The following brief remarks are meant as a basis for discussion only. They relate to a problem that has been becoming increasingly obvious to a number of researchers — that our theoretical models have tended not to keep up with reality. This is always the case in a crisis where many theories compete to no avail, on a political rather than a theoretical basis. It has been a commonplace in the social sciences. The present crisis in "imperialism theory" is no exception — nor is it unusual, though perhaps tragic, that it occurs as a response to a profound structural crisis in the world-economy.

Economic theory as empirical abstraction

Economic theory has consistently been a faithful reflection of the concrete situation in which it has been formulated. The eighteenth century was the crucial period of expansion for the industrial development of England as the world’s central power. It was based almost entirely on the accelerated growth of the export sector and a relative stagnation of production for in-

*Paper read at Center for Development Research, Copenhagen, 1977.
ternal consumption. Not surprisingly, Adam Smith was its chief theoretician, propounding a theory that production is the basis of all wealth, and especially that production for export and international trade was the necessary condition for economic development.

The nineteenth century was a period in which England gradually developed a more complete "self-centered" economic structure including an expanding internal market. The theoreticians of this period denied the importance of foreign trade for the expanded reproduction of capital, stressing instead the problem of costs, and especially, for the Ricardians, labor costs. With the emergence of internal reproductive cycles, the major issues are related to questions of equilibrium between sectors, the pricing of output, and the rate of profit. For Ricardo, foreign trade was only important because of imports that might cheapen the cost of labor. Even Marx, who was fully aware of the world-economy's importance in the formation of national capitals, provided no model for it. He usually envisaged trade as a supplementary mechanism that could raise the rate of internal accumulation without being a necessary component of that accumulation. While it might, of course, be argued that the reproduction schemes are a-national in character, this was never said to be a feature of the model.

From 1870, and probably somewhat earlier, England exported an unprecedented amount of capital, mostly in the form of loans and portfolio investment while the national economy stagnated. England became the world's banker after having been the world's workshop. Imperialism theory was born. It took on two forms, reflecting two aspects of the phenomenon. Rosa Luxemburg, working out of an elaborate theory of the contradictions of capital accumulation, analyzed the violent and non-violent forms of capital expansion into its non-capitalist environment in terms of a model of primitive accumulation. Thus, for example, the export of loan capital might solve the incompatibilities of the reproduction cycle while maintaining or raising the rate of accumulation in the center through a net inflow of capital that offset the falling rate of profit. This process could only continue so long as the world was not entirely subsumed by capitalist production. The theories of Hobson and Hilferding, synthesized by Lenin, interpreted the outflow of capital as a response to the formation of financial-monopoly structures through increasing concentration and a
resultant constant overproduction of capital that needs an outlet for investment outside of the declining-profit center. The export of capital was discussed as an expression of a particular stage of capitalist development. Exported capital itself gains a clear advantage in the form of higher profits, superprofits that can be used to bribe the working class at home by raising their standard of living. But there was no assumption that the export of capital implies the underdevelopment of the periphery. On the contrary, the initial cheapness of labor is due to the scarcity of capital, and the inflow of capital should lead to the capitalist development of the area in question.

Early imperialism theory was clearly a response to and a reflection upon the actual movement of capital out of industrial centers and the return movement of profit, interest, dividends, etc. While Luxemburg conceived the export of capital as a strong form of exploitation of non-capitalist sectors for the continued reproduction of the central capital, she saw this as a self-destructive process leading to the capitalization of the whole world and the end of external primitive accumulation. For Lenin there was no clear necessary relation between the export of capital and the growth of the central capital but there was again the prediction that the whole world would be industrialized by capital. It is only Bukharin who came close to a view later expressed by dependency theorists — seeing capitalism as a single world-economy characterized by an unequal division of labor, a raw material-producing periphery, and an industrial center.

After the Second World War, it became increasingly clear that the world was not becoming more industrialized by capital. On the contrary, the periphery seemed to be declining at an accelerated rate relative to the center. This resulted in the replacement of the "civilizing mission" theory by dependency-underdevelopment theory. In that theory, the central power, in this case the U.S., appeared as an octopus whose long capitalist tentacles suck out the wealth of the entire globe in order to feed its own growth. The massive export of U.S. capital to Europe, where it "ate up" a considerable portion of the industrial economy, and to the Third World, where it took over the major portion of raw material production and reduced large areas to a state of indebtedness and poverty, was characteristic of this period.

