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The Meaning of Economic Imperialism

THEORIES OF IMPERIALISM

There is still much controversy, and more confusion, about the meaning of economic imperialism. Monopolistic privileges and preferences, plunder of raw materials, seizure of territory, enslavement of local peoples, nationalism, racism, militarism—all of these phenomena have been closely identified with imperialism. Only on the association of imperialism with expansion—economic, political, cultural, and territorial expansion—has there been any general agreement. But if imperialism means "the extension of political power by one state over another, [then] all through the sixty centuries of more or less recorded history" it has been a principle feature in human relations.[1] Beneath the undergrowth of over half a century of historical, theoretical, and polemical writings, however, three general doctrines can be distinguished. Two of these reflect the period of European expansion which began during the 1880's and ended in 1914. The third is an interpretation of contemporary world capitalism, and, in particular, United States expansionism.

Imperialism: A Political Phenomenon

1.

The first doctrine disassociates capitalism from imperialism. For Joseph Schumpeter, the leading exponent of this view, imperialism is "a heritage of the autocratic state . . . the outcome of precapitalist forces which the autocratic state has reorganized . . . [and] would never have been evolved by the 'inner logic' of capitalism itself."[2] The "inner logic" of capitalism consists of nothing more or less than free trade and "where free trade prevails *no* class has an interest in forcible expansion as such . . .

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citizens and goods of every nation can move in foreign countries as freely as though those countries were politically their own." Only the "export monopolist interests"—in particular, monopolies in the metropolitan countries which dump surplus commodities abroad behind high tariff walls—profit from imperialism. Schumpeter was confident that these interests would not survive capitalism's "inner logic." His confidence was, of course, misplaced; as we will see, the national and regional economic policies of the advanced capitalist countries today rightly merit Joan Robinson's label—the New Mercantilism. The reason is not hard to find: Schumpeter selected one characteristic of capitalism, "rationality," which he considered central, to the exclusion of other features.

The vast majority of bourgeois economists in the past and present adopt a position similar to Schumpeter's, even though few today would share his optimism in connection with the revival of free trade. The generally accepted "comparative advantage" theory of Ricardo and Mill holds that all parties in international commodity trade under competitive conditions benefit in accordance with the strength of the demand for their respective commodities. Nationalist economic policy and monopoly restricted free trade and inhibited the growth of income and economic well-being, but these barriers have been lowered by the breakup of the European empires. The trademark of this doctrine is that exploitive economic relations between the advanced and backward capitalist countries cannot survive in a world of politically independent countries. According to this line of thinking, the real problems of world capitalism today spring from the misplaced faith of the ex-colonies that nationalist economic policies which have created new and higher barriers to international investment and trade can put the backward countries on the path of self-sustained economic growth.

Schumpeter and other bourgeois writers uncritically disassociate capitalism from imperialism for three reasons: First, because their criteria for distinguishing and identifying imperial and colonial relationships are ordinarily political and not economic (for example, Hans Kohn has developed the most sophisticated typology of imperialism, which he understands in terms of the distribution of political power[3]); second, because they do not consider capitalism as such to be an exploitative system; third, because imperialism historically has contained certain features identified with the theme of expansionism which have not been uniquely associated with any given economic and social system. Thus

bourgeois writers have concluded not only that imperialism predates capitalism, but also that imperialism is essentially an anachronistic system. For this reason, there have been few investigations of the specific features of capitalist imperialism.

In connection with economic expansionism, pre-capitalist and capitalist societies differ in five general ways: First, in pre-capitalist societies economic expansion was irregular, unsystematic, not integral to normal economic activity. In capitalist societies, foreign trade and investment are rightly considered to be the "engines of growth." Expansion is necessary to maintain the rhythm of economic activity in the home, or metropolitan economy, and has an orderly, methodical, permanent character. Second, in pre-capitalist societies the economic gains from expansion were windfall gains, frequently taking the form of sporadic plunder. In capitalist societies, profits from overseas trade and investment are an integral part of national income, and considered in a matter-of-fact manner.

Third, in pre-capitalist societies plunder acquired in the course of expansion was often consumed in the field by the conquering armies, leaving the home economy relatively unaffected. In capitalist societies, exploited territories are fragmented and integrated into the structure of the metropolitan economy. Imperialism, in effect, potentially emancipated space-bound and time-bound man. Fourth, in pre-capitalist societies debates within the ruling class ordinarily revolved around the question whether or not to expand. In capitalist societies, ruling-class debates normally turn on the issue of what is the best way to expand.

Last, in relation to colonialism, pre-capitalist and capitalist societies also differ in a fundamental way. In the former, colonialism (land seizure, colonist settlement, or both) was the only mode of control which the metropolitan power could effectively exercise over the satellite region. As we will see in detail later, capitalist societies have developed alternative, indirect, and more complex forms of control.

Not only do pre-capitalist and capitalist expansion depart in significant ways, but also the character of expansion (especially the nature of trade and colonialism) in mercantile capitalist societies differs from that in industrial capitalist societies. To be sure, the definition of colonialism adopted by some writers—monopolistically regulated trade and investment at higher rates of profit than those obtaining in the home economy—applies with equal force to both the mercantilist and industrial capitalist

eras. In fact, the term "neo-mercantilism" has frequently been used to describe nineteenth-century imperialism, and, as we have mentioned, mid-twentieth-century nationalist economic policy has been labeled the "new mercantilism." In addition, throughout the history of capitalism businessmen and traders have followed the same rule—extract capital from areas where the cost is lowest, invest where anticipated returns are highest.

The differences between mercantilism and nineteenth-century imperialism, however, outweigh the similarities.[4] First, the resemblance between monopolistic commercial organizations in the two political-economic systems is only superficial. Mercantilist monopoly trading companies did not spring from the prevailing modes of production. They were formed to minimize physical and commercial risks along uncertain and distant trade routes. As "normal" patterns of trade were established, risk and uncertainty were reduced and the great monopoly companies met increasing competition from other nationals and foreign companies. The East India Company, the last of the great monopolies, was dissolved early in the nineteenth century. From then until the last quarter of the nineteenth century, British manufacturers and merchants adopted free trade on principle because their control over advanced methods of production gave them a decisive competitive advantage. But Britain's foreign investments in Europe and the United States and the diffusion of industrial technology eliminated this advantage. And further advances in technology which were not consistent with small-scale enterprise led to the cartelization and monopolization of industry. Latter-day monopolies, unlike their forerunners, have proven not to be transitory.

A second important difference between mercantilism and imperialism is related to the character of trade. Early mercantilism was commercial capitalism in its purest essence, middlemen exchanged goods for goods in a lively entrepôt trade, and mercantilist wars were mainly trade wars—the Anglo-Dutch wars of the seventeenth century were the purest commercial wars in history.[5] It is true that, as early as the first decades of the seventeenth century, the East India Company purchased raw materials in exchange for British manufactured goods. But this was not typical. It was only in the late mercantile and early industrial capitalist periods that Britain increasingly exported manufactured commodities for agricultural raw materials and minerals.[6] As late as 1800, for example, British ships took woolens and hardware to India and returned with cotton and

silk products. Then, as the nineteenth century wore on, a new dimension was added to trade: capital goods financed by foreign loans and investments, as well as consumer manufacturers, exchanged for foodstuffs and industrial raw materials.

Finally, there are superficial similarities between mercantilism and imperialism in the sphere of state economic policy. Both systems of political economy relied on active state participation in the direction, organization, and character of trade or investment. But the nature of state policy was fundamentally different. In England, after the prohibition on the export of bullion was abolished in 1663, the state employed commodity import and export controls with the aim of maintaining a favorable balance of trade, or export surplus, with *each* of Britain's trading partners, colonies and noncolonies alike. Gradually, a system of multilateral trade replaced the more primitive bilateral trade patterns. It was this system of multilateral trade which the imperialist states of the late nineteenth century inherited. Imperialist state policy revived the older technique of export promotion and import restriction (and invented new techniques, as well) with the aim of maintaining a favorable balance of trade *with the world as a whole*, not with any specific trading partner.

These contrasts between mercantilism and imperialism give rise to important differences with respect to colonization. In the first place, it is certainly true that the leading late mercantilist and imperialist powers discouraged both subsistence production and the manufacture of commodities in the colonies. But mercantilist industry was technologically primitive, small-scale, and, most important, not vertically integrated. Thus the exploitation of raw materials under mercantile impulses, and colonization itself, were of necessity *national* policies, and generated fierce national rivalries. From the late nineteenth century down to the present, however, national rivalries have increasingly given way to struggles between fully integrated corporations based in the metropolitan countries. These struggles have typically been resolved in compromise. The sharing out of oil resources between the great oil monopolies in the Middle East is an excellent example of cooperation between integrated corporations (and, by extension, imperialist nations). To make the point slightly differently, in the mercantilist era it was impossible to conceive of an international ruling class; in the contemporary imperialist period, an international ruling class is an accomplished fact.[7]

Secondly, colonial conquest in the sixteenth and seventeenth centuries

had as its chief purpose the mitigation of the hazards of trade and the preservation of monopoly control. The mercantilist powers established factories, trading bases, and forts where regional trade was already established.[8] By contrast, the seizure of territories in the late nineteenth century was motivated less to preserve commercial positions which had already been won by peaceful methods than to open up possibilities for trade and investment where none had existed before. Colonialism under mercantilism was therefore defensive in nature and required a passive state presence, while latter-day imperialism in comparison exhibited an aggressive character which stood in need of active state participation.

Mercantilism and imperialism departed in still another important respect. The doctrine used to support rigid trade restrictions, and an important element of the theory which the mercantile colonial system was based on, was that the maximum inflow of bullion required a favorable balance of trade with each colony. This doctrine limited the scope of territorial conquest and seizure, as well as the development of commercial relations with other colonial powers. In the late mercantile era, however, the state gradually realized that an expansion of output was the key to maximum trade and therefore the nursing of home industry and creation of employment became central goals of state policy. Thus were created the preconditions for the growth of complex, multilateral trade patterns, which in turn awakened the interests of the imperial powers in any and all underexploited regions.

In sum, industrial capitalist expansionism distinguished itself in the following important respects: it exhibited a more aggressive attitude toward the underexploited lands; it was less particular, and more universal, in character; it more fully integrated underexploited economic regions into the structure of the metropolitan country; it required the active participation of the state; and, finally, internecine warfare between the economic monopolies tended to be less acute. Imperialism thus contained the important contradiction which has afflicted the advanced capitalist countries down to the present day. On the one hand, the *national* power elites seek to advance the economic interests of their respective countries; on the other hand, the integrated, multinational corporations, or the *international* ruling class, extend their sway irrespective of the interests of the countries in which they are based. This contradiction is heightened by the aggressive, universal character of modern imperialist expansion.

(In our comparison of mercantilism and imperialism we have neither surveyed the differences between the early, middle, and late mercantilist era, nor reviewed satisfactorily the relation of the free trade period to either mercantilism or imperialism. One school of thought sees a great deal of continuity between mercantilism and early industrial capitalism. M. Barratt-Brown, for example, argues that the decades after 1815 saw the expansion and consolidation of the British Empire based on the need to conquer and secure markets and keep trade routes open in the face of rivalries from developing European and United States capitalism and the first outbreaks of nationalism and anti-imperialism in the colonies. D. Fieldhouse, on the other hand, asserts that Britain's industrial supremacy after 1815 meant that the colonies and monopolistic privileges involved few benefits and large costs. He claims that the acquisition and defense of colonies were motivated chiefly for reasons of military security and administrative efficiency.)

