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THE STRUCTURE AND DEVELOPMENT OF THE MULTINATIONAL CORPORATION

——The Theory of the International Circulation of Capital and Accumulation, Concentration of Production and Capital——

by

Tasuku Noguchi

1. The Focus of the Problem

This article is an attempt to present a description and analysis of the various forms of the multinational corporation, particularly with respect to its function in capital export. Today there exists a great deal of discussion from a variety of perspectives about the multinational corporation in America, England, Germany, France, and even Japan. The multinational enterprise has been the topic of individual articles, meetings of academic associations, and symposia, but in the great majority of these discussions no firm conclusions have yet been reached. The theoretical base is frequently weak. In particular, there seems to be almost no firm conclusion with respect to the necessary base and mechanism of the establishment of the multinational corporation and its significance for capital exports.

One explanation is that direct investment constitutes the base of the multinational corporation. The multinationals are seen as promoting the general strengthening of American finance capital. The contradictions between the classical home of the multinationals, America, and the Third World are viewed by such authors as Magdoff, Sweezy, Jalée, Nicholaus and others as growing more acute.[1] In opposition, Mandel emphasizes the forces of production as determining the relative share which a country's exports hold in world trade. He sees the challenge of Europe and Japan to American finance capital and imperialism as becoming more acute, with the result that America's share in world trade has declined from a position of absolute to relative superiority.[2] From

1) Harry Magdoff, *The Age of Imperialism* (1969).
Paul Sweezy, various articles in *Monthly Review*.
Pierre Jalée, *Die Ausbeutung der Dritten Welt* (translated from *La Exploitation du Tier-Monde*). Martin Nicholaus, Die Objektivität des Imperialismus, Anti Mandel (1971).

2) Ernest Mandel, *Die EWG und die Konkurrenz Europa-Amerika* (1968), chapter three, and *Die Widersprüche des Imperialismus* (1971).

a different perspective, Hymer and Rowthorn describe the relative decline of America and argue in terms of the interpenetration of capital exports between Europe-Japan and America.[3]

Another opinion is that the relative dominance of the capitalist system has been limited with the establishment of the socialist system and the independence of the former colonies after the Second World War. Until 1960 the United States was able to maintain its political and military superiority on the basis of its economic policies, productive capacity, commodity exports, and finances. Soon thereafter, however, Amerca's share in the world economy declined, as was revealed by the dollar crisis. According to this view, American capital responded by attempting to restrengthen its position through capital exports from its technologically advanced sectors. In the same view it is argued that the formation of multinational corporations consists of the cycle of development of new products for the American domestic market, their maturation, and subsequent export. Further, these products are then transplanted to the other advanced capitalist countries. After they reach maturity there, the products and their technology are then transferred to the Third World. This is the product cycle theory by Vernon.[4] In contrast, Hymer and Kindelberger argue that capital exports and the formation of the multinational corporation depend on the superiority of scale of international competition (international oligopoly).[5]

At first glance the last two viewpoints seem to differ in their description of the development of multinationals, but they both have in common a theory of technological determination which emphasizes the relation between technology and new products, between technology and scale. Similarly, Penrose's theory of the "international transfer of managerial resources," which is based on a theory of company growth, can be said to belong to the same type of argument.[6] These views can be said to have been developed in opposition to the theory of the international transfer of capital in its classical form of securities investment. However, they treat the overseas branch corporation as a separate entity, although this management principle merely constitutes one type of capital export and therefore is a functional form of direct investment. We will develop this criticism more concretely and theoretically below.

In addition, the theoretical explanations of the historical changes related to capital exports and the multinational corporation have been far from sufficient. It is necessary to analyze why the basic direction of American direct investment changed after 1957–58 from Canada and Latin American to Europe and Japan,

3) Robert Rowthorn and Stephen Hymer, *International Big Business, 1957–1967* (1971).
4) Raymond Vernon, *Sovereignty at Bay—The Multinational Spread of U.S. Enterprises* (1971), chapter three.
5) Charles P. Kindelberger (editor), *The International Corporation—A Symposium* (1970), chapter three.
6) T. Penrose, *The Theory of the Growth of the Firm*, 1959, pp. 76–78.

and why after 1968 it changed again from Europe to the Middle East and Southeast Asia. What is the significance of the capital export to the socialist countries, chiefly in Eastern Europe?

Furthermore, the explanations by Mandel, Hymer, and Rowthorn of the reasons for the increase of direct investments from Europe to America after 1965 seem inadequate. With respect to this problem, Vernon's explanation also presents only one side of the basis of the formation of the multinational corporation. What is being argued here is not only the pros and cons of the law of uneven development in the mutual relations among capitalist countries in terms of capital exports and multinationals. Also at issue are the mutual relations within the law of unequal development, that is, the mutual relations of direct investments between the EEC-Japan and America. Accordingly, this article will attempt not only to approach this problem from the basic theory of capital, but also to describe the actual basis for the establishment of the multinational corporation as well as the mechanism of capital exports.

2. *The Theoretical Analisis of the Foundatian of the Multinational Corporation*

2.1

In order to grasp the concrete form of the multinational corporation it is clear that we must deal with direct investments, particularly capital exports, under state monopoly capitalism. This is necessary because the product cycle theory currently dominantes the theoretical explanation of the formation of the multinational corporation. Since it is basically a theory of technological determination, it is important to clarify the abstract theoretical basis for the formation of the multinational enterprise in terms of the general theory of capital. First, we must understand the internationalization of commodity production and circulation.