From the 1950's to the late 1960's dependency theory
flourished — beginning with Baran, carried on and developed by Frank, Amin, Palloix, Emmanuel — a model of hierarchical asymmetrical center/periphery relations where the hierarchy itself was considered to be the very definition of world capitalism, i.e., with no capacity for change within the capitalist system itself.

Then, finally, in the late 1960’s it became apparent that something might be wrong with the hierarchy model. Not all capital movements created underdevelopment in the receiver nations. Imported U.S. capital was found to be largely responsible for the rapid industrial growth of Europe and its increasing competitiveness on the world market. The massive expansion of multinational capital from the center to the periphery created conditions for rapid industrialization in some areas. In fact, exported capital appeared to grow more rapidly than national capital in the case of the U.S., and multinational expansion was accompanied by national stagnation.

In reaction to the seeming weakening of the strict national hierarchy structure, there came a wave of research on multinationals (M.N.C.’s), the declining power of the nation-state, and the flows of direct investment and their effect on local development and industrialization. The fixed and necessary character of center/periphery relations was criticized and the contradiction between multinational capital and national entities became a focus of analysis. The German school, especially Busch and Neusüss have attempted to account for the internationalization of capital by using a model linking differences in productivities (unequal technological development) to export advantages on the world market (increasing positive trade balances) that cause the up-valuation of the national currency, resulting in a need to export capital in order to remain competitive in the world market where labor time is unequally valued.


The model was similar in effects, if not in causes, to Vernon’s product-cycle model. The only national advantages occur in a specific phase of the cycle where the overvaluation of a national currency permits “unequal exchange” with nations having devalued currencies. In order to preserve such international exploitation external political means are required (e.g., the franc zone, Bretton Woods arrangement) and these must necessarily be strained to the limit if international payment balances shift significantly. The model in itself cannot generate a center/periphery structure, but rather seems to imply an oscillation of capital movements — one which has, in effect only been applied to center nations. The center/periphery relation could only be discussed in terms external to the model of capital reproduction — i.e., a specific colonial structure leading to a previous specialization in raw material production in a period when industrial accumulation was located in the metropoles only, an absence of capital accumulation, local markets, a constant “overproduction” of raw materials at low prices linked to a fixed undervaluation of local currency, etc. These, however, were all conditions and not part of the necessary structure of capitalism. This fact was implied by Warren who attempted to show that industrial development, was, in fact, beginning in the periphery.

All of the above models seem to be descriptively adequate to the periods when they were conceived. But they are clearly of limited application — limited to their immediate historical situation. There is something seriously wrong here. Can it be that Marxists, who have always attacked empiricism, have nonetheless created no more than so many empirical abstractions in lieu of genuine theoretical models? At the moment we find ourselves in the midst of yet another crisis in imperialism theory — between those who hold fast to the hierarchical center/periphery model and those who find that there is increasing capitalist development in the Third World. The problem, it seems, has very much been that Marxists, just as non-Marxists, have attempted to relate their empirical situ-


ation directly to a fixed set of categories instead of attempting to revise the categories themselves, to discover theoretical schemes that might generate their immediate reality as well as other "realities" past and future. The German school must be credited with at least having attempted to discover the implications of the Marxist model of capital accumulation for the larger world market, but they have found that very little, indeed, can be deduced about global processes of reproduction from the capital model itself. Insofar as they have had that model as a starting point to be elaborated upon instead of the world-economy as such, they have been largely unable, as yet, to address themselves to such crucial problems as longer term flows of capital, center/periphery relations, etc.

Every change in the real situation tends to come as a surprise unless we are theoretically prepared for it. Such situations, where theory and reality contradict one another, ought to lead as quickly as possible to the reconstitution of theory. Instead, it has most often led to a hardening of positions — usually reified by differing political standpoints. This in itself may help to distort attempts at explanation in such a way that we are sure to limit the relevance of our theories to particular historical situations that have become eternalized as the definition of the "highest stage" of capitalism or of just plain capitalism in general.

