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The Internationalization of Capital and the Nation State

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 maximizing 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 solitary concern of international relations with international 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 Problem of Territorial Non-Coincidence

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 organization. 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 organized politically and the way in which it will be increasingly organized 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 consequences of such non-coincidence on political organization. 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 in which nations are subordinate 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 socialization of production.

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[1] R. Vernon, 'Economic Sovereignty At Bay', *Foreign Affairs*, October 1968, pp. 119–120.
[2] C. P. Kindleberger, *American Business Abroad.* Yale 1969, p. 207.
[3] *Fortune*, August 15th, 1969, p. 73.
[4] L. Trotsky, *Permanent Revolution.* French ed, p. 10.
[5] This point is well made by Tom Kemp in his chapter on Marx in *Theories of Imperialism*, London, 1967. It is interesting that in Vol. 1 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. 1.p. 581. n.l.
[6] K. Marx, *The Poverty of Philosophy*, p. 139. see also p. 144.

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 organizations of the imperialist powers are in this case expanded alongside the territorial expansion of their economic organizations: the one-to-one relationship is preserved at the expense of the pre-capitalist public structures of the imperialized 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 internationalization 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 20th-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

[7] K. Kautsky, *Die Neue Zeit* No 5, April, 30th,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.

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: a recent work, by Miliband, has 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 centralization 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 centralization 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 internationalization 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 to the contemporary world economy.

1. The Structural Role of the State as an Economic Instrument of 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 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.

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

[11] R. Miliband, *The State in Capitalist Society*, London 1969. See also, the review by N. Poulantzas of Miliband's book in *New Left Review* 58.

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. *Guaranteeing of property rights.* For Engels this was 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 gaurantee to the 'sanctity' of private information in the form of heavier sanctions against industrial spying.

2. *Economic Liberalization.* 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 *standardization* of currency, economic law, weights and measures and so on. The process characterizes 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 liberalization is the European Common Market. The double process of the abolition of restrictions and standardization 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 liberalization 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.

[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*, Paris 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. 53–54. 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.

3. *Economic Orchestration*: a matter which includes the regulation of business cycles, and economic planning. The forthcoming role of public bodies in this case contrasts with their retiring role in the case of economic liberalization, 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 productive 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 Byé 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 à vis* the productive system (see the British 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 Indo-China 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 nationalization (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]

[13] A useful survey of concepts of economic integration can be found in R. Erbes, *L'Integration Economique Internationale*, Paris 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*, London, 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. 23–24.

[15] Shonfield, op. cit. p. 306.

c) Capital. Governments have acted to ensure the supply of finance to its 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 per cent of business borrowers were servicing their loans at rates of interest below the market rate,[16] and one calculation for Britain suggests that about half of all private fixed capital formation in the country is effectively financed by the government.

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 per cent for the aviation and spacecraft industries, and 85 per cent 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 characterized by a frantic burst of railway building by the government, and although the new system was sold to private capital in 1865 the financial vicissitudes 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 emphasized of course is their controlled rates to industry—controls which are in the process of being given their

[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.

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 founderies, 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) Prevention of public external diseconomies such as pollution, the degradation of land-and townscape, or wide regional disparities.

b) Regulation of conditions of work, including the enforcement of industrial safety, the limitation of working hours, and some wage-setting such as minimum wages or equal pay for women.

c) Regulation of conditions of sale, as in the Swedish state consumer protection system, trade description laws, or the nationalization 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 á 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. *Management of the external relations of a capitalist system*. No capitalist system is closed. The organization 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 tariff 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

[18] A brief discussion of the Italian and German experiences is contained in Tom Kemp, *Industrialization in Ninteenth Century Europe*, London 1969. For the use of IRI to hold down prices in Italy, see Shonfield, op. cit. p. 186.

attempt not merely to reduce foreign discrimination but 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, tariffs, 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 nationalization of property overseas: we have already mentioned fishing as a less publicized 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 subsidization 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 tying markets (AID financing tied to US exports now accounts for 85–90 per cent of total AID financing, while a total of 4 per cent 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) Commercial sanctions, in the form of trade boycotts (South Africa, Rhodesia, newly independent Guinea, the Middle East, Cuba, North Vietnam, China) quotas, 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 per cent 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 $17 million of

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

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 à 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 liberalization; 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 of 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 emphasized 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 nationalized in the advanced capitalist countries—a solution almost always accompanied by the ultimate in

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

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 Volkswagon were 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.