Control of the regional and domestic circulation of commodities is the historical prerequisite and theoretical base of the international circulation of commodities. On the basis of this, the further the development of capital accumulation, the more there occurs not only domestic accumulation but also an internationalization of accumulation. Concretely this means that the internationalization of the circulation process develops on the basis of the international circulation of commodity production. The internationalization of the circulation process develops in proportion to the advance of circulation from the domestic to the international market. Of course, the base of the internationalization of the circulation process is found in the social reproduction process and the internationalization of the development of the forces of production.

The expansion of the forces of production does not simply mean an expansion of the domestic social reproduction process. It also includes the development of the forces of production centering on the uneven development of the first sector (heavy industry, producer's goods). This reveals itself as the contradiction of socially expanded reproduction within one domestic market, that is, the imbalance between production and consumption.[7] The result is the development and internationalization of trade mediated by the circulation process of domestic surplus commodities. The development of the forces of production centering on the first sector brings with its the necessity of internationalization, not only of the circulation process but also of the production process, given the uneven development between the first and the second sector (light industry, consumer's goods).

Historically, the development of the forces of production centered on the textile industry,[8] which constituted the core industry of the second sector. Thus, the internationalization of the production process started in the second sector and in proportion to the intensification of socially expanded reproduction it developed into the internationalization of the production process of the first sector. The greater the development of socially expanded reproduction, the greater the intensification of the contradictions among the relations of production. Thus, in proportion to the realization of the contradictions between production and consumption, the internationalization of the production process increases, particularly among the basic industries within the first sector, that is, in the machine building and knowledge intensive industries characterized by advanced technology.[9]

This is the abstract analysis of the law of capital accumulation, and with it we can clarify the internationalization of the circulation and production processes. From this perspective, Vernon's product cycle theory and the theory of the "international transfer of managerial resources" are seen as treating only one aspect of the internationalization of the development of the forces of production. Since they emphasize the international transfer of production and managerial technology through products, they amount to theories of technological determination. In contrast, we have tried to locate The Theory of the International Circulation of Capital and Accumulation, Concentration of Production and Capital within the process of capital accumulation, corresponding to the process of socially expanded reproduction in one country and the subsequent internationalization of the forces of production. Within the process of capital accumulation, socially expanded reproduction produces surplus funds through accumulation from depreciation funds and the stagnation of monetary circulation.[10] As related below, one of this provides the general sources of the internationalization of capital in the form of "capital surplus."

The location of the reproduction of the circulation of social capital is not

7) Karl Marx, *Das Kapital*, volume three, pp. 939–40.
8) Here the reference is to the typical development in England during the establishment of industrial capital. Also in Japan after the Meiji Restoration the textile sector played a crucial role as a key industry in industrialization.
9) Input-output analysis of the American reproduction structure indicates the strength of the electronic and space industries in the first sector.
10) Karl Marx, *Das Kapital*, volume two, p. 496.

only simple reproduction but also expanded reproduction. However, the expanded reproduction of social capital does not restrict itself to the confines of a single country. It also possesses the mechanism for "spatial" internationalization. The transition of the circulation of social capital from the domestic to the international real indicates the international transfer of value. It indicates the value transfer of advanced capital value from domestic to international circulation. These considerations reflect the three functional circulation forms of industrial capital, that is, the transformation of the circulation of monetary capital, production capital, and commodity capital.[11] We must be able to comprehend these functional forms of the circulation of industrial capital not only individually, but also together as a whole.

(A) First, the following formula expresses the spatial internationalization of the circulation of monetary capital of one country:

$$M - C \begin{cases} L \\ MP \end{cases} \cdots\cdots P - C' - M'$$

The internationalization of the circulation of monetary capital appears concretely as the internationalization of interest-bearing capital, M—M'[12] that is, as international capital transfer. In other words, it constitutes the internationalization of the circulation of fictitious capital[13] and takes the form of the internationalization of securities investment. Consequently, the various forms of securities investment or international lending, which form the core of international capital transfer, constitutes the base of the internationalization of the circulation of monetary capital. As interest-bearing capital it appears as the internationalization of short and long term loans. The internationalization of the circulation of fictitious capital appears as securities investment.

(B) The following general formula expresses the second circulation form, the spatial internationalization of the circulation of production capital:

$$P \cdots\cdots C' - M' - M - C \begin{cases} L \\ MP \end{cases} \cdots\cdots P$$

In this case, the domestic circulation of production capital takes the form either of simple or expanded reproduction. With spatial internationalization there occurs the international transfer of value of production capital, which becomes the material base of the internationalization of the process of production. This means that each real element of the form of production capital is transferred internationally accompanied by the international transfer of the value of production capital. More concretely, raw materials, parts, machines, and even labor power are transferred internationally. Its concentrated expression is the international transfer of value in the form of direct investments.

11) *Ibid.*, volume two, chapters one, two, and three.
12) *Ibid.*, volume three, p. 427.
13) R. Hilferding, *Das Finanzkapital*, chapter seven.

(C) The third form is the spatial internationalization of the circulation of commodity capital and is expressed by the following formula:

$$C \left\langle \begin{matrix} L \\ MP \end{matrix} \right. \cdots\cdots P \cdots\cdots C'\text{—}M'\text{—}M\text{—}C$$

With the generalization of commodity production and then expansion of the domestic circulation of commodity capital, the base is formed for the internationalization of the circulation process. The international development of commodity exports corresponds to this process. When viewed from a technological standpoint, the international circulation of commodity exports appears as the international circulation of the articles of commodity production, which is called the international product cycle. This product cycle forms one constituent element in the spatial circulation of commodity capital. Although superficially similar, this presentation of the spatial circulation of commodity capital is completely different from the model of technological transfer through mature products from the technologically most advanced countries to the other advanced capitalist countries. It also differs from the movement of standardized products to the underdeveloped countries.