Every change in the world economic system has been reflected in a change in dominant theoretical model. And every change in model has implied a change in personnel. The old model cannot be given up and its defense is usually a matter of politics. TRUTH and the CORRECT LINE march hand in hand against the revisionists, deviationists, Trotskyists, bourgeois academics, etc.

Two Case Studies

An excellent example of the political distortion of a theoretical crisis is the response by McMicheal, Petras, and Rhodes to Warren's article on "Imperialism and Capitalist Industrialisation." Their argument is very much irrelevant to Warren's

principal point. While he essentially tries to document what appears to be a rapid increase in industrial growth in the Third World — though, of course, not everywhere as his critics vehemently exclaim — the latter stress the high rate of exploitation, the enormous debt, the low standard of living, the enclave nature of the economy, etc. All of this is not necessarily in contradiction to Warren’s main point, which is simply that there is a tendency for capital accumulation. Starvation, miserable standards of living, an almost exclusively export-oriented economy, high rates of exploitation, were characteristic of England’s early industrialization as well as that of Japan. High consumption per capita is not a measure of capitalist development as such. It is, further, the case that M.N.C.’s have played the central role in Third World industrialization, and not local capital, which has been largely blocked by its peripheral world position. There is also an extraordinarily high level of debt and debt-service payments that are a continual source of primitive accumulation. But this does not imply that capitalist industrialization is not occurring — only that it must take a specific form in the periphery. If, after all, the conditions of accumulation today are such that capital flows to the Third World precisely because of the appalling economic and political conditions there, we should have all the reason to try to understand the specificity of this new tendency in the accumulation process, as well as its limits.

It is, of course, evident that Warren presents no comprehensive model of the form of this capitalist development in relation to the previously more hierarchical structure — nor does he have any such overt pretentions. A more serious critique might have attempted to take up the question of total wealth flows, distinguishing between the movement of capital and tendencies for its accumulation, and the return flow of profits, debt service, etc. in order to assess the longer term effects of this process.

The clearest example, it seems to me, of the way in which models can be maintained in the face of a contradictory reality is Poulantzas’ article on the “Internationalisation of Capitalist Relations and the Nation State.”

The author seems to make two major assumptions. First, capital is by definition national — so that its internationalization is equivalent to the expansion of the nation itself. Second, the principal form of imperialist dominance is the export of capital irrespective, apparently, of where it is accumulated. The fact that U.S. foreign investment has increased from 35% to 60% of the world total from 1935 to 1960 indicates the absolutely increasing dominance of the U.S. as the center of the world-economy. Furthermore, the fact that this is mostly direct investment, 75% today as opposed to 10% or less before 1914 when most investment was portfolio, somehow implies that U.S. penetration is that much more complete. Investment in manufacturing has increased from 24% in 1950 to 40% in 1966 as a percentage of total U.S. investment in Europe. 85% of that 40% has been in the most advanced technology, high growth industries, that have on the average expanded twice as fast as the average growth rate in Europe. We might even add to Poulantzas’ picture Dunning’s statistics that indicate that between 1957-66 U.S. multinational investment in Europe rose 800% while European investment rose only 250% and that in roughly the same period, U.S. multinational sales of manufacturing rose four times more than European sales. Poulantzas goes on to say that the marked European increase in world export production can similarly be accounted for by U.S. firms in Europe, thus undermining the argument that Europe has become a rival of the U.S. on the world market.

What is the net effect of all this capital export? For Poulantzas, it means that the U.S. is taking over Europe. It is, however, a fact that most of Europe has gone through a period of rapid capitalist industrialization even if it is U.S. capital that accounts for a major portion of it. If multinational capital accumulates within the borders of the receiver nation it does not necessarily mean that the nation is being sucked dry of wealth to the benefit of the donor nation. It is clearly insufficient to look at the flow of invested capital without taking account of the total reproduction cycle. U.S. export of capital has obviously not led to the increasing accumulation of wealth within its own borders at the expense of receiver nations. In effect, U.S. internal production has stagnated relatively while exported capital has grown rapidly. Multinational assets have grown twice as fast as domestic assets. In 1965, 25% of U.S. imports were the products of its own capital. As it is manufacturing capital that is
exported, it can no longer be a question of exporting manufacturing while importing raw materials or even semi-finished products. U.S. internal capital formation has declined — it might be argued that it has been exported.

