countries overseas, where intranational state functions are extensively performed, there is a growing territorial non-coincidence between extending capital and its domestic state.

2. *The demand for international state functions.* As suggested in section II, we should distinguish

between those extended capitals concerned primarily with the performance of intranational state functions and those concerned with trans-frontier operations. In the latter category, firms who have expanded primarily as trading concerns, either by the nature of their business or the stage of the overseas development, have dominated the French, German, Italian and Japanese international expansions: though many are now moving to the next stage of local assembly or more extensive local marketing companies. Such firms, primarily concerned with trade rather than foreign production, had, we suggested, a strong interest in international liberalisation while being still strongly bound to their domestic state. In the case of the European countries we have discussed, however, the domestic states have been gradually less able to afford the protection, either in home or foreign markets, that dominant European capital has required. The resulting change in attitude towards the operation of economic state powers away from the nation state has been most marked in certain advanced sectors of French industry. 34 Thus we find 'threatened' capitals expanding abroad at the same time as finding inadequate support from their domestic state: both factors which strengthen an interest in the performance of international state functions.

The second group of firms most concerned with the co-ordinated execution of international state functions are those who have developed towards an international division of labour in production, either regionally, as in the Common Market, EFTA, the Sterling Area, or North

America, or internationally. The operation of an international division of labour has of course characterised those international firms engaged in extraction for some years, particularly the Anglo-Saxon ones. A number are nevertheless engaged in setting up more *integrated international production processes:* Pechiney-Ugine's expansion into Africa since the mid-50's being an excellent example of a more general trend. In the manufacturing field IBM is strongly integrated, producing specialised parts from nine main plants, outside the US. Fords, Chrysler and General Motors are all developing integrated production facilities in Western Europe: and the same is true in a number of trading areas in less developed countries where consumer goods manufacturers distributed specialised plants country by country as the result of or a guard against local nationalism. Finally the preliminary results from the Harvard Business School Research Project on their investigations into the validity of the product cycle theory of trade suggests that this particular phasing of an international division of labour is not uncommon. 35 The development of a widespread international integration of production within a firm is still in its early stages: but it is a clear trend, and it is significant that in the recent survey into the trade relations of US parents with their overseas affiliates it was found that *51.8% of the exports from the parent companies surveyed, were channelled through foreign affiliates.* 36

Yet even those extending capitals which do not come into the two categories we have already discussed, have an interest in the performance of

inter-national state functions in as much as the economy in which they operate is affected by changes in the world economy. The fact that national interdependence has also grown rapidly is therefore of the first importance in any assessment of the interests of extending capital.

3. *National economic interdependence.* Another face to the internationalisation of capital is the decreasing independence of national economies, and their vulnerability to changes in external economic conditions. This has, of course, been true for some time as the inter-war depression showed, but the increase of trade, investment and finance capital flows have furthered the trend. The Common Market for example has both opened up and made more vulnerable the economies involved. The Germans swung from a current surplus in 1964 to large deficit in 1965: Italy which had had a current deficit in 1963 swung to a large surplus in 1965. These swings reflected both the easing of restrictions on capital movements as well as increased trade. France, too, was decisively opened up: exporting 9% of the GNP value of traded goods to countries outside France and the associated territories, and importing 12.7%, in 1953. By 1963 these figures were 17.5% and 19.2%, and had already profoundly affected the nature of French foreign economic policy. 37

In the capital market, Eurodollars have created a market which provides what is effectively an international interest rate. Eurodollars are denominated in dollars, which cuts down the exchange risk, and they have a cost of transfer

as low as an eighth of a per cent. In Altman's words: "Interest rates on deposits of all currencies that command a forward premium over the dollar tend to be lower by the amount of this premium than interest rates on Eurodollar deposits, while interest rates on deposits of all currencies that stand at a forward discount relative to the dollar tend to be higher by the amount of this discount than interest rates on Eurodollar deposits." Forward exchange rates, which had previously provided an international form of interest structure have become subsidiary to Eurodollar rates. National monetary systems have grown increasingly exposed. 38