I have sought above to analyze each functional form of the circulation of industrial capital (monetary, production, and commodity capital) and to present their concrete expressions. Together they constitute the spatial internationalization of the circulation of industrial capital.

2.2

(1) At this point it is necessary to take up the different capital components of the process of internationalization. The internationalization of *industrial capital* in each of its functional forms has already been dealt with above (2.1). There we dealt with the internationalization of the circulation of industrial capital, whose concentrated expression is the multinational corporation of today. The multinationals involve the international transfer of value, including the excess capital resulting from the capital accumulation process in the circulation of industrial capital. The main production basis for the acquisition of surplus value depends on the domestic production process. It is therefore always the country in which the head office of the multinational corporation is located. Excess capital takes the form of direct investment (that is, the international transfer of value), where it performs the function of acquiring surplus value by making its overseas branches into sub-bases of production. This is the industrial capital component of the process of internationalization.

(2) Another capital component in the process of internationalization is the internationalization of *banking capital.* This is the increase of international credit as an extension of domestic credit. It is a more concrete form of the general formula for interest bearing capital, M—M′ (presented above), which forms the base of the circulation of monetary capital. Banking capital seeks various chan-

nels, such as the acquisition of short-term interest from short-term loans and long-term interest in the form of industrial credit, or, further, the acquisition of promoter's profits from the underwriting of stock issues. In this way, the relative weight of banking capital develops from its former position as a "humble assistant." The functions of banking capital not only increase domestically through short, medium, and long-term loans but through underwriting of stock issues and company and public bonds. They also expand spatially through international movement. This is the internationalization of the basis of a bank's receipts and disbursements. To the extent that the multinational corporation expands, the multinational bank also develops,[14] through such functions as the procurement of international funds for the multinational corporation, the underwriting of stock issues of the overseas branches, and the receipt of their deposits.
(3) Lastly, we deal with the internationalization of *commercial capital* as the base of the internationalization of the circulation of commodity capital. Originally, the base of commercial capital is the acquisition of commercial profits through domestic marketing. But with the restriction of the domestic market and the intensification of mutual competition, commercial capital undertakes its internationalization by increasing its capital scale in order to acquire higher commercial profits. Most typical of this enlargement of the scale of commercial capital is the internationalization of the department store and the supermarket. Given commercial capital's function as an accessory to industrial capital, it is clear that it internationalizes its managerial and sales departments in proportion to the internationalization of industrial capital. Of course, in specific cases, specialized or general trading companies which have become relatively independent from production capital are known to have undertaken direct investments not only through internationalization by commodity export, but also by incorporating industrial capital within its own structure. In such cases, the general trading corporation, that is, the multinational trading corporation,[15] carries out the pioneering role otherwise performed by the multinational enterprise and the multinational bank through its internationalization of commercial capital.

It is in this way that the components of capital, in the form of industrial, banking, and commercial capital, undergo the process of internationalization.

2.2

When viewed as a whole, however, the internationalization of these constituents of capital express the internationalization of finance capital. Finance capital is based upon the fusion of industrial and banking capital,[16] in addition to

14) S. W. Robinson, *Multinational Banking*, p. 279.
15) The total trading corporation of Japan can be viewed as one example of this type, since, when viewed in terms of function and content, it is a multinational trading corporation with a trading and information system, a subsidiary industrial organization, and independent finance.
16) V. I. Lenin, *Der Imperialismus als jüngste Etappe des Kapitalismus*, chapter three, p. 66.

commercial capital. The prerequisites of the internationalization of finance capital are the transformation of industrial capital into monopoly through production accumulation and concentration and the transformation of banking capital into trust banking. Further, the internationalization of commercial capital is also not simply a process of creating a mass of retail capital, but rather depends on the establishment through commercial capital accumulation of trust commercial capital, that is, the formation of the multinational department store and multinational trading company.

Financial capital is formed through the establishment of domestic monopoly based on the domestic reproduction structure. At the same time, the establishment of monopoly greatly increases excess capital through the effects of the Kartell or managed price. With the increase of accumulated funds from previous capital accumulation and the increase of excess funds, a pool of excess capital steadily grows with the increase of idle monetary capital. The overseas activity of finance capital, that is, the expansion overseas through internationalization, is realized on the basis of this pool of excess capital.

Structurally, the excess capital is always in use and therefore outstanding. In terms of the business cycle, it is particularly in periods of panic or depression, when excess production is revealed most clearly, that excess capital increases. Then it is common for finance capital, instead of confronting the profitless task of raising the domestic living standard, to turn to overseas activity and thus evade the domestic contradiction between the accumulation of capital and the accumulation of poverty. The excess capital held by finance capital is invested abroad through capital export. At different periods in the monopoly stage this investment takes the form of medium and long-term overseas loans, purchase of government bonds, securities investment, or direct investment. Before World War II the emphasis was on securities investment, changing after the war to direct investment. We will attempt in the following section to clarify the origin of the changes in the form of capital exports in their historical context.

We have provided above an analysis of the multinational enterprise based on the general theory of capital. Further, we have presented its various concrete manifestations. However, we have yet to clarify the basis of the movement of the multinational corporation and direct investment.