Imperialism: An Aspect of Monopoly Capitalism

Against the view that dissociates capitalism and imperialism, Marxist economists have put forward many variations on the same fundamental argument. The second doctrine of imperialism, also inspired by European expansionism in the late nineteenth and early twentieth centuries, holds that monopoly capitalism, imperialism, and colonialism are basically the same phenomena. Perhaps it is more accurate to call this view "neo-Marxist," because those who hold it have inherited few clear theoretical guidelines from Marx himself. In the three volumes of *Capital*, apart from the brief concluding chapter in Volume 1, there are only two or three references to the economics of colonialism, the gist of which is that commodities produced under conditions of high labor productivity and sold in countries where labor productivity is low will command an abnormally high rate of profit.[9] Marx's relative silence on the economics of imperialism may have handicapped the development of Marxist theory, or it may have been a blessing in disguise. The absence of any theoretical precedent has forced (and continues to force) Marxists back on their own experiences and intellectual resources. Thus older interpretations of imperialism as far apart as those of Lenin and Rosa Luxemburg, and modern theories as disparate as those of Paul Baran and Joseph Gillman, have arisen from basically the same critical tradition.

Nothing succeeds like success, however, and Lenin's ideas have

dominated the field. Yet Lenin owed much to John A. Hobson's *Imperialism*, published in 1902, a book which is frequently (and legitimately) read as the precursor of Lenin's study. Thus we will begin by sketching out the main ideas of Hobson and Lenin, later subjecting them to analysis on the basis of theoretical and historical studies published in recent years.

Hobson and Lenin wrote about imperialism during the heyday of colonialism (1885-1914), which naturally enough appeared to be *the* most significant economic-political phenomenon of the time. By making colonialism their focal point, however, both men equated imperialism and colonialism and thus failed to understand the significance of the "imperialism of free trade"—an expression coined to describe British economic expansion from the 1840's to the 1880's. Moreover, they barely acknowledged United States expansion and could not anticipate future modes of imperialist controls which have proved to be even more effective than formal colonial rule.

The distinctive feature of Hobson's theory is his conception of colonialism as the reflection of the unfulfilled promise of liberal democracy. As Hobson saw it, inequalities in the distribution of wealth and income in Britain dampened the consumption power of the British working classes, which in turn made it unprofitable for capitalists to utilize fully their industrial capacity. Unable to find profitable investment outlets at home, British capitalists subsequently sought them abroad in the economically underexploited continents. Britain therefore acquired colonies as a dumping ground for surplus capital. The end of imperialist conquest and de-colonization would come about only when the British working classes acquired more economic and political power through trade unionism and parliamentary representation, which would set the stage for a thoroughgoing redistribution of income and hence the development of a home economy in which the volume of consumption corresponded more closely to the volume of production.

Hobson supported his thesis not only by his faith in the promise of liberal democracy, but also by reference to changes in Britain's trade and investments. He tried to show that the expansion of empire during the last two decades of the nineteenth century, when most of the world not already independent or under European rule was carved up among the European powers, resulted in a *decline* in British trade with her colonies in relation to trade with noncolonies.[10] He also underlined the obvious fact that the new colonies in Africa and Asia failed to attract

British settlers in significant numbers. Through a process of elimination Hobson thus hit on what he considered to be the crucial element in British imperialism—foreign investments. He linked the vast outflow of capital from Britain during this period—British overseas investments rose from 785 million pounds in 1871 to 3,500 million pounds in 1911 and annual net foreign investments were frequently greater than gross domestic fixed investments—with the frantic struggle by the European powers for colonies, and inferred that the former caused the latter. The political struggles between the major European powers were thus dissolved into struggles for profitable investment outlets, and the explorers, missionaries, traders, and soldiers of the period were seen as the puppets of London's financial magnates.

Lenin agreed with Hobson that the prime cause of capital exports was the vast increase in the supply of capital in the metropolitan countries, especially Britain, and played down the role of the demand for capital in the underdeveloped regions. He also, like Hobson, causally linked foreign investments with the acquisition of colonies. The distinctive element in Lenin's theory related to the *cause* of the surplus of capital.

Lenin understood that imperialism is a *stage* of capitalist development, and not merely one possible set of foreign policy options among many. In particular, imperialism is the monopoly capitalist stage, and exhibits five basic features:

(1) The concentration of production and capital, developed so highly that it creates monopolies which play a decisive role in economic life.

(2) The fusion of banking capital with industrial capital and the creation, on the basis of this financial capital, of a financial oligarchy.

(3) The export of capital, which has become extremely important, as distinguished from the export of commodities.

(4) The formation of the international capitalist monopolies which share out the world among themselves.

(5) The territorial division of the whole earth completed by the great capitalist powers.[11]

The key element is the formation of local and international monopolies behind high tariff barriers in the metropolitan countries. Monopolistic organization develops "precisely out of free competition" in essentially four ways. First, the concentration (growth in absolute size) of capital leads to the centralization (growth in relative size) of capital. Second, monopoly capital extends and strengthens itself by the seizure of key

raw materials. Third, financial capital, or the investment banks, "impose an infinite number of financial ties of dependence upon all the economic and political institutions of contemporary capitalist society," including nonfinancial capital. Fourth, "monopoly has grown out of colonial policy. To the numerous 'old' motives of colonial policy, the capitalist financier has added the struggle for the sources of raw materials, for the exportation of capital, for 'spheres of influence,' i.e., for spheres of good business, concessions, monopolist profits, and so on; in fine, for economic territory in general." In short, the new colonialism opposes itself to the older colonial policy of the "free grabbing" of territories.

The cause of the surplus of capital and capital exportation, and of monopolistic industry, is the tendency of the rate of profit to fall.[12] Two underlying forces drive down the rate of profit in the metropolitan country. First, the rise of trade unions and social democracy, together with the exhaustion of opportunities to recruit labor from the countryside at the going real wage, rule out possibilities for increasing significantly the rate of exploitation. Second, labor saving innovations increase the organic composition of capital. Monopoly is thus in part formed in order to protect profit margins. At the same time, economies of large-scale production (internal expansion) and mergers during periods of economic crises (external expansion) strengthen pre-existing tendencies toward monopolistic organization.

Meanwhile, in the economically underexploited regions of the world, capital yields a substantially higher rate of return. For one thing, the composition of capital is lower; for another, labor is plentiful in supply and cheap; and, finally, colonial rule establishes the preconditions for monopolistic privileges. Rich in minerals and raw materials required by the development of metals, automotive, and other heavy industries in the metropolitan powers, the underexploited regions naturally attract large amounts of capital. Consequently, foreign investment counteracts the tendency for the rate of profit to fall in the metropolitan economy. On the one hand, high profit margins in the colonies pull up the average return on capital; on the other hand, the retardation of capital accumulation in the home economy recreates the reserve army of the unemployed, raises the rate of exploitation, and, finally, increases the rate of profit.

Pushing this thesis one step forward, the precondition for a truly "favorable" investment climate is indirect or direct control of internal politics in the backward regions. Economic penetration therefore leads to

the establishment of spheres of influence, protectorates, and annexation. Strachey suggests that the backward regions assumed a dependency status (the last step before outright control) in relation to the metropolitan powers chiefly because the former were in debt to the latter. What was significant about the shift from consumer goods to capital goods in world trade was that the colony-to-be needed long-term credits or loans to pay for the capital goods, and that, finally, the relationship between the backward country and the metropolitan country became one of debtor and creditor. And from this it was but a small step to dependence and domination.

Whatever the exact sequence of events which led to colonialism, Lenin's economic definition of colonialism (and imperialism) is monopolistically regulated trade and/or investment abroad at higher rates of profit than those obtaining in the metropolitan country. "As soon as political control arrives as handmaid to investment," Dobb writes, "the opportunity for monopolistic and preferential practices exists." The essential ingredient of colonialism therefore is "privileged investment: namely, investment in projects which carry with them some differential advantage, preference, or actual monopoly, in the form of concession-rights or some grant of privileged status."[13]

The criticisms of Hobson's and Lenin's theories, and the alternative views which have been put forward, do not constitute a new theory so much as a catalogue of historical facts which are not fully consistent with the older theories. These criticisms bear on three key aspects of Lenin's theory, two of which also figured importantly in Hobson's thought.

One line of criticism is that Lenin ignored the theme of continuity in European expansionism and was too eager to interpret the partition of Africa and the Pacific as a qualitatively different phenomenon. Alexander Kemp has shown that throughout the *entire* nineteenth century British net capital exports in relation to national income amounted to just over 1 percent during recession periods and about 6 to 7 percent during boom years.[14] Pointing to a similar conclusion is Richard Koebner's judgment that British "imperial responsibilities were enlarged step by step by a hesitant government."[15] Gallagher and Robinson also reject the idea that there were important qualitative differences between British expansionism in the first and second parts of the nineteenth century. In both periods the formula was "trade with informal control if possible; trade with the rule

if necessary."[16] In Egypt and South Africa, for example, they maintain that Britain was only responding to internal upheaval and that traditional controls could no longer be relied upon.

Lenin was aware of the continuity in European expansionism but maintained that the development of monopoly capitalism led to a break in this continuity. In principle Lenin had solid earth under his feet because the generation of business savings and their absorption by new investments are governed by different laws in a competitive capitalist society than under monopoly capitalism. But in practice it is by no means certain that Lenin was right when he asserted that at the beginning of the twentieth century, monopolies have acquired complete supremacy in the advanced countries.[17]

In the most powerful imperialist country, Great Britain, there were few trusts or cartels of any consequence in 1900.[18] One highly qualified economic historian maintains that the British economy failed to enter the monopoly stage until the early 1930's.[19] Lenin was aware that British capitalism was far from a model of monopoly domination, but slurred over the problem by referring to a "monopoly" of a few dozen companies and by interpreting Chamberlain's Imperial Preference System as Britain's reply to the European cartels. The German economy was not thoroughly trustified until after 1900, even though bank control of industry was established at a much earlier date. As for the United States economy, recent research has thrown doubt on the received idea that the great merger movement around the turn of the century resulted in the cartelization and trustification of heavy industry, and has substituted the thesis that the economy was more competitive in the first decade of the twentieth century than in the last decade of the nineteenth.[20]

The same line of criticism developed from a different perspective also casts doubt on Lenin's major thesis. The truth is that British capital exports to Africa were mobilized by small-scale speculators, not mainly by the big London banking houses. For the former, although not for the latter, foreign lending was a precarious undertaking. One of the first of the African companies, The Royal Niger Company, "had to . . . enlist subscribers in order to make certain that the Company would be equal to its administrative undertaking."[21] Similarly, subscribers to the Imperial British East Africa Company and Cecil Rhodes' South African Company were mainly small-scale savers, such as pensioners and retired military officers. If monopoly capitalism is essentially a post-Lenin phenomenon,

it is readily understandable why the African companies were financed by small capital. The interesting point in this connection is that capital exports to the underdeveloped regions today conform closely to the Leninist vision. It is not the small investor attracted to an empire builder like Rhodes who provides the savings for foreign investment, but the giant multinational corporations such as Standard Oil, General Motors, and General Electric.

The second line of criticism challenges directly the thesis of Hobson and Lenin that vast amounts of capital from Britain flowed into new colonies. As Cairncross has shown in his definitive study, the great mass of British foreign investments penetrated India and what Ragnar Nurkse has termed the regions of recent settlement—the United States, Canada, Australia, Argentina, and South Africa.[22] These areas contained primary commodities, chiefly agricultural goods ,which Britain required and which in turn needed a steady flow of foreign capital, mainly to finance railroad construction, to exploit. This analysis lays great stress on the increase in the demand for capital (and is sometimes called the capital-pull thesis) and plays down the significance of the capital surplus which Hobson and Lenin saw piling up in the metropolitan countries.

