INFORMATION PACK NO. 1
READINGS (N THE
DEVELOPIVENT
’OF CAPITALISM
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. MAN’S WORLDLY GOODS
said Adam is guilty of all the articles. By the discretion of the justices the same Adam is drawn and hanged, etc. And it was found that the same Adam has in the town aforesaid chattels to the value of 325., which Ralph attc Wyk, escllcamr of the lord the King, seized forthwith and made further execution for the loud the King, etc." .
Ailam Clymmc was hanged. Thousands of other peasants Were hanged also. The Peasant Revolts were put down. But try as they might, the feudal overlurds could not reverse the process of agrarian development. The old feudal organization was broken up by the pressure of economic forces that could not be withstood. By the middle of the fifteenth century over the greater part of western Europe money rents had been substituted for labour dues, and, in addition, many peasants had won complete emancipation. (in the more rtmute areas, away from the highways of trade and the liberating iulluence of the cities, SCIfthIn remained.) The ’agricul-tuxal labourer was now more than just a workhorse. He could begin to hold his head up with an air of dignity.
Transactions which had been uncommon to feudal society he-came the order ol the tl:l)’. Where formerly land was granted or acquixed only on the understanding of mutual service, now there arose a new conception of landed property. Large numbers of peasants Wcre free to move about, and to sell or bequeath tltcir lmul, although they had to make a certain payment for doing so.
The Stcvcnagc ()ourt Rolls for 1385 rcmrd that a villain who "held a meSsuagc and half a vitgate of land for the length of his life, and paying for all other services due, 10 Solilll, came into the COJI’t and disposed of and conceded the aforementioned land lto HCIZLllCYI for the length of his life and he gives the lord a fee of 6 tlcnuxii for registering this on the court rolls."
The fuel that lzmd was thus bought, sold, and exchanged freely like any rolnmmlity spelled the end of the old feudal world. Forces making for change had swept over western Europe and given it a new face.
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"And No Stranger Shall Work . . ."
INDUSTRY, too, was changed. Whatever industry existed formetly :l/ had been carried on in the peasant’s own house. Did his family need furniture? Then there was no calling in the carpenter to make it or no purchasing it at the furniture store on Main Street. Not at all. The peasant’s own family chopped and cut and carved until it had whatever furniture it needed. Did the members of the family need clothing? Then the members of the family spun, and wove, and stitched, and sewed-their own. Industry was carried on in the home, and the purpose of production was simply to satisfy the needs of the household. Among the lord’s domestic serfs there were some who did only this sort of work while the others farmed.
In the ecclesiastical houses, also, there were some craftsmen who specialized in one craft and so betamc quite skilled at their jobs of weaving or working in wood or iron. But this, too, was not com-mercial industry supplying a market-it was simply serving the requirements of the household. T he market had to grow before craftsmen as such could exist in their separate. professions.
The rise of towns and the use of money gave craftsmen a chance to give up farming and make a living by their craft. The butcher the baker, and the candlestick-maker then went to town and set, up shop. They went into the business of hutcheting, baking and candlestick-nuhing not to satisfy tsnly the needs of their own liouse-

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hold, but to meet the demands of others. They were in business to supply a small but growing market. ’

Not much capital was required. A room of the house in which he lived would serve the craftsman as a workshop. All he needed was skill in his craft and customers to buy what he made. If he was a good workman and became well known among the townsmen so his wares were in demand, then he could increase his output by taking on a helper or two.

There were two kinds of helpers, apprentices and ionrneymen. Apprentices were youngsters who lived and worked with the master craftsman, and learned the trade. The length of apprenticeship varied according to the trade. It might be as little as one year or as many as twelve. The usual length of time spent as apprentice was from two to seven years. Becoming an apprentice was a serious atiair. It meant an agreement on the part of the child and his parents with the master craftsman, that in return for a small fee (in food or money) and the promise to be hardworking and obedicm, the apprentice was to be taught the secrets of the trade and be lodged and boarded with the master for the term of the agreement. After he hatl served his term as learner the apprentice, if he passed his examination and had the means, might set up shop as a master himself. If he lacked sulhcient funds to start his own business, then he became a journeyman and continued to work for the same master for wages, or else tried to get employment with another master. By hard work and careful saving of his wages, he was often able after a few years to open his own shop. in those days not much capital was required to set up a business and start _ production. The typical industrial unit of the Middle Ages was this small workshop in which the master was a srnall-scalc employer working side by side with his helpers. And not only (lid this master craftsman produce the wares he had to sell, but usually he sold them himself as well. In one wall of the workshop there might be a window, looking out on the town stteet, in which the goods were displayed for sale and actually sold over the counter.

lt is important to understand this new stage in industrial organ-

ization. Where formerly goods were made not to be sold commercially, but merely to supply the needs of the household, now goods were made to be sold in an outside market. They were made by professional craftsmen who owned both the raw material and the tools with which they worked, and sold ihe finished product. (Today workers in industry own" neither the raw material nor the tools. They sell not the finished product, but their labour’power.)

These craftsmen followed the example set by the merchants before them, and formed gilds of their own. All the workers engaged in the same craft in a particular town formed an association called a craft gild. Nowadays when a politician or industrialist makes a speech about the "partnership of Capital and Labour" the old expe- ’ rrenced worker in his audience is apt to shrug his shoulders and say, "T’aint so." He won’t believe it. He has learned that there is a wide gap between the man who pays and the man who is paid. He knows that their interests are not the same and that all the talk in the world about their. bcing partners won’t change the siwa ation any. It is for this reason that he is suspicious of company unions. He doesn’t want, if he can help it, to be a member of a labour organization, in which his employer has too big a finger in the pie.

But the craft gilds of the Middle Ages were different. Everyone doing the same worlt-apprenticcs, journeymcn, and master craftsmen-helonged to the same gild. Both masters and helpers could belong to the same organization and fight for the same things. This was possible because the distance between worker and boss was not too great. The journeyman lived with the master, ate the same food, was educated in the same way, believed the same Ihings, and had the same ideas. It was the rule, not the exception, for apprentice or journeyman to become a master on his own. So long as this was true, the employer and the employee coulcl be members of the

same gild. Later, when abuses crept in aml it was no longer true,
then we lind the journeyman forming giltis exclusively their own.
But in the early stages of gilt! organizations, the harness-rnslxrs’
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all sword-polishcrs, etc. Every apprentice had the same rights as every other apprentice, every journeyman the same as every other journeyman, and every master craftsman the same as every other master craftsman. There were ranks in the craft gilds, but within these ranks there was equality. And the steps up the ladder from lowly apprentice to master craftsman were not out of reach for many of the workers. ’

Did you ever hear of a lawyer? It’s an out-ofdate word now, probably because it pertains to an outoLdate profession. It means a person who’ dresses white leather. In the fourteenth century in London, this was a big business and a gild of tawyers had been organized. From that gild’s ordinances, dated 1346, we can learn a few things about craft gilds: . ,

"Ill . . . if by chance any one of the said trade shall fall into poverty whether thru old age, or because he cannot labour or work . . . he shall have every week . . . 7d. for his support if he be a man of good repute.

"bl And that no stranger shall work in the said trade . . . if he be not an apprentice, or a man admitted to the franchise of the said city.

"(31 And that no one shall take the serving-man of another to work with him, during his term, unless it be with the permission i of his master. And if any one of the said trade shall have work in his house that he cannot complete . . . those of the said trade shall aid him, that so the said work he not lost.

"L11 And if any servingman shall conduct himself in any other manner than properly towards his master, and act rchelliously to-wards him, no one of the said trade shall set him to work, until he shall have made amends before the Mayor and Aldermen.

"P51 Also, that the good folks of the same trade shall once in the year . . . choose two men . . . to he overscers of work and all other things touching the trade for that year, which persons shall be presented to thc: Mayor and Aldermen . . . and sworn before them diligently to enquiie and make search, and loyally to present to the said Mayor and Aldermen such defaults as they shall find touch-

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ing the said trade without sparing any one (or friendship or for hatred.

"Also, that all skins falsely and deceitfully wrought shall be forfeited.

"(61 Also that no one who has not been an apprentice and has not finished his term of apprenticeship in the said trade shall be made free of the same trade."

It is from the study of thousands of such documents that his-torians are able to reconstruct, hundreds of years later, the story of the craft gilds.

Rule number I shows that the gilds had the welfare of their members in mind. They were a kind of friendly brotherhood that took care of down-and-out members. Many gilds probably started for just that reason so that gildsmen could help one another in time of trouble. Incidentally, it is an interesting fact that unemploy-ment insurance and oId-age pensions so much in the news today were provided by craft gilds for their members almost six hundred years ago!

Rule number 3 is further proof of the fact that gilds were regu-lated so that the spirit of friendship, not of competition betWeen gildsmen, was to exist. Look particularly at this provision that other tawyers were to aid a fellow tawycr who was behind in an order, so he should not lose the business. Evidently, the trade interests of

the members of the gild was one of their major considerations. Cildsmen were obviously banded together to keep the direct control of their industry in their own hands. Read rule number 2 again. It is important because it shows that the craft gilds, like the merchant gilds before them, wanted and obtained a monopoly of all thetr type of work in the town. In order to practise any trade in the town, you had to be a member of the craft gild. Nobody outszde the gild was allowed to exercise that trade without permission from the gilJ. liven the beggars in Basle and Frankfort had their gihls which didn’t allow beggars from the outside to Leg in the towns ex:rpt on two days a ycari The gihls tolerated no inurfereruc v.i7h their monowly. h was to their a-haetag: to La": it.

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forty-three wcelrs in order to earn that which an artisan obtained in 1493 with ten weeks’ labour." For the workingman this meant either tightening his belt or fighting for higher wages to meet the higher costs, or becoming a beggar. All three happened--as a result of the price revolution.

Another group that suffered were those who had a fixed money income, the rcntier class, who lived on annuities, pensions, or the income from securities bearing a fixed rate of interest. Here, for example, is the case of a Miss Reyncrses, who at the end of the fourteenth century invested her money in obtaining an annuity for life:

"We the Council, mayor, and gild masters of the city of Halber-stadt hereby make known that we have sold to the pious virgin Alheyde Reynerses a yearly rent of half a lodighe marks . . . for the sum of five lodighe marks which has been truly paid to us."

Perhaps Miss Reynerses had counted on this annual return to keep her in comfort in her old age. Well and good. But if she had lived in this period of rising prices she would have had the un-fortunate experience of going hungry, because, while her income remained the same, (one-half a lodighe mark in this case) the things she could buy with that income had become much dearer, so she could buy less of them. Her nominal income was what it always had been, but her real income would have declined. This always happens to people with a fixed income in a period of rising prices.

I otnnlarly, the people with fixed incomes from the land were hard ’ hit. You remember how the payment of rents in money for the use of land had taken the place of customary services. That worked well for the landed gentry until the price revolution came. Then they found themselves receiving the old low rents while they had to pay the new high prices. Th:y were in a hole. What could they do about it? What could those lords and rich men who had either been given or had bought the church lands that rhe kings had confiscated do about the fact that prices were risirg while rents remained the same? They felt they had to get more money out of their land. But how?

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There were two ways-cnclosure and rack-renting. ENg’ MN?) Ar TEk ’Sgk
Enclosure went on to some extent throughout Europe, but par- ?EQ’UE jbmoErI (FF
ticularly in England. You remember the open-Eeld system of agri- "7m? #4503
culture which was described in the first chapter. It was a bad system i
because it was wasteful. It was bad, too, because the progressive, ’
wide-awakc, enterprising farmer could not go his own pace or try out new experiments, but had to lit into the tempo of the others who held strips next to his. A few stupid unintelligent farmers could keep a whole village from progressing. There had grown up, therefore, in some places, a practice of strip-swapping, which en-abled the various farmers to change their holdings from thirty acres of strips scattered in and out of other people’s land, to four or five compact holdings of six or seven acres each. A lucky or bright stripe swapper might succeed in "untangling" all of his strips and getting them into one compact piece. The next step was to put a fence around your holding or holdings. What was once open field now became enclosed-that is, fenced in. If you have ever travelled in New England you will-rcmcmber the stone walls which enclose each farmer’s field; in old England, where they had stone easily available, they also built their enclosures of stone; and where there was no stone they enclosed their fields with hedges. Enclosure of this type, where farming on the land continued, hurt no one and led to an improvement in production. No one objected to this, and the poor farmer as well as the rich did it and benefited from it.

But there was enclosure of another sort that worked great hard-ship on thousands of people. This was enclosure for shecp-raising. ? Because the price of wool had been going up (wool was England’s "

chief export), many lords saw a chance to get a bigger money re-
turn front their land by converting it fnm farm land to sheep
pasture. This had happened before the price revolution, but now
higher prices acted as a spur to the movement, and more lords
enclosed their land for the purpose of raising sheep. While this did i
mean more money for the lord, it also meant the loss of a job and ’-
of a living for those farmers who had been on the enclosed land.
Fewer people are needed to tend sheep than to run a fann--thc
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extra number were now down and cut. Often the lord found that in onlcr to get a good-sizccd holding together into t compau piece, he had to turn off those tenants whose holdings stood in the way. He did so-and more poor people lost their means of earning a living. From the bitter outcry of the pamphleteers of the period we learn what great hardship enclosure for pasture brought to the poor farmer.

Sometimes the lord merely enclosed the common. This meant, of course, that the poor tenant’s cattle had no place to pasture, which in turn meant ruin. Had the tenants no rights in the matter? Couldn’t they go to law ahut it? Yes, they could. But going to law has always been easier for the rich man who can pay the costs, so even in those cases where the tenants might have won they, seldom had the means to continue the fight. The lord who had the money could afford to keep the case going until the tenants had to give up-and then he coulcl buy their land and add it to his piece to be enclosed. That is the story contained in the following petition to the House of Commons from farmers from Wootton Bassett "for Restoration of Rights of Common":

uThat whereas the Mayor and Free Tenants of the said Borough . . . had and did hold unto them free common of pasture for the feeding of all sorts of other beasts . . . one Sir Francis Englefield . . . did enclose the said park . . . and this did continue so long, he being too powerful for them, that the said free tenants were not able to wage law any longer; for one John Rous, one of the free tenants, was thereby enforced to sell all his land (to the value of 1:500) with following the suits in law, and many others were thereby impoverished. . . . We are put out of all the common that ever we had and have not so much as one foot of common left unto us. . . . We are hereby grown so in poverty, unless it please God to move th: hearts of the Honourable House to commiserate our cause, and to enact something for us, that we may enjoy our right again. . . .

(Here follow twentythree signaturesl

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. . . POOR MAN, REGGAR MAN, THIEF" too

"Divers hands more we might have had, but that many of them doth rent bargains of the lord of the manor, and they are fearful that they shall be put forth of their bargains, and then they shall not tell how to live . . . otherwise they would have set to their hands."

Not all enclosure was for sheep pasture. Because a large farm was easier and cheaper to run than a lot of little farms, tnanorial lords often enclosed for better crop-raising. Those unfortunate tcn-ants who held strips of land that the lord wanted were soon among the growing ranks of landless and homeless people.

Though most of us know more about enclosure than we do about the rack-renting of this period, it was the latter that was more important. Rents of land and the fines paid when a new tenant took over a holding had been practically stationary. They had been fixed by eustom-and in the past custom had had the force of law. But now that the revolution in prices necessitated a greater return from his land, the lord disregarded custom which had been the peasant’s protection in the past. When a tenant’s lease expired, instead of renewing at the same terms as the old lease, according to custom, the lord jacked up the rent so high that the tenant often found it impossible to pay and had to give up his land. That’s what happened to leaseholdet’s. But though holding land on a lease was to become important later, at this time most of the peasants were

copyholders. This meant that they held their land according to the custom of the manor "by will of the lord in the copy of the roll." Unfortunately for many copyltolders, the custom of the tnanor was talten by the lord to mean what he wanted at that particular moment, and what he wanted above all else was either more money from the land, or the land itself to be rented to some one else who would pay more money. Every possible trick was used to force the tenant out. When a copyhold changed hands-say at the death of the head of the family-then the son who expected to take over the holding on payment of the usual small fine according to cus-tom, found that the fine was no longer small. The lord jumped the fine upward to so high a figure that the peasant could not pay and

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had to give up his old rights. Then the lord either sold the land or leased it to some one able and willing to pay the new scale of rents. A petition of :553 from the inhabitants of Whitby shows how rents and fines increased:

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The old rent The new rent And the in:

"From Henry Russell ..... 42. s. 1134 d. 4 S. 7 s. 3 d. 3 $. 5 s. I t1.
From Thomas Robynson. . n s. n54 d. 40 l. 7 d. ,y s. q d.
From Thomas Coward. . . . l4 s. 9 d. 31 I. s, l. 6 d.
From William Wslker. .. 7 s. 3 d. :7 s. 5 I.
From Robert Barker. . . . 14 s. 6 d. 30 s. 1 s. I d."