Determinants of Variation

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 wartime and the penumbra of preparation and recovery that surrounds war: such periods feature heavily in public activity in all of the functions. But similarly the developing industries in early periods of industrialization 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 à vis* foreign capital; (b) lower the rate of profit to criticial levels in sectors producing general inputs.

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

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[21] This last point is emphasised in M. Kidron, *Western Capitalism Since the War*, London 1968. On the more general issue, List argued in the 1840's that Britain's argument for *laissez 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 succintly in her inaugural lecture when she says that 'It seems after all that the free-trade doctrine is just a more subtle form of mercantalism. It is believed in only by those who will gain an advantage from it.' *The New Mercantilism*, Cambridge 1966.

v) The degree of centralization 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 specialized 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, generating plants: they run their own training schemes, and welfare systems. The point is rather that these are all activities which it 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 privatize 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 organizers 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 though 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.

2. State and Capital in Territorial Space

The socialization of production under capitalism, the widening division of labour and interdependence between capitals, have 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 capitalisms, 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-

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

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 on the management of external relations (pp 9–10). The provision of basic inputs, as well as the establishment of organizational 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 organizational 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 organization. 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 organizational 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 fulfillment 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

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[23] See note 19 above.

in the field of policing and input provisions.[24] It also extends to the threat of negative sanctions on foreign states discriminating or nationalizing the firms in questions: the international oil majors have exercised oligopolistic solidarity against national governments on a number of occasions—notably against Iran after the nationalization of Anglo-Iranian.[25] Non-ferrous metal 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 à 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 capitals who have invested within the national boundaries. This is true of 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 monopolistic 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 computer field IBM claim that they supply only 2 out of the 72 computers 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 invest in a host country: extended capital has been able to rely on host governments to fulfill 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

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[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*, London 1970.

[26] L. Turner, *Politics and the Multinational Company*, Fabian Society, 1969. p. 29.

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 standardization between countries. (Free trade areas, customs unions, common markets—which attach greater importance to standardization, 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 trans-national 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 à 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 which we noted were fulfilled by foreign states, these co-operative agreements are aimed at trans-national functions. But many of them have been far from successful in fulfilling their aim: this is notably so in the field of intergovernmental technological co-operation, and in fishery regulation. 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.

Forms of Extending Capital

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 centralization*, that is to say the degree to which foreign markets are served by output whose production and inputs 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 centralized production, with a high proportion of trade to decentralized production, will be most concerned with the establishment and maintenance of conditions of free international exchange. Productive centralization with high trade: foreign sales ratios is a characteristic of the early period of capitalist international expansion, and is reflected in the frequent international disputes over tariffs that occurred prior to this century.

The conflicting pressures relating to the international centralization of production—economies of scale tending towards centralization on the one hand, transport costs, tariff barriers, spare part and market servicing requirements tending towards decentralization on the other—leads commonly to *regional centralization 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 organizations, local assembly, local full production, then regional centralization 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 centralization or regional division of labour within the EEC. It is instructive that by the end of 1968

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

there were over 800 European headquarters groups in Brussels, though it is the productive rather than organizational 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 centralization 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 decentralized production served by a centralized 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, licencing, leasing, and so on can be gauged by the receipts of US companies of royalties and fees. In 1968 these totalled \$1·28b., comprising \$0·54b, in the form of royalties, licence fees and rentals, and \$0·64b. 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 rationalizing of its international operations by its founder—but in respect to the latter, European firms have evidently favoured inter-governmental European co-operation be-

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

cause 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 adequate for a system, say, of decentralized 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 centralized 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 minimize 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 Curaçao, Malta or Luxembourg operating internationally under public 'umbrellas' financed by rival capitals. Thus even where there is extensive territorial non-concidence 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 centralized 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.

The Political Framework

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.

[29] *Monthly Review*, November 1969, p. 12.

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 countries proposed association with the EEC provided an interesting instance of this.