Percentage growth of production: 1957-1965 — Manufacturing-sales

<table>
<thead>
<tr>
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<th>Export</th>
<th>Multinational Production</th>
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<tbody>
<tr>
<td>U.S.A.</td>
<td>2</td>
<td>13</td>
</tr>
<tr>
<td>Gt. Britain</td>
<td>12</td>
<td>20</td>
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<tr>
<td>France</td>
<td>6</td>
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<tr>
<td>F: R. Germany</td>
<td>14</td>
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<tr>
<td>Italy</td>
<td>24</td>
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<tr>
<td>Netherlands</td>
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<tr>
<td>Canada</td>
<td>33</td>
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<tr>
<td>Japan</td>
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Only the U.S. and Great Britain have had faster rates of multinationalization than national production for export. While this indicates nothing in itself, when coupled with the fact of very slow growth and even a de-industrialization in some sectors (e.g., U.S. automobile manufacturing), it would appear to imply some sort of connection between capital export and internal decline. As such it might be significant that the rapid growth of Italy and Germany in the same period and the explosive development of Japan exhibit opposite ratios of export/multinational production. The output of exported capital, producing at lower costs tends to compete successfully on the same world market as the original capital. It could, of course, be argued that repatriated profits, the inflow of debt service on loan capital, etc. help to prop up the stagnating internal economy as well as the artificial mechanisms of the overvalued dollar (until recently) and the Eurodollar market. Consumption and unproductive investment may have increased somewhat, but real accumulation has stagnated increasingly. Short-term debt in industry has almost doubled since 1950. Outstanding short term debt was twice the total internal funds of industry in 1974 and 30.2% of the gross corporate product. A large national deficit in
the balance of payments appeared at the start of the 70's which led to the monetary crisis that has not really ended as yet.

Now, no one is suggesting that CAPITAL has not accumulated at an increasing rate through multinational expansion or any other form of export. But there is clearly a difference between the accumulation of exported capital and the accumulation of capital in the exporting nation. Capital that arrives in a nation employs the labor of that nation and, if successful, accumulates in that nation. Direct investment implies a local expansion of capital. The expansion of capital need not coincide with the growth of any particular GNP. This is clearly the case with U.S. expansion in Europe. The latter represented, from the beginning, an area where higher returns on investment could be achieved. The continued accumulation of foreign capital in an area is not necessarily a mark of increasing dominance. It might be a sign of weakness. It certainly implies an increase in competition, growing unemployment in the center, a decline in the center's rate of capital formation — expressed ideologically in the U.S. in 1976 as an acute shortage of capital.

"What happens to capitalism if we run out of capital?" 7

If the export of capital means simply the dominance of one nation over another, imperialist fashion, then Europe would appear to be a very strange sort of periphery. But Poulantzas claims something of that order, that the imperialist chain is being extended to make the U.S. a super-imperialist and Europe a sub-center or periphery. In such a model, Australia might appear near the bottom of the imperialist chain, since it is almost entirely dominated by multinational capital. Nevertheless, it is a powerful national economy, a growing industrial producer with a high level of internal consumption and is a major exporter of manufactures in Asia. Perhaps Poulantzas would have us say that Australian, or for that matter French, exports are really U.S. (for Australia includes British) exports. The problem is that they are not: first, because they reproduce a multinational capital and not its mother country; secondly, because they reproduce a production apparatus in the country from which the goods are exported and not in the country that originally exported the capital.

Poulantzas offers an extreme example of an attempt to reaffirm the octopus model of imperialism precisely at a time when the tentacles are being severed. But it is not necessary to go over to the other extreme and to see the whole thing in terms of the rivalry of national capitals. Poulantzas is, in fact, just as “nationalistic” as those he attacks. It is just as serious an error to reduce international capital to its place of origin as to assume that all capital belongs to the place where it is employed.

Wealth Flows and Capital Reproduction in the World-Economy

What is needed if we are to avoid becoming the victims of our own empirical abstractions is a more consistent theoretical model of the functioning of the world-economy that takes account of the different kinds of flows and their relation to the distribution of points of capital accumulation over time. Some of the points that might need to be elaborated in a more complete model are given below.