3. *Historical Analysis of the Changing Character of the Multinational Corporation*

It is well known that the multinational corporation appeared in sharp form in America with its large surplus after World War II, particularly after the depression of 1957–58. We must first clarify the fundamental reason for the generalization of direct investments through the largescale formation of multinational corporations after 1957–58. At the same time must analyze why direct investments were not so widespread before this period. What was the form instead of direct investments in the preceeding period of preparation?

First, with respect to the first question, the period of the Second World War increased the functions performed by the state in connection with the reproduction structure not only in America but in all the main capitalist countries. The structure of state monopoly capitalism, basically established in the 1930's, developed and took firmer form during World War II. Furthermore, after the Second World War, America's excess capital increased much more than the other capitalist countries due to the position it held in the world economy (through the increase of its trade volume, foreign currency reserves, gold reserves, the rapid expansion of reproduction structure, and the growing complexity of its credit structure). America not only held a position of overwhelming superiority among the world's capitalist countries, but it also possessed an extreme amount of excess capital.

Under these conditions the following contradiction in the world economic and political structure developed. First, with the appearance of socialist countries in addition to the Soviet Union, the contradiction between capitalist and socialist systems took the form of the American-Soviet "cold war." As the chief capitalist country had to adopt a policy of maintaining the capitalist system. Secondly, after the Second World War, when the former colonies of the old imperialist countries became independent, the contradiction between neo-imperialism (centering around America) and the newly independent countries (the Third World) became conspicuous. Thirdly, within the "old" and "new" imperialist countries, the contradictions between the labor movements and imperialism have been revealed more clearly that any period before. However, the mutual contradiction among the advanced capitalist countries has not become a cause for war as it did before World War II. Rather, it continues as a more potentiality. In other words, the law of uneven development has not provided the main contradiction and therefore has remained more potential than real.

Under these circumstances, America, as champion of the capitalist system, has not only invested in Europe and Japan its massive Marshall plan, but it has also undertaken various programs of economic and military aid and assistance to the Third World. It has done so as a means of containing the Soviet Union, avoiding the realization of the first two contradictions listed above, and maintaining its advantageous position within the cold-war structure. Particularly important are the investments of excess capital which the American government makes, the governmental capital exports in the form of economic aid. By means of these governmental capital exports America strengthens its relative economic and political weight, thereby strengthening in turn the foundation and providing a breadwater for private capital exports. Until 1957–58 governmental capital exports continued since before World War II to provide the main support of capital exports, as is shown in the following table:

Table 1.

FOREIGN ECONOMIC AND MILITARY AID PROGRAMS: 1948 TO 1971

[In millions of dollars: For years ending June 30. Data revised from those in previous issues]

YEAR	Total economic and military aid[1]	ECONOMIC AID			MILITARY AID			Additional military aid grants from excess stocks[1]
		Total	Grants	Loans	Total	Grants	Loans	
1948–1971, total	**89,872**	**51,571**	**36,568**	**15,003**	**38,300**	**35,702**	**2,598**	**1,515**
Principal repayments	3, 162	2, 218	—	2, 217	945	—	945	—
Interest collected	1, 978	1, 884	—	1, 844	94	—	94	—
1949 (15 months)	6, 283	6, 283	5, 116	1, 167	—	—	—	—
1950–1054	22, 379	12, 407	11, 858	549	9, 972	9, 972	—	241
1955–1959	20, 551	8, 667	6, 879	1, 787	11, 883	11, 769	114	231
1960	3, 619	1, 900	1, 316	584	1, 718	1, 697	21	96
1961	3, 504	2, 131	1, 378	753	1, 374	1, 344	30	109
1962	5, 020	2, 618	1, 276	1, 342	2, 402	2, 289	114	100
1963	5, 240	2, 435	1, 035	2, 400	2, 805	2, 668	137	107
1964	3, 326	2, 277	874	1, 403	1, 049	974	75	36
1965	3, 260	2, 187	970	1, 217	1, 074	963	110	75
1966	3, 991	2, 677	1, 370	1, 306	1, 314	997	317	51
1967	3, 468	2, 419	1, 224	1, 195	1, 049	726	323	33
1968	3, 019	2, 176	1, 092	1, 084	843	579	263	69
1969	2, 432	1, 690	966	723	742	461	281	114
1970	2, 336	1, 877	1, 070	807	459	389	70	134
1971	3, 478	1, 861	1, 142	718	1, 618	874	743	118

– Represents zero. [1] Under the Foreign Assistance Act and the Foreign Military Sales Act. Economic Aid covers economic and technical assistance by Agency for International Development and predecesser agencies. For 1955–1971, annual figures are obligations on gross basis (total new obligations entered into during year, not adjusted deobligations of prior years' funds). 1948–1971 cumulative totals are on net basis, reflecting total deobligations. Military assistance programs chargeable to Foreign Assistance Act appropriations; totals exclude grants from stocks excess to U. S. military.

Source: U. S. Agency for International Development, *U. S. Overseas Loans and Grants, and Assistance from International Organizations,* annual; and *Operations Report,* annual; and unpublished data.