Maurice Dobb has countered this reasoning with the observation that Britain's need for foodstuffs and raw materials was specific to Britain and in no sense characteristic of the other imperial powers. Thus while the demand for British capital may have increased more rapidly than the supply, the same conclusions cannot be applied to France or Germany. What is more, repatriated interest and dividend payments on investments "pulled" from Britain in the early years of the colonial epoch may have been during later decades "pushed" out into both the old and new colonies. Fieldhouse has pointed out that there were no important differentials between home and foreign interest rates during the pre-World War I colonial era, concluding that capital could hardly have been attracted by colonial superprofits.[23] Taken at face value, this conclusion supports the Nurkse-Cairncross "capital-pull" thesis. But the conclusion is fallacious because it was precisely the vast outflow of capital which depressed interest rates abroad and kept them firm at home.

The new colonies did fail to attract many investments during the period directly before and after their conquest. Egypt's indebtedness to Britain was a factor, to be sure, but it was the collapse of the Egyptian government which led Britain to occupy that country in 1882 in order to

protect Suez and the routes to the east.[24] As for the rest of Africa, British enterprise in the nineteenth century was restricted mainly to the palm oil trade on the west coast, and moderate investment activity in the Transvaal and Rhodesia. As Robinson and Gallagher have shown, Africa provided little trade, less revenue, and few local collaborators, and Britain supplied little capital and few settlers. Certainly, until the twentieth century British ruling-class opinion held widely that there was no real economic reason for the partition of Africa.[25] In the Pacific, large-scale investments in Malayan tin and rubber were made considerably after the annexation of that country, and other late nineteenth-century conquests in Asia and the Pacific failed to attract new investments in any significant quantity. This of course does not prove that these acquisitions were not economically motivated, but only that investors may have had over-optimistic expectations.

Lenin's description of the chief characteristics of the new colonial era—foreign investments, seizure of territories, monopolistic preferences—was therefore largely accurate. A single, or simple, theoretical pattern, however, cannot be imposed on the complex sequence of events which revolutionized the world capitalist system between the 1880's and World War I. More often than not, in Robinson and Gallagher's words, the "extension of territorial claims . . . required commercial expansion." Certainly the attitudes expressed by the German Colonial Congress in 1902 suggest that in point of time investment and trade followed the flag, rather than vice versa: "The Congress thinks that, in the interests of the fatherland, it is necessary to render it independent of the foreigner for the importation of raw materials and to create markets as safe as possible for manufactured German goods. The German colonies of the future must play this double role, even if the natives are forced to labor on public works and agricultural pursuits." Similar sentiments were expressed in one form or another by Joseph Chamberlain, Theodore Roosevelt, and a host of lesser leaders and ideologists of imperialism.

We have finally to discuss a criticism of Lenin's thesis which arises from the experiences of Britain in the period directly after World War II. Although domestic investment had been considerably in excess of foreign investment (thus reversing the pre-1914 ratio of home to foreign investment),[26] capital exports did not come to a complete halt with the political independence of Britain's colonies. It has been inferred from this that formal colonial rule was really not necessary to provide profitable investment outlets. In defense of Lenin, the argument has been raised that

British economic stagnation in the immediate postwar era can be attributed to the decline in repatriated earnings from foreign investments, and therefore a decrease in the rate of profit, in turn due to the removal of British economic interests from their monopoly over trade, banking, agriculture, and other branches of politically independent ex-colonies.[27] The empirical work published by Michael Barratt-Brown tends to confirm this line of reasoning: Brown estimates that after deducting payments to foreign owners of property, net earnings from overseas investments in the postwar period amounted to only 1 percent of Britain's national income.[28]

These estimates, and the conclusion implicit in them, have been questioned by Hamza Alavi, who argues that informal economic control exercised by the advanced capitalist countries can be as effective, and as profitable, as formal political rule.[29] In our subsequent interpretation of contemporary imperialism we lay great stress, and develop in detail, this idea. Alavi challenges the estimates on three grounds. First, he maintains that the gross return, not net return, on capital invested abroad is the relevant figure on the grounds that Britain incurred her liabilities independently. Second, he rightly stresses that profit remittances represent but a portion of the return flow on foreign investments. Although it proved impossible to arrive at any accurate estimates, income remitted in the form of monopolistic prices, "services" such as commission royalties, and head office charges, should be included in the return flow. Lastly, Alavi states that income remissions in relation to the domestic economic surplus (and not relative to national income) is the relevant comparison for measuring the impact of foreign investments on the metropolitan economy. Alavi calculates that gross income from overseas investments in the postwar period (excluding the disguised income remissions listed above) amounted to 3.3–4 percent of the national income and 40–55 percent of domestic net investment. Clearly, if Britain financed perhaps one-half of her home investments from overseas profits, foreign asset holdings must have been a decisive element in the maintenance of the rate of profit at home.

Neo-Imperialism: Control Without Colonialism

A brief sketch cannot even begin to resolve the many theoretical and historical questions which run through the two major contending doctrines of nineteenth-century imperialism. It is clear, however, that two features of imperialism are not in dispute. The first concerns the general

description of economic organization and economic policy. As we have seen, Dobb considers the essential ingredient of imperialism to be "privileged investment . . . investment in projects which carry with them some differential advantage." This feature must be placed in a wider frame of reference, as in Paul Sweezy's description of imperialism as "severe rivalry [between advanced capitalist countries] in the world market leading alternatively to cutthroat competition and international monopoly combines."[30] Schumpeter's view of imperialism is very similar. Cutthroat competition and international monopoly combines are seen as "protective tariffs, cartels, monopoly prices, forced exports (dumping), an aggressive economic policy, and aggressive foreign policy generally . . ."[31] A second general area of agreement (generally implicit in the writings of both Marxists and non-Marxists) is that modern imperialism, whatever its causes, depends on colonial rule as the main form of economic and political control of the economically backward region and that political independence would significantly reduce, or eliminate entirely, exploitative imperialist relations.

Opposed to these doctrines is what may be called the neo-Leninist, or modern Marxist theory of imperialism. The increasing economic domination exercised by the United States in the world capitalist economy and the failure of the ex-colonies to embark on sustained economic and social development have caused older Marxist economists to rework original doctrines and have given rise to a new theory of neo-colonialism. Many of its outlines are still indistinct, but there is broad agreement that a sharp distinction should be made between colonialism and imperialism, while the original Leninist identity between monopoly capitalism and imperialism should be retained. In this view, which we adopt throughout this study, monopoly capitalism remains an aggressively expansionist political-economic system, but colonialism is seen as merely one *form* of imperialist domination, and frequently an ineffective one at that.

The phrase "neo-colonialism" was first used in the early 1950's. Anticolonial leaders in Asia and Africa focus on the element of control—in the words of Sukarno, "economic control, intellectual control, and actual physical control by a small but alien community, within a nation."[32] To cite a specific illustration of economic neo-colonialism, Nkrumah denounced as "neo-colonialism" the economic association of France's African colonies with the European Common Market. An example in which the political element was in the fore was France's claim to the right

to suppress the revolt against the puppet ruler of Gabon in February 1964 in order to defend French economic interests in that country. A comprehensive summary of the chief manifestations of neo-colonialism was made at the Third All-African People's Conference held in Cairo in 1961:

> This Conference considers that neo-colonialism, which is the survival of the colonial system in spite of formal recognition of political independence in emerging countries, which become the victims of an indirect and subtle form of domination by political, economic, social, military, or technical [forces], is the greatest threat to African countries that have newly won their independence or those approaching this status . . .
> This Conference denounces the following manifestations of neo-colonialism in Africa:
> (a) Puppet governments represented by stooges, and based on some chiefs, reactionary elements, antipopular politicians, big bourgeois compradors, or corrupted civil or military functionaries.
> (b) Regrouping of states, before or after independence, by an imperial power in federation or communities linked to that imperial power.
> (c) Balkanization as a deliberate political fragmentation of states by creation of artificial entities, such as, for example, the case of Katanga, Muritania, Buganda, etc.
> (d) The economic entrenchment of the colonial power before independence and the continuity of economic dependence after formal recognition of national sovereignty.
> (e) Integration into colonial economic blocs which maintain the underdeveloped character of African economy.
> (f) Economic infiltration by a foreign power after independence, through capital investments, loans, and monetary aids or technical experts, of unequal concessions, particularly those extending for long periods.
> (g) Direct monetary dependence, as in those emergent independent states whose finances remain in the hands of and directly controlled by colonial powers.
> (h) Military bases sometimes introduced as scientific research stations or training schools, introduced either before independence or as a condition for independence.[33]

This description supports two broad generalizations. First, modern imperialism requires the active participation of the state in international economic relationships; imperialist nations cannot singly or collectively implement a neo-colonialist policy—via agencies such as the European Common Market, for example—without state capitalism. Secondly, neo-colonist policy is first and foremost designed to prevent the newly independent countries from consolidating their political independence

and thus to keep them economically dependent and securely in the world capitalist system. In the pure case of neo-colonialism, the allocation of economic resources, investment effort, legal and ideological structures, and other features of the old society remain unchanged—with the single exception of the substitution of "internal colonialism" for formal colonialism, that is, the transfer of power to the domestic ruling classes by their former colonial masters.[34] Independence has thus been achieved on conditions which are irrelevant to the basic needs of the society, and represents a part denial of real sovereignty, and a part continuation of disunity within the society. The most important branch of the theory of neo-colonialism is therefore the theory of economic imperialism.

The definition of economic imperialism which we employ is the economic domination of one region or country over another—specifically, the formal or informal control over local economic resources in a manner advantageous to the metropolitan power, and at the expense of the local economy. Economic control assumes different forms and is exercised in a number of ways. The main form of economic domination has always been control by the advanced capitalist countries over the liquid and real economic resources of economically backward areas. The main liquid resources are foreign exchange and public and private savings, and real resources consist of agricultural, mineral, transportation, communication, manufacturing, and commercial facilities and other assets. The most characteristic modes of domination today can be illuminated by way of contrast with examples drawn from the colonial period.

Examples of control over foreign exchange assets are numerous. In the colonial era the metropolitan powers established currency boards to issue and redeem local circulating medium against sterling and other metropolitan currencies. In its purest form, the currency board system required 100 percent backing of sterling for local currency. The East African Currency Board, for example, was established in 1919, staffed by British civil servants appointed by the Colonial Office, and at one time exercised financial domination over Ethiopia, British and Italian Somaliland, and Aden, as well as the East African countries.[35] The Board did not have the authority to expand or contract local credit, and therefore expenditures on local projects which required imported materials or machinery were limited to current export earnings, less outlays for essential consumer goods, debt service, and other fixed expenses. Measures to expand exports were thus necessary preconditions of local initiatives toward economic

progress. In this way, British imperialism indirectly controlled the allocation of real resources.

This mode of control still survives in modified form in the Commonwealth Caribbean economies and elsewhere.[36] The Jamaican central bank, for example, has limited power to influence the domestic money supply, but sterling and local currency are automatically convertible in unlimited amounts at fixed rates of exchange. The local government is thus prohibited from financing investment projects by inflation, or forced savings; nor are exchange controls and related financial instruments of national economic policy permitted. The structure and organization of the commercial banking system aggravates the situation. Local banks are branches of foreign-owned banks whose headquarters are located in the overseas financial centers and are more responsive to economic and monetary changes abroad than in the local economy; specifically, local banks have contracted credit at times when foreign exchange assets have been accumulating. This combination of monetary and financial dependence has caused artificial shortages of funds and prevented the Jamaican government from allocating local financial resources in a rational manner.

A more characteristic form of control over foreign exchange today is private direct investment. In the nineteenth and early twentieth centuries, backward countries were often able to attract portfolio investments and local governments and capitalists were thus able to exercise some control over the use of foreign exchange made available by long-term foreign investment. Today direct investment constitutes the great mass of long-term capital exported on private account by the metropolitan countries. Foreign exchange receipts typically take the form of branch plants and other facilities of the multinational corporations—facilities which are difficult or impossible to integrate into the structure of the local economy. What is more, satellite countries which depend on direct investment ordinarily provide free currency convertibility and hence foreign-owned enterprises which produce for local markets have privileged access to foreign exchange earned in other sectors of the economy.