In a sermon preached before the eourtiers of Edward VI, Bishop Latimer had the courage to call a spade a spade: hYou landlords, you rent-raisers . . . you um itural lords, you have for your possessions yearly too much. For that here before went for twenty or forty pound by year (which is an honest portion to be had gratis in one Lordship, of another man’s sweat and labour) now is it let for fifty or a hundred pound by year."

Latimer was not alone in denouncing grasping landlords. Other speakers and writers of the period also came out strong against enclosure, rack-rcnting, higher fines, and landlords who by their evictions were adding to the huge army of tramps and beggars. ln Tlte Prayer for Landlords offered up at this same time, we find the following: "We heartily pray that they (who possess the grounds, pastures, and dwelling-places of the earth) may not rack and stretch out the rents of their houses and lands, nor yet take unreasonable Hnes and incomes . . . give them grace also that they may be content with that that is sulhcient, and not join house to house nor couple land to land to the impoverishment of others." . . .

But in spite of prayers, the lords continued their practice of enclosure and racklrenting. Whole villages were left Jlerelict, with the evicted inhabitants starving, stealing, or begging on the road. More than prayers were tried. Laws were passed. The (Irown was really worried. It wanted to stop the depopulation of villages. It was frightened because the army was recruited largely from the peasant and smallvholding class. Then, too, these peasants whose means of livelihood was being snatched from them had paid their taxes and

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... POOR MAN. BEGGAR MAN, THIEF" m

had been a good source of revenue for the Crown. Also, these wandering groups of beggars constituted a real dangerethcre had been butnings. pulling down of enclosures, risings. So laws were passed against enclosure. The first in 1489, and others right on through the sixteenth century. But their very frequency shows that they were to a large extent disregarded, otherwise there would have been no need tor re-enactment. Though some of the worst abuses were modified, it was a cinch that where the local landlords were also the local justices, the laws would not be strictly enforced. It is interestin to remember that when the peasants rose against the enclosures they were not the lawbreakerSw-the landlords were breaking the law. Which did not mean, however, that these peasant uprisings were not dealt with severely. They were. They always are.

Notice an important change in this teriod. The old idea that land was important according to the amount of labour on it had disappeared; the development of commerce and industry, and the - revolution in prices, had made money more important than men, and land was now regarded as a source of income. People had learned to treat it as they did property in general-it became the plaything of speculators who bought and sold it on the chance of making money.

The enclosure movement caused a great deal of suffering, but it did extend the possibilities of improving agriculture. And when . capitalist indusz had need of workers, it found part of its labour supply in those dispossessed landless unfortunates who now had only their labour power with which to earn a living.

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t m ANOFACTOtllE5)
Tm: expansion of the market. Roll that phrase over and over on your tongue. Stamp it indelibly on your mind. I: is an important key to an understanding of the forces which brought about capi. talist industry as we know it.
It’s one thing to produce goods for a small and stable market, for a market in which the producer turns out an article for a customer who comes into his place of business and gives him an order. It’s quite another thing to produce goods for a market which has grown from the limits of a town to the broad expanse of a nation, and beyond. The gild sct-up was designed to fit a local small market; when the market became national and international, the gild set-up no longer Fitted. The local craftsman could understand and handle the uni: of a town, but world trade was. quite a diHerent matters The widening market threw up a midd’lcman who made ’ it his job to see to it that the goods made by the workers reached the consumer, who might be hundreds or thousands of miles away.
The gild master craftsman had been more than just a maker of goon. He had four other functions. He was five people in one. In so far as he had to seek out and bargain for the raw material he used, he was a merchant; because he had journeymen and apprentices working under him he was an employer; because he supervised their work he was :1 foreman; since he sold his finished product over the counter to the consumer, he was a shopkeeper.
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Enter the middleman. Now the five functions of the master craftsman are reduced to threo-worker, employer, foreman. The mct-chanting and the shopkeeping are no longer his concern. The middleman brings him the raw material and collects the finished product. The middleman now stands between him and the customer. It has become the master craftsman’s job simply to tum out finished (pods as fast as raw material is brought to him.
This method whereby a middleman employs a number of artisans to work on his material in their own homes is called the "domestic" or "putting-out" system. Notice that as far as the technique of production is concerned, the putting-out system did not differ from the gild system It left the master craftsman and his helpers in the home working with the same tools. But while the method of production remained the same, the mLketing of the goods was organized on a new basis, by the middleman, acting as merchant. Though the middleman did not affect the technique of production, he did reorganise it to increase the output of goods. He soon saw the advantages of specialization. William Petty, 3 famous seventeenth-century economist, put into words what the middleman was putting into action. "Cloth must be cheaper made what one curds, another spins, another weaves, another draws, another dresses, another presscs and packs, than when all the operations above mentioned were clumsily performed by the same hand." When you employ a large number of people to make a certain product, you can divide the labour among them. Each workman has one particular job to do. He does it over and over again, and as a result he becomes quite expert at it. This saves time and so speeds up production. Still other changes would have to be made to meet the needs of an expanding market. That’s what the enterprising middlemen thought. K
But the gildsmen thought otherwise. You remember how jealous the gilds were of their monopoly on the manufacture and sale of

their perticular product. So watchful were they of their "rights"
that it is even reported cf the Glasgow Corporation of Mechanics
that it tried to prohibit James Watt from carrying on his work on
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the model of a steam-cngineelxcause he was not a member of the Corporationl It is quite clear that gildsmcn long accustomed to believing that the manufacture of this or that product was their exclusive privilege were going to howl hard and long when middle-men dared to introduce changes in the old way 0!: doing things. Tradition ruled the gilds. The old methods, the old market, the old monopoly, Business As Usual-that suited most of the gildsp men. But it did not suit the enterprising wide-awake middleman, He had no time for tradition in a period of increased demand. He wanted to change the old methods, cater to the new market, and fight the old gild monopoly. The gild set-up with its innumer-able rules and regulations was old-fashioned, out of aate, and stood in the way of further development of industry. It had to be over-thrown. It was overthrown.

Not all at once, and not too openly. (Gilds were not legally abolished in France until the Revolution; in England it was not until the early nineteenth century that the gilds lost their last privileges.) The middlemen often worked within the: framework of the gild system, apparently accepting its form but actually under-mining it. Sometimes wealthy masters of a gild became employers of other masters in their own gilds; sometimes one gild in an industry gradually took over the trading function and "put out" work to other gilds in the same industry. Gone was .he old equality among masters which had been fundamental to the gild system. Wherever necessary the middleman beat the lampering gilt!
rules and regulations by moving his industry outsid: the gild prov-ince. out of the towns into the country districts, where work could be carried on by whatever methods were suitable without worrying about gild restrictions as to wages, number of apprentices, etc. Thus Ambrose Crowley, an ironmonger in Greenwich, England, moved to Durham and organized the large-scale producticn of hardware, on the putting-out system. "In what had previously been a small village Crowley planted a thriving industrial town of x500 inhabi-tants, and proceeded to organize the manufacture of nails, locks, bolts, Chisels, spades, and other steel tools. The houses were appar-
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ently owned by Crowley, and the materials and the tools were advanced to the workmen by him, after the former had deposited a ’a bond for a considerable amount.’ This deposit gave the right to hold a workshop and be a master workman, labouring with his own family and employing in turn a hired iourneyman or two and an apprentice. The place of work was the master workman’s shop, and payment was made to him by the piece for the work done. . . . Knightcd in 1706, Sir Ambrose Crowley later became MP. imcm-her of Parliamentl for Andover, and by that time he possessed a fortune of ,(Izoopoof’

Naturally gildsmen objected to this change in the organization of industry. They fought to retain their old monopolies. But the heyday of the gilds was over. They were fighting a losing battle. The ex-pansion of the market had made their system antiquated, unable to cope with the increasing demand for goods. "In a complaint dated 4 February, 1646, objections are made about the growth of ribbon manufacture in the countryside. . . . The ’puttcrs out’ thereupon replied that the position had changed completely since 1612. Trade had increased a great deal . . . the number of gildsmen was too small to provide even one ’putter out’ with enough goods for the whole year."

Middleman engaged in the selling of cloth were particularly eager to speed up production because for a long time cloth was Europe’s chief export to the East. More and more workers were needed to supply the increasing demand, so the middlemen brought their raw materials not only to those gildsmen in the towns who were willing to work on them, but also to the men, women, and chil-dren in the villages.

To those peasants who_ had suHcred (mm the enclosures, this spread of industry to the countryside gave an opportunity to add a few shillings to their diminished income. Many who would otherwise have had to leave the village were enabled to hang on because the merchant brought them work to do. Daniel Defoe, whom you remember as the author of Robimon Crusoe, wrote another famous hook, in 1724, called A Tour Through Great Britain. He describes

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some of these villagers at the task set them by the middlemen.
"Among the Manufacturers Houses are likewise scattered an infinite Number of Cottages or Small Dwellings, in which dwell the workmen which are employed, the Women and Children of whom, are always busy Carding, Sphzning etc., so that no Hands being unemploy’d all can gain their Bread even from the youngest to the ancient; hardly any thing above four Years old, but its Hands are :uEIicient to itself. This is the reason also why we saw so few People without Doors; but if we knock’d at the door 01’ any of the Master Manufacturers, we presently saw a House full of iusty Fellows, some at the Dye-fat, some dressing the Cloths, some at the Loom . . . all hard at work, and full employed upon the Manufacture, and all seeming to have sutiicient business. . . ."
And just as Crowley, the hardware manufacturer, grew weaithy by successfully managing to supply the expanding market with goods that it was calling for, so middlemen in the cloth busmess grew rich also. Defoe informs his readers further:
"’1" hey told me at Bradford, that it was no extraordinary thing to have Clothiers in that Country worth, from ten thousand, to Forty thousand Pounds a Man, and many of the grea: Families . . . have been originally raised from, and built up by this truly noble Manu- ’., facture. . . . But to go back to Newbery, the famous lack of Next.)- bcrry, who was so great a Clothier, that when King lame: met his Waggons loaden with Cloths going to London, and inquiring whose they were, was answered by them all, They were lack of Newbery :, the King returned, if the Story be true, That this lack of Newbery was richer than he."
This famous lack of Newbury was an important figure because, unlike most of the other middlemen who brought the raw material to thc craftsmen to be worked on in their own houses, he set up his own building containing over two hundred looms on which some six hundred men, women, and children laboured. This was early in the sixteenth century. It was the forerunner of the factory system of three centuries later.
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Newhury and the middlemen who brought the raw materials to the craftsmen to be combed, spun, woven, in their own homes were capitalists. T hey owned the cloth; they marketed it; they kept the profits. The master craftsmen and the journeymen under them were wage earners. They worked in their own houses; they arranged their own time. They owned their own tools (though this was not always true). But they were no longer independent; they no longer owned the raw materials-these were brought to them by the middlemen, the entrepreneurs (there were exceptions to this also-, some did their own raw materials). They were now merely piecework makers of goods, no longer trading directly with the consumer; their trading function had been taken over by capitalist entrepreneurs and they had become merely manufacturers in the real sense of the word (manu, by hand -i- factura, 3 making : a making by hand).
In the gild system, which had risen with the town economy, capital played only a small part; in the putting-out system which arose with the national economy, capital played an important part. It took lots of money to buy the raw materials for many workers; it took lots of money to organize the distribution of those raw materials and their sale as finished products later. It was the man with money, the capitalist, who became the directing head of the puttingout

system.
Increased demand meant the reorganization on a capitalist basis of those heavy industries which needed an expensive plant. A good example of this was coal mining in the sixteenth century in England. The surface seams of coal were used up and deep mining was necessary. This meant the investment of large sums of money. It meant the entrance upon the scene of the capitalist.
Similarly in the mihing of metals, large sums of money were invested li to meet the demand for iron, brass, copper, etc., needed in V industry, as well as for supplying the warring armies. So huge was the outlay of capital necessary in the meta! industries that combinations of capitalist: formed joint-stock companies to amass the sums
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required. This had been done before in trading ventures-now it .
began in manufacturing.
With the discovery of hitherto unknown lands, it was natural
that completely new industries such as sugar-refming, tobacco, etc.,
should make their appearance. The governments granted monopo-
lies to those people who dated to risk their money in these new
ventures. The new industries were organized from the start on a
capitalist basis.
From the sixteenth to the eighteenth century, the independent
craftsmen of the Middle Ages tend to disappear and in their place
comes a wagoearning class growing more and more dependent on
the capitalist-merchant-middleman-entrepreneur.
It might be helpful to go over an outline of the successive stages
of industrial organization:
I. Household or family system: The memb:rs of the household
produced goods for their own use, not for sale. Wcrk was not
carried on to supply an outside market. Early Middle Ages.
ll. Gild system: Production carried on by independent masters,
employing two or three men, for a small, stable, outside market.
The workers owned both the raw materials on which they worked
and the tools with which they worked. They sold not their labour,:
but the product of their labour. Throughout Middle Ages.
Ill. Putting-au! system: Production carried on in the home for
growing outside market, by master craftsmen with helpers, as in the
gild system. With this important difference-that masters were no
longer independent; th 2"; still owned their tools but were dependent
for their materials on an entrepreneur who hazl come between them
and the consumer; they were now simply piece-work wage-carners.
Sixteenth to eighteenth century.
IV. Farlory system: Production for increasingly wider and more
fluctuating market car:icd on outside the home, in employer’s
buildings and under strict supervision. Workers have completely
lost their independence; they own neither the raw material as they
did under the gild system, nor their tools as they did under the
putting-out system. Skill not so important as formerly because of
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increasing use of machinery. Capital more important than ever
before. Nineteenth century to present day.
A word of warning.
Stop
Look
and
Listen.
The outline above is offered as a guide, not as gospel. lt’s danger-
ous to accept it as the whole truth. It isnit. Taken with reservations
it may be helpful. Taken by itself it will lead you up many wrong
trails.
It’s a mistake, for example, to believe, as the outline suggests, that
all industry passed through the four successive stages. That was true
only of some, by no means of all. New industries arose which began
in the third stage. Other industries skipped several stages.
The time periods indicated are only rough approximations. Al,
ways when one stage was widely prevalent, signs of its decay were
already there, and the seeds of the next stage were pushing upward.
Thus in the thirteenth century when the gilds were at their height,
instances of the putting-out system had already appeared in northern
Italy. Similarly, examples of the factory system almost as we know
it today, were already in evidence in the period which the outiine
calls th: putting-out system. Remember lack of Ncwbury in the