1. Capital is money that is converted into more money, ultimately by exploiting labor and means of production in order to realize a profit on the market. Capital can also be accumulated by speculation, unproductive employment, and various forms of fictitious accumulation, but it is ultimately limited by the rate of real accumulation of productive wealth. It is not itself “national”.

2. Any movement of capital from nation A to nation B is a movement of potential power of exploitation and accumulation. Whether or not such accumulation occurs and to what degree depends upon conditions of growth of that capital and not the capital itself. Here, all the problems of capital’s relation to local reproductive structures can be taken up.

3. Very generally, the kinds of reciprocal flows generated by the export of capital are as follows:

\[
\begin{array}{ccc}
A & & B \\
\text{loan capital} & \leftrightarrow & \text{debt service} \\
\text{portfolio investment} & \leftrightarrow & \text{dividends} \\
\text{industrial capital} & \leftrightarrow & \text{repatriated profit}
\end{array}
\]
A first issue here is the comparative rates of these flows and the mechanisms that determine how they change over time. The second issue is how these flows are related to accumulation in both A and B.

4. The proportions of the different kinds of capital outflow have changed considerably over time. Earlier, portfolio investment and international loans were crucial, making up 90% of the total before 1913, but there has been a constant shift towards direct investment, 25% in the 1920’s and 75% by the 1970’s. Portfolio investment resulted in the rapid productive expansion of the nations to which it was exported. England financed the growth of U.S. industry in the late nineteenth century just as the U.S. developed European industry after the Second World War. In both cases this process was accompanied by declining capital formation at home, but then again by 1840 the cost of building a railway in England was five times more than in the U.S.

Portfolio investment brings back dividends while financing production in the receiver country. In the short term, it means a return flow of monetary wealth, but in the long term, it leads to competition with new and more advanced industrial capital.

Loan capital does not necessarily lead to investment — certainly not at a rate at which loans might be repaid. English loans to Egypt in the nineteenth century led to the destruction and subordination of that economy. The debt-service implied by massive loans can greatly outweigh the local accumulation of capital. This is especially true where a previous de-industrialization has occurred (i.e., as the result of previous English expansion on the world market) so that local economic growth depends upon the import of industrial capital which is minute relative to the loans. In such a case, the nation becomes victim to the classical sucking out of wealth described as primitive accumulation by Luxemburg. Such a process occurred in England’s relation to the colonial periphery in the nineteenth century and in the U.S. relation to the post-colonial periphery after the Second World War. Where loan capital arrives to prop up the incorporated colonial elite of a region or to maintain levels of consumption in areas of severe decline (Turkey, Egypt, South America, etc.) it may even stimulate the home production of the dominant nation.
Loan capital has been a powerful underdeveloper in the past. Its effects again depend upon the conditions in which it functions, i.e., its articulation in the reproduction structure of the receiver nation.

5. Direct investment results, as in portfolio investment, in an accumulation of capital. But it implies a form of multinational control and the direct control of production by the exported capital. In the reverse direction there is a flow of repatriated profit. If the direct investment is to be maintained, however, a share of the profit must be kept in the receiver country. The rate of reproduction of the capital depends on conditions of accumulation in the receiver country relative to the return on capital that might be obtained by redeployment.

6. The question of national accumulation depends on the rate at which flows from the larger network are directed towards a particular geographical investment area. Thus it is clear that the U.S. and Great Britain, the largest capital exporters of the post-war period, are among the lowest with regard to national accumulation. There seems to be a clearly inverse correlation between the rate of export of capital and the rate of home capital formation.

7. The conditions of national accumulation seem to evolve in a rather regular way in the larger system. The two greatest accumulators since the industrial revolution have been the UK. and the U.S. Internal accumulation in the U.K. was initially based on an enclave economy in which export of manufacturing accelerated in the eighteenth century and part of the nineteenth while production for internal consumption was stagnant.
This was followed by internal structural differentiation and the emergence of a large growing internal market so that export production fell relatively. Enormous capital accumulations were absorbed in non-productive as well as productive activities. Final consumption increased — from housing, public building, roads, to domestic consumption (at a later date). The net effect was that the cost of production increased (in capitalist terms) relative to other areas of the globe. High consumption — so-called development — was a major cause of the outflow of capital in this system. U.K. capital flowed out to the rest of the world, especially to the U.S. Internal capital formation declined and there was a capital shortage with respect to productive investment. The costs of new technology could not be met (although invented in England) and it was exported along with capital so that the competitive position of the U.K. declined and it became less developed. Instead, the import of manufacturing increased and the increasing home consumption was financed, for a time, by the dividends, the interest on exported capital, and the profit of the still dominant merchant navy.