Another feature of economic domination is the control of local savings, which assumes two forms. First, economic rule means that local government revenues, or *public* savings, are mortgaged to loans received from the metropolitan powers. An extreme example is Liberia—a country with an open door policy with regard to foreign capital—which in 1963 expended 94 percent of its annual revenues to repay foreign loans.[37] In the

nineteenth century, persuasion, coercion, and outright conquest often insured that tariffs and other taxes were turned over to foreign bondholders. In the absence of direct colonial rule, however, foreign lending was frequently a precarious undertaking. Latin American countries, for example, had an uneven history of bond payments.[38] Foreign loans today are secured in more peaceful and more effective ways. The international capital market is highly centralized and dominated by the agencies of the main imperialist powers—the International Bank for Reconstruction and Development, the International Monetary Fund, and other financial institutions. No longer is it possible for borrowing countries to play one lending country off against another, or to default on their obligations or unilaterally scale down their debt without shutting the door on future loans. That no country has ever defaulted on a World Bank loan, or failed to amortize a loan on schedule, is eloquent testimony to the ability of the advanced capitalist countries to mortgage local tax receipts to foreign loans.

Secondly, *private* savings are mobilized by foreign corporations and governments in order to advance the interests of foreign capital. Foreign companies float local bond issues, raise equity capital, and generally attempt to monopolize available liquid resources in order to extend their field of operations and maximize profits. World Bank affiliates finance local development banks which scour the country for small and medium-size savings to funnel into local and foreign enterprise. The United States government acquires a significant portion of the money supply of India and other countries through its policy of selling surplus foodstuffs for local currencies which it makes available to United States corporations. In these and other ways foreign interests today exercise control of local private savings.

A final feature of economic domination is the control of mineral, agricultural, manufacturing, and other real assets, and the organization and management of trade by foreign corporations. In Africa, for example, French bulk-buying companies in the ex-colonies monopolize the purchase and sale of coffee, peanuts, palm-oil products, and other commodities produced by small and medium-sized growers. In Mexico, one foreign corporation organizes the great part of cotton production and exportation. Frequently control of commerce necessitates financial domination. The United States, for example, has penetrated Mexico's financial structure with the aim of restricting Mexican-Latin American trade in order to insure control of Latin American markets for itself.[39]

Control of iron, copper, tin, oil, bauxite, and other mineral resources is in the hands of a handful of giant corporations. In some countries, foreign interests dominate the commanding heights of the economy—transportation, power, communication, and the leading manufacturing industries. These examples should suffice to show that foreign control of real, as well as of liquid, assets extends into all branches of local economies and penetrates every economically backward region in the world capitalist system.

These examples of specific kinds of economic domination illustrate most of the main features of contemporary imperialism and can be summarized as follows:

(1) The further concentration and centralization of capital, and the integration of the world capitalist economy into the structures of the giant United States-based multinational corporations, or integrated conglomerate monopolistic enterprises; and the acceleration of technological change under the auspices of these corporations.

(2) The abandonment of the "free" international market, and the substitution of administered prices in commodity trade and investment; and the determination of profit margins through adjustments in the internal accounting schemes of the multinational corporations.

(3) The active participation of state capital in international investment; subsidies and guarantees to private investment; and a global foreign policy which corresponds to the global interests and perspective of the multinational corporation.

(4) The consolidation of an international ruling class constituted on the basis of ownership and control of the multinational corporations, and the concomitant decline of national rivalries initiated by the national power elites in the advanced capitalist countries; and the internationalization of the world capital market by the World Bank and other agencies of the international ruling class.

(5) The intensification of all of these tendencies arising from the threat of world socialism to the world capitalist system.

WHY IMPERIALISM?

The general features of contemporary imperialism are much better understood than the sources of economic expansion—the specific contradictions in the metropolitan economies which drive the multinational

corporations to extend their scale of operations over the entire globe. As we have seen, Hobson explained nineteenth-century British imperialism by way of reference to inequalities in the distribution of income, while Lenin rested his case on the declining rate of profit in the home economy. Neither of these explanations is very useful today, at least in the form which they have come down to us. In the first place, the advanced capitalist economies have become mass consumption societies; secondly, savings have become concentrated in the hands of the government, financial intermediaries, and trust funds, as well as a relatively few giant corporations; thirdly, the concept of "the" rate of profit is out-of-date. In the overcrowded competitive sector of the advanced capitalist economies, the profit rate remains a datum, a given, but in the oligopolistic sector, profit margins are themselves determined by corporate price, output, and investment policies.

Economic Surplus

Some contemporary Marxist economists have proposed an alternative approach to the problem of identifying the important economic contradictions in advanced capitalist societies. These approaches are based on the elementary concept of economic surplus, which Baran and Sweezy define as the difference between total national product and socially necessary costs of production.[40] Total product is the aggregate value of all commodities and services produced in a given period of time, or, alternatively, total business, worker, and government expenditures. Nowhere in the literature is there a satisfactory discussion of the meaning of socially necessary costs. A working definition is the outlays which are required to maintain the labor force and society's productive capacity in their present state of productivity or efficiency.

Economic surplus consists of outlays which either augment productive capacity and increase labor skills and efficiency, or are used for economically wasteful or destructive ends. Any specific expenditure item which can be reallocated from one use to another without affecting total production (e.g., military expenditures to foreign gifts), falls into the general category of economic surplus. An expenditure item which cannot be reallocated from one employment to another (e.g., wages of workers in basic food industries to military expenditures), without reducing total production can be defined as a necessary cost. Unlike total output, neither necessary costs nor surplus is easily quantifiable, particularly since many

outlays, highway expenditures for example, comprise both costs and surplus. Hence it is not possible to calculate with any great precision the proportion of total product which is constituted by surplus, nor can the relation between total product and surplus over a span of time be known with absolute certainty. Nevertheless, there is powerful indirect evidence that the surplus in relation to total product in the advanced capitalist countries tends to increase historically.

Provisionally identifying surplus with corporate profits, sales expenditures, and taxes, Baran and Sweezy demonstrate easily that corporate price and cost policies result in an absolute and relative increase in the surplus. In a nutshell, the corporations stabilize prices around an upward secular trend, while constantly seeking to increase efficiency by reducing production costs. Cost reductions are not transmitted to consumers in the form of lower prices, but rather are channeled into new investment, sales expenditures, and taxes.

The questions thus arise: What are the various ways available to advanced capitalist countries to absorb the increasing economic surplus, or raise the level of demand, and what are the limits on their absorptive capacity? These are obviously large and complex questions the answers to which we can do no more than suggest here.

Within the metropolitan economy the economic surplus is absorbed in three distinctive ways.[41] Expenditures on productive investment in both physical and human capital are the first, and historically most important, mode of surplus utilization. Investment outlays are made on both private and government account. In the private sector of the economy, investment opportunities are available in two distinct spheres: oligopolistic industries, dominated by the giant conglomerate corporation, and competitive industries, characterized by relatively inefficient, small-scale enterprise. In the former, technological change, which was at one time the most important outlet for investment-seeking funds, no longer can be relied upon to absorb more than a tiny fraction of the surplus. In the first place, in the few older, stabilized industries where competition between firms for larger shares of the market is at a minimum, there is a tendency to suppress new technologies in order to preserve the value of the existing productive capacity. There is, in Dobb's words, "an increasing danger of the ossification of an existing industrial structure owing to the reluctance or inability of entrepreneurs to face the cost and the risks attendant upon such large-scale change."[42]

Secondly, Baran and Sweezy have shown that in industries in which firms struggle to increase their share of the market and hence are under considerable pressure to lower costs, the rate of introduction of new technology is reduced, thus limiting the amount of investment-seeking funds which can be profitably absorbed during any given period. Lastly, as Gillman and others have demonstrated, there has been a historic rise in fixed capital stock per employed worker, and a decline in business fixed investment and producer durable equipment expenditures in relation to total national product. Thus technological change—independent of the rate at which it is introduced into the production processes—tends increasingly to be capital-saving.[43] To put it another way, oligopolistic enterprises favor input-saving, rather than output-increasing innovations when (and if) the industrial structure becomes relatively stabilized and a provisional market-sharing plan has been agreed upon. For their part, competitive industries are overcrowded, the turnover rate is high, profit margins are minimal, and they offer few incentives to corporations with investment-seeking funds.

Productive investment outlays are also made on government or state account, but most of these are merely special forms of private investment and hence are determined by the rhythm of capital accumulation in the private sector. The costs of these complementary investments—water investments in agricultural districts, for example—are borne by the taxpayer, while the benefits are appropriated by private capitalists. The state also finances investments which aim to create future profitable opportunities for private capital—examples are industrial development parks—but these discretionary investments are limited by the need on the part of the state bureaucracy to justify the extra tax burden (due to the absence of long-term investment horizons generally shared by capitalist class and state officials), as well as by the lack of new markets for final commodities.

Expenditures on private and social consumption over and above economic needs, or in excess of outlays on necessary costs, constitute the second mode of surplus utilization. These expenditures, like all economically wasteful outlays, are limited to the degree that they can be rationalized within the logic of capitalist economy—that is to say, insofar as they lead to greater profits. The proportion of current earnings which the corporation can channel into advertising expenditures, product differentiation, forced obsolescence, and other selling expenses, as well

as other socially wasteful uses of the surplus, is limited to the extent to which these outlays increase commodity demand, sales, and profits. There are also limits on the absorption of the surplus via borrowing private consumption demand from the future—that is, by the expansion of consumer credit—which are determined by the relation of current consumer income to loan repayments.[44]

Consumption outlays are also made by local, state, and federal government bodies. A greater or lesser portion of education, transportation, recreational, and cultural expenditures—in general, spending on social amenities—constitutes social consumption, a special form of private consumption. Socially necessary costs make up a large part of social consumption, while much of the remainder comprises economic waste. Again, government expenditures are limited by the ability of the political authority to rationalize waste within the framework of private profit-making. In addition, there are political limits on the expansion of spending destined for public housing, health, and other socioeconomic activities which are inconsistent with the hierarchy of rank and privileges in a capitalist society, or which compete with private capital. The same conclusion can be drawn in connection with the possibilities of redistributing income with the aim of raising the wage and salary share of total product—and hence private consumption expenditures—at the expense of private profits. The only major type of discretionary state expenditure consistent with private ownership of the means of production, social and economic inequality, and other central features of a capitalist society is military spending.

Imperialism as a Use of Surplus

The preceding sketch in no sense substitutes for a full-dress analysis of the surplus absorption capacity of the advanced capitalist countries, in particular the United States, but rather provides a general background for the detailed exploration of the possibilities of utilizing the economic surplus in the backward capitalist countries and the other advanced capitalist societies. Our general conclusions are twofold: First, the multinational corporations are under unceasing pressure to extend their field of operations outside the United States. Economic prosperity in the United States during the two decades since World War II has increasingly depended on military expenditures and overseas expansion. Between 1950 and 1964, United States commodity exports, including the sales

of overseas facilities of United States corporations, rose nearly 270 percent, while commodity sales at home increased only 126 percent. Expectedly, earnings on foreign investments make up a rising portion of after-tax corporate profits—10 percent in 1950, and 22 percent in 1964. In the strategic capital goods sector of the United States economy, military and foreign purchases account for a surprisingly large share of total output—between 20 and 50 percent in 21 of 25 industries, and over 80 percent in two industries.[45] Our second general conclusion is that overseas expansion since World War II has not weakened, but intensified the antagonism between the generation and absorption of the economic surplus.