sixteenth century.
The reverse is also true. The wide prevalence of any stage of industrial development does not mean the total disappearance of the preceding stage. The gild system persisted long after the outline indicates that the putting-out system had come in. Perhaps the best proof that one stage continues long into the next is furnished by the following quotation on uhomework"--i.e., the putting-out system.
"A survey of homework in the fabricated-metal industry. . . . The _ products include hooks and eyes, snap fasteners, safety pins, bobby pins, and metal buttons. Attaching strings or wires to tags is another operation which is performed by some of the homeworkers studied. . . .
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1 m - MANS WORLDLY GOODS 111-11.!) WANTED-TWO-YEAR-OLDS MAY APPLY :21
Distribution of homL-wcrkers
acceding to Axcrage handy Shocking, iSIft H? Thmk 0f two’ and lhrcc-ycar-old children a!
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mums; Maw offumlm work! Is that n rcport of the pumng-out system 1n the Sixteenth to
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h. . . The average family, thcn, works a total of thirtyJivc man-
hours a week, for which it rcccivcs $1.75. . . .
"Crowded, unsanitary and dilapidated houses, :0rn-out clothing,
and frequent complaints about the inadcquacy of food, both as to
amount and quality, characterized the hnmcs investigated. . . .
"Children under sixteen wcrc workhxg in 96 of the 129 families
studied. . . . Half of thcsc children were less than twelve years of
age. Thirty-four of thcm wcrc eight ycars old and under, twelve
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wen: less than five years old. . . . ,
"Distribution of employed childrzn according to age:
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Age Number 0! children employed !
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leged), and since the richer members of the Third Estate managed
by devious ways ’to get themselves exempted from direct taxation,
the whole burden fell on the poor. It was a hard burden. A true
picture of the period would have shown the peasant bentway over,
carrying on his back the king, the priest, and the noble.
A famous Frenchman, de Tocqueville, showed what this burden
of taxation meant in the daily life of the hard-’.vorking peasan::
"Picture to yourself a French peasant of the eighte :nth century . . .
so passionately enamoured of the soil, that he will spend all his
savings to purchase it. . . . To complete this purchase he must first
pay a tax. . . . He possesses it at last; his heart is buried in it with
the seed he sows. . . . But again these neighbours call him from his
furrow, and compel him to work for them without wages. He tries
to defend his young crops from their game; again they prevent him.
As he crosses the river they wait for his passage to levy a toll. He
linds them at the marizct where they sell him the right of selling
his own pxoduce; and when, on his return home, he wants to use
the remainder of his wheat for his own sustenance . . . he cannot
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into being had long since been abolished. The nobles who had re.
ceived feudal dues and services because they gave military protec-
tion, no long:r formed the king’s army-their military function had
gone. They did not help to govern as a group-only individually--
they had no administrative political function. They did not farm the
land, nor did they as a whole engage in business-they had no eco-
nomic function. They took without giving. Too often they had be.
come idiers, parasites, frittering their time away at court, far away
from their estates. Nevertheless, they still demanded and still re-
ceived payments and services from the peasants. It was a hangover
which the peasants rightly resented. And as de Tocqueville points
out in the last sentence of the above quotation, the very fact that
some of the customaryidues had been destroyed, meant that those
still remaining were all the more hated.
Exactly how much of his income did the peasant pay in taxes?
The answer will surprise you. It has been estimated that as much
as eighty per cent of his earnings were paid out to the various tax-
collectorsl Out of the twenty per cent remaining he had to feed,
i 152 MAN’S WORLDLY GOODS "THE OLD ORDER CHANGETH . . 153 t 9 3
Z You and I so order our lives that our expenses are determined by touch it till he has g
round it at the mill and baked it at the bakct i
.3 our income. Governments, in the main, try to do the same, But the house of these same
men. A portion of the income of his little prop- ; ’
i government of France in the eighteenth century worked it the other : erty is paid away
in quit-rents to them also. . . . Whatever he does, i
3 way around. It spent money foolishly, extravagantly, unsystematio ; these troublesome n
eighbours are everywhere in his path . . . and i;
f ally, and cotruptly. One example will prove that. The Livre Rouge when these are dismis
sed, others in the black garb 0f the Church ’.
’3 was a Red Book containing the list of all those grat ted government present themselves
to carry 03 the clearest profit of his harvest. . . . i
ii pensions. On its rolls was the name of Ducrest, a barber. Why was The destruction of a
part of the institutions of the Middle Ages i
T: he entitled to a pension of 1,700 livres annually? Because he had rendered a hundred t
imes more odious that portion which still : ’
; been the hairdresser to the daughter of the Comte dlArtois. The survived." _____
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’5 fact that this daughter had died at an early age belore shc had any But this reads lik
e a description of the feudal system of the elev- V i
’ 1 hair to dress, made no difference. Ducrcst received his pension. enth CCNUFY- Had the
re been no changes, then, in the seven cm.
i That was one example of the mad way in which French finances tuties that fo’lnwcd? Yes,
there had. Of the 22,000,000 peasants in Fili’NNCE I 7 3?
,3 were administered. There were thousands of others. Instead of in- France in I!" 17003.

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: com: regulating outgo, outgo determined income, A 1005:, reckless others had gone up th
e scale from serfdom toward complete free- i i
’1’ way of spending meant that a larger amount of money had to he dom. But that did not m
ean that all the old feudal dues and services d E e QMM’L CHAR!
.’- raised in taxes. And since the privileged classes would not bear had been sWWt 3W3Y-
Somc had, but many remained. They re- , -
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. their share (but rather inflicted taxes of their owr. on the unpnvs. manned tn spite of
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15.; MAN’S WORLDLY GOODS
sheitrr, and clothe his famiiy. Small wonder that the peasant grum.
bled. Small wonder that a bad harvest found him on the borderline
of starvation. Small wonder that at such a time a good many of his
neighbours (ramped the roads as beggars, hungry for food.
The French Revolution broke out in 1789. But don’t gather from
that that the peasant was worse off in the eighteenth century than
he had been in the seventeenth. He was not. He was perhaps better
off. As a matter of fact, the peasants had in one way or another
been able to save enough from the tiny bit remaining to them after
the many taxes had been collected, to buy the land. For a hundred
years or more before the Revolution the peasants had been steadily
buying the land, so that when 1789 rolled around, about one-third
of the land of France was in their hands. But this made them more
discontented than befbte. Why?
They were iand-hungry. They had been able to satisfy their erav- .
ing a little. What stood in the way of their further advancement?
The crushing burden imposed on them by the S’nte and the privL
icgcd classes. Now they saw more clearly than ever before that with
this heavy burden off their backs they could stand straighter--rise
from the position of animals to that of men. The very fact that
their position had improved a little opened their eyes to what might
be if only . . .
Not that it had:ft occurred before to the peasants of France (and
of other western European countries) that feudal payments and
restrictions should be overthrown. It had. There had been Peasant
Revolt: before. While these revolts had not succtzeded in throwing
overboard the whole set of feudal regulations, they had improved
the lot of the peasant. But to clear the ooards entirely the peasants
had to have help and leadership.
They found it in the rising middle class.
It was this rising middle ciass, the bourgeoisie, that brought on
the French Revolution and gained the most from It. The bourgeoisie
brought on the Revolution because it had to. If it had not succeeded
in throwing at? its oppртxors it would have been crushed itself. It
was in the same position as the young chicken living in its shell and
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"THE. OLD ORDER CHANGETH . . 155
at last growing to such a degree that it must break through the
shell or die. To the growing bourgeoisie, the regulatidn, restriction,
and restraint on commerce and industry, the government grant of
monopoly and privilege to small groups, the continued blocking of
progress by stickvin-the-mud outworn gilds; the unequally dis-
tributed and constantly increasing tax burden, the existence of old
laws and the passing of new laws about which they had little or no
say, the swelling number of meddling government othcers, and the
ever-mounting volume of the government debt-this whole decaying
and corrupt feudal society-was the shell which had to be broken.
Not wishing to be strangle’i to a painful death, this growing bour-
geois middle class took very good care to see that that shell was
broken.
Who were the bourgeoisie? They were the writers, the doctors,
the teachers, the lawyers, the judges, the civil servants-the educated
class; they were the merchants, the manufacturers, the bankers-
the rnoneyed class, both in the money already and eager for more;
Above all else they wanted-or rather, they needed-to cast off the
rule of feudal law in a society which in actual fact was no longer
feudal. They needed to shake off their tight feudal doublet and re-
place it with a loose-fitting capitalist coat. They found the expres-
sion 0F. their needs in the economic field in the writings of the
Physic-cmta and Adam Smith; they found the expression of their
needs in the social field in the writings of Voltaire, Diderot, and
the Encyclopzdists. lairrez-fairc in commerce and industry had its
counterpart in the "rule of reason" in religion and science.
There’s nothing more maddening than to see some fellow who
hasn’t your ability or capacity for hard work, walk off with the
juicy plums merely because he has "1u".l" of some kind. The bour-

geoisie were somewhat in that position. They had talent. They had culture. They had money. But they did not have the legal position in society which all these things should have brought them. "Barnave became a revolutionary the day that his mother was turned out of the box which the was occupying in the theatre at Grenoble by a nobleman. Mme. Roland complains that when she was asked to
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stay to dinner at the Chateau of Fontenay with her mother, it was served to them in the servants’ quarters. How many enemies of the old regime were made by wounded self-csteeml"

The tsurgeoisie owned little land, but they dicl have capital. They had loaned money to the State. They wanted it ba:k. They knew enough about the affairs of government to see that the stupid and wasteful management of the public money was bcund to lead to bankruptcy. They were alarmed for their savings.

The bourgeoisie wanted their political power to measure up with their economic power. They had property-they wanted privilege. They wanted to make certain that their property would be freed from the annoying restrictions to which it was subject in this decay-ing feudal society. They wanted to make certain thtt their loans to the government would be repaid. To make certain of these things they had to win for themselves not only a voice but t/i: voice in government. Their chance came-and they seized it.

Their chance came because France was in such a mess that it was no longer possible to carry on in the old way. This was admitted by the Comte de Calonne, himself a member of die nobility. His position in the key office of Minister of Finance made him better able to see the handwriting on the wall. uFrance is a kingdom com-posed of separate states and countries with mixed administrations, the provinces of which know nothing of each other, where certain districts are completely free from burdens the whole weight of whith is borne by others, where the richest class is the most lightly taxed, where privilege has upset all equilibrium, where it is impoy sible to have any cnnstant rule. or common will: necessarily it is a most imperfect kingdom, very full of abuses, and in its present condition, impossible to govern."

Note particularly those last three words. A member of the ruiing class admits that it is impossible to govern any longer; add to that, the discontented masses; now let an intelligent rising class anxious to seiz: power stir up the mixture and a revolution will result. It came in x789. It is called the French Revolution.

A brief simple statement of the purposes of the revolutionists was as,.,,

mat given by one of their leaders, the Abbe Sieyes, in a popular pamphlet called What is the Third Estate? "We must put to our-selves three questions:

First: What is the Third Estate? Everything.

Second: What has it been hitherto in our political system? Nothing.

Third: What does it ask? To become something."

While it was true that all the members of the Third Estate, the artisans, the peasants, and the bourgeoisie, were trying "to become something," it was primarily the last group that got what it wanted. The bourgeoisie furnished the leadership, while the other groups did the actual fighting. And it was the bourgeoisie that gained the most. During the course of the Revolution the bourgeoisie found one opportunity after another to enrich and strengthen themselves. They speculated in the iands taken from the Church and the nobil-ity, and reaped huge fortunes through fraudulent army contracts. Marat, the spokesman for the poorer labouring class, described what was happening during the Revolution in these words: "At the moment of insurrection the people smashed their way through every obstacle by force of numbers; but however much power they attain at first, they are defeated at last by uppcr-elass plotters, full of skill, craft. and cunning. The educated and subtle intriguers of the upper Chas: at first opposed the despots: but only to turn against the people after they had wormed their way into its confidence and made use of its might, and to place themselves in the privileged position from which the despots had been ejected. Revolution is made and carried through by the lowest ranks of society, by work-ers, handicraftsmen, small shopkeepers, peasants, by the plebs, by the unfoxtunate, whom the shameless ri-.h call the canaille and whom the Romans shamelessly called the proletariat. But what the upper classes constantly concealed was the fact that the Revolution

had been turned solely to the profit of landowners, of lawyers and trieksters." i

This is a fair statement of what happened. After the Revolution was over it Was the bourgeoisie which had won political power in

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France. The privilege of Birth was indeed overthrown, but the privilege of Business took its place. "Liberty, Equality, Fraternity" was a papular slogan shouted by all the r6voluhonists, but they came, in fact, primarily to the bourgeoisie.

A study of the Napoleonic Code makes that quite plain. It is obviously designed to protect property-not feudal, but bourgeois property. The Code has some 2,000 articles, of which only 7 deal with labour and close to 800 deal with property. Trade unions and strikes are prohibited, but empioycrs’ associations are OK. In a court dispute concerning wages the Code says the employer’s statement, not the workman’s, is to be believed. The Code was made _by the bourgeoisie for the bourgeoisie; it was made by the owners of property for the protection of property.

W hen the smoke of battle was cleared away, it was seen that the bourgeoisie had won the right to buy and sell what they pleased, how, when, and where they pleased. Feudalism was dead.

It was dead not only in France, but in every country which the armies of Napoleon conquered. Napoleon brought the free market (and the principles of the Code Napoleon) with him on his victorious marches. Small wonder that he was welcomed gladly by the bourgeoisie cf the conquered nations! In these countries, serfdotn was abolished, feudal dues and payments were swept away, and the right of peasant proprietors, merchants, and manufacturers to buy and sell without regulation, restriction, and restraint was definitely established.

An excellent summary of this phase of the Frent h Revolution is that written in 1852 by Ka:i Marx in The Eighteenth Brumaire of Lom’r Bonaparle: "Desmouhns, Danton, Robespizrre, Saint-Iust, Napoleon, the heroes as well :15 the parties and ma-:ses 0f the great French Revolution . . . achieved the task of their clay-which was to liberate the bourgeoisie md to establish modern bourgeois society. The Iacobins broke up the ground in which feudalism had been rooted, and struck off the heads of the feudal maunates who had grown there. Napoleon esrblished throughout France the conditions which made it possible for free competition to develop, for
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"THE OLD ORDER CHANGETH . . :59
landed property to’be exploited after the partition of the great estates, and for the nation’s powers of industrial production to be utilized to the full. Across the frontiers he everywhere made a clearance of feudal institutions. . . ."

Revolutions are bloody affairs. Many people were shocked at the violence and terror of the French model. It is an interesting fact that the most powerful opponents of the French Revolution were the English. It is especially interesting because the struggle of the English bourgeoisie to win political power to equal their economic power had taken place in England more than a century before the French Revolution, and the Violence that accompanied it had been conveniently forgotten.

There was a difference, however. While Business in France had to give Birth :1 real knockout blow from which it never fully recovered, in England victory went to Business, but by a decisicn rather than by a knockout. It seems that in England, Business and Birth knew each other quite well and so got along rather better than they did in other countries. The English bourgeoisie had been able to become landed aristocracy, and the landed aristocracy on its part went in for business without too many worries about "being above all that." Nevertheless the years 1640-1688 in English history mark a period 0?. real fighting-fighting that was stopped only when it was settlee’ :hat the bourgeoisie were to have their say in government.