FOREING AID—DEVELOPMENT LOANS AUTHORIZED: 1958 TO 1970

[In millions of dollars: For years ending June 30. Represents actions taken to establish loans subject to acceptance of terms and conditions by borrowers; funds are set aside at the time of authorization. Negative figures (—) represent cancellations or reductions in authorizations made in a prior year]

REGION AND COUNTRY	1958–1964	1965–1969	1970	REGION AND COUNTRY	1958–1964	1965–1969	1970
Total	**5,579**	**4,690**	**682**	**Vietnam**	**38**	**−1**	—
Near East and South Asia	**3,413**	**2,226**	**280**	**East Asia**	**364**	**302**	**67**
Afghanistan	12	21	(−z)	China, Republic of	166	−14	(z)
Ceylon	3	13	(−z)	Indonesia	11	70	51
Greece	92	−28	(−z)	Korea	104	235	17
India	1,715	1,135	132	Malaysia	20	—	—
Iran	139	2	(−z)	Philippines	30	9	—
Israel	166	29	(−z)	Thailand	34	3	(−z)
Jordan	2	11	—				
Pakistan	813	581	111	**Africa**	**400**	**271**	**54**
Syrian Arab Republic	18	−15	—	Cameroon	9	4	(−z)
Turkey	376	500	37	Congo (Brazzaville)	3	−3	—
United Arab Republic	66	−17	—	Congo (Kinshasa)	—	3	8
Other	9	−2	(z)	Ethiopia	34	28	11
Latin America	**1,226**	**1,890**	**281**	Ghana	82	27	15
Argentina	135	−37	(−z)	Ivory Coast	7	(−z)	—
Bolivia	75	34	−2	Kenya	2	1	4
Brazil	228	800	49	Liberia	39	17	(−z)
Chile	170	272	14	Malagasy Republic	—	5	—
Colombia	183	338	70	Malawi	—	7	—
Costa Rica	27	26	15	Morocco	25	27	7
Dominican Republic	2	70	1	Nigeria	47	22	−4
Ecuador	45	12	19	Somali Republic	6	14	(−z)
El Salvador	27	16	8	Sudan	17	−3	—
Guatemala	16	22	25	Tanzania	13	(z)	1
Honduras	16	30	3	Tunisia	98	67	8
Mexico	42	25	—	Uganda	5	9	(−z)
Nicaragua	14	57	—	East Africa Regional	2	2	−2
Panama	21	63	4	Africa Regional	—	38	7
Paraguay	17	20	5	Other	11	6	−1
Peru	65	31	−3				
Uruguay	20	16	15	**Europe**	137	(−z)	—
Venezuela	55	—	—	Netherlands	3	—	—
Central American Bank	28	85	40	Spain	17	(−z)	—
Other	40	68	15	Yugoslavia	117	(−z)	—

- Represents zero. z Less than $500, 000 or net minus (—) of less than $500, 000.

Source: U. S. Agency for International Development, *Operations Report*, semiannual.

* Statistical Abstract of the United States 1972, p. 773.

In this period America was undertaking governmental capital exports and military assistance on a world scale, but direct investments were restricted to the North and South American continents. As Table Two indicates, the multinational enterprise had not yet exceeded the boundaries of the American continents.

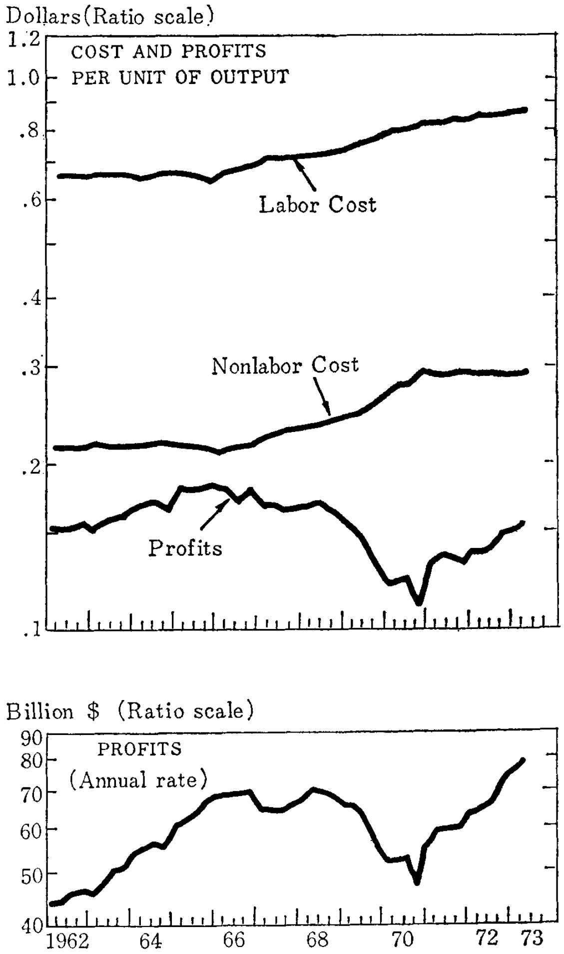
Table 2. Growth of U. S. Direct Investments Abroad, by Area and Industry 1929-1970[a]

	Amount in Billion Dollars			Percent of Total		
	1929	1950	1970[b]	1929	1950	1970[b]
All Areas, Total	**7. 5**	**11. 8**	**78. 1**	**100. 0**	**100. 0**	**100. 0**
Canada	2. 0	3. 6	22. 8	26. 7	30. 5	29. 2
Latin America	3. 5	4. 6	14. 7	46. 7	39. 0	18. 8
Europe	1. 4	1. 7	24. 5*	18. 7	14. 4	31. 4
Middle East & Africa	0. 1	1. 0	5. 1	1. 3	8. 5	6. 5
Other areas	0. 5	0. 9	11. 0	6. 6	7. 6	14. 1
Developed Countries, Total	n. a.	n. a.	53. 1	n. a.	n. a.	68. 0
Less Dev. Countries, Total	n. a.	n. a.	21. 4	n. a.	n. a.	27. 4
International, Unallocated	n. a.	n. a.	3. 6	n. a.	n. a.	6. 4
All Industries, Total	**7. 5**	**11. 8**	**78. 1**	**100. 0**	**100. 0**	**100. 0**
Mining and Smelting	1. 2	1. 1	6. 1	16. 0	9. 3	7. 8
Petroleum	1. 1	3. 4	21. 8	14. 7	28. 8	27. 9
Manufacturing	1. 8	3. 8	32. 2	24. 0	32. 2	41. 2
Other	3. 4	3. 5	17. 9	45. 3	29. 7	23. 0