Close examination of the two modes of surplus utilization overseas is required to substantiate these claims. Foreign commodity trade is the first, and, until the era of monopoly capitalism, the only important way of absorbing the surplus abroad. Contemporary state policies which seek to promote commodity trade encounter a number of crippling handicaps. For one thing, low-cost supplier credits and other forms of export subsidies provided by state agencies such as the Import-Export Bank merely export the surplus absorption problem abroad and hence meet with resistance from other advanced capitalist countries. A comprehensive system of export subsidies is almost guaranteed to result in retaliation in kind. The widely adopted "most favored nation" clause in international trade agreements was an expression of the willingness to "give and take" on the part of the advanced capitalist countries in the immediate postwar period. Second, in recent decades United States commodity exports have run consistently ahead of imports, limiting the ability of the United States to wring tariff concessions from other countries without offering even greater reductions in return. Third, United States penetration of Europe, regions in the sphere of influence of the European imperialist powers, and the semi-independent backward capitalist countries which employ tariffs, import quotas, and exchange controls to conserve foreign exchange by reducing imports is increasingly restricted by a revival of economic nationalism, as well as by the birth of a new economic regionalism—that is, by what Joan Robinson has termed the New Mercantilism.

Private foreign investments and state loans and grants constitute the second, and today far and away the most important, mode of surplus absorption. Capital exports may increase demand in one of two ways: first, by borrowing demand from the future and directly expanding the

market for capital goods; second, by raising production and income abroad and therefore indirectly increasing imports in the recipient country or in third countries.

In recent years there have been three new tendencies in capital exporting which support the conclusion that it will become increasingly difficult to find outlets abroad for the investment-seeking surplus generated by the multinational corporations. These tendencies are: first, increased collaboration between foreign and local capital; second, the shift in the composition of foreign investments against primary commodity sectors and in favor of manufacturing and related activities; and third, the shift in the composition of capital exports against private investment and in favor of state loans and grants. All three tendencies are related to the development of anticolonial and national independence movements in the backward capitalist countries. A brief review of the general implications of national independence for foreign investment opportunities is therefore in order.

Political Independence and Foreign Capital

Gillman and others have put forward two arguments which support the view that national independence reduces opportunities for the penetration of foreign capital. In the first place, it is asserted that public ownership of the means of production in the ex-colonies encroaches on the traditional territory of private capital and limits investment opportunities available to the international monopolies. This line of reasoning is not only at odds with the facts—in the backward capitalist countries joint state-private ventures are more characteristic than state enterprise—but also pushes aside the critical question of the control of capital. In a number of countries, including many European capitalist nations, the state is the nominal owner of many heavy industrial and infrastructure facilities, but control rests with an autonomous bureaucracy which is highly responsive to the needs of private capital. The vast majority of state and joint enterprises in the backward countries are market-oriented, integrated into the structure of the private market. Far from discouraging foreign investors, one task of state enterprise in many countries is to attract new private investment.

Secondly, there is the argument that anticolonial sentiment and the urge for an independent field of economic action lead to exchange controls, restrictions on profit remittances, higher business taxes, more costly social

legislation, and other policies which are repugnant to foreign capital. Against this view it should be stressed that the economic autonomy of politically independent countries is itself a question for analysis. Military coups in Brazil, Indonesia, and Ghana, to cite only three recent counter-revolutionary movements, provide dramatic evidence for the view that political autonomy must be insured by economic autonomy. Again, seven long-independent Latin American countries with such disparate attitudes toward foreign capital as Chile and Peru—historically the former has been less permissive than the latter—collectively signed the Treaty of Montevideo (1960) which favored foreign investment, and recognized the need for foreign capital in economic development.[46] On the other side China, Cuba, and other countries which have abandoned the world capitalist system obviously hold little promise for foreign capital.

In reality, there are a number of reasons to believe that politically independent, economically underexploited countries will continue to welcome private foreign capital. First, and perhaps most important, local financiers and industrialists are eager to participate in profitable economic activities initiated by the multinational corporations based in the advanced countries. Joint ventures and other partnership arrangements are looked upon with great favor by local business interests.[47] Tariff policy is designed to encourage assembly, packaging, and other final manufacturing investments, not only to promote the development of national industry but also to increase the flow of foreign capital and open up profit opportunities for the local bourgeoisie.

Secondly, the Latin American countries, as well as the ex-colonies in Asia and Africa, are under great pressure from the masses to initiate and promote economic and social development. In these nonsocialist countries local sources of capital are dissipated in luxury consumption and other wasteful expenditures, or cannot be mobilized in the absence of fundamental agrarian and other economic reforms, and hence local governments increasingly depend on foreign capital, private as well as public. Most ex-colonial governments are desperately searching for ways to conserve foreign exchange and actively seek foreign investments and loans. Third, British and French foreign investments are welcome in backward countries which belong to one or the other of these metropoles' currency blocs—where exchange controls are minimal or entirely absent—because there are few if any ways to acquire private foreign capital from other advanced capitalist countries. British investments, for example, are

more and more oriented to Sterling Area countries.[48] Fourth, backward countries which have no ambition beyond expanding exports of primary commodities require active foreign participation in the export sector because of the difficulties of independently acquiring and maintaining distribution channels and marketing outlets. After Bolivia nationalized the tin mines, for example, planning of production and sales was partly thwarted because the government "remained beholden to the same big companies for processing and sale."[49]

On the other side, there are at least two reasons for believing that political independence has discouraged some foreign investment, although it is difficult to even guess how much. In the first place, foreign corporations hesitate to invest in the absence of political controls which prevent local firms from using unpatented production processes to invade third-country markets or to pass on to competitors.[50] Second, the ex-colonies have eliminated or reduced in many spheres of the economy the special privileges and exclusive rights which corporations based in the colonial power once took for granted. The increased risk and uncertainty which face foreign capital have discouraged investments by small-scale enterprises which are unable to finance multi-plant, multi-country operations.[51]

The Reduction of Surplus Absorption Capacity: Use of Local Savings

Anticolonialism, political independence, and the elimination of the colonial powers from many formal economic command posts have contributed to three new tendencies in foreign investment which reduce the surplus absorption capacity of the backward capitalist countries. There is overwhelming evidence of the first tendency, the growing mobilization of local savings and capital by foreign corporations which diminishes the need for capital exports from the advanced countries. In Latin America, local capital is the most important source of financing for wholly owned subsidiaries of United States corporations.[52] One-half of American and Foreign Power Company's $400 million postwar expansion program in eleven countries was financed from local savings, the other half from retained earnings.[53] A $72-million investment in Argentina by five oil companies illustrates the character of modern overseas finance; the corporations' investment amounted to only $18 million; debentures raised $30 million in Argentina; and the United States government and local investment corporations supplied the remainder.[54]

In the capitalist world as a whole, roughly one-third of total U.S. corporate financing overseas in 1964 comprised foreign borrowing or equity financing, and foreign supplies of capital made up two-thirds of the increase in financing over 1963 levels.[55]

The multinational corporations mobilize local savings and capital in a variety of ways: bonds and equities are sold in local capital markets; joint ventures and mixed enterprises mobilize private and state capital, respectively; local development and investment banks acquire local savings directly, and indirectly via local governments;[56] foreign and domestic banks, insurance companies, and other financial intermediaries have access to pools of local savings. To cite one example, Morgan Guarantee Trust Company's sixteen correspondent banks in Venezuela hold 55 percent of privately owned commercial bank resources, and help foreign firms raise local funds. Morgan is also part owner of a large Spanish investment bank which in a two-year period raised $40 million for local and foreign companies.[57] The World Bank pioneered in the organization and contributes to the financing of local development banks, develops and integrates capital markets in countries where monetary institutions are weak, and acts as a wedge for private foreign capital's entrance into established capital markets.[58]

The growing demand by the international monopolies for local capital is prompted by both political and economic factors. First, and probably most important, both the multinational corporations and local bourgeoisies are eager to form partnership arrangements, the former to exercise indirect control over, and politically neutralize, the latter; the latter in order to share in the profits of the former.[59] In Nigeria, for example, "foreign investors are beginning to realize that their presence constitutes a political problem and that it is in their interest to encourage Nigerian participation in the structure of their firms to enhance acceptability."[60] Joint ventures and partnerships are up-to-date versions of the colonial policy of creating a dependent, passive local bourgeoisie; British capital, to cite perhaps the most important instance, allied itself with the largest and best-organized Indian monopolies, such as those dominated by the Tatas and Birlas, as a hedge against possible discriminatory action by the Indian government.[61]

Second, the alliance between foreign and local capital inhibits potential economic competition and paves the way for the diversification of the foreign operations of the international monopolies, and extends their control over related product fields in the local economy.[62] Even in

countries such as Mexico, where the government refuses to extend its cooperation to foreign corporations which compete with local business or displace local capital, foreigners often have "decisive influence" over company policy because domestic equity ownership is dispersed and minority stock ownership is concentrated in the hands of one or two United States corporations.[63] Extending the sphere of corporate operations opens up opportunities for increased profits in the form of royalties and fees for technical services, patents, and brand names. What is more, the use of local capital reduces the risk of conducting operations in foreign countries; local capital is smaller and less diversified than foreign capital and therefore is more vulnerable and assumes a disproportionate risk. In addition, local businessmen are valuable for their knowledge of domestic product and labor markets, government contacts, and other information which insures secure and profitable operations overseas. Finally, the international monopolies profit by spreading their capital thin in branches of production characterized by economies of large-scale production.

Growth of Investment in Manufacturing

The growth of private foreign investment in manufacturing industries, and the relative decline of agricultural and mining investments, is the second new tendency in capital exporting. The development of synthetic fibers, the rise in agricultural productivity in the advanced countries, the inelastic demand for foodstuffs, the reduction in the mineral component in production (e.g., nonferrous metals), and tariff walls erected by the advanced capitalist countries against imports of primary commodities have reduced the demand for investment funds abroad in mining and agriculture. Tariffs, quotas, and other measures to protect manufacturing industries in the backward countries and regional marketing arrangements in Europe and elsewhere have compelled the large corporations in the United States to construct or purchase manufacturing facilities abroad to retain traditional markets. In turn, the expansive impulses of the multinational corporation have affected worldwide capital flows and the production and distribution of commodities.

Accurate comparable statistics covering long spans of time are not available, but the benchmark data shown in Table I below suggest the general order of magnitude of change.

Table I
Book Value of United States Direct Foreign Investment by Industry
(*millions of dollars*)

	1929	*1940*	*1946*	*1950*	*1955*	*1959*
Total	7,528	7,002	8,854	11,787	19,313	29,735
Agriculture	880	435	545	589	725	662
Mining and smelting	1,185	782	1,062	1,129	2,209	2,858
Petroleum	1,117	1,278	1,769	3,390	5,849	10,423
Manufacturing	1,813	1,926	2,854	3,831	6,349	9,692
Public utilities, comm. & transportation	1,610	1,514	1,277	1,425	1,614	2,413
Trade	368	523	740	762	1,282	2,039
Other (excludes insurance in 1929)	555	544	607	661	1,285	1,648

Source: Raymond Mikesell, "U.S. Postwar Investment Abroad: A Statistical Analysis," in Mikesell, *U.S. Government and Private Investment Abroad*, p. 54, citing U.S. Department of Commerce, Office of Business Economics, *Balance of Payments Statistical Supplement;* U.S. Department of Commerce, *U.S. Business Investments in Foreign Countries, 1960* (for 1959 figures); *Survey of Current Business* (December 1951), p. 13 (for 1946 figures).