You remember the name of Edmund Burke, that great British statesman who spoke so ably 0n the side of the American colonists

in the "taxation without representation" question. When he wrote a series of papers bitterly condemning the French Revolutionists, he was reminded by another English writer of England’s own "Glorious Revolution" one hundred years before: "In the name of manhood, in the name of humanity, in the name of common sense . . . whatjs the irremediable offence, the crime never to be atoned, that the people of France have committed against this country? Is it in having effected a change in their government by the Revolution of 1789? They differ from ourselves in this instance only by

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160 - MAN’S WORLD LY GOODS
being a century behind us. Is it in subjecting their monarch to the axe? The British nation set the example."
In England by 1689, then, and in liruncc after (789, the Eght for the freedom of the market 1me resulted in a middlc-cluss victory. The year 1789 might well mark the end of tht Middle Ages in so far as the French Revolution gave the death blow to feudalism. Within the structure of the feudal society of prayers, fighters, and workers there had arisen a middlcwclass group. Throughout the years it had gained increasing strength. It had w.tged a long, hard fight against feudalism, marked particularly by three decisive bat-tles. The first was the Protestant Reformation, tfe second was the Glorious Revolution in England, and the third was the French Revolution. At the end of the eighteenth century it was at last powerful enough to destroy the old feudal order. In the p!:.ce of feudalism, a different social system, founded on :he free exchange of goods, with the primary object of making profits, was ushered in t by the bourgeoisie.
ik We call that system-C’xpitalism.
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PART II
FROM CAPITALISM TO P
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XIV
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Where Did the Money Come From?
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Two men wait in line for tickets to the show. Each pays $9.90 foe three $3.30 orchestra seats. As one of them leaves the box office window he is joined by two of his friends. They enter the theatre, sit down, and wait for the curtain to rise. The other one leaves the box othcc window, walks to the sidewalk in front of the theatre, and, holding the tickets in his hand, approaches the passersby. "Wanna buy three in the centre for tonight?" he asks. Maybe eventually he succeeds in selling them (for $4.40 each), maybe he doesn’t. It doesnit matter.
Is there any difference between his 39.90 and the first man’s?
Yes. Mr. Speculator’s money is capital, Mr. Theatxe-goer’s money is not. thtcin lies the difference?
Money becomes capital only when it is used to purchase goods or labour in order to sell again at a profit. Mr. Speculator didn’t want to see the show. He paid out $9.90 with the hope of getting it back-pius some more. Therefore his money was acting as capital.
Mr. ’I’heatre-goer, on the other hand, paid out his $9.90 with never a thought of getting it backwhe simply wanted to see the show. His money was not acting as capital.
Similarly, when the shepherd sold his wool for money, in order to buy bread to eat, he wasn’t using that money as capital. But when the merchant paid out the money for the wool, hoping to Icil the wool again a: a higher price, he was using his money as lb;
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i capital. When money is directed to an undertaking or transaction
i that yields (or promises to yield) prolit, that money becomes capi-
tal. It is the difletcnce between selling in order to buy, for use (pre-
capitalist), and buying in order to sell, for gain (capitalist).
But what is it that the typical capitalist buys in order to sell for
gain? Is it theatre tickets? wool? autos? hats? houses? No. it is non:
of these things, and yet it is part of all of them. Talk to an indus-
trial worker. He will tell you that what his boss pays him wages for
is his ability to work. It is the worker’s labounpower which the capi-
i talist buys to sell for gain, but it is obvious that the capitalist does
_ not sell his worker’s labour-powcr. What he does scll-at a profit-
; is the goods that the worker’s labour has transformed from raw
g matrrial to finished product. The profit comes from the fact that
the worker receives in wages less than the value of what he has
produced.
The capitalist owns the means of production-buildings, machin-
. cry, raw materials, etc. He buys labour-powcr. It is from the asso-
i ciation of these that capitalist production ensues.
i Notice that money is not the only form of capital. A present-day
E industrialist may have little or no cash, and yet be the possessor of a
great deal of capital. He may own the means of production. This,
3 his capital, grows as he buys labour-power.
i Once modern industry has started, it makes its own profits, ac-
l eumulates its own capital very quickly. But where did the capital
7 come from in the beginning--before modem industry had begun?
g That’s an important question because, without the existence of
"af’ accumulated capital, industrial capitalism, as we know it, would
not have been possible. Nor would it have been possible without the
l existence of a free propertyless, labouring class--pcople who had to
% work for others for a living. How were these two conditions
1 created ?
You might answer that the capital necessary for starting capitalist
1 production came from those careful souls who worked hard, spent
l only what they had to, and piled up their savings little by little.
People did save, of course, but that’s not the way the mass of capital
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was lint accumulated. It’s such a pretty story, though, it’s a pity it
is not entirely true. The true story is not nearly so pretty.
Before the capitalist eta, capital was accumulated mainly through
commerce-an elastic term meaning not only the exchange of goods,
but stretched to include conquest, piracy, plunder, exploitation.
Not for nothing had the Italian city-states enlisted the aid of
western Europe in the Crusades. The close of those "religious" wars
found Venice, Genoa, and Pisa in control of .1 rich empire. And
the Italian conquerors made the most of their opportunity. A stream
of wealth flowed from the East to the waiting hands of their traders
and bankers. One of the best authorities on the subject, Mr. John A.
Hobson, says of this Italian commerce with the East: "Thus early
was laid the foundation of the profitable trade which furnished to
westetn Europe the accumulatioris of wealth required for the later
development of capitalistic methods of production at home."
If Mr. Hobson is correct, then we must look for the first begin-
nings of capitalist organization in the ltalian peninsula. And there,
in the thirteenth and fourtcenth centuries, and even earlier, is ex-
actly where we find those beginnings.
But great as was this treasure from the East, it was not enough.
A new and larger How of capital was necessary before the era of
capitalist production could really get going. It was from the sixteenth
century on that capital began to be accumulated in amounts enor-
mous enough to satisfy the need. Karl Marx, another eminent
authority on the subject of the evolution of modern capitalism,
summarizes it in this way: "The discovery of gold and silver in
America, the extirpation, enslavcmcnt, and entomhment in mines _
of the aboriginal population, the beginning of tlac conquest and

looting of the East Indies, the turning of Africa into a warren for
the commercial hunting of black-skins, signaliscd thc rosy dawn of
the era of capitalist production. These idyllic proceedings are the
chief momenta of primitive accumulation."
Vv’oultl you (are to listen to a tale of cruelty, munlcr, and torture 3
that would make activities of our twcnticth-ccntury gangsters and 5
rackettcrs sound like a Suntlay-school picnic? Then ask a Mexican :
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er Peruvian Indian to tell you the story of the first contact of his ancestors with the white man in the sixteenth century. The natives were given Christianity-and with it enforced service in the mines, beatings, killings. But what a tremendous store of gold and silver they dug out of the ground to be shipped to the Old World--there to find its way eventually into the hands of the merchants and bankersl (And gold or siiver in those hand: was not idle; it was used to give credit; it was used either in loans to manufacturers or in trading, to bring in a greater amount of money. In short, it was capital.)

True, Cortez and Pizarro, the conquerors of Mexico and Peru, : were Spaniards, and the Spaniards have long been notorious for their harsh treatment of their colonies. But what of the Dutch? Surely their methods were different?

Sir T. S. Rafiles, onetime Licutenant-Governor of the island of lava, says, "No." He described the history of the colonial adniinisv tration of Holland as "one of the most extraordinary relations of treachery, bribery, massacre, and meanness." He estimated that the profits of the Dutch East Indian Company from 1613 to 1653 were about 640,000 guilders every year.

Here’s a sample of the Dutch methods of accumulating that capital. "To secure Malacca, the Dutch corrupted the Portuguese governor. lVIe let them into the town in 1641. They hurried at once to his house and assassinated him, to iabstain’ from the payment of 1:21.875, the price of his treason. Wherever they set foot, devastation and tlepopulation followed. Banjuwangi, a province of lava, in 1750 numbered over 80,000 inhabitants, in 18" only 18,000. Sweet coin-mercel"

_Thus Holland piled up the money it needed to make it the chief capitalistic nation of the seventeenth century.

England next wore the crown as most important capitalist coun-try. Where and how did the English acquire the necessary capital? ’lhrough hard work, careful living, and piled-up savings? Don’t you believe it.

VI. Howitt, in his Calom’mtian and Christianity, published in

London in 1838, quotes a writer in the Oriental Herald who has this to say about the British in India: "Our empire is not an empire of opinion, it is not even an empire of laws; it has been acquired; it is still governed . . . by the direct influence of force. No portion of the country has been voluntarily ceded . . . we were first per-mitted to land on the sea coast to sell our wares . . . till by degrees, sometimes by force and sometimes by fraud . . . we have put down the ancient sovereigns of the land, we have stripped the nobles of all their power, and by continual drains on the industry and re-sources of the people we take from them all their surplus and dis-posable wealth."

Sounds angry, doesn’t he? Well, maybe you’d be angry, too, if you had lived in India in 1769-1770. At that time you’d have seen thousands of natives starving to death. Because there wasn’t enough rice? Not at all. There was plenty of rice. Then why the famine? ’ Simply because the English had bought up all the rice and would not sell it again-except at fabulous prices, which the miserable ’ natives could not pay.

Trade with the colonies brought wealth to the mother country. It built up the early fortunes of European merchants. Panticularly interesting as a source of capital accumulation was the trade in hu-man beings, the black-sltinned natives of Africa. In 1840, Professor H. Merivale delivered a series of lectures at Oxford on "Colonizan tion and Colonies." In the course of one of these lectures he asked two important questions, and then gave an equally important an; swer: "What raised Liverpool and Manchester from provincial

towns to gigantic cities? What maintains now their ever active in-
dustry and their rapid accumulation: of wealth? . . . Their present
opulence is as really owing to the toil and sufl’ering of the Negro as
if his hamls had excavated their docks and fabricatedhtheir steam-
engines."
lt’s fashionable at the ptesent time to poke fun .It the pronounce-
ments of the professors. V! as Professor Merivale, then, talking
through his hat? He was not. He had probably read the petition to
the House cf Commons sent by the merchants of Liverpool in 1788,
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in answer to some misguided people who had the bad taste to suggest that the horrible trade in live human beings was unbecoming to a civilized country: "Your Petitioners therefore contemplate with real concern the attempts now making . . . to obtain a total abolition of the African Slave trade, which . . . for a long series of years has constituted and still continues to form a very extensive branch of the commerce of Liverpool. . . . Your Pctitioners humbly pray to be heard . . . against the abolition of this source of wealth. . . ."
The Portuguese began the Negro slave trade at the opening of the sixteenth century. The other civilized nations of Christian Europe follou ed immediately. (The first Negro slaves to be brought to our own country came in a Dutch ship in 1619.) The first Englishman to conceive the idea that there was lots of money to be made by seizing unsuspecting Negroes in Africa, and selling them as "raw material" to be worked to a quick death on plantations in the New World, was John Hawkins. "Good Queen Bess" thought so much of the great work of this murderer and kidnapper that she knighted him after his second slavc-trading expedition. It was, then, as Sir John Hawkins, who had chosen as his crest a Negro in chains, that he later proudly boasted to Richard Hakluyt of his exploits in this inhuman traffic. Here is Hakluyt’s charming recital of Hawkins’ account of his first voyage in 1562-1563: "And being amongst other particulars assured, that Negroes were very good merchandise in Hispianola, and that store of Negroes might easily be had upon the coast of Guinea, resolved with himself to make trial thereof, and communicated that devise with his worshipful friends of London. . . . All which persons liked so well of his intention, that they became liberal contributors and adventurers in the action. For which purpose there were three good ships

for which he received . . . by way of exchange such quantity of merchandise, that he did not only latlc his own 3 ships with hides, ginger, sugars, and some quantities of pearls, but he freighted also two other hulks. . . . And So with prosperous success and much gain to himself and the aforesaid adventurers, he came home."
Queen Elizabeth was impressed withi"his prosperous success and much gain." She wanted to be a partner to any prolits in the future. So for his second expedition, the Queen loaned a ship to slave-tradcr Hawkins. The name of the ship was the ICIIU.
C0mmercc-conquest, piracy, plunder, exploitation-thcse were the ways, then, in which the capital necessary to start capitalist production was accumulated. Not without reason v_litl Marx write: "If money . . . ’comes into the world with a congenital liloomlstain on one cheek,’ capital comes dripping from head to foot, from every pore, with blood and dirt." Commercc-conqucst, piracy, plunder, exploitation-these were ellcctive ways. They brought huge profits, fabulous sums-a growing supply of capital. I :
But more than accumulated capital was necessary before large-scale capitalist production could begin. Capital cannot be used as capilal-i.e. to give a profit-until there is labour to yield that profit.
30 an adequate supply of labour was also necessary.
In the twentieth century, with unemployment everywhere around us, with workers willing and eager to take any job they can find, it is difficult for us to understand that there was a time when getting labourers to work in industry was a real problem. It seems "natural" to us that there should exist a class of people who are eager to enter a factory to work for wages. llut it isn’t "natural" at all. One man will work for another only when he has to. So long as a man has access to the land where he can produce for himself, immediately provided. . . . From thence he passed to Sierra Leona, l he will not work for some one else. The history of thc IlJ’nitcd States upon the coast of Guinea . . . where he stayed some good time. proves that. As long as there was cheap or free land In the West, and got into his possession, partly by the sword, and partly by othcf there was a Westward Movement of la’ntlshungry people. which

mcanS. to the number of 300 Negroes at the least, bcsidcs other meant that labour was sca
rce in the East. rh; same thing happened
merchandise which that country yieldeth. With this prey he sailed in Auslnlin: "When thc’
colony at Swan RlVL’r was (nnm’lctl . . .
over the Ocean , , , and Isoldj the whole. number of his Negroes: Mr. Peel . . . took out
Wllll him . . . (50,000 and 3-10 an-uluals
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of the labouring classes; but they were all fascinated by the prospect paliments of their labour regulations . . . these new fteedmcn be- 5,
of obtaining land . . . and in a short while he was left without a came sellers of themsc chs only after they had been robbed of all ’
servant to make his bed, or to fetch him water from the river." their own means of produc tion, and of all the guarantees of exist- t
Shed a tear for Mr. Peel who had to make his own bed simply be- cncc afforded by the old feudal arrangements. And the history of f
cause he did not realize that as long as workers have access to their . this, their expro priation, is written in the annals of mankind in
own means of producticn-in this case, the land--they will not Work i letters of blood and fire."
for some one else. l It was in England that large-scale capitalism first developed, so
W hat is true of workers to whom the land is the means of pro- its origins are most clear ly traced there. We have seen in the earlier ’
duction is likewise true of those workers whose means of production chapters how the encl osures and rack-renting of the sixteenth cen- l
are their workshop and tools. So long as these workers can use their tury drove many peas ants 06 the land on to the road, where they t
tools to turn out products which can be sold for enough to give ’ became beggars, vagabon ds, thieves. Thus early was a free property- i;
them a living, they will not work for some one else. Why should i less labouring class cr eated. !
they? Enclosures came again in the eighteenth century and the early part l
It is only when workers do not own the land and the tools-it of the nineteenth. Then they were much more extensive, and so ,i
is only when they have become separated from these means of the army of landless unfortun ates who had to sell their labour-power it
production-that they go to work for an0ther. They do so not be- for wages was increased t remendously. Whereas the enclosures of 3
cause they want to, but because they have to, in order to get the the sixteenth century m et with a great deal of resistance not only i
wherewithal to buy the food, clothing, and shelter they need in from the dispossessed, bu t also from the government, which was i
order to live. Stripped of the means of production, the workers have afraid of violence o n the part of the masses forced into starvation, .
no choice; they must sell the only thing they have left, their capac- the enclosures of t he eighteenth century were put over in legal 3
ity to work-thcir labour power. form. "Acts of Enclosure" made by a government of the lan dlords l.
The story of how the supply of labour necessary for capitalist " for the landlords were t he order of the day. The labourer with land i
production became available must, then, be the story of how the became the labourer witho ut land-ready, therefore, to go into !
workers were deprived of their means of production: ’The process, ’ industry as a wage-wo rlter. .’
therefore, that clears the way for the capitalist system can be none Though the enclosure movement is more typical of England, it
other than the process which takes away from the labourer the did take place to a lesser extent on the Continent. Proof of this is 3
possession of his means ef production; a process that transforms, on 3 contained in the f ollowing complaint from the peasants of Chcfies, t
the one hand, the social means of subsistence and of production into I in France, to thei r deputies in the EstateyGeneral in 1790: "The !
capital, on the other, the immediate producer: into wage-labourers. i parishioners of Che fies, in Anjou, male bold to present to you . . . i
. . . The immediate prcducer, the labourer, could only dispose of ; their wishes, request s’iand complaints, in regard to the commons 3
his own person after he had ceased to be attached to the soil and 3 of their parish, of w hich certain individuals, either rich, or power- ,r’
ceased to be the slave, serf, or bondrnan of another. To become a 3 ful, or greedy, have unjustly taken possession. . . . The community l
free seller of labour-power, who carries his commodity wherever ’- Of this parish . . . h as been deprived thereof by a judgment of the i
he finds a market, he must further have escaped from the regime of i Council rendered in favour of the seigneurs of Chefies . . . they g
the gilds, their rules for apprentices and journeymen, and the im- have only the said lan

d: for pasturing their cattle. and being at i
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present deprived thereof, they are without any relief, and reduced to extreme poverty. A new system created by the economists tries to make people believe that the commons were not good for agriculture; powerful lords, men with money, have enriched themselves with the spoils of the country parishes by invading their common lands. . . . Nothing is more precious to certain parishes than the pasture lands; without them the cultivators can keep no cattle, without cattle they have no manure, and how can they hope for good harvests without manure?"

The loss of their common rights, of which these French peasants complain, hit the English peasants very hard also. For successful farming, provision must be made for the maintenance of animals. XVhen the peasants lost their rights to the common, it meant disaster. Naturally they were bitter against the lords who deprived them of their rights to the commons, and against the government which enforced those measures which drove them off the land. Their resentment is shown in this little jingle which was popular at the time:

The law locks up the man or woman
Who steals a goose from OH the common;
But leaves the greater villain loose i
Who steals the common from the goose.