The U.S. took on the U.K. role as the world’s workshop, and ran through an apparently similar cycle leading from high internal accumulation and export of manufacturing to declining growth and the export of capital.

8. This cycle was one that ran from high national accumulation and a high proportion of the world’s production of and export of manufacturing associated with relatively limited internal consumption (relative to other areas of high production) to a low rate of accumulation and a high rate of export of capital. It was in the latter phase that internal consumption was highest, but it was followed by a weakening national economy, a decline in real wealth, and a shift in the center of accumulation. This process characterized the developments of
Britain and the U.S. As the level of capital accumulation increased generally throughout the center — Europe, the United States, and Japan — the degree of competition, internal high consumption, fictitious accumulation, and multinationalization that normally characterized the single nation now seems applicable to the center as a whole (e.g., Japan with a previously low ratio of development of multinationalization to manufacturing export, seems now to be reversing that trend). Much of the present structural crisis in the world-economy is clearly related to this development — i.e., the tendency, small but growing, for the center as a whole to become a consumer of the products of its own exported capital, while producing less itself, leading to a chronic negative balance of payments. If the model outlined above is applicable to the center as a whole, i.e., a number of competing nation-states, it would seem to imply the long-run decline of the West and Japan and a shift of accumulation to some other area. The Soviet-East European bloc is, I think, a likely candidate, representing a "socialist" structure of capital accumulation that is cheaper and more efficient on the world market. This thesis has been cogently argued in an important work by Ekholm.8

9. The longer term tendencies in the system have been, at the global level, the increasing concentration of capital, first financial and then industrial, so that there has been a gradual shift from the export of money capital to the export of industrial capital.

10. The effect of national capital accumulation on its own continuation is clearly a major factor in international capital movements. It appears that national accumulation always becomes costly relative to the possibilities afforded by capital export. At the same time as capital is exported (perhaps earlier), it shifts increasingly into speculative and fictitious accumulation at home. The latter is a normal cyclical phenomenon that may in fact be offset by massive capital export if the latter brings back enough money capital in order to maintain credit levels in an increasingly unproductive national economy. A longer-run tendency that spans a number of normal cycles is the internal growth of the national economy itself, which raises costs of

reproduction relatively to less developed areas. An enclave economy has, by its high level of exploitation, the best chances for rapid capitalist growth. The more self-centered structure, a necessary development given the consumption possibilities of a wage labor structure and, more generally, of the previously accumulated and internally circulating capital, is also ultimately less profitable in the world market as a whole.

11. It might be suggested here that the model of shifting accumulation is more general than the so-called capitalist mode of production, i.e., a model based exclusively on wage labor. On the contrary it would appear to be applicable to any system in which:

a) the accumulation of “capital” defined as abstract wealth (a general equivalent or specialized commodity hierarchy, e.g., cauries or gold) necessary for local reproduction can be based on a number of different relations of exploitation including wage labor.

b) the increase and maintenance of accumulation depends very largely on external demand in the long run.

c) costs of reproduction are registered directly or indirectly in the market price or total “value” of the final products.

Such properties apply to a large number of systems that have existed in the past as well as to our own capitalism. The way in which the properties are linked may vary greatly without, I think, upsetting the general developmental pattern. The same kind of argument might be made for such patterns as the Kondratieff cycle whose periodicity clearly depends on the specific structure of production, but whose existence is of a more general nature. The study of “pre-capitalist” systems of accumulation based on “capital” (the Middle East and the Mediterranean for perhaps the past two thousand years) might teach us a great deal more about the phenomena analysed above than the study of the specificity of capitalist production based on wage-labor. The center/periphery phenomenon and shifts in accumulation might then be seen as processes so general that the emergence of Europe as a center of accumulation could be understood in terms of the development and transformation of its relation to former centers of accumulation in the Middle East, where the emergence of wage-labor capitalism on a large scale is a dependent function of this larger “global” transformation.9