Between 1940 and 1964 United States direct manufacturing investments in Latin America (which absorb about 60 percent of U.S. manufacturing investments in all backward regions) increased from $210 million to $2,340 million, or from 10 percent to 25 percent of total Latin American holdings. In the same period, agricultural investments remained unchanged, mining investments doubled, and the value of petroleum holdings rose from $572 million to $3,142 million. A similar trend is visible in connection with British investments in India. In 1911, about three-quarters of all direct private investments were in extractive industries, utilities and transportation accounted for roughly one-fifth, and the remainder was divided between commerce and manufacturing. In 1956, manufacturing investments made up over one-third of the total, commerce another one-fourth, and plantation investments only one-fifth. As Hamza Alavi has written, "this is a complete contrast from the old pattern" of investment holdings.[64] Of all British direct foreign investments (excluding oil) in 1965, Kemp has estimated that manufacturing investments constituted about one-half, the great part located in other advanced capitalist countries.[65]

Turning again to the United States, Table II below summarizes the distribution of direct investments by region and industry in 1964.

Table II
Value of Direct Investments Abroad by Region and Industry, 1964 (preliminary)
(*millions of dollars*)

	Total	*Mining smelt.*	*Petro-leum*	*Manuf.*	*Pub. util.*	*Trade*	*Other*
Total	44,343	3,564	14,350	16,861	2,023	3,735	3,808
Canada	13,820	1,671	3,228	6,191	467	805	1,458
Latin America	8,932	1,098	3,142	2,340	568	951	832
Other Western Hemisphere	1,386	250	569	166	49	89	263
Common Market	5,398	13	1,511	3,098	45	551	180
Other Europe	6,669	43	1,575	3,449	8	921	674
Africa	1,629	356	830	225	2	93	122
Asia	3,062	34	2,014	535	55	238	186
Oceania	1,582	100	444	856	2	87	93
International	1,865	—	1,038	—	827	—	—

Source: U.S. Dept. of Commerce, *Survey of Current Business* (September 1965), Table 2, p. 22.

Most United States manufacturing investments in backward countries are concentrated in consumer goods fabrication, assembly and packaging, and light chemicals. The pattern is roughly the same in the advanced capitalist economies, with the single exception that investments in industrial equipment facilities are more common. During 1958-1959, of 164 U.S. investments in new or expanded manufacturing enterprises in Latin America, 106 were located in the chemical and consumer goods sectors; in other backward regions, the number of facilities were 34 and 24, respectively.[66]

In connection with opportunities for capital exporting, and the significance of capital exports for absorbing the economic surplus, nineteenth-century and mid-twentieth-century imperialism differ in a number of profound respects. In the earlier period, foreign investments were concentrated in raw material and mineral production, and the economic satellites were no more than extensions of the metropolitan economies. Overseas capital expenditures opened up cheap sources of productive inputs, and lowered the costs of production in manufacturing industries in the metropoles. In turn, home and foreign demand for manufactured goods increased, prompting an expansion of output and fresh rounds of foreign investment. To the degree that capital exports were channeled into railroad and other transportation facilities, there were favorable indirect effects on the availability of raw materials, and

hence manufacturing costs in the metropoles. For nineteenth-century Great Britain, this cumulative, expansive system worked to perfection. Income generated in the satellites by the inflow of capital was expended on British manufactured exports. During periods of rising foreign investment, British exports rose faster than imports, and a consistently favorable balance of payments was maintained.[67]

To be sure, contemporary imperialist powers continue to import many raw materials, and petroleum needs expand at a rapid pace. The economic relationships between the metropolitan economies and their satellites, however, differ in important respects. Petroleum production is concentrated in the hands of a few oligopolists which maintain rigid price structures and fail to pass on reductions in exploration, drilling, and production costs to consumers. The same conclusion can be drawn with regard to other raw materials (iron and copper, for example) for which the ratio of imports to U.S. production is higher than in the prewar era. Moreover, in comparison with other regions, imports have increased more rapidly from Latin American countries, which have met the expansion of demand for copper, tin, manganese, cocoa, and other commodities largely by diverting sales from other markets, rather than by expanding supplies. The basic reason is that Latin American raw material production is today highly monopolized, and, in addition, operates under conditions of decreasing returns to large-scale production. Thus neither new capital outlays nor modernization investments have significantly reduced the costs of production of primary commodities, and, unlike investments in the earlier period, are not self-perpetuating. What is more, international commodity agreements and regional marketing arrangements reduce competition between raw material producing countries, and tend to maintain prices at relatively high levels.

Manufacturing investments in backward countries fall into one of two categories. Tariff-hopping investments, quantitatively most significant, are defensive moves which enable the international corporations to retain established export markets, and merely change the locale of investment from the metropolis to the satellite. These outlays fail to expand commodity demand, and hence do not provide growing outlets for the economic surplus. Opportunities for other manufacturing investments in backward countries are also generally limited to import-substitute activities because domestic markets are typically oriented toward middle- and upper-class consumption patterns which are imitative of those in the

advanced countries. Export markets for satellite manufactured goods are weak because national and regional monopolies operate behind high tariff walls, and, in addition, monopoly controls which the multinational corporations exercise over international distribution systems and marketing outlets place insurmountable barriers to large-scale satellite manufacturing exports. For these reasons, the United States has shown a growing interest in new regional marketing groupings such as the Latin American Free Trade Area and the Central American Common Market. One of the chief objectives of the Common Market during its formative period (1958-1962) was to attract fresh supplies of foreign capital. There are two important barriers, however, to flourishing regional marketing arrangements in economically backward areas. First, less productive, entrenched local monopolies put up a tenacious struggle to retain their privileged market positions—in comparison with the giant, integrated European cartels and monopolies which promoted the European Common Market. Secondly, the new preferential trading areas in backward regions are too small to compete effectively with Britain's Sterling Area or the European Economic Community. In sharp contrast to the upsurge of United States investment in Canada after the expansion of the Imperial Preference System in 1932, to cite one example, dollar flows of fresh investment to the new trading areas will be limited.[68]

We have finally to consider opportunities for manufacturing investments in other advanced economies. As we have seen, in recent years the great mass of United States manufacturing investments have been in Europe and Canada. Most of these investments have been tariff-hopping operations, or have been channeled into the purchase of existing facilities. Moreover, United States corporations have increasingly been compelled to penetrate lines of production which are competitive with United States exports. Similar to the effect of British reconstruction investments in Europe following World War I, United States capital flows to other advanced capitalist countries tend to be self-defeating in the long run. An excellent illustration is provided by one study of the impact of 112 British subsidiary companies in Europe on British exports; only 5.6 percent of the subsidiaries' capital outlays was expended on British capital goods.[69] Only investments in distribution facilities, specifically motivated to expand foreign sales, can be expected to significantly increase commodity exports.

These lines of analysis suggest that the surplus absorption capacity of

both the advanced and backward countries—in both traditional and newer branches of the economy—will in the future be limited to replacement demand, together with the modest flow of new investments necessary to keep pace with expanding incomes abroad. Reflecting the marginal impact of foreign investments on United States commodity exports is the continuing, although muted, crisis in the United States' balance of payments.

State Loans Replace Private Loans

Roughly the same conclusion can be drawn in connection with public and international loans. The third, and perhaps most striking, tendency in capital exporting is the substitution of state loans for private capital outflows. About two-thirds of all capital exports are on state or international (public) account. As Table III shows, nearly three-quarters of all loans and investments destined for backward capitalist countries originate in the public or international sector. In 1964, the net outflow of resources to satellite countries and multinational agencies (which in turn loan funds to the satellites) amounted to nearly $8 billion, of which less than $2 billion was private.

Table III
Net Outflow of Resources to Backward Countries and Multinational Agencies, 1964
(*millions of dollars*)

		State Flows			*Private Flows*		
	Total	*Total*	*Bilateral*	*Multi-lateral agencies*	*Total*	*Bilateral*	*Multi-lateral agencies*
1960	7,177	4,572	3,982	590	2,605	2,420	185
1961	8,109	5,617	4,803	814	2,492	2,390	102
1962	7,533	5,676	5,031	645	1,857	1,627	230
1963	7,351	5,704	5,294	410	1,647	1,685	–38
1964	7,854	5,698	5,271	427	2,156	1,999	157

Source: United Nations, Department of Economic and Social Affairs, *The Financing of Economic Development*, *World Economic Survey*, *1956*, Part I, New York, 1966, Table II-1, p. 45.

The relationship between private and public capital flows is highly complex, and a brief analysis inevitably runs the risk of oversimplification. Reduced to essentials, however, state loans serve two main purposes.

First, public funds which build up the infrastructure of backward countries frequently complement private capital flows and represent merely a special form of private investment, the costs of which are borne by taxpayers in the lending country. With regard to surplus absorption capacity within the infrastructure sectors of backward countries, the same conclusion reached in our discussion of private investment can be applied *a fortiori*.

Second, the character of U.S. "aid" programs underlines their growing importance as projected points of entry for private capital. Many Export-Import Bank loans are made with the purpose of encouraging the flow of private investment—since 1960 the Bank has offered long-term loans of up to five years.[70] Provisions of Public Law 480, the "Food for Peace" program, are "designed almost entirely for the purpose of stimulating the flow of U.S. private investment to the less-developed countries."[71] Under this program, the United States government loans local currencies acquired from the sale of surplus agricultural commodities to American corporations in order to finance the local costs of investment projects. The greatest portion of both the interest and principal is reloaned either to private investors or local governments. "How useful to our own foreign aid and foreign development programs could it be," the president of one multinational corporation has written, "if these funds, in local currencies, were to be loaned on an increasing scale to competitive private borrowers—either Americans or others—for local investment . . ."[72] Finally, the United States Agency for International Development grants survey loans to American corporations, paying one-half of the cost of feasibility studies in the event it is decided not to proceed with the investment.

The international agencies, in particular the World Bank, are also beacon lights for private investment. Originally regarded by the leading imperialist nations as a way to restore private international capital movements by guaranteeing private loans, the World Bank has been compelled to centralize and rationalize the world capital market. The Bank has eliminated many of the anarchic features of international capital movements, supervises vast amounts of capital which penetrates the backward countries, and acts as a funnel for private capital in search of safe, profitable returns—banks and investment houses participate in World Bank loans, and the Bank frequently floats bond issues in United States and European money markets. In part dependent on private

money market conditions, most Bank activities are financed by subscribed or borrowed government funds. The Bank is thus relatively autonomous, and allocates vast amounts of capital for large-scale infrastructure projects in order to clear the way for private investment flows.

MODERN IMPERIALISM'S FOREIGN POLICY

Whether or not private capital responds to the incentives held out by national governments and international agencies depends on a host of factors, chief among which are the investment "climate" in the satellite economies and the character of other state political-economic policies. Suffice it for now to note some of the major differences between imperialist foreign policy in the nineteenth and mid-twentieth centuries.

First, and most obvious, modern imperialism attempts to substitute informal for formal modes of political control of countries in the backwash of world capitalism. The methods of establishing political control are varied. The use of old economic and political ties is practiced whenever possible; these include the relationships formed within the British Commonwealth and the French Community, closed currency zones, preferential trading systems, military alliances, and political-military pacts. Economic, political, and cultural missions, labor union delegations, joint military training programs, military grants, bribes to local ruling classes in the form of economic "aid," substitute for direct colonial rule. Only when indirect policies fail are the older instruments of coercion and force brought into play, and the principle of continuity in change applies. An excellent example is the U.S.-instigated and supported counterrevolution in Guatemala in 1954, the accomplishments of which the State Department listed under four headings:

1. "The conclusion of an agreement with a United Fruit Company subsidiary providing for the return of property expropriated by the Arbenz Government."
2. "The repeal of the law affecting remittances and taxation of earnings from foreign capital."
3. "The signing of an Investment Guarantee Agreement with the United States."
4. "The promulgation of a new and more favorable petroleum law."[73]

Within Guatemala, the Armas regime in the post-1954 period was

maintained in office via contracts with United Fruit, Bond and Share, and other monopolies.[74]

Secondly, contemporary imperialist states enjoy relatively more financial, and hence political, autonomy. In the nineteenth century, imperialist countries regarded themselves as dependent on the private capital market for raising funds for discretionary state expenditures and were compelled to pursue economic and fiscal policies designed to make it possible for their colonies to meet their private debt service. The dominant state capitalist countries today are financially independent and can follow a more flexible policy toward their satellites. The reason is that both the potential and actual economic surplus are comparatively large. The potential surplus is large because the normal tendency of monopoly capitalist economies is stagnation and unemployment of labor and capital, attributable to a deficiency of aggregate demand. State expenditures—including military expenditures and foreign loans and grants—normally increase not only aggregate demand but also real income and output, and hence the tax base. A rise in expenditures thus increases revenues, even if tax rates remain unchanged. State expenditures are partly self-financing and virtually costless in terms of the real resources utilized. The actual economic surplus constitutes a relatively large portion of national product because of technological and productivity advances. For these reasons, taxes (and state expenditures) make up a large share of national product with few serious adverse effects on economic incentives, and thus on total production itself.