Donit get the idea that the landlords were driving the peasants off the land to provide a labour force for industry. That never occurred to them. They were interested only in getting the most profit out of the land. If they could have made more money by not enclosing. they would not have enclosed. But there was more money in it for them by enclosing than by letting the land remain in oper. fields. Arthur Young in his tour through Shropshire in 1776 points this out: "Rents by the enclosures are generally doubled. . . . Three miles from Daventry came to Bramston an enclosure only a year old. . . . The Open licld lct at 63. to 10s. an acre; but now it is (on lease) nos. to 30:."

Perhaps the most infamous example of the sweeping from OK the

land of the wretched labourers who had always been on it is that of the Duchess of Sutherland in Scotland. The story is told by Marx: "Where there are no more independent peasants to get rid of, the ’elearing’ of cottages begins; so that the agricultural labourets do not find on the soil cultivated by them even the spot necessary for their own housing. . . . As an example of the method obtaining in the nineteenth century, the iclcaring’ made by the Duchess of Sutherland will sullice here. This person, wcll instructed in economy, resolved . . . to turn the whole country, wltose population had already been, by earlier processes of the like kind, rcduced to 15,000, into a sheepwalk. From 1814 to 1820 these 15,000 inhabitants, about 3,000 families, were systematically hunted and rooted out. All their villages were destroyed and burnt, all their fields turned into pasturage. British soldiers enlorced this eviction, and came to blows with the inhabitants. Onc old woman was burnt to death in the flames of the but which she refused to leave. Thus this fine lady appropriated 794,000 acres of land that had from time immemorial belonged to the clan."

From the sixteenth century to the early part of the nineteenth, in England, the process of. depriving the peasant of the land went on. In France, the small peasant owner class grew, but in England, where industrial capitalism developed more rapidly than anywhere else, the small peasant owner class was almost completely wiped out. Dr. R. Price, an cightecnth-ccntury English writer, tells what happened to them: "When this land gets into the hands of a few gteat farmers, the consequence must be that the little farmers will be converted into a body of men who earn their subsistence by working for others. . . . Towns and manufactures will increase, because more will be driven to them in quest of places and employment. . . . Upon the whole, the circumstances of the lower ranks of men are altered in almost every respect for the worse. From little occupiers of land they are reduced to the state of day-labourers and

hirelings."
That’s an exact statement of the case. Forced off the land, the "Iowa ranks of men" had to become day-labourers. The enclosures,
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then, were one of the chief ways by which the necessary supply of labour was made availab’e.
There were other ways. One of them was not nearly as spec-

of the former masters have been reduced to journeymen; poverty has dispossessed them."
Perhaps the most convincing proof of the fact that the hand taculnr or as obvious, but it aHected many more people. It was the factory system itself, which finally divorced the labourer from the means of production in industry, as he had already been divorced from it on the land.
In the Journals of the House of Commons for 1806 the report of ’ the committee appointed to ’iconsider the State of the Woollen Manufacture in England" states that "there have long been a few Factories in the neighbourhood. . . . These have for some time worker was licked by the drop in’ the prices he received due to machine competition, is furnished by this extract from Philip Gaskell’s famous book, published in 1836: "From the time of the introduction of steam power, a most extraordinary and painful change has been wrought in the condition of the hand-loom weav-ers, and their labour may fairly be said to have been crushed be-neath the steam engine. . . . The prices paid for weaving a par-ticular kind of cloth, as shown in the following table, will exhibit the extraordinary depreciation which has taken place in the value been objects of great jealousy to the Domestic Clothiers. The most serious apprehensions have been stated . . . lest the Factory system should gradually root out the Domestic; and lest the independent of this species of labour:
. . I793 39/9
little Master Manufacturer, who works on his own account, should mo 15/0
1830 5/0
sink into :1 Journeyman working for hire."
What were "serious apprehensions" in this :806 report became "This is not a solitary instance; it is an example of the entire labour connected with hand-ioom manufacture."
That decline in the prices paid for hand-work tells the sad tale. No longer able to earn a living, the weaver sold (if he could) his ’-hand-loom, his means of production. His next step had to be the .’ line in front of the employment oihce of a factory. There he was i joined by other workers of other trades, who had suffered the same 2 experience. Thus machine production, which cannot carry on with- i out a large labour supply, itself ensured that labour supply by t
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reality later. You can easiiy see why. The factory system with its power-driven machinery, and division of labour, could turn out products much faster and more cheaply than could the hand work-ers. In the competition between machine work and hand work, the machine was bound to win. It did win-and thousands of "inde-p:ndent little Master Manufacturers" (independent because they had owned the tools, their means of production) sank into the position of "Iourneymen working for hire." Many of them went hungry for a long time before they submitted, but in the end they had to submit.
Another House of Commons Report, from the Assistant Hand-Loom Weaversi Commissioners, for 1840, contains this evidence showing why it was useless for the handeloom weaver to hold on to his own outmoded mean: of production: "Competition, the great cause of reduction of wages, arising . . . in utter mpting to gain trade by pndcrsclling CJCil other, has produced great changes. The trade of the weaver, who, assisted by his family and others, made a few pieces only, has been absorbed by the great manufacturers. Many
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mining the handicraft worker.
And so, there came int J existence that propertyless labouring class which, with the accumulation of capital, was essential to indus- j
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trial capitalism. .
When the revolution in the modes of production and exchange, 1
which we have called the change from feudalism to capitalism, oe- ECONOiM :4 CHANGE
curred, what happened to the old science, the old law, the old edu- c,hOLE)
cation, the old government, the old religion? They changed also. c 24146 ;
They had to. The practice of law, Model 1800 A.D., was quite dif- ,3 (3:; Tape. mime 4
fcrent from the practice of law, Model 1200 AD. 80 with religious I h i la
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teaching. The world dominated by traders, manufacturers, bankers, required a different set of religious precepts from the world dominated by prayers and fighters. In a society where the object of work was merely to make an adequate living for yourself and family, the Church could denounce prolitecrs; but in a sdciety in which the primary object of work was to make a prolit, then the Church had to sing a different tune. And if the Catholic Church, geared to a feudal-handicraft economy in which the craftsman worked merely to make a living, could not change its teaching fast enough to fit capitalist economy in which the capitalist worked to make a profit, then the Protestant Church couId-and did. The Protestant Church split into many ditl’crent sects, but in all of them, in varying degrees, the capitalist interested in acquisition could find comfort. Take the Puritans, for example. Where the Catholic lawgivcrs had warned that the road to riches might be the path to hell, the Puritan. Baxter, told his followus that unless they took advantage of their opportunities for acquiring wealth, they were not serving God. "If God show you a way in which you may lawfully get more than in another way (without wrong to your soul or to any other), if you refuse this, and choose the less gainful way, you cross one of the ends of your calling, and you refuse to be God’s steward, and to accept His gifts and use them for Him when he requireth it; you may labour to be rich for God, though not for the flesh and sin."

Or take the Methodists. W esley, their famous leader, could write: "We ought not to prevent people from being diligent and frugal; we must exhort all Christians to gain all they can, and to save all they can ; that is, in eHcct, to grow rich." . l

Or take the Calvinists. The Protestant Reformation came in the sixteenth century, the Period when opportunities for the accumulation of capital, so necessary for later iarge-sealc capitalist production, were greater than ever before. The teachings of Calvin were particularly in the spirit of capitalist enterprise. Where formelly the Catholic Church had looked with suspicion on the merchant as one whose "lust for gain" was a sin, the Protestant, Calvin, could write: "What reason is there why the income from business should
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not bc’latgcr than that from landowning? Whence do the mere’nant’s ptolits come, except from his own diligence and industry P"

No wonder Calvinism became the creed of the rising bourgeoisie. Here in America we know best the Puritans, those followers of Calvin who settled New England. Our history books sing the praises of that sturdy band whose aim in life was the glorihcation of God. We know how they worked toward that end by leading a disciplined life in which thrift and hard work were desirable, and luxury, extravagance, and idleness were untlcsimblc. Think about that for a moment from a different angie. What qualities could he more fitting for an economic system in which the accumulation of wealth on the one hand, and steady habits of work on the other, were the foundation stones, than these same religious ideals converted into daily practice by these followers of Calvin? That man was the best Christian whose every activity was most suited to the acquisition of wealthwtn the spirit of capitalism. A perfect tie-up. Benjamin Franklin is an outstanding example of one in whom that spirit was most alive. In his Poor Richurd’: Almanark he put into simple homely phrases the Puritan key to the best life for the righteous:

"No man e’er was glorious, who was not laborious."

"Hope of gain lessens pain."

"Keep thy shop and thy shop will keep thee."

And in Advice to Young Tradesmen:
I "In short, the way to wealth, if you desire it, is as plain as the way to market. It depends chiefly on two words, industry and Im-gelily; that is, waste neither time nor money. . . . He that gets all he can honestly, and saves all he gets, will certainly become rich." This is the capitalist spirit. For the Calvinist this teaching was not advice in the onlinary sense, it was an ideal of Christian con-duct. The best way to work for the glory of God wax’ to pm into practice this teaching.
The hut time some one tells you that it is "human natme" to desire gain, you can show him how that became human nature.
Shim him lint saving aml imtcsting, practicetlly unknown in feudal t.q.._._._..,.i. Ha... .. ..._.__.- -. ._. .. ’. ...

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society, slowly became the thing to do in capitalist societye-for the glory of God. So that by the time the nineteenth century came around, "To save and to invest became at once the duty and the delight of a large class. The savings were seldom drawn on, and accumulating at compound interest, made possible the matcriai triumphs which we now all take for granted. The morals, the polio tics, the literature, and the religion of the age joined in a grand conspiracy for the promotion of saving. God and Mammon were reconciled. Peace on earth to men of good means. A rich man could, after all, entcr into the Kingdom of Hcaven-if only he saved."

The accumulation of the capital that came from early eommerce plus the existence of a propertyless labouring class, spelt the begin: nings of industrial capitalism. The factory system itself made for the accumulation of a greater supply of wealth; The owners of this new wealth, brought up to believe that theirs was the Kingdom of Heaven if they saved and reinvested their savings, put their capital back into the factories. Thus the modern system, as you and I know It, came into being.

XV
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Revolution-In Industry, Agriculture, Transport

Tun newspapers of 150 years ago did not run 3 "Believe It or Not" cartoon with its story of incredible happenings. If they had, the Birmingham Gazette for March n, 1776, would have known imme. diately where to put this amazing news item: "On Friday last 3 Steam Engine constructed upon Mr. Watt’s new Principles was set to work at Bloomfield Colliery . . . in the Presence of a. Number of Scientific Gentlemen whose Curiosity was excited to see the first movements of so singular and so powerful a Machine . . . by this Example the Doubts of the Incxperienccd are dispelled and the Importance and Usefulness of the Invention is finally decided. . . . llt was) invented by Mr. Watt . . . after many Years’ Study, and a great Variety of expensive and laborious Experiments."

By 1800 the "Importance and Usefulness of the Invention" of Mr. Watt had become so plain to Englishmen that it was in use in 30 collieries, 22 copper mines, 28 foundries, 17 breweries and 84 cotton mills.

The invention of machines to do the work of man was an old, old story. But with the harnessing of machinery to steam power an important change in the method of production came about. The coming of power-driven machinery meant the’tisc of the factory system on a wide scale. You could have factories without machines, but you (ould not have power-driven machines without factories. The tauory system with its largc-scalc efficient organization and

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. But whatever the economists said-:md their controversies are
l endless on this as on other questions-and whatever theory win:
out for the time being, the capitalists themselves realized that, be
the reason what it may, if they could control the supply of an
article they could also control its price. The value of a commodity
might fall because it took less time to produce, or because the quan-
tity had increased and therefore the marginal utility was less, but
there was no doubt at all that manipulation of the supply carried
with it the power to fix prices. And the power to fix prices ailects
profits.
1; ll 5,000 commodities can be turned out at a cost of $10 per unit,
and sold at Sn 2 unit, this gives a total profit of $5,000, or 10 per
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5.83:1 5 cent, on capital mvested. If only 4,000 are turned out, the cost of
t E 0.1096 production goes up to $10.50, but the price is pushed up to $12.50,
05A l leaving a total profit of $8,000, or 19 per cent. The company which
, ’ can control the supply will therefore regulate it to give the greateSt
"17% A’sE profit. It won’t be concerned with turning out more goods to satisfy
OF _ n2 wider demand at a lower rice unless in doin so it can increase
(Moinpcu’ thAHSN profits. The economics of miss production might make it possible
LMME agpoluwws to turn out xoo,ooo at $7 each, and the market might be able to
absorb them at $8 each. But this only gives 14 per cent proHtl
You remember how the Dutch merchants in the sixteenth cen-
tury cut down the production of spices in otder to keep up the
price. Those early monopolies had been broken, but we shall see
how new and vastly more powerful monopolies came in the modern
world, when the output of goods became so gleat that there was a
danger of prices falling too low for profits.
The manufacturers of England hell made a good thing out of
the head start they had in the Industrial Revolution. In the first
half of the nineteenth century the problem in England was not so
much where to sell its manufactured goods, but how to turn them
out fast enough to Fill the orders which cam: from all over the
known world. But along about the last quartu’ of the nineteenth
century there came an important change. The free-tradc policy advo-
cated by England had never "taken" in the United States, where.
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you remember, a protective tariff was in ellcct almost from the
country’s beginning. Tariff walls in the United States Were made
higher after the Civil War. In Russia, a general protective tarifl
went into effect in 1877; in Germany in x879; in France in 1881.
Now English manufacturers no longer had a clear held-their goods
had difficulty in jumping the tarifl barriers. New England’s best
customers no longer needed to take her goods-tltey could make
their own, they could serve themselves. Behind tariff walls "infant"
industries were fast becoming "giant" industries.
Not figuratively, but literally. From 1870 onward is the period of
"trusts" in the United States, of "cartels" in Germany. Competition
was replaced by monopoly. Little men were driven out of business
by big men. Little business was either crushcd by Big Business, or
merged with it to make still larger Big Business. Everywhere there
was growth, amalgamation, concentration-giant industries in the
making, giant industries heading for monopoly.
The gradual replacement of competition by monopoly was not
an encroachment from the outside, but a development of competi-
tion itself. Monopoly arose from within competition-an illustra-
tion of the truth that each system, or event, or whatever, carries
within itself the seeds of its own transformation. Monopoly wasn’t
an outside invader that charged in and conquered competition. It
was the natural outgrowth of competition itself.