Notes: Detail may not add to totals because of rounding.
[a] Book value at yearend.
[b] Provisional.
* Excludes Eastern Europe.
n. a. Not Available.
Source: *Survey of Current Business, passim.*

The existence of excess capital was clearly revealed in the panic of 1957-58. It was this crisis, the biggest since the end of the war, which demonstrated the ineffectiveness of the so-called "built-in economic stabilizers." The appearance of excess capital provided the opportunity for the transition from emphasis on governmental capital exports to emphasis on private capital exports. However, the fundamental reason for the formation of multinational corporations through direct investments lies in the decline of the domestic rate of profit. This resulted from the expansion of the American reproduction structure and from the increasing organic composition of capital due to new investments in technological improvements. This tendency for the domestic rate of profit to decline is shown in the following table:

Table 3.



Seasonally Adjusted

※Survey of Current Business October 1973.P.6

What is remarkable is not only the difference of rates of profit between sectors, but also particularly the disparity of particular rates within sectors. This excess capital was not only invested in the American continents, but it also increasingly took the form of capital export to the advanced capitalist countries of Europe and Japan. Noteworthy is the fact that the rate of growth of direct investments increased in conjunction with the pioneering function of governmental capital exports.

Given the five-fold difference between the absolute amounts of governmental capital exports and direct investments, it is clear that the main emphasis was on direct investments. As a result, the profits of the multinational corporations (international trusts) through direct investments increased rapidly, particularly in the period from 1966 to 1969.

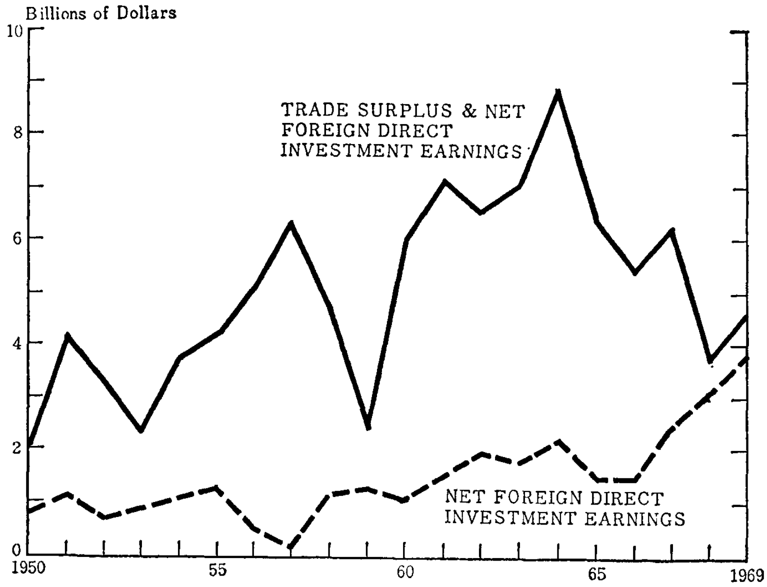
However, beginning with 1970, there has appeared the tendency for the rate of return on overseas investments to decline. The profit rate on investments

Table 4. International Investment Position of the United States at Yearend 1950–1970 (millions of dollars)

Type of Investment	Total				
	1950	1955	1960	1965	1970[a]
Net International Investment Position of the U.S.	36, 727	37, 237	44, 730	61, 577	69, 067
U.S. assets and investments abroad, total	54, 359	65, 076	85, 589	120, 374	166, 574
Private investments	19, 004	29, 136	49, 310	81, 528	119, 890
Long-term	17, 488	26, 750	44, 497	71, 375	104, 693
Direct	11, 788	19, 395	31, 865	49, 474	78, 090
Other	5, 700	7, 355	12, 632	21, 901	26, 603
Short-term assets and claims	1, 516	2, 386	4, 813	10, 153	15, 197
U. S. Government nonliquid credits and claims	11, 090	13, 143	16, 920	23, 396	32, 197
Long-term credits	10, 768	12, 420	14, 028	20, 200	29, 699
Monetary reserve assets	24, 265	22, 797	19, 359	15, 450	14, 487
Gold	22, 820	21, 753	17, 804	13, 806	11, 072
Foreign assets and investment in the U.S. total	17, 632	27, 839	40, 859	58, 797	97, 507
Long-term	7, 997	13, 408	18, 418	26, 315	44, 758
Direct	3, 391	5, 076	6, 910	8, 797	13, 209
Other	4, 606	8, 332	11, 508	17, 518	31, 549
Non-liquid short-term assets and U. S. Government obligations	825	900	1, 414	3, 247	8, 777
Liquid assets	8, 810	13, 531	21, 029	29, 573	47, 041

Note: Table is adapted from more detailed tables published in the *Survey of Current Business*, October 1970 and October 1971. Of the data shown, only the major, underlined items add to totals. [a] Provisional.