At the same time we have noted the difficulty of inter-governmental co-operation on certain central public functions, and the fragility of such co-operation in times of depression. Whether those capital interests in favour of consolidated state power for the performance of the international public functions are stronger than those defending existing state forms is a question which can be answered only by examining their relative positions at a particular historical juncture.

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 liberalization within the area furthered industrialization, 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 liberalization brought about through co-operation led to an internationalization of capital which then required a unified co-ordination of state powers covering the expanded territory.

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[30] Kemp. op. cit. p. 96.
[31] Ibid. p. 103.
[32] See: Dick Parker, 'Capitalise Growth and the Formation of the German State'. Paper to the second Socialist Economists Conference, Cambridge October 1970, as well as F. Engels, *The Role of Force in History*, (edited and with an introduction by Ernst Wangermann), London 1968.

What I have wanted to suggest in this section is a framework for analysing the consequences for political organization 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 organization 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 internationalization. This is clearly important for any discussion of the continued critical rivalry between nation states in an era of expanding capitals. The next section will therefore turn to this in the context of some suggestions on the contemporary international economy in the light of the previous discussion.

3. Capital and State in the Contemporary World Economy.

1. *Internationalization.* 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 per cent by the end of 1968 $11·4b. worth of bonds had been issued on the international capital market, 75 per cent of them Eurobonds ($8·6b.); while on the short-term market it is now estimated that there are 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 per cent of their sales or earnings derived from overseas operations, with 11 of them over 50 per cent and International Packers deriving as much as 96 per cent of their sales revenue from abroad.[33] On the financial side US firms have in recent years funded about 40 per cent of their overseas operations from cash flows generated abroad, 35 per cent from external sources abroad, and 25 per cent 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

[33] See Bruck and Lees, *Foreign Investment, Capital Controls and the Balance of Payments*, New York 1968. pp. 83–85; quoted in S. E. Rolfe, *The International Corporation in Perspective*, Atlantic Council, Mimeo. 1969.

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 liberalization while being still firmly 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 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 characterized 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 specialized plants country by country as the result of or a guard against local nationalism. Finally the preliminary results from the Harvard

[34] An interesting discussion of the effects of the opening up of the French economy is given by B. Balassa, 'Whither French Planning' in *Quarterly Journals of Economics*, November 1965.

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 per cent 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 internationalization 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 per cent of the GNP value of traded goods to countries outside France and the associated territories, and importing 12·7 per cent in 1953. By 1963 these figures were 17·5 per cent and 19·2 per cent, 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

[35] R. Vernon, 'International Investment and International Trade in the Product Cycle', *Quarterly Journal of Economics*, May 1966. See also: S. Hirsch, *Location of Industry and International Competitiveness*, Oxford 1967.
[36] Marie T. Bradshaw, US Exports to Foreign Affiliates of US Firms,' *Survey of Current Business*, May 1969.
[37] Balassa, op. cit. p. 540.

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 internationalization 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 assets 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 clear. 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 flows 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 rate 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, leads and lags in trading payments, 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 areas, which indirectly further weakens the currency. When most currency changes by developed capitalist economies are capable of being foreseen, the fact

[38] O. Altman. 'Foreign Markets for Dollars, Sterling and Other Currencies.' *IMF Staff Papers*, Dec. 1960–61. See also the same author's 'Eurodollars: Some further comments.' *IMF Staff Papers*, March 1965.

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 per cent of their profits in the country, and drawing much of the remainder from intra-company loans. The organization of international finance is often the most centralized of all international firm operations.[39]

There is accordingly a tendency for the process of internationalization 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.[40]

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 in any era of internationalization. On the one hand the disruptive effects of foreign take-overs, the internal re-organization of domestic industry, and the social 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.

4. 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 inter-

[39] D. Brash, *American Investment in Australian Industry*, Canberra 1966. pp. 91–92.
[40] For a more detailed discussion of this point in relation to Britain see: R. Murray, 'The Internationalisation of capital and the British Economy,' *The Spokesman*, April 1971, no. 11.

nationalization of capital on existing political organizations. In doing so, I have tried to show the importance of analysing the *interests vis à 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 internationalization. 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 internationalization 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.