YJU know the story of the revolution in the means of communi-
cation and transportation following our Civil War period. More
and better railways were built, bigger and better steamships sailed
up and down rivers and across the oceans; the telegraph was im-
proved and its use became widespread. With mpltl, regular, and
cheap means of communication az.d transport, it was both possible
and economical to bring production necessities together and con-
centratc them in one locality; with the tremendous advance in
technology, with more and more patents for elhcient machinery
being taken out all the time, it was possible to go in for mass pro-
duction and a greater division of labour. The time was ripe for
large-seale production which would result in decreasing costs per
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unit at the same time that production was increasing. It was at last possible for Combination to enter the field of battle-and win the victory.
What was possible was done.
Business is a fight. Ask anyone who’s in it. Now there’s a saying in the fight game that "a good big man will licl: a good little man." In the business game this was proven true. Two companies are competing in a certain business. One company takes a crackvat the other by lowering the price of its goods. The other company hits back by lowering the price still further. This goes on. Punches-in the form of still lower prices-Hy back and forth. Soon prices are below the cost of production. ’Who will win the contest? It is obvious that the firm that can produce at the lowest cost will have the advantage. It is obvious, too, that the larger the scale of production, the lower the cost of production. This means that the big fellow has an initial advantage. But it is staying-power that counts. And staying-powcr in this fight is measured by the reserves of capital, which determine how long you can stick it out. The firm with the greater amount of capital is the big fellow. Lowered prices leave him ecarrcd, but they leave the little fellow punch-drunk-and before long, completely out. Marx, who probably neve: saw a prize fight, had a permanent ringside seat at the continual fight of business vs. business. He reported it in this fashion: "The battle of competition is fought by chcapening of commodities. The cheapness of commodities depends . . . on the productivcness of labour, and this again on the scale of production. Therefore the larger capitals beat the smaller. . . . Competition . . . always ends in the ruin of mmy small capitalists, whose capitals partly pass into the hands of their conquerors, partly vanish."
That last sentence ineicattes that there is a clierz’ence between ordim-ry prize fights and that of business vs. business. In the former, the loser is knocked out and the victor leaves the ring seeking new and more prohtable conquests. In the latter the victor does the sntue-but very often, before leaving the ring, Ltc acts the part of nut". w - v

a cannibal. He gobbles up the loser and then steps fotth Bigger than Ever, Ready to Meet all Comets.
The bigger he gets the harder it is to defeat him. Other lighters uy--and lose. The Big Fellow becomes Champ. No one can stand up against him-at least for a time.
Out of free competition trusts were formed. Sometimes the fight was fair. Often the fight was foul (even from the point of view of the business world, which has learned to take blows below the belt in its stride). But fair or foul, the fight was bitter. The men who ran the businesses which lost out, were often ruined; they could not fight again; sometimes they went mad, occasionally they committed suicide.
But an authority on the subject, John D. Rockefeller, Ir., the son of the greatest trust-maker, thought the result was wortlt the cost. In a talk to students of Brown University on the subject of trusts he said: "The American Beauty Rose can be produced in its splendour and fragrance only by sacrificing the early buds which grow up around it."_
The first "American Beauty" in the trust field was in oil. By 1904 the Standard Oil Company controlled over 86 per cent of the refined illuminating oil of the country. What happened in oil happened also in steel, sugar, whisky, coal, and other products. Trusts were everywhere formed which attempted to bring monopolistic order out of competitive chaos.
They were gigantic. They were ethcient. They were powerful. Because they were these things they were able to reduce costs by economies in production, marketing, and management. They did what they could to eliminate waste’u’ competition. They tried to obtain control over the production of commodities so they would be able to fix output and price. They did either or both-qvhich-eVer brought the greater profit. It was larger profits they were interested in according to students of the trust movement: "A trust is any form of industrial organization, in the production or distribuo

tion of any commodity, which possesses tutlicicnt control over the
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it would sell at this, and in non-competitivr areas it would sell
above or below this, according to the demand : nd output available."
In England, too, there was this tendency far competing groups
to form associations to eliminate competition among themselves.
Let the various witnesses before the Committte on Trusts tell their
own story: "Our association was formed for the purpose of regu-
lating the trade and avoiding; unnecessary competition. . . .
’lOur association was formed for the purpose of agreeing on prices
W.-. ......;-s -w-v-vgu’-.1-It’mpwm ww-n-wr-n-vsr".
warr’n"
254 MAN 5 WORLDLY GOODS ’ "x wouu) ANNEX THE PLANETS IF I COULD . . 255 i
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supply of that commodity to be able to modify the price to its own and has been the means
of preventing cutting which went on con i
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advantage. .. _ _ _ , " Stderably bcforc the assocmtton was formed, the result being that
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The trust was able to mOdlfY the price to us own advantage. most of the firms were making
no profits or very snnll profits ’
So were’ other largc-scale organizations. The trust was American. "Competition was so sev
ere that no one could malt" ’ t i l
Pools, combines, associations, cartels, were other forms of monopoly thing out of the tra
de. Manufacturers were producing mor: :lilayn i
that became cotnmon, too, both here and abroad..The cartel was 9 was really required, and
were concerned only with cutting one -
most common m Germany. The term cartel designates an asso- . another’s throats."
ciation bESCd upon 3 contractual agreement bc’WCC" enterpriscrs in ’ After hcaring_thc wi
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the same field of business which, while retaining their legal indc- i conclusion: "We fin
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tIC lnilUleCC on the market. . _ _ I creasing tendency to the formation of Trade Associat
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This simply means that the various big pwdueers, instead of binations, having for their p
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carrying on a war to the fmtsh through cutting prices, then com- and the control of price
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bining into one company, remain 5:1)" ate organizations but do "Gt That last line tells t
he story-"restriction of competition and con- i
compete With each othcr-nthey agree as to the dwmon of the market trol of prices." This p
ractice was a far cry from the traditional y
an: as to PHCCS. . . theory of the classical economists-the theory that competition i
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0f Wthh WC": held by d" SCPMMC companies. This syndicate W33 the theory that with each in
dividual looking to advance his owti B
the sole agent for the 5:th of coal. It secured statistics from the sclf-interest, the ’s
upply of an article would adjust itself to the
separate coal companies. It appomted an Executive Committee which demand at the right pri
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made eertam arrangements for a uniform price and payment. The t l With the growth of mono
poly, supply and demand did not ad- l
mme-owners sold all their coal and coke to the syndicate. . . . It i just themselves-they
were adjusted; with the growth of monopoly 5
fl-Wd PC"alucs for breach 0f agreements and enforced n 5011111103 l prices were not made
through competition in the free marlret-t i
policy. The syndicate would appomt a Commisston to determine : the market was no longer f
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thc Proportion 9f OUIE’NH allowed in eaeh tntne. ’ - - Ft walfld _51 i Besides the monopo
ly that came to industry there was another l
a minimum sclhngpnee and when selling in COmpCUlch districts ? equally important if not m
ore so-the monopoly in bankinrv Mani i
had foreseen this when he said that with largc-scalc "capitalist

production an altogether new force comes into play-thc credit svs- t
tem. Not only is this itself a new and mighty wrapor. in the battle I
of competition. By unsccn threads it, moreover, draws the dispos- ..
able money, scattered in larger or smaller masses over the surface ’
of society, into the hands of individual or associated capitalists. It is 5
ti! r-pccilic machine for the centralization of capitals."
Industry was run largely on credit, and so the financiers who had
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control of the credit system were in the seats of power. When industrialists, large or small, monopolist: or otherwise, wanted money with which to expand their business, they had to go cap in hand to the bankers. When a group of men wanted to start a business and decided to sell stock to raise money, they had to go cap in hand to the bankers whose function it became to float issues of stock. Money was everywhere needed and the money of the nation was to be found in the vaults of thc bankers-or in some place to which they alone had access.

The more money bankers could control the greater their power. A Money T rust grew up in every great industrial country. The era. of monopoly in industry was the era of monopuly in banking as well. That this was true, certainly by 19H, is provm by these words of Woodrow Wilson, at that time Governor of New Ierscy: uThe great monopoly in this country is the money monopoly. So long as that exists, our old variety and freedom and individual energy of development are out of the question. A great industrial nation is controlled by its system of credit. Our system of credit is concentrated. The growth of the nation, therefore, and all out activities are in the hands of a few men."

Very often it happened that these "few men," the financiers, were the same men who were the heads of the industrial monopolies. There were uinterlocking directoratcs," which meant that the important men in the banking world were on the boards of directors 0.. the great trusts or giant corporations in which they were "interested"--that is, in which their banks had invested large sums.

But they didn’t have to be so closely connected. It was enough that the bankers held the purse-strings-that gave them the power to dictate policy to the industrial firms. This was demonstrated in clear fashion by the letter sent in 1901 by one of the "Big Four" Berlin banks to the board of directors of a German cement syndicate: "We learn . . . that the next general meeting of your com pany . . . may be called upon to take measures which are likely to effect alterations in your undertakings to which we cannot subscribe. We deeply regret that, for this reason, we are obliged to
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withdraw herewith the credit. which has been allowed you. If the general meeting referred to does not decide upon anything inacceptablc to us, and if we receive suitable guarantees on this matter for the future, we shall have no objection to negotiating with you the opening of new credits."

If the financiers could call the tune in this abrupt fashion to a big syt.dicate, just imagine how great a measure of control they could-zmd did-cxercise over the small fry in the industrial world. The situation was well described by Supreme Court Justice Louis D. Brandeis in a book he wrote back in 1912, aptly entitled, Other People’s Money. He said: "The dominant element in our financial oligarchy is the investment banker. Associated banks, tntst companies, and life insurance companies :rr his tools. Controlled railroads, public service, and industrial corporations are his subjects. Though properly but middlemen, these bankers bestridc as masters America’s business world, so that practically no large enterprise can be undertaken successfully without their participation or approval. These bankers are, of course, able men possessed of large fortunes; but the most potent factor in their control of business is not the possession of extraordinary ability or huge wealth. The key to their power is Combination-concentration intensive and comprehensive."

After x870, then, capitalism old-style became capitalism new-style; the capitalism of free competition became the capitalism of monopolies. That was a change of tremendous imeortancc. i b Large-scale monopoly industry brought with it greater development of the productive forces than ever before. The power of induy trialists to produce goods grew at a more rapid rate than the power of their coun;rvmcn to consume them. (This means, of course, consumption a! a profit-people could alwa)s use more goods, but they couldn’t always pay for them.)

The monopolists were in a position at home to regulate the supply

to fit the demand, and they did so. This was sensible business practice and brought high profits. But it left a good part of their ptoductive plant idle, and that condition of affairs always tends to give captains of industry a headache. They didn’t want to make

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regard their continued association as part of the natural order of things or as destined indefinitely to survive. Yet this was what many, if not most, nineteenth-century writers seem implicitly to have assumed. The last quarter of the nineteenth century was already casting doubts on such an assumption : sizadows of doubt which the twentieth century was to deepen ; until in the period between wars an exactly opposite opinion was to crystallize. This opinion, startling when first uttered, would probably to’day command a. wide measure of assent. It is that the economic situation of the hundred years between 1775 and 1875 was no more than a passing phase in the history of Capitalism, product of a set of circumstances which were destined, not only to pass, but in due course to generate their opposite-that, in the words of one recent writer, it " has been nothing else but a vast secular boom i’J
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1L1 Jainam 5 It is now a. commonplace that the transformation in the
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structure of industry to which the title of the industrial revolution has been given ’ was not a single event that can be located within the boundaries of two or three decades. The unevenness of development as between different industries was one of the leading features of the period ; and not only do the histories of different industries, and even of sections of an industry (let alone of industry in different countries), fail to coincide in point of time in their main stages, but occasionally the structural trans-formation of a particular industry was a process drawn out over half a century. The essence of the transformation was that change in the character of production which i; usually associated with the harnessing of machines to non-human and non-animal power. Marx asserted that the crucial change was in fa’ct the titling of a tool, formerly wicldcd by a human hand, into a mechanism ; from that moment " a machine talzcs the place of a mere implement ii, irrespective of " whether the motive power is derived from man or from some other machine ". The important thing is that " a mechanism, after being set in motion,
1j. R. Hicks, Value and Cefilal, 302f.
h The first me of this description has often been ascribed to Amoid Toynbce in his Lnlnm, published in 1837 ; and it has been said that " the general currency or the term " dates from their publication (Beaks in Hih’cry, vol. XIV, m5). Actunhy Engels used the term in IS 5 in hi: Condition of (ix: Working Clan ir. England in 1814 (I139: lid., pp. 3 and 15), w mere he speaks of it as having " the same importance fur England as the political revolution for France and the philosophical revolution for Germany ": and the origin of the term has been crcditctl to him (cf. Muttoux, 77w Induun’al analutinn in (It: Eighlmllh Cenfurg, p. 25). The phrase scum, howe’-’ff,-to have hcen current among French writer: as early :15 the 18:05. (Cf. A. lkramml. Qua. ((11; Jounzal of Eronomiu, vol. XXXVI, p. 343.)
THE INDUSTXUAL REVOLUTION 25’)
performs with its tools the same operations that were formcri’y done by the workman with similar toolsW ’At thc.samc time he points out that "the individual machine retains a dwariisli character so tong as it is worked by the power of man alone , and that " 110 system of machinczy could be propcrlx dcvcloncd before the steam-cngine took the place of the carhcr "10ch-power "3 At any rate, this crucial change, whether we locate it in the shifting of a tool from the hand to a mechanism or m the hamessing of the implement tn a new source of power, radically transformed the production-proccss: It .not only required that workers should be cenccntmtcd 131. a single pine: of work, the factory (this had sometimes occurrctim the FFCHOL; period of what Niarx had called " manufacture), but lmpnset on the production-proccss a collective character, as the aftmty of a half-muchanical, half-human team. One eharactcnshc of this tcam-piocess was the extension of. the dmsmn .of litbom; to a degree of intricacy never prevmusiy w1tn’c’ssed, and us cxteniori, moreover, to an unimagincd degree mtnm what ’con’sntu vi, both functionally and geographically, a Single prottuctzon 11:1t

or team. A further characteristic was the mcrcasmg nccd m:
the activities of the human producer to conform to the rhythi?
and the movements of the machinc-proccss :- a technical shut
of balance which had its socio-cronomic rchctmnIm the growing
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bv the capitalist as a coercive and dtsmptmary mrcc ’ovci itA’c
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or simple implements he trsed were little more than an extension of his own Fingers. The tool characteristic of this period, says Mantoux, was t; passive in the workers hand; his muscular strength, his natural or acquired skill or his intelligence determine production down to the smallest detail ".1 Relations ofeconomie dependence between individual producers or between producer and merchant were not directly imposed by the necessities of the act of production itself, but by circumstances external to it : they were relations of purchase and sale of the finished or half-linishcd produa, or else relations of debt incidental to the supply of the raw materials or tools of the craft. This remained true even of the " manufactory", where work was congregated in a single place, but generally as parallel, atomistic processes of individual units, not as interdependent activities requiring to be integrated as an organism if they were to function at all. Whereas in the old situation the independent small master, embodying the unity of human and non-human instruments nf production, had been able to survive only because the latter remained meagre and no more than an appendage of the human hand, in the new situation he could no longer retain a foothold, both because the minimum size 91’ a unit production-process had grown too large for him to control and because the relationship between the human and mechanical instruments of production had been transformed. Capital was now needed to finance the complex equipment required by the new type of productiomunit ; and a (Ole was created for a new type of capitalist, no longer simply as usurcr or trader in his counting-house or warehouse, but as captain of industry, organizer and planner cf the operations of the production-unit, embodiment of an authoritarian discipline over a labour army, which, robbed of economic citizenship, had to be coerced to the fulfilment of its onerous duties in another’s service by the whip alternately of hunger and of the master’s overseer.

So crucial was this transformation in its several aspects as fully to deserve the name of an economic revolution ; and nothing that has subsequently been written in qualification of T oynbce’s classic clcscription of the change is tumcient to justify ’ that abandonment of the term which some worshippers of continuity seem to desire. Its justification lies less in the speed of the technical change itself than in the close cnnnection between technical change and the structure of industry and of economic

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and social relations, and in the extent and significance of the effects of the new inventions upon the latter. .It is true that the transformation came very much earlier in some industries than in others; and while those events which we describe as a revolution are properly to be treated as a closely inter-conncctcd set, the timing of this set of events in different lines of production did not show any close relationship. Nor could it reasonably have been expected to be so in view of the very different character of different branches of industry and the quite different technical problems that each had to solve before power-machinery could take the field. What is perhaps more remarkable is the stub-bornness with which the old mode of production continued to survive and to hold a not-inconspicuous place for decades, even in industries- where the new factory industry had already conquered part of the field.