Table 5. Trend in U. S. Net Foreign Direct Investment Earnings and Combined Trade Surplus and Net Investment Earnings, 1950–1969



SOURCE: U.S.Department of Commerce
※United States International Economic Policy In An Inter Dependent World 1971. S.381

in Europe declined in 1970 to 10.7%, compared with 14% in 1960. This marks a turning point in the direct investments of America to the other industrialized regions. International accumulation and concentration of production and capital in the advanced capitalist countries thus reached one peak in this period, while it continued to increase within the developing countries, ranging from the Middle East and Southeast Asia to the countries of Eastern Europe.

At the same time, capital exports from Europe and Japan to America rose rapidly after 1965. After 1968 these continued to increase quantitatively, but it should be noticed that the proportion of other long-term investments was higher than the total volume of direct investments.

This process of change in America's direct investments after the period 1957–58 indicates the following points. The fundamental origin of the multinational corporation is found in the international circulation of production and investment, which is rooted in the international accumulation and concentration of production and capital. Its motive power is found in the attempt by American capitalism to cover the decline in its own profit rate by strengthening investments abroad. It was undertaken as a reaction to the long-term tendency of the domestic rate of profit to decline due to the increasing organic composition of capital. The effects of this tendency were clearly revealed in the panic of 1957–68. Beginning in 1970, however, the overseas rate of profit also began to level off. Inspite of the fact that the absolute profits of the overseas branches continued to increase, the rate of profit began to exhibit a tendency to decline after 1970. This was due to the increasing organic composition of the overseas branches arising from the international accumulation and concentration of production and capital.

In order to offset the tendency for the profit rate to decline among the advanced capitalist countries, the method of direct investments to the Middle East and Southeast Asia is now being adopted. Until recently direct investments to these areas have been relatively low, but now capital is seeking to maintain its profit rates by utilizing their low wages and surplus population through local production and the acquisition of raw materials. It is precisely by this process, particularly the acquisition of raw materials, that the direct investments of the multinational corporations have deepened the contradiction with the Third World. The present "oil problem" of the Middle East is a concrete manifestation of this contradiction.

As is clear from the foregoing description, the mechanism of direct investments, as the concentrated expression of the international circulation of production and capital, started with Canada and Latin America. It then turned to the advanced capitalist countries and subsequently to the Middle East, Southeast Asia, and Eastern Europe. This series of changes provides us with a "theory of the international circulation of capital and the internationalization of the accumulation and concentration of production and capital," and as such is

Table 6. International Investment Position, 1950–1970

[In billions of dollars. Estimates for end of year; subject to considerable error due to nature of basic data. Direct investments at book value; other types at market or stated values. See also *Historical Statistics, Colonial Times to 1957*, series U 193–206]

Item	1950	1955	1960	1965	1968	1969	1970 (prel.)
U. S. assets abroad	**54. 4**	**65. 1**	**85. 6**	**120. 4**	**146. 8**	**158. 8**	**166. 6**
Nonliquid	30. 1	42. 3	66. 2	103. 2	128. 4	138. 5	149. 7
Private	19. 0	29. 1	49. 3	79. 8	99. 9	107. 7	117. 5
Long-term	17. 5	26. 8	44. 5	71. 4	89. 5	96. 3	104. 7
Direct investments [1]	11. 8	19. 4	31. 9	49. 5	65. 0	71. 0	78. 1
Portfolio	5. 7	7. 4	12. 6	21. 9	24. 5	25. 3	26. 6
Short-term	[2] 1. 5	[2] 2. 4	[2] 4. 8	8. 4	10. 4	11. 4	12. 8
U. S. Government	11. 1	13. 1	16. 9	23. 4	28. 5	30. 7	32. 2
Long-term credits	10. 8	12. 4	14. 0	20. 2	25. 9	28. 2	29. 7
Foreign currencies and other claims	. 3	. 7	2. 9	3. 2	2. 6	2. 5	2. 5
Liquid assets	24. 3	22. 8	19. 4	17. 2	18. 3	19. 6	16. 9
Private	(2)	(2)	(2)	1. 8	2. 6	2. 6	2. 4
U. S. monetary reserve assets	24. 3	22. 8	19. 4	15. 5	15. 7	17. 0	14. 5
U. S. liabilities to foreigners	**17. 6**	**27. 8**	**40. 9**	**58. 8**	**81. 2**	**90. 8**	**97. 5**
Nonliquid liabilities to other than foreign official agencies	8. 8	14. 3	19. 8	29. 2	42. 7	44. 9	50. 5
U. S. Government [3]	. 1	. 2	. 8	1. 9	2. 1	2. 4	2. 0
Private	8. 7	14. 1	19. 0	27. 3	40. 5	42. 5	48. 5
Long-term	8. 0	13. 4	18. 4	26. 3	38. 0	39. 6	44. 8
Direct	3. 4	5. 1	6. 9	8. 8	10. 8	11. 8	13. 2
Portfolio	4. 6	8. 3	11. 5	17. 5	27. 2	27. 8	31. 5
Short-term	. 7	. 7	. 6	1. 0	2. 5	2. 9	3. 7
Liquid liabilities	8. 8	13. 5	21. 0	29. 6	38. 6	45. 9	47. 0
To private foreigners [4]	(NA)	(NA)	9. 1	12. 9	20. 1	28. 9	22. 6
To foreign official agencies	(NA)	(NA)	11. 9	16. 7	18. 5	17. 1	24. 4
Nonliquid	(NA)	(NA)	(z)	. 5	5. 0	4. 0	3. 8
Reported by U. S. Government [3]	(NA)	(NA)	(z)	. 3	2. 6	2. 5	3. 1
Reported by U. S. banks	—	—	—	. 1	2. 3	1. 5	. 7
Liquid	(NA)	(NA)	11. 9	16. 2	13. 5	13. 0	20. 6
Net international investment position of U. S.	**36. 7**	**37. 2**	**44. 7**	**61. 6**	**65. 5**	**67. 2**	**69. 1**

—: Represents zero. NA: Not available. z: Less than $50 million.