4. *Decreasing national powers.* Economic internationalisation has opened economies and increased instability. At the same time the process has weakened the existing national state powers in their ability to control this instability. In the case of *Eurodollars,* national monetary policies in Europe have undoubtedly been weakened. First, the market provides a source of credit outside the control of national authorities. Second, as we have just seen, their character as international vehicle asset acts as a transmitter of changes in rate structures abroad into the home money market. Thirdly, they have undoubtedly eased the process of international speculation, with all that that entails for domestic monetary and financial policy. The influence on the US economy is less adverse. Certainly it seems that it affects US monetary policy much less than the policies of other capitalist countries.

In addition to the corrosive effects of the

international money market, international firms have a flexibility and mode of operations which further blunts traditional instruments of domestic economic management. This has been clear for some time in terms of foreign investment in underdeveloped countries. In many cases, such as the copper investment by Charter Consolidated in Mauretania, Keynesian instruments are fixed by long-term contract: tax rates, sources of funds, exchange rates, and so on. There is still little hard evidence for developed economies however. What we do know derives from discussions with individual firms and the following points emerge:

(a) firms operating with an international division of labour will commonly not alter the flow of goods and amounts produced in the country following a change in exchange rate, since production depends on an international market with inputs in a fixed proportion. The change in price of one input is unlikely to substantially effect the overall demand. This has certainly been true of IBM after the UK devaluation.

(b) the financial flexibility of international firms allows them to circumvent to some degree both exchange controls and the capital value effects of exchange rates changes. One channel for the movement of funds is by now well-known, that of international intra-company transfer pricing. The extent to which this is used varies: but certainly in the drug industry it extensively operates (as the Eli Lilly case revealed), as in the oil industry, in consumer

durables, for bank charges and so on. But equally important are other ways of shifting funds: intra-company loans, loads and lags in trading payments, manipulation of transfer prices payments of fees and royalties to parent companies. Companies have the choice as to which country is most profitable for raising finance: Phillips make a practise for example of borrowing in weak currency rates, which indirectly further weakens the currency. When most currency changes by developed capitalist economies are capable of being foreseen, the fact that extensive hedging takes place is not at all surprising. Nevertheless it contributes substantially to the instability of international exchange rates, as the operations of certain international firms in the German exchange crisis showed.

(c) financial independence. The access to the international capital markets (of which international firms are major users from the information that is extant) and to their own sources of funds both within any operation or internationally, further dampens the effects of government monetary policies. In Australia Brash found that US foreign investors were re-investing 60% of their profits in the country, and drawing much of the remainder from intra-company loans. The organisation of international finance is often the most centralised of all international firm operations. 39

There is accordingly a tendency for the process of internationalisation to increase the potential economic instability in the world economy at the same time as decreasing the power of national governments to control economic

activity even within their own borders.

5. *States and the Balance of Payments.* If national capitalist governments increasingly lack instruments to control international capital, their policies do nevertheless have an important effect: namely to further weaken their own national capital. We see here an important contradiction to any era of internationalisation. On the one hand the disruptive effects of foreign take-overs, the internal re-organisation of domestic industry, and the special and economic policies resulting from the balance of payments difficulties of an economy in the process of being incorporated (Britain, France, Ireland) all call for a firmer marshalling of the national capital, and a more sustained defence of its interests. On the other, the policies followed to correct a balance of payments deficit are often such as to further weaken the national capital and increase the domination of foreign capital within the national economy.

The clearest case of this is Ireland, where national planning acknowledges the country's dependence on foreign capital by leaving capital inflows as the residual in the planning process. Balance of Payments forecasts are made on the basis of a target rate of growth, and deficits in that balance are intended to be filled by the inflow of foreign capital, at the same time as domestic capital is restricted by deflationary measures. Similar curbing of domestic economic activity at the same time as welcoming foreign investment for balance of payments purposes has been a feature of British policy, and now, to some extent, of the French.