In Arnold. Toynbcels view, it was ii four great inventions " that Were responsible for revolutionizing the cotton industry: " the spinning-jcnny patented by Hargreaves in 1770 ; the water-frame invented by Arkwright the year before ; Cramp ton’s mule introduced in 1779, and the self-acting mule, first invented by Kelly in 1792 " ; although ii none of these by them-selves would have revolutionized the industry ", had it not been for James Watt’s patenting of the steam-engine in 1769 and the

application of this engine to cotton-manufacture fifteen years later. To these he adds as crucial links in the process Cart-wright’s powcr-loom of I785 (which did not come at all widely into use until the 182ols and 18303), and as affecting the iron industry the invention of coal smelting in the early eighteenth century and ii the application in 1788 of the steam-cngine to blast-furnaces "J Engelr had also instanced Hargicavcs’ jenny as " the first invention which gave rise to a radical change in the state of the English workers " ; coupling this with Arkwright’s introduction of " wholly new principles l in ii the combination of the peculiarities of the jenny and throstle ", with Cartwright’s power-loom and Watt’s steam-engine.’ To this chain of crucial innovations it is now customary to add as earlier links : on the one hand, Kay’s flying shuttle of 1733, described by Usher as " r. strategically important invention " solving a difficulty that the great Leonardo had seen as crucial) and having what Mantoux describes as " inealculable consequences ", and Paul

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and iVyatt’s spinning machine of the same yem (which was not dihimiitlr from Arkwright’s but was not a practical success and remained very little known) ; on the other hand, Dud Dudleyis patent for making iron with pit coal as eas’ly 3:. 1621, the work of the Darbys at Coalhroukciale in smelting with coal in the early ’ decades of the eighteenth century, and Certts puddling process (patented in 1784) and rolling mill. Similarly Watt’s steam-engine had as its forebears Newcomcnis atmospheric engine of 1712, in which " the active source of pressure was the atmosphere, but the actual operation turned upon the production of steam ", Lnu Savcry’s engine of 1698, which was based on the principle of a vacuum created by condensing steam. But both of these earlier inventions in their practical use were confined to pumping in mines and waterworks) ’

We have previously mentioned that in cerzain spheres the changes which we associate with the industria’ revolution. had already appeared as early as the end of the Tudor period! While still exceptional, these cases were by no me: .115 unimportant, :5 the writings of Professor Nef have recently demonstrated. But the newer technical methods of this period had as yet no application to what were still (so far as their influence on employ-ment and social structure was concerned) the major indus’.ries of the country. These early enterprises of a factory type constituted little more than rather isolated outposts of industrial Capitalism, even if as outposts their weight was it. ore considerable than used to be supposed. A number of them relied on State protection and political privilege rather than on their own economic vigour for survival. The workshops of a Jack of Ncwbury or a Stumpe in the textile trades were scarcely " factories " in the nineteenth-ccntury ii machin-Jfactory " sense, even if they have been so called : rather were :hey of the type of Marts " manufactories ". They were, morenver, rather rare examples in an industry which remained individual, small scale and scattered so far as its production-process was concerned, even if its economic relationships were becom.ng capitalist in character under the merchant manufacturer and the puttinb-out system.’ Even Willian’a Lee’s remarkable .nvention of the stoclting-frame in 1589 did not lead to factory production, but only to capitalist rciations (in the tcntc (f the economic dependence of the producer on the capitalist) on the basis of

I A. ?- Uthcr, Hitter) q/Mahuniml Intentions, 307-9. ’ See above, pp. x3912-t See above, pp. 145-50.

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individual production in the home, under the frame-rcnt system that has earlier been d(scribcd. Rather more than :t century later Lombe’s silk-throwing machine of 1717, by contrast, precipitated a transfer to factory production, " with its automatic tools, its continuous and unlimited production and the narrowly specialized functions of its operatives f’! But even so, the extent of its influence was limited. As Mantoux emphasizes, Lmnbeis machine ’" was the point of departure of no new invention " ; John and Thomas Lombe remained " precursors rather than initiators ", ’and it the industrial revolution had been heralded, but not yet begun ".’ In the iron industry again, it is true, Tudor and Stuart times saw some large furnaces, involving the ingestmcnt of sums of capital which ran into four figures : they saw forge hammers and furnace-blowing engine: worked by water-mills and automatic rolling and slitting mills. But so long as charco Ii smelting prevailed, the economic sovereignty of the small furnace, scattered among the woods and forests, was not seriously undermined. Availability of fuel was a limit on size as well as on location ; and until the technical problem of smelting with coal had .been solved, a larger and more modern type of ironworks could not become an economic proposition, and in turn the expansion of metal production in its varimts branches was hampered by the scarcity of pig-iron.a

It is now recognized that the speed with which the revolution conquered the main field of industry, once the crucial set of

inventions had provided the means of conquest, was less rapid
than used to be supposed. In primary iron production the
passing of the old small-scale charcoal furnaces was almost
complete by the end of the eighteenth century (although in 1788
they were still yielding about a fifth oiiBritish pigeiron) ; and by
the 1820’s Cort’s new methods of puddling and rolling were well
established in the English iron districts, and the Nasmyth steam-
hammer was arriving to complete the process. Whereas in 171 5
the Coalbrookdale works had been valued at ,Q5,ooo, by 1812,
" according to the estimates of Thomas Attwood, a complete
set of iron works could not be constructed for less than ,Q5o,oo() ;
and in 1833 one with a productive capacity of 300 tons of bar
’ Mantoux, aft. :iL. mo. ’ Ilaid., 2m.
UM!" 195. Prof. Unher hm emphnsiml that "t’nr mnny Iixt’nnlh-rrnmry
Ind menteenth-reutury Industries the obstacle to the use of mere mver Wm rust
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pow" ; wtth the resu t that invention: at this time tended merely to supplement
the work of men and animals and " had little inHuence upon the general Itructure of
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iron: a wad; would cost anything from $30,000 10 ,Cl5o,ooo ".1
But the linishing metal trades were much more b.tckward. The
lilac). Country ziztilmztking industry in the ’30’s was still in the
hands of small masters in small workshops and continued largely
to be so even in the l7o’s, with a nailmaster owning warehouses
from which he distributed rods and orders to domestic nailcrs,
or renting space in shops adjoining his warehouse to nailers who
had no forges of their own. Of the Birmingham metal trade
generally, in 1845 a contemporary writer remarked that lt like
French agriculture ll it has ll got into a state of parcellation ".
Here in 1855 tt most muster manufacturers employed only five
or six workers t’, and tl during the flrst sixty years ol’the nineteenth
century" in the whole of this district tl expansion of industry
had meant . . . an increase in the number 0? small manu-
facturers rather than the concentration of its activities within
great factories ".’-’ In gun-mnking, jewellery, the brass foundry,
snddlery and harness trades the ’Go,s still witnessed a remarkable
coexistence of highly subdivided processes of production with the
small production unit of the shop-owncr, putting out work to
domestic craftsmen. Even the coming of steam power failed in
many cases to transfer these small industries on to a proper
’ actory basis; "factories" being divided into a nomber of
separate workshops, through each of which shafting driven by
a steam-cnginc was projected, and the workshops being rented
out to small masters who needed power for certain of their
operations.a While the first cutlery factory in Shellield was
started in the 1820ts, as late as the t60ls most ever: of the " large
Cutlery men " had part of their work done by outworkcrs; and
1-..ny of those who worked in the so-called factories were in fact
working on their own account, hiring the power which the factory
provided and in some cases working for other masters! In
view of facts like these, Professor Clapham has even declared
that in the England of George IV outwork was "’ still the pre-
dominant form " of capitalist industry; since although it was
tt losing ground on the one side to great works and factories, it
was also gaining on the other at the expense of household pro-
duction and handicraft "f In cotton it was not until the 1830’s,
l T. S. (uhtun, Iron and Stu! in tin Indmlrial Rtualulinn. 11:63.
h ’ C. C. Allen, anmlricl Dweloj/mmt uyiBt’rmingham and tin Bl County, 1060-1927,
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more than half a century. after the inventions of Arkwright and
Crompton and almost a half-century afterGartwrightk power-
loom, that the powcr-loom was in widespread use and the older
spinning-jenny was definitely in decline. In the woollen industry
powcr-machincry only won its victory in the course of the 1850’s ;
and even in 1858 only about half the workers in the Yorkshire
woollen industry worked in factories. Hosiery in 1851 was still
predominantly based on the system of small master-ernftsmcn
(some 15,000 of them, with 33,000 journeymen), employed by
capitalist hosiers on a putting-out system. The power-driveu
rotary knitting-frztme and Brunel’s circular knitter were then only
just beginning to make serious inroads upon the industry. In
cotton at the same date a quarter of the firms, but in woollen and
worsted no more than a tenth of the firms, employed over 100
workers ; while in trades like tailoring 1nd shoemaking produc-
tion was overwhelmingly in the hands of small firms employing
less than ten workers apiece. It was not until the last quarter
of the century that boot and shoe production, with the introduc-
tion from America of the Blake sewer and other automatic
machinery such as the closing-machine, shifted from the putting-
out or manufactory system to a factory basis.l

The survival into the second half of the nineteenth century of the conditions of domestic industry and of the manufactory had an important consequence for industrial life and the industrial population which is too seldom appreciated. It meant that not until the last quarter of the century did the workingy class begin to assume the homogeneous character of a factory proletariat. Prior to this, the majority of the workers retained ’ the marks of the earlier period of capitalism, alike in their habits and interests, the nature of the employment relation and the circumstances of their exploitation. Capacity for enduring organization or long-sighted policies remained undeveloped; the horizon of interest was apt to be the trade and even the locality, rather than the class ; and the survival of the individualist traditions of the artisan and the craftsman, with the ambition

l 1m, $1; , 94-5, 143, 193. In 181.1 there were 145 recorded boot and shoe " factories ’ I will; no more than 400 .p. of steam in all. Power was only used for hea work such as cutting bum or still sewing, and several of the processes in boo;:ma ’ngywere Itill done by outworlten. Lester: and maker: often worked in the taeto , ad: by side on benches ; but nearly all the linishing was done at home. In 1887 there were in the town of Northampton some 130 shoe manufacturer: cm-0 laying tome 17,000 to 18,000 workers (cf. A. Adcock. TIM Nwllmmplon Shot, 41-5). 0 the early ’90’: m_tind the trade union claiming that its two I: est branches had finally temeved sweating by securing the abolition oloutworking. IIfMonthly Reports of the Nauonal Union of Boot and 0e Opcntiva, March 1891.)

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to become himself a small employer, was for long an obstacle to any firm and widespread growth of trade unionism, let alone of class consciousness. The differences within the Chartist movement had reficcted very clearly the contrast between the factory workers of the northern towns, with their clogs and " unshom chins and fustian jackets " to whom Feargus O,Connor directed his appeals, and the artisans of London slilled trades who followed Lovctt and the small master craftsmen of the Black Country. By this heterogeneity of a still primitive labour force the dominion of Capital over Labour was augmented. By the primitive character of the employment relation, which remained so common, and the survival of traditions of work from an earlier epoch, both the growth of productivity was hindered and a premium was placed on the grosscr forms of pttty exploitation associated with long hours and swcatcd labour, children’s employment, deductions :md truck and the distegard of health and safety. As late as 1870 the immediate employer of many workers was not the large capitalist but the intermediate sub-contractor who was both an employee and in turn a small employer of labour. In fact the skilled worker of the middle nineteenth century tended to be in some measure a sub-contractor, and in psychology and outlook bore the marks of this status. It was not only in trades still at the stage of outwork and domestic production that this type of relationship prevailed, with their master gunmakem or neilmasters or aaddlsrs’ and coach-buildcrs’ ironmongers, or factors and " foggers " with domestic workers under them. Even in factory trades the system of sub-contracting was common : a system, with its cpportunities for sordid tyranny and cheating through truck. and debt and the payment of wages in public houses,1 against which early trade

’ Its in the Birmingham domestic industries factors were sometimes called "slnuzhlvrmen " because of their habit of heating donn wmkers’ wages, and In nailmztking " the trucking fogtgcr, often a publimn, paid in bad dear pods and tindernnld the honest master ", so aim " truck of a corrupt 301 was stii practised (in the early ’7o’s) by some of the mining bullies and doggies of the Midlands and the Suulh-West" (Clapham, Eran. I.’i:t. (Free Trade and Steel), 456). Paying wages at long intervals was another evil, lending to the indebtednds of workers to subcontractors or innkeepers or to company shops which gavv credit but charged high prices in return. At Iibbw Vale about this time cash wtges were only paid monthly and sometimes at Rhymney only every three months (ibid., 457). Mars remarked that " the exploitation of ehcap and immature lsb-nubpower is carried out in a more shameless manner in modern manuhtturc than in the factory proper. . . . This exploitation is more shameless in the so-called domestic industry than tn manufactures, and that because the power of resistance in the labourers decreases with their dissemination ; because a whole series of plundering parasites insinuate drcmselvu between the employer and the workman; became poverty robs the workman of the conditions most essential to hit labour, ot’spaee, light And ventilation " (Capital, vol. I, 465).

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unionirm fought a hard and prolonged battle. In blast-furnares there were the hridgc-stcckcrs and the stock-takcrs, paid by the capitalist according to the tonnage output of the furnace and employing gangs of men, women, boys and horses to charge the furnace or control the casting. In coal-mines there were the butties who contracted with the management for the working of a stall, and employed their own assistants ; some buttics having as many as 150 men under them and requiring a special overseer called a " doggie " to superintend the work. In rolling mills there was the mastenroller, in brass-foundries and chain-factorics the overhand, who at times employed as many as twenty or thirty ; even Women workers in button factories employed girl assistants.l When factories first came to the Birmingham small metal trades, " the idea the: the employer should find, as a matter of course, the work piaees, plant and materials, and should exercise super-vision over the details of the manufacturing processes, did not spring into existence " ; i and even in quite large establishments survivals of older situations persisted for some time, such as the deduction from wages of sums representing the rent of shop-mnm and payment for power and light. The workers on their side

often continued the habits customary in the old domestic wurk-
shops, " played away ii Monday and Tuesday and concentrated
the whole week’s work into three days of the week.:’ Here it
needed the arrival of the gas-enginc (rendering obsolete the old
system of hiring ttcam-puwcr to suh-contmctort), the growth of
standardization, and the superscssion of wrought iron by basic
steel (lending itself to manipulation by presses and machine-
tools) as the staple material of the metal-working trades to
complete the transition to factory industry proper, and to elTect
" an approximation of the type of labour employed in a variety
of metal manufactures owmg to the similarity of the mechanical
methods in use "J
Many of those who have sought to depict the industriall/th will metatb
revolution as a continuing series’ of changes which even out- didn’t Vt L01: w
lasted the nineteenth century, rather than as a once-for-ull
change, seem to have employed the term as synonymous with a
purely technical revolution. In so doing they have lost sight
of the special significance of that transformation in the structure
of industry and in the social rclations of production which was
the consequence of technical change at a certain crucial level.
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h Allen, eg :11, I46, ISo-r. I 16d _
. i ., 448.
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If we focus our attention on technical change fur u, it is both true and important that, once launched on its new career, this change WM a continuing process. Indeed, one hits to regard this fact that, once the crucial transformation had come, the industrial system embarked on a whole series of revolutions in the technique of production, as an outstanding feature of the epoch of mature Capitalism. Technical progress had come to b: an element in the economic cosmos that was accepted as normal, and not as something exceptional and intermittent. l’Vitl. the arrival of steam-power, previous boundaries to the complexity and the mass of machinery and to the magnitude of the operations which machinery could perform were swept away. To a certain extent, even, revolution in technique acquired a cumulative impetus of its own, sinec each advance of the mzzchine tended to have as its consequence a greater specialization (if the units of its attendant human team ; and division of labour, by simplifying individual work-movcmcnts, facilitated yet further inventions whereby these simplified movements were imitated by a machine. With this cumulative tendency were joined two further ones: towards a growing productivity of labour, and hence (given stability, or at least no comparable rise, of real wages) a growing fund of surplus-value from which fresh capital accumulation could be derived, and towards a growing conce ntration of pro-duction and of capital ownership. As is nowadays accepted as a commonplace, it was this latter tendency, child of the growing complexity of technical equipment, which was to prepare the ground for a further crucial change in the structure of capitalist industry, and to beget the large-scale, monopolistic (or semi- or quasi-monopolistic) ll corporation capitalism " of the present age. The genetic history of that crucial series of inventions between the seventeenth century and the nineteenth century still contains many dark places. Yet, while we do not know enough about the origins of these inventions to bc dogmatic about their causa-tion, we have no right to regard them as fortuitous events, un-related to the economic situation in which they were planted-a as some dcux ex macltina which need have no logical connection with the preceding section of the plot. Indeed, it is now widely recognized that industrial inventions are social products in the sense that, while they have an independent lineage of their own, each inventor inheriting both his problem and some of the aids to its solution from his predecessors, the questions that are posed to the inventors mind as well as the materials for his projects are
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shaped by the social and economic circumstances and needs of lltc time. As Mr. Beatles has aptly said, nowadays ’l the inventor is seen as a mouthpiece of the aspirations of the day rathcr than as the initiator of them l’.1 While the inventions of the eighteenth century doubtless owed part-parentage to the scicntilic ferment of the seventeenth century, a remarkable feature of them was the extent to which they were the products of practical men, groping empirically and keenly aware of the industrial needs of the time. For example, while it is true that the researches of Boyle and others into the primary laws of pressure in gases provided one of the essential conditions for the invention of the atmospheric and steam-engines, the practical problem of smelting with coal, on the other hand, was solved before the chemistry of metallic compounds was properly understood. The problems these men of industry and invention put to themselves were formulated, not a priori, but out of the fullness of their own experience. Moreover, for a successful invention-anainvention that will have significance for economic developmctttvtllc mere solution of a problem in principle is not enough. Examples are plentiful of the gap which is frequently to be observed between discovery of the principle and its translation into actual achieve-ment, as are also examples of the gap that is apt to exist between the completion of a project and the adoption and launching of it as a commercial proposition. We have not only to

remember what Usher has called " the complexity of the process t-f achievement ", due to the fact that successful invention generally comes only as the climax of a whole series of related discoveries, sometimes independent of one another at first and depending for their solution on different hands';' we have also to remember that the qualities and experience needed for successful synthesis and application are often those of an industrial organizer rather than of a laboratory worker. Unless the economic milieu is 5'2 vourablc-until economic development has reached a certain stage-neither the type of experience and quality of mind not the means, material or financial, to make the project an economic possibility are likely to be present, while the problem will probably never be formulated in the concrete form which evokes a particular industrial solution. Although Wyatt and Paul both planned and built a

' Hiring, vol. XIV, 128. .

h On the invention: ohteam, of the gas-cngine and pctrol-engine and on Inventions in textiles u a muau'w development cf. R. C. Epstein on " Industrial Invention " ln Quarmb Jamal of Ecammia. vol. XI. 2.52-6.