The significance of the financial independence of the contemporary imperialist state for foreign policy lies in its ability to export capital—or absorb the surplus overseas—without a quid pro quo. The Marshall Plan, the extensive program of military aid and grants, and the low-cost loans extended to backward countries by AID are the main examples of this mode of surplus absorption. The surplus absorption capacity of satellite countries which are closely tied to the United States' political-military bloc is for practical purposes unlimited. Two factors, however, circumscribe state grants without a quid pro quo. First, low-cost state loans and grants-in-aid, or capital exports which are not extended on normal commercial principles, compete "unfairly" with private loans and are resisted by private capitalist interests in the metropolitan economy. Second, metropolitan governments are unable to discipline their

satellites effectively unless there are economic strings attached to international loans. Moreover, state bilateral and multilateral loans financed in private capital markets in the advanced countries must earn a return sufficient to cover the cost of borrowing and administration. Opportunities for capital exports extended on commercial principles are limited by the availability of profitable investment projects.

Nineteenth- and mid-twentieth-century imperialism depart in a third important respect. In the nineteenth century there were few important antagonisms between Great Britain's role as the leading national capitalist power on the one hand, and as the dominant imperialist power on the other. Policies designed to expand Britain's home economy extended capitalist modes of production and organization to the three underexploited continents, directly and indirectly strengthening the growing British imperial system.[75] For this reason, foreign policy ordinarily served private foreign investors and other private interests oriented to overseas activity. Only occasionally—as in the case of Disraeli's decision to purchase Suez Canal shares in 1875[76]—was foreign investment employed as a "weapon" of British foreign policy. Even less frequently did Britain promote private foreign investments with the purpose of aiding global foreign policy objectives.[77]

By way of contrast, the national and international ambitions of the United States in the mid-twentieth century are continually in conflict. In the context of the limited absorption capacity of the backward capitalist world and international competition from other advanced capitalist economies and the socialist countries, the United States is compelled to employ a wide range of policies to expand trade and investment. To further national ends, a "partnership" between "public lending institutions" and "private lenders"—with the former "leading the way" for the latter—has been formed.[78] Underlining the role of the state in the service of the multinational corporations, in 1962 Secretary of State Rusk described the newer government policies which extend beyond state loan programs; investment guarantee programs in forty-six backward capitalist countries which cover currency inconvertibility, expropriation, war, revolution, and insurrection; instructions to local embassies to support business interests by making "necessary representations to the host governments . . ."; the creation of a new Special Assistant for International Business in the State Department in order to insure that private business interests receive "prompt representation" in the govern-

ment.[79] Especially in the case of disguised public loans or special forms of private loans (see above), the commitment of the United States government to national capitalist interests inhibits state policies which seek to strengthen the industrial bourgeoisie and ruling classes in other advanced countries and the national bourgeoisie in the backward nations. Perhaps this is the most important limit on capital exports on public account.

As the leading international power, the United States is under constant and growing pressure to strengthen world capitalism as a system, including each of its specific parts. Policies which aim to recruit new members for local comprador groups, stimulate the development of capitalist agriculture and the middle farmers, reinforce the dominance of local financial and commercial classes, and reinvigorate local manufacturing activities—these general policies pose a potential or real threat to the interests of United States' national capital. Alliance for Progress funds destined for the middle sectors of Latin American agriculture, Export-Import Bank loans to foreign commercialists, loans and grants to foreign governments dominated by the urban bourgeoisie, loans and subsidies to the Indian iron and steel industry, Mexican industry and agriculture, and other branches of production in countries which are slowly industrializing—these and other stopgap and long-range measures help to keep the backward countries in the imperialist camp in the short run, but directly or indirectly create local capitalist interests which may demand their independence from United States' capital in the long run.

United States' private capital increasingly requires the aid of the state, and the state enlists more and more private and public capital in its crusade to maintain world capitalism intact. Specific and general capitalist interests serve each other, finally merging into one phenomenon, a certain oneness emerges between them. This must have, finally, its institutional reflection. The multinational corporation has become the instrument for the creation and consolidation of an international ruling class, the only hope for reconciling the antagonisms between national and international interests.

SURPLUS ABSORPTION OR SURPLUS CREATION?

The preceding analysis supports the conclusion that the surplus absorption capacity of the backward countries, and, probably to a lesser degree, the other advanced economies, and hence opportunities for

utilizing investment-seeking funds overseas, are circumscribed in a variety of ways. Opportunities for "enterprise," or profit-making, however, show few signs of weakening. We have touched on some of the reasons. First, the multinational corporations increasingly mobilize and utilize local and state savings and capital, undertake more ambitious investment projects, and profit from economies of large-scale production and more efficient intracorporate planning. Second, a larger share of the retained earnings of corporation branch plants and subsidiaries is absorbed by modernization investments, which reduce costs and raise profits. Third, the multinational corporations monopolize patents, brand names, and production processes in the greatest demand, and are able to establish control over national and international markets via licensing and similar agreements which require relatively small capital outlays. Fourth, the giant international corporations are more and more integrated and diversified, and production and sales are subject to less risk and uncertainty. Lastly, the international monopolies can count on the active participation and aid of the state.

For these reasons, the multinational corporations command growing profit margins on their overseas operations. Small amounts of capital are sufficient to penetrate, control, and dominate the weaker, less productive national economies. The price of disposing of a given amount of economic surplus this year is the creation of even more surplus next year—hardly a high price for the individual corporation to pay, but from the standpoint of the metropolitan economy as a whole, the problem of surplus absorption becomes increasingly severe.

The United States government, the European powers, and the United States-dominated international agencies are thus under growing pressure by the international monopolies to formulate and implement political-economic policies which will create an "attractive" investment climate abroad, in particular in the underexploited countries. Looked at from another angle, the imperialist powers are increasingly compelled to "promote economic development" overseas or, to put it differently, to integrate the backward areas even more closely into the structure of world capitalism. In effect, the advanced countries are desperately seeking to expand outlets for the economic surplus. To be sure, the imperialist powers view the problem as one of surplus creation (or profit-realization), rather than of surplus absorption—their line of vision generally corresponds in this respect with the perspective of the corporations themselves.

These are merely different sides to the same coin: by promoting profitable opportunities abroad for private capital, the state lays the basis for the absorption of a portion of this year's surplus, and, simultaneously, for the creation of additional surplus next year.

For U.S. economic, political, and foreign policy this line of analysis has a number of important consequences. In the first place, national economic development programs in the backward countries which seek the participation of the socialist countries and other advanced capitalist countries have been and will continue to be opposed by the United States. Secondly, investments in lines of industry which are noncompetitive with U.S. products, especially those which increase demand for these products, have been and will continue to be encouraged.

Thirdly, the participation of U.S. capital in the European economy (as well as the participation of European capital in the backward countries) will increasingly be discouraged because these investments will eventually compete with U.S. commodity exports. Fourth, the United States will continue to initiate anti-socialist, anti-communist military and political pacts and alliances with both backward and advanced capitalist countries—for the international monopolies the basic importance of state loans and aid lies in the long-run impact on the demand for arms, capital equipment, and consumer goods in those satellites which have developed intimate political and military bonds with the United States.

More generally, because the expansion of commodity exports, as well as capital exports, generates even more surplus in the future—because the process of surplus creation and absorption is a cumulative one—the United States is increasingly compelled to follow the policies of a militant, expansive imperialist power, all in the name of economic development for the underdeveloped countries. The task facing the United States in relation to the backward countries is truly Herculean.

At one and the same time, the United States must convince the backward countries that the growing penetration of U.S. capital, and the growing control of the multinational companies over local economies, are useful and necessary for their economic growth and development, at a time when politically oppressive policies which aim to create more favorable conditions for private investment are followed. Thus economic development is oriented by the multinational companies, and where there are national development plans which on paper assign a certain limited role to private investment, in fact private investment assigns a role to

the plan. The underdeveloped world becomes bound up even more closely in a new imperialist system in which investments in consumer goods industries replace investments in raw materials and minerals; in which the backward countries are compelled to deal with a unified private capital-state capital axis; in which political control by the World Bank and the other international agencies, together with the political arm of the official labor movement, the giant foundations, and other quasi-private political agencies, replace colonial rule; and in which the national middle classes in the underdeveloped countries are slowly but surely transformed into a new class of clients and compradors, in every important respect equivalent to the old class of traders, bankers, and landlords which for centuries bowed and scraped before their imperial rulers in China, India, Latin America, and elsewhere. A new era of imperialism is just beginning, an era which holds out contradictory promises to the imperial powers and their clusters of satellites. Whether or not the advanced capitalist countries can deal with this crisis of their own making depends on two basic factors: first, the power of peoples in the underexploited continents to resist; and, secondly, the flexibility of the structure of the imperialist system.

Notes

1. Margery Perham, *The Colonial Reckoning* (London, 1963), p. 1.
2. Joseph Schumpeter, *Imperialism and Social Classes* (1919; reprint ed., New York: Augustus Kelly, 1951), pp. 98, 128. It should be stressed that the above paragraph fails to capture the subtleties and complexities of Schumpeter's thesis, and aims chiefly to provide a point of comparison with the other two doctrines.
3. Hans Kohn, "Reflections on Colonialism," in Robert Strausz-Hupe and Harry W. Hazard, eds., *The Idea of Colonialism* (London, 1958). The different kinds of political control are as follows: (1) The metropolitan power can grant the subject people full autonomy, with the exception of foreign relations. (2) Subject peoples can be granted full citizenship, and assimilated into the foreign culture. (3) Indigenous peoples can be annihilated or expelled. (4) Subject peoples can be maintained in an inferior status. (5) The metropolitan power can tacitly claim the right to oust an unfriendly government.
4. An excellent review of mercantile thought and practice is provided by Eric

Roll, *A History of Economic Thought*, 3rd ed. (Englewood Cliffs, N.J.: Prentice-Hall, 1957), Chapter II.

