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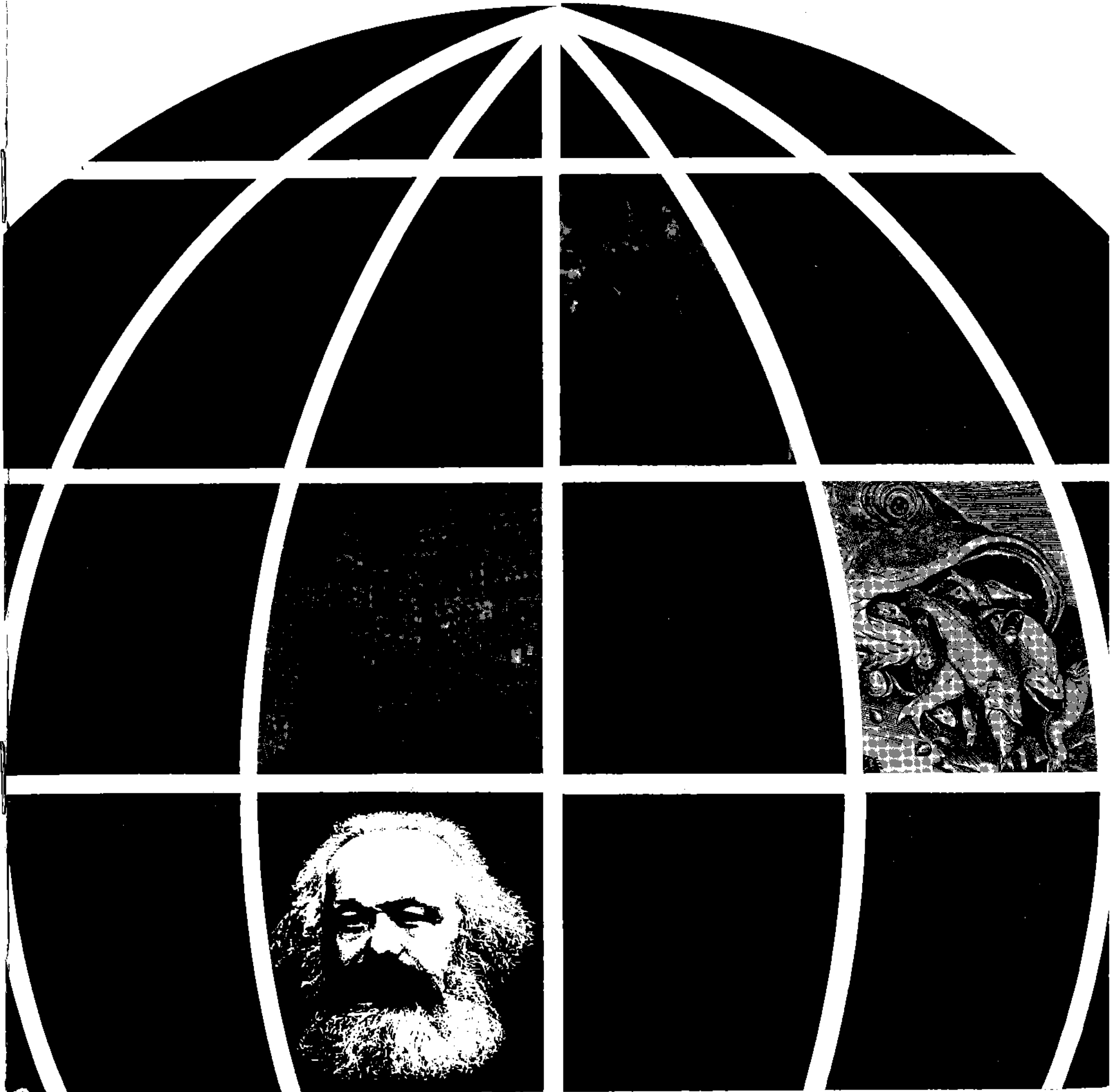

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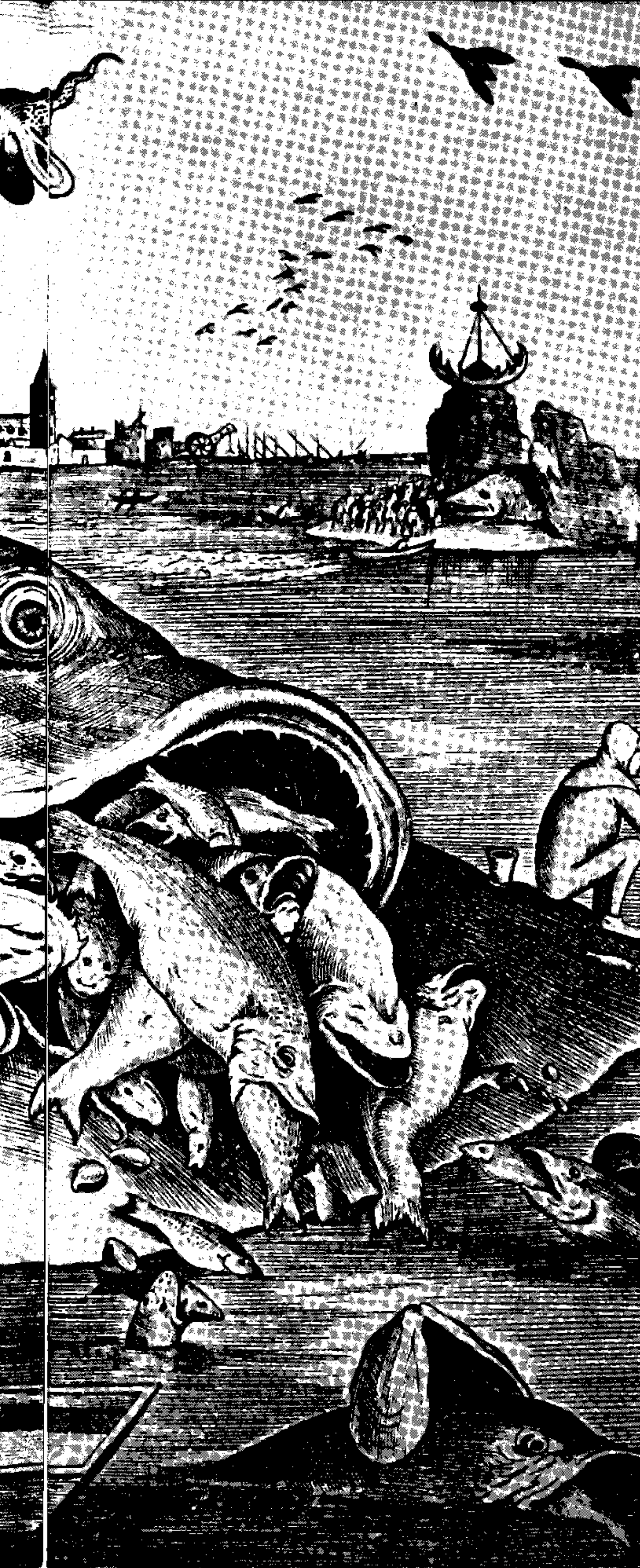

Robin Murray

The Internationalisation of Capital and the British Economy

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

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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.

I

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:

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	1,115	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

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 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 discuss 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 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.

* Table II see page 36

II

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

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(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 neoclassical 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.

III

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 increase 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]

IV
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 restrictions 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 devaluation 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 govern-

ment *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.

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]	–	–	5	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	62	–	–
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	35	–	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	33	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 activities 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.

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