V

Conclusion

I have been concerned to sketch out a framework which would allow a more substantial approach to the problem of the effects of an internationalisation of capital on existing political organisations. In doing so, I have tried to show the importance of analysing the *interests* vis a vis the performance of state economic functions of various extended capitals, as well as the *powers* of the capital's domestic state to support its capital. I suggested that there was no necessary link between a capital and its state in the area of extension, that capital was rather a political opportunist, and that existing states often suffered a decrease in their powers as a result of internationalisation. Thus while states may by their nature remain structurally opposed in economic rivalry, their powers, in terms of the capital they represent and the ability to perform economic functions will vary. Where these powers increase, there need be no contradiction between a nation state and its extended capital. But weaker states in a period of internationalisation come to suit the interests neither of their own beseiged capital nor of the foreign investor.

For any analysis of imperialism, the elaboration of the connections between not only states, but the states and their capitals seems to me a first priority. Only then will we be in a position to present more fully what one might call the territorial dialectics of capitalism.

FOOTNOTES

1. *R. Vernon.* Economic Sovereignty at Bay, *in: Foreign Affairs. October 1968. pp. 119 - 120.*

2. *C.P. Kindleberger.* American Business Abroad. *Yale 1969. p. 207.*

3. Fortune. *August 15, 1969. p. 73.*

4. *L. Trotsky.* Permanent Revolution. *Fr. ed. p. 10.*

5. *This point is well made by Tom Kemp in his chapter on Marx in:* Theories of Imperialism. *Dobson, 1967. It is interesting that in Vol I of* Capital, *Marx purposely assumes away the international aspect of capitalist systems: "In order to examine the object of our investigation in its integrity, free from all disturbing subsidiary circumstances, we must treat the whole world as one nation, and assume that capitalist production is everywhere established and has possessed itself of every branch of industry." Moscow ed. Vol. I. p. 581, n.1.*

6. *K. Marx.* The Poverty of Philosophy. *p. 139. see also p. 144.*

7. *K. Kautsky.* Die Neue Zeit No. 5, *pril 30 1915, p. 144. quoted in V.I. Lenin.* The Collapse of the Second International. *Moscow. p. 19.*

8. *V.I. Lenin.* Imperialism, The Highest Stage of Capitalism. *Moscow. pp. 110 - 111.*

9. *V.I. Lenin.* The Collapse of the Second International. *p. 22.*

10. *A notable exception to this point is Ernest Mandel, particularly in his more recent writings.*

11. R. Miliband. The State in Capitalist Society. *Weidenfeld & Nicolson 1969. N. Poulantzas.* Pouvoir Politique et Classes Sociales. *Maspero. 1969. see also the review by Poulantzas of Miliband's book in* New Left Review 58.

12. I do not want to go into here the question of the 'overdetermination' of the economic functions by the political functions, a point which is emphasised by Poulantzas in his Pouvoir Politique et Classes Sociales, *Maspero 1968. Poulantzas sees the state as "the factor of cohesion of a social formation and the factor of reproduction of the conditions of production of a system," with the state in its economic role being the factor of cohesion in this particular level of the social formation. The economic functions of the state are simultaneously political functions, corresponding to the political interests of the dominant class. See* Pouvoir Politique. . . *especially pp. 53 - 4. It seems to me that we can usefully examine the economic functions of the state in this paper as a preliminary step to understanding more fully its overall political significance.*

13. A useful survey of concepts of economic integration can be found in: R. Erbes. L'Integration Economique. Internationale. *P.U.F. 1966.*

14. See A. Shonfield Modern Capitalism *Oxford 1965, pp. 200 - 201. In relation to labour provision Dobb suggests in his* Studies in the Development of Capitalism, *Routledge, Revised edition 1963, that "there seems to be at least prima facie evidence for connecting periods when the policy of the state in a class society moves in the direction of economic regulation with periods of actual or apprehended labour-scarcity, and periods when State policy is inspired by a spirit of economic liberalism with an opposite situation." He is speaking of regulations and controls by the state governing price or output or entry to a trade or change of employment, during peace-time. see pp. 23 - 4.*

15. Shonfield op.cit. p. 306.

16. ibid. p. 86.