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270 STUDIES IN THE DEVELOPMENT OF C/tPl’l’ALiSP-l
spinning machine, it was not until thirty-liv-e years later that there appeared a similar machine on the same lines which was destined to have an economic future; and this was probably due to the fact that Arkwright possessed the practical business sense which the earlier nien had lacked. Even so, Arkwright was seriously handicapped for lack of funds in the early stages, although he was less unibrtunatc in this repeat than Wyatt and Paul had been. Dud Dudley by 1620 s:cms to have discovered how to smelt iron with coal (if his ovm account can be relied upon) ; but it was not until a century lat:r that the Darbys put it to successful use. Brunells invention in the hosiery trade was made in 1816, but was; not introduced clTeztively until 1847. Moreover, the developmert of the steam-cngi’le waited upon a sufficicnt qualitative improvement in the ttchnique of iron-production to enable boilers andicylindcrs to he made that were able to withstand high pressures ; and the m:.king of machines of sufficient simplicity and accurac’y to serve their purpose was limited by the existence of machine-tools capable of fashioning metal parts with sufiicient precision.1 At the same time, while the prevailing state of industry restricted the type of discovery that could he made, conditions of industry also prompted and guided the thought and the hands of inventors. The discovery of coai-smelting was a direct answer to a problem that had been posed for some time by the growing scarcity of wood-fuel. Kay’s invention of the flying shuttle came as a solution of the difficulty that previously the width of the material which could be manufactured was limited by the length of a weavcrls arms (throwing the shuttle from one hand to the other). In th: I760is inventors received the explicit encouragement of the oll’cr of two prizes by the Society for the Encouragement of Arts and Manufactures, " for the best invention of a machine that will spin six threads of wool, flax, cotton or silk at one time and that will require but one person to work it and to attend it l’, in order to overcome the lag of spinning capacity behind the needs of weavers and of mcrclmnts’ orders, especially at the season " when the spinners are at harvest work " and " it is exceedingly difficult (for the
l We learn that Smcaton had to tolerate enors in his cylinder: amountin to the thickness of a little finger in :1 cylinder 28 inches in diameter, and that am wax handicapped by having to work with an early cylinder which had an error of Ihrvtc-quartcrt of an inch. It was 0ng with improvements in boring-machin-;ry by Wilkinson round 1776 that Boultan :m Watt were able to secure delivery ofadequate cylinders. Similarly the balance-benm in steam-cngines pexistcd because it wal not possible to make surfaces accurate enough to attach crms-head to dank (Usher, op. n’L, 320).
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1’lll. INDUSTRIAL mamurrum 271
nmnulhcturcrs) to procure a sumcient nuinhcr ohhzmds tv: keep their weavers employed "3 The inventions which usheied 1n the modern world were not only closely niterlmtkctl With 01;: another in their progress : they wete also interlocked With t. e state of industry and of economic resources, with the nature of. "5 problems and the character of its personnel In the earlier period of Capitalism from the soil of which they grew: . 1 d
It is miliciently obvious that, until these inventions in arrived, the state of industry was not such as to prevulc an attractive field for capital investment on any very cxtenstve scale. Ustiry and trade, especially if it was prwlleged trade, abs. tlvas generally the case in those days, held the attractuin of 1g 1t.r prolits even when account was taken of the possnhly greater hazards involved. It would, of ceurse. be quite wrong to regard this period of technical innovation at standing entirely .nlnn: and as succeeding centuries of completely statienary technique. The later Middle Ages witnessed the fullmg-mtll and the water-wheel. The sixteenth and seventeenth centuries saw a crop. el’ discoveries which laid a technical foundation lot the earliest examples of factory industry: .ixhproventcnts tn the. vaeltitiitn pump, which facilitated deep mmmg; selenttlic stndics 01 tie flight of projectiles and of the pendulhm and .Hu)gch s :slutk)

of circular motion, which had its practical application in c 0cI -
making and similar mechanisms. Nevertheless, even Within t 1e
lineage of inventions themselves, theepoch of the steah.-e_nglne
surpassed all these, because the marriage of the stcant-engme to
the new automatic mechanisms opened,,11p :1 held ef tnycstmen;
in the " abridgemcnt of human labour which in. its cxtcnt 3:1
richness had seen no parallel ; while at the same t1mc the new 3;-
won knowledge of the practice and theory of mineral. compounl s
laid a material basis such as had not prev1ously extstcd for tie
’ Cit. Mantoux, op. cit., 220.
’The Executive Secretary of the official United States Temporary National
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20th century (up to 19:7) 27 ., .. ,,
(Find Riport, p. 105.)
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equipment of industry with n stock of mechanical instruments
of growing number, magnitude and itztricaey.
As a result of the change, the old mode of production, based
on the petty production of the individual craftsman, even if it
was often stubborn in survival, was destined to bc uprooted;
the factory proletariat was swollen from the ranks of that class
of small producers who had had this petty production as their
livelihood ; and the economic gulf between the master class and
the employed, between owners and ownerless, was significantly
widened by the new economic barrier which the initial outlay
now involved in Starting a production unit imposed against
passage from the latter class into the former. It is small wonder
that the economists of the time shouid have regarded the slow- e
ness of capital accumulation, not any boundadcs to its field
of investment, as the essential limit on economic progress,
and should have postulated that, given an adequate supply of
capital and :t sumciently all-round development of the various
branches of industry, only the interference of govemments
with trade or inadequacy in the supply of labour could suffice
to freeze progress into economic stagnation. Characteristic of the
optimism of the time was the retort which Ricatdo made when
Multhus emphasized the dangers of over-produ-ztion and gluts
due to "deficiency of effective demand". Ricardo’s answer
was that the situation which Malthus envisaged (where a rapid
capital accumulation occasioned a fall in the value ofcommodities
relatively to the value of labour power and a consequent fall or
profits) was essentially one in. which " the speciic want would
be for population " :1 a want which, as Malthus himself had
preached, could never fail to be satisfied if only food supplies
4 were adesuate to keep down the Idenih-rate.
us want for population ", by which, of course, Ricardo
meant a proletarianizcd population willing to hire itself to
the new fnctory-kings, was a vital want for the new expanding
Capitalism ; and without both the developments that have been
sketched in the previous clzapter and the grattly quickcned
rate of natural increase of the proletariat, this want could not
have been met. Although the effect of the inventions of the
time was towards an tiahridgcmcnt of human labour", the
’ Ricardo, Am: on thm’t/ma p. :69. In his Pn’mE/zlu Ricardo wrote that " the general progress of population is affected by the increase of capital, the consequent demand for labour and the rise of wages " (p. 56:). In other words an increased demand for labour had no ditheulty in evokin its own In I)I’OVit! d that trade (including import of food) wa: free. 3 pp y. I c
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immense impetus that they gave to the expansion of investment
promoted a considerable net increase in the demand for labour.
We have noticed that the death-rate fell in the later decades
of the eighteenth century, and the birth-rate remained at a
high level during the crucial years of the industrial revolution.
Moreover, the industry of the north-west factory towns was able
at this time to draw on a plentiful supply of starving immigrants
from Ireland : an important labour reserve which fed alike the
need for unskilled building labour in London in the midttle
eighteenth century, the expanding factory towns of the inchlstrtal
revolution and navvy-labour for railway construction m the
1840’s and 18503) After reaching its lowest point round 1811,
the death-rate, however, proceeded to rise from about the end
of the Napoleonic Wars and continued to do so until the late
gois; and this despite a shift in the age-compositlon 9f the
population that was favourable to a low death-rate. Thts use,
most marked as it was among infants in the large towns, was
clearly product of economic distress and of the conditions in
the new factory towns of this period, with their insanitaxy hovcls
and fetid ccllar-dwcllings, breeding-grounds of " low and nervous

fevers " and " putn’d and gaol distempers " and of cholera, about which Mrs. Gnskcll and others later wrote. Towards the end of the ’30’s the birth-ratc began to fall, and despite a recovery between 1850 and :876 never regained (as an average over a decade) the levels at which it had stood in the last decedes of the eighteenth century.’ By the closeof the century, with the prospect 0f 3 slackened rate of natural increase, and With the epoch of " primitive accumulation " long since passed, the optimism of classical political economy that the ranks of the proletarian army would always expand in the degree that capital accumulation required was to find itself built on shifting sand. While in the heyday of the industrial revolution natural increase of population.so powerfully reinforced the proletarian-
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I In the middle of the nineteenth century nearly to per cent. of the population of Lancashire was Irish-born. (Cf. J. H. Clapham in Bullttin qf (Ill Inlenmlwnal Camilla n Hitwriml Sciences, l933, 602.) . _

I Cf. apham, 010, :11, 53-5 ; T. H. Marshall’m Econ. 111m. SuypIement No. Q to Even. Journal, Jun. 1929 ; G. T. Griffith, Po/aulntton Problem In Ag! 0 Malthmhaggti. In 175! the population of the United Kinmtont had been Ipproxtmatc’lyj mtlhnn ; lcvcnty year: later, in 1821, it was double that hgure ; and by the 1030 l u was more than 16 million. Clapham gives as reasons for the fall In the death-rate at the end of the eighteenth century such things as the mastery of the ravages of smaltpox and the dimppcarance nl’ scurvy, the conquest ofaqueish disonlcn hy better t_lramage, and a Ieductiun of infant and malemal dinordcn and the bcginmng: of tnmed midwifery. Cf. elm Dorothy George, Under: Lila in the Eighteenth Cathay, 1’61.

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beris prescription is obvious and logical: Western Europe must develop the righi’ kind of muscle to be able to compete with US. business; the 50 to 100 largest European companies must be given the opportunity and encouragement to merge so that they will be large enough to take on the US. giants; hence, Wcstcm European countries must federzte and provide the research funds and enough government business to give the enlarged industrial giants a leg up for better competitive strength. Thus, the path to independence for Wcstem Europe, to social justice, and to social progress is: Big Government and Big Business for economic war with the United. States moloch.

Students frequently put the question: Is imperialism neces sary? The point I am trying to make h:rc and in the analysis presented in the foiXowing chapters is that such a. question is off the mark. Impetialism is not a matter of choice for i capitalist society; it is the way of life of such a society.

NOT ES

1. Not that minor economic influences should be ignored. Marginal economic force: can at time: carry extra special wcight-as one can easily learn, for example, from Robert Englet’l Tho Politic: of 051 (New York, 1967). Economic effects which are mtrginal to the economy as 1 whole may be of major importance to certain giant corporations. Accordingly, they can be inordinately influential on public policy because of the concentration of economic and political power in the hand: 01’ these corporatiom.

2. David S. Landcs, "Th! Nature of Economic Imperialism" in Tlu joumal 0/ Economic History, December 1951, p. 510.

3. Mark Blaug, "Economic Imperialism Revi:ited," The Yale Rania". Spring 1961, p. 343.

4. Marban Ward, The Wu! a: Bay, New York, 1948, p. 136.

5. See. 19! example, William Applcmm William, Th! Tragul) of Aman’- un Diplomacy, New York, 1962. .

6. J. A. Hobson, Imperialixm-A Study, 1902 (Paperback edition: Ann Arbor, Michigan, 1955, pp; 8889). Whatevu- criticisms may be mule of it, Robson’s work on imperialism marked tn historic turning point in the study of the subject. Both Hilfcrding (Du: Finanzkapieal. 1910) and Lenin (Imtpuiulz’xm, The Highest Slag: J! Cayitall’un, I917) was directly and deeply influenced by Robson.

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THE NEW IMPERIALISM

A focal point of Lenilfs theory of imperialism 15 the classification’oi imperialism as a. special stage m the development of capitaiism, arising towards the end of the 19th. eenutryi This attempt to give imperialism such a specxfxc mstonca reference date has been a subject of controversy, the mam .01.)-jcction being that many of the features considered characteristic of imperialism are found early in the game and througheut the history of capitalism: the urgency to develop a worldtnarhet, the struggle to control foreign sources of raw materials, the competitive hunt for colonies, and the tendency towards concentration of capital. . . . .

Some scholars get around this problem by distinguishing between an Hold" and a "new" imperialism. Whatever semantic device is used, there are good and sufficient reasons .fori clearly marking off a new period in the affairs of world capitahsin. Of the many distinguishing features 01 this new stage, two. m rny opinion, are decisive: Firsti England is no lengcr the undisputcd leading industrial power. Strong industrialized nvals appear on the scene: the United States, Gchnhny, Frence, and Japan. Second, within each of the industrialized nations, CCG’ nomic power shifts to a relatively small number of big integrated imhutrial and financial firms. .

The framework for these developments was provided by the
iilfuhulion during the last 20 to 30 years of the 19th century
4’ new mum: of energy and a new departure in technology,
-!.;3, Veblen e.thed "the technology of phpirs aml chemistry."
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This is a technology that is based on the ditcct application of science and scientific research, rather than 0:1 mere mechanical ingenuity. It was in the final 30 years of the 19th century that:
. a whole century of siow progress and testatement in pure sciencwparticularly in themtodynamics, elcctrcmagnctism, chemis-try and gcology-bcgan to meet up with rapid development in practical mechanical cnginecring-zmd particul’trly in the produc-tion of machine-tools-and in industrial method: . . . not only were new industries developed and new sources of power provid3d--the internal combustion engine, stemming from progress in thermo-dynamics thcoxy, being only less important than electricity. In-numerable existing industrics-mining and road-building, steel, agriculture, petroleum, concrete am but a ftw examples-were transformed and expanded. Innumerable raew products--thc modem bicycle, the telephone, the typcwn’tcr, linoleum, the pneu-matic tyre, cheap paper, artificial silk, aluminum, ready-made clothing and slices_tx’crc manufactured and marketed for the first time. It was in this period that mechanimtion first became. characteristic of industry in general. . . 3
Even more important than the technoiogical features of this period per se is that this technology as a rule required in-vestment of large amounts of capital and large production units. The main developments that characterize the transformation occurred in steel, electricity, industrial chemintry, and oil.I
Steel. Steel has unique properties that are essential in the construction of machines such as internal combustion engines, electric gcneralots, and steam turbines. It was the introduction
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of st: 1 rsiLv; and locomotives ’that made possible the carrying t of heavy loads at high speeds. This reduced the cost of trans-port and provided the means for transforming local and regional businesses into large, nationai industries.
Before the appiication of scientific methods, steel was practically a scmi-prccious metal. "Until (Bessemer and open-hcurthj processes were introduced steel making was hardly more lilJn an empirical craft operation. . . .m The Bessemer procc-x. introduced in 1854, still had limitations for the use of iron Orr available in the United States and Europe. The opcn-hcztrtf’i method introduced in the 1860’s, and finally the "basic protf’f developed by Thomas and Gilchrist in 1875 made paw
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.r. "r-nttq- w..--. w- _....._..-..n l"! Ft’v’" ?0
.. -m-b-Led u n,.a..-- .M-_-....,... .t.

the control of the carbon content of steel within very cl-ose iimits--and opened up the age of steel. T echniques fer tm-proving the properties of steel by use of alloys-tt) obtam the qualities needed for tool steel, armaments, and stainless.steci-were developed between 1870 and 1913. Note that dunng the period 1870-1874 an average of 1 million tons of steel were produced worldwide; during 1900-1904, the annual average worid production had risen to over 27 million tons!
Elechicily. While scientific experiments with electticity and theoretical exploration of the subject go back to the 18th centuty, the application of these