1) Beginning 1960, excludes Cuba; 1969 total for U. S. direct investment in Cuba was $956 million (book value).

2) Private liquid claims included with short-term nonliquid claims.

3) U. S. Government liabilities are broken down into those to foreign official reserve agencies and those to others including foreign official agencies other than reserve agencies. In years for which this break is not available, all U. S. Government nonliquid liabilities are entered as being to other than foreign official reserve agencies.

4) Includes liabilities to international and regional organizations.

Source: U. S. Bureau of Economic Analysis, *Survey of Current Business*, October 1969 and 1971.

comletely different from the changes described by Vernon's product cycle.

3.1

Given the fact that America not only exports capital but is also receiving capital from Europe and Japan, it is necessary to clarify the reasons for the uneven development and interpenetration of these three areas. It is clear that when the mutual antagonisms of the imperialist countries lead to the formation of tariff barriers, direct investments have the effect of tearing these walls down. An important reason why this capital export takes place in the form of direct investments seems to lie in the difference in the rates of profit among the capitalist countries.

(A) One explanation of the reason for direct investments is provided by Giichi Miyazaki.[17] According to Miyazaki, direct investments are related to the distribution of the international surplus of American corporations, which is reflected by the formation of the multinational enterprise, the conglomerate, and the Euro-dollar. He argues that direct investments take place among the advanced sectors with the expectation that the individual rate of profit is always higher than the rate of profit on investments within both the home and the overseas country. This explanation may be adequate in explaining the direct investments from America to Europe and Japan, but it is insufficient as a reason for the opposite case, investments to America from Europe and Japan.

(B) Similarly, Vernon emphasizes that direct investments accompanying the export of new products result in the decline of domestic investment in equipment, the increase of reverse imports, and the decline of the international competitive power of American products. However, when one looks at the marketing route of the American manufacturing branches in the EEC one discovers that their exports accounted for only 2.2% of the exports to America in 1970. On the other hand, when we consider the total exports of these overseas branches and compare their receipts and paid-up capital, it is clear that the increase of direct investments from America has greatly contributed to the increase of the commodity exports to the EEC. Thus, the "product cycle theory" does approach the problem, but it deals with only aspect. The "technology monopoly" which is expressed here is the result of a development system connected with state power. The result has been the promotion of the partitioning of the world by international trusts, that is, joint ventures mediated by technology agreements.

(C) On the other hand, Kindelberger, Hymer, and Rowthorn discuss the basis of mutual capital interpenetration among the advanced capitalist countries. Kindelberger and Hymer have determined that direct investment is always accompanied by (1) control, (2) technology, and (3) management. They apply the theory of capital transfer as securities investment, by which capital moves

17) Giichi Miyazaki, Modern Imperialism and Capital Export, *Annual Report* 10 of Economic Theory Association, pp. 14–77.

from markets with low interest to markets with high interest rates. However, as a result of such phenomena as local goods outlay, local reinvestment of profits, and local funds procurement, capital export as a form of securities investemnt is insufficient in explaining the mechanism of direct investment. Consequently, Kindelberger has indicated that (1) the incompleteness of the market, (2) the uneven ability of enterprises, and (3) the dispersion of investments are factors to be considered in the movement of direct investments. At the same time he has heavily emphasized that monopoly advantages have played an important role in bringing about direct investments.

From another side, Rowthorn has developed an analysis which combines business scale and the multinational corporation, emphasizing their credit and financial strength. Similarly, Sweezy and Miyazaki view capital interpenetration as a form of oligopolistic competition. They emphasize that direct investments are related to the struggle of the oligopolies in partitioning markets. However, this seems to explain only one aspect of direct investments. Actually, in the so-called "old" heavy industries, direct investment takes place when the individual profit rate of a company sinks below the average profit rate on investments in the same sector and when the possibility of acquiring a higher rate of profit in the same sector exists overseas. Another case is found in the struggles for partitioning the market when international oligopolies expand their activities to other advanced countries in order to acquire long-run high individual profit rates. This clarifies the possible advances by some monopolies in the process of market partitioning and explains the competition among individual trusts in relation to the rate of profit in the same sector in different countries.

However, in Europe and Japan, with the exception of the old heavy industries the power of direct investments and therefore the degree of interpenetration by the individual trusts in each industry is relatively weak compared with that of the United States. In contrast, a great deal of excess capital has come to be held by the various commercial and banking trusts, which have created financial capital in combination with industrial trusts. And their total direct investments have grown more rapidly than overseas securities investment. Furthermore, in proportion to the decline of the domestic profit rate in Japan and the EEC and its approximation to that of the United States, this financial capital has been increasingly invested in America.

It should thus be clear that we must avoid simply restricting ourselves to the problem of oligopolistic competition when we analyze direct investments. Direct investment is closely conneced with the competition of the financial interest groups and the struggles for partitioning the markets, but this movement should be viewed in its basic connection with the long-term tendency for the domestic profit rate to decline.