17. The relationship of the state to the development of technology in modern capitalism is extensively discussed in a forthcoming work by Sergio Barrio and John Rickliffs.

18. *A brief discussion of the Italian and German experiences is contained in: Tom Kemp.* Industrialisation in Nineteenth Century Europe. *Longmans 1969. For the use of IRI to hold down prices in Italy, see Shonfield, op cit. p. 186.*

19. *I have discussed the subject of aid as an overseas extension of state functions vis a vis its private capital in:* Aid and the International Firm. *May Day Manifesto Bulletin No. 16/17, November 1969.*

20. *The mechanics of neo-colonialism are more fully discussed in a number of places: see, for example, the* May Day Manifesto, *Penguin 1968.*

21. *This last point is emphasised in M. Kidron* Western Capitalism Since the War, *Weidenfeld and Nicolson, 1968. On the more general issue, List argued in the 1840's that Britain's argument for laisser faire and the relegation of the economic role of the state was itself merely the use of the State to support the already well-established British private interests. Joan Robinson makes the point succinctly in her inaugurual lecture when she says that "It seems after all that the free-trade doctrine is just a more subtle form of mercantilism. It is believed in only by those who will gain an advantage from it."* The New Mercantilism. *Cambridge U.P. 1966.*

22. *E. Mandel.* Marxist Economic Theory. *Vol. 1. p. 170.*

23. *See note 19 above.*

24. *An interesting example of private policing on an international level is provided by the companies who own submarine cables. They have their own patrol vessels operating particularly in fishing areas with a view to enforcing what would be an otherwise virtually unenforceable international public agreement regarding the damage of cables.*

25. *For a useful discussion on operations of international oil companies, see: M. Tanzer.* The Political Economy of International Oil and the Underdeveloped Countries. *Beacon. 1969.*

26. *L. Turner.* Politics and the Multinational Company. *Fabian society. 1969. p.29.*

27. *For a discussion of the ink-blot form of foreign expansion, see: Y. Aharoni.* The Foreign Investment Decision Process. *1966.*

28. *See: Newton Parkes. 'The Failure of the European Headquarters' in* Harvard Business Review. *March-April 1969.*

29. Monthly Review *November 1969. p. 12.*

30. *Kemp. op.cit. p. 96.*

31. *ibid. p. 103.*

32. *See. Luzatto* The Italian Economy in the first decade after Unification *in: ed. Crouzet, Chaloner and Stern.* Essays in European Economic History 1789 - 1914.

33. *See. Bruck and Lees.* Foreign Investment, Capital Controls and the Balance of Payments. *N.Y. University. 1968. pp. 83 - 5. quoted in: S.E. Rolfe.* The International Corporation in Perspective. *Atlantic Council. Mimeo. 1969.*

34. *An interesting discussion of the effects of the opening up of the French economy is given by B. Balassa.* Whither French Planning *in Q.J.E. Nov. 1965.*

35. *R. Vernon.* International Investment and International Trade in the Product Cycle. *Q.J.E. May 1966.*
See also: S. Hirsch. Location of Industry and International Competitiveness. *Oxford U.P. 1967.*

36. *Marie T. Bradshaw.* U.S. Exports to Foreign Affiliates of U.S. Firms. *Survey of Current Business. May 1969.*

37. *Balassa. op.cit. p.540.*

38. *O. Altman.* Foreign Markets for Dollars, Sterling and Other Currencies. *IMF Staff Papers. Dec. 1960 - 61. See also the same authors:* Eurodollars: Some further comments. *IMF Staff Papers. March 1965.*

39. *D. Brash.* American Investment in Australian Industry. *Australian National University Press. 1966. pp. 91 - 2.*

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