5. Charles Wilson, *Power and Profit: A Study of England and the Dutch Wars* (London, 1957).
6. This changeover set the stage for the ruin of Indian manufacturing industries, and can be roughly dated from the abolition of the East India Company's trade monopoly in 1813. The East India Company had provided an umbrella for India's weaving industry, which could not survive the massive importation of British cotton manufactures.
7. This is not meant to imply that there are no important conflicts between international-minded capitalists and national-minded power elites.
8. This, of course, does not exhaust the motives for colonial conquest. In the conquest of Mexico and Peru, the search for precious metals was of foremost importance. The east coast of Africa was at first seized for strategic reasons. But the characteristic sequence was followed in India and West Africa. In the latter region, Portugal had acquired a monopoly over trade based on coastal fortifications. Cloth, metal, and glass were exchanged on favorable terms for gold, ivory, and, above all, slaves. In the middle of the seventeenth century Portugal's monopoly was broken by the Dutch, and then by the British and French.
9. *Capital*, Kerr ed., Volume III, pp. 278–279.
10. Cairncross has shown on the basis of more and better data than those available to Hobson that there was a relative increase in empire trade, most of it, however, with the older colonies such as India. See J. Cairncross, *Home and Foreign Investments, 1870–1913* (Cambridge: Cambridge University Press, 1953), p. 189. Cairncross's findings refine but do not contradict Hobson's argument.
11. V. I. Lenin, *Imperialism: The Highest Stage of Capitalism* (New York, 1926), pp. 71–76. By comparison, Rosa Luxemburg's *The Accumulation of Capital* bases its analysis of capitalist expansion abroad on Marx's models of expanded reproduction which assume a *competitive* economy. Luxemburg saw imperialism as a necessary result of competition between capitalist enterprises which drove capitalism outward in search of new markets in areas which were not incorporated into the world capitalist system. Lenin, as we have noted, stressed the export of capital, not commodity exports. Moreover, Lenin viewed imperialist rivalries over areas already integrated into world capitalism as extensions of the struggles between the European powers over the underdeveloped continents.
12. In the following paragraph we will rely not only on Lenin's theory of the causes of imperialist expansion, but also on Maurice Dobbs' and John Strachey's readings of Lenin. See "Imperialism," in *Political Economy and*

Capitalism (London, 1937); *The End of Empire* (New York: Praeger, 1960).
13. Dobb, *Political Economy and Capitalism*, pp. 239, 234.
14. Alexander Kemp, "Long-Term Capital Movements," *Scottish Journal of Political Economy*, vol. 13, no. 1 (February 1966), p. 137.
15. R. Koebner, "The Concept of Economic Imperialism," *Economic History Review*, 2nd séries, II (1949), p. 8.
16. Nevertheless, these historians believe that reasons must be found to explain the *pace* of colonial conquest from the 1880's on. Fieldhouse's explanation—that there was an overriding need for military security after 1870 because Europe had become an armed camp—they consider inadequate by itself. To the spillover from rivalries in Europe, they add the following reasons: the collapse of Western-oriented governments under the strain of previous European influences; the changing importance of Africa for British geopolitical strategy; and the need to relieve economic depression, especially relief from tariff increases by Germany in 1879 and France in 1892. As we have seen, the final "reason" itself was explained by Lenin. See R. Robinson *et al.*, *Africa and the Victorians* (New York: Doubleday, 1968), p. 181.
17. See Lenin, *Imperialism: The Highest Stage of Capitalism*, p. 24.
18. D. K. Fieldhouse, "Imperialism: A Historiographical Revision," *Economic History Review*, 14 (1961), *passim.*
19. Richard Pares, unpublished manuscript.
20. Gabriel Kolko, *The Triumph of American Conservatism: A Reinterpretation of American History, 1900–1916* (Chicago: Quadrangle, 1967).
21. Koebner, "The Concept of Economic Imperialism," p. 12. The evidence brought to light by D. C. M. Platt suggests that with regard to Latin American loans, only the small lender, not the large financial interests, bore great financial risks. "British Bondholders in Nineteenth-Century Latin America—Injury and Remedy," *Inter-American Economic Affairs*, vol. 14, no. 3 (Winter 1960).
22. Cairncross, *Home and Foreign Investment*, p. 185.
23. Fieldhouse, "Imperialism: A Historiographical Revision," p. 198.
24. Robinson, *Africa and the Victorians.*
25. *Ibid.*, p. 15.
26. Kemp, "Long-Term Capital Movements." In 1964, a year of high capital outflow, long-term capital amounted to only 9 percent of gross domestic investment.
27. Palme Dutt, *The Crisis of Britain in the British Empire* (London, 1953).
28. Michael Barratt-Brown, *After Imperialism* (London: Heinneman, 1963).
29. Hamza Alavi, "Imperialism Old and New," *Socialist Register 1964* (New York: Monthly Review Press, 1964), pp. 108–109.

30. Paul M. Sweezy, *The Theory of Capitalist Development* (1942; reprinted, New York: Monthly Review Press, 1964).
31. Schumpeter, *Imperialism and Social Classes*, p. 110.
32. Kenneth J. Twitchett, "Colonialism: An Attempt at Understanding Imperial, Colonial, and Neo-Colonial Relationships," *Political Studies*, vol. 13, no. 3 (October 1965).
33. "Neo-Colonialism," *Voice of Africa*, vol. 1, no. 4 (April 1961), p. 4.
34. Pablo González Casanova, "Internal Colonialism and National Development," *Studies in Comparative International Development*, vol. 1, no. 4 (Washington University, St. Louis, Social Science Institute, 1965).
35. J. W. Kratz, "The East African Currency Board," International Monetary Fund *Staff Papers* (July 1966), p. 13(2). In 1960, three new members were added to the board, one from each of the three East African states. The board was also granted the power to extend credit by fiduciary issues.
36. C. Y. Thomas, "The Balance of Payments and Money Supplies in a Colonial Monetary Economy," *Social and Economic Studies*, vol. 12, no. 1 (March 1963), pp. 27, 35; William G. Demas, "The Economics of West Indian Customs Union," *Social and Economic Studies*, vol. 9, no. 1 (March 1960). According to Thomas, the inability of the Commonwealth Caribbean economies to control their money supply is due not only to their monetary arrangements with Britain, but also to the dependent nature of their "open" economy. The pre-revolutionary Cuban economy was also characterized by monetary dependence. Henry C. Wallich, *Monetary Problems of an Export Economy: The Cuban Experience, 1914–1947* (Cambridge: Harvard University Press, 1950), *passim*.
37. K. Brutents, "Developing Countries and the Break-Up of the Colonial System," *International Affairs* (January 1966), p. 67.
38. Platt, "British Bondholders in Nineteenth-Century Latin America."
39. James Schlesinger, "Strategic Leverage from Aid and Trade," in David M. Abshire and Richard V. Allen, eds., *National Security: Political, Military, and Economic Strategy in the Decade Ahead* (New York: Praeger, 1963), *passim*. In the past, the United States could discipline a satellite country by threatening to cut off supplies of needed commodities. Today, substitutes from other sources are ordinarily available. Thus the United States must threaten to damage other economies by curtailing access to markets which it controls.
40. Paul A. Baran and Paul M. Sweezy, *Monopoly Capital* (New York: Monthly Review Press, 1966), *passim*. See also Shigeto Tsuru, ed., *Has Capitalism Changed?* (Tokyo: Iwanami Shoten, 1961), *passim*.
41. The scheme developed below is a greatly modified version of that of Tsuru in *ibid*., pp. 197–198.

42. Quoted in *ibid.*, p. 143.
43. Joseph Gillman, *The Falling Rate of Profit: Marx's Law and Its Significance to Twentieth-Century Capitalism* (New York: Cameron, 1958).
44. In general, a consumer will not be able to borrow in order to finance new consumption when economically necessary outlays (costs), together with loan repayments, equal current income.
45. Harry Magdoff, *The Age of Imperialism* (New York: Monthly Review Press, 1968), pp. 180, 182.
46. United Nations, Department of Economic and Social Affairs, Consultant Group Jointly Appointed by the ECLA and the OAS, *Foreign Private Investment in LAFTA* (New York, 1961), pp. 18–19.
47. *Ibid.*
48. Kemp, "Long-Term Capital Movements," p. 145.
49. Allen Young, "Bolivia," *New Left Review*, no. 39 (September/ October1966), p. 66.
50. Raymond Vernon, "The American Corporation in Underdeveloped Areas," in Edward S. Mason, ed., *The Corporation in Modern Society* (Rev. ed.; New York: Atheneum, 1966), p. 254.
51. J. Behrman, "Promotion of Private Investment Overseas," in Raymond Mikesell, ed., *U.S. Government and Private Investment Abroad* (Eugene, Oregon: University of Oregon Books, 1962), pp. 174–175.
52. J. Behrman, "Foreign Associates and Their Financing," in *ibid.*, p. 103.
53. H. W. Balgooyen, "Problems of U.S. Investments in Latin America," in M. Bernstein, ed., *Foreign Investment in Latin America* (New York: Alfred Knopf, 1966), p. 225.
54. John McLean, "Financing Overseas Expansion," *Harvard Business Review*, (March–April 1963), p. 64.
55. Samuel Pizer and Frederick Cutler, "Financing and Sales of Foreign Affiliates of U.S. Firms," *Survey of Current Business* (November 1965), p. 26.
56. William Diamond, "The Role of Private Institutions in Development Finance: Service-Oriented Profit Making," *International Development Review* (March 1965), p. 10.
57. *Wall Street Journal*, February 23, 1966, advertisement. Morgan Guarantee has eighteen correspondent banks in Spain with resources equal to 85 percent of privately owned commercial bank resources.
58. Industrial finance institutions in East Africa are typical. "National development corporations" were established before political independence to promote and direct new ventures and to participate in existing enterprises by subscribing to equity capital issues. "Development finance corporations," in which British and German capital are deeply involved, were established more recently; they specialize in loans and grants and promote partnerships

between African and European capital. Economic Commission for Africa, Conférence on the Harmonization of Industrial Development Programs in East Africa, "Industrial Financing in East Africa," Lusaka, October 26–November 6, 1965 (E/CN. 14/INR/103).

59. There is some evidence that monopolistic corporations are more interested in acquiring local partners than competitive firms. See Wolfgang Friedman and George Kalmanoff, *Joint International Business Ventures* (New York: Columbia University Press, 1961).
60. Douglas Gustafson, "The Development of Nigeria's Stock Exchange," in Tom Farer, ed., *Financing African Development* (Cambridge, Mass.: MIT Press, 1965).
61. Nural Islam, *Foreign Capital and Economic Development: Japan, India, and Canada* (Rutland, Vermont, 1960), p. 175.
62. McLean, "Financing Overseas Expansion."
63. Mario Ramón Beteta, "Government Policy Toward Foreign Investors," *The Statist* (London), January 8, 1965.
64. Alavi, "Imperialism Old and New," p. 118.
65. Kemp, "Long-Term Capital Movements," p. 148.
66. Behrman, "Promotion of Private Investment Overseas," Table VII-I, pp. 168–169.
67. Kemp, "Long-Term Capital Movements," p. 139.
68. Vernon, "The American Corporation in Underdeveloped Areas," p. 249,
69. Kemp, "Long-Term Capital Movements," p. 153.
70. Raymond Mikesell, *Public International Lending for Development* (New York: Random House, 1966), p. 30.
71. *Ibid.*
72. Harvey Williams, "New Dimensions for American Foreign Operations," in International Management Association, *Increasing Profits from Foreign Operations* (1957).
73. *State Department Bulletin*, no. 6465, April 1, 1957.
74. Alfonso Bauer Paíz, *Cómo opera el capital Yanqui en Centroamérica: El Caso de Guatemala* (Mexico City, 1956).
75. The argument that Britain's home economy suffered because it was deprived of capital which was absorbed abroad is fallacious. On the one hand, given the prevailing distribution of income and industrial organization, there were few profitable opportunities to absorb the surplus at home; on the other hand, the return flow on foreign investments more than offset the original capital exports.
76. Leland Jenks, *The Migration of British Capital to 1875* (New York: Alfred A. Knopf, 1927), p. 325.
77. It has been suggested by one expert, however, that private investments

were made to serve specific foreign-policy objectives more frequently than it is ordinarily believed. Herbert Feis, *Foreign Aid and Foreign Policy* (New York: St. Martins, 1964), pp. 33–40.

78. Mikesell, *U.S. Government and Private Investment Abroad*, p. 7.
79. Dean Rusk, "Trade, Investment, and U.S. Foreign Policy," *Department of State Bulletin*, November 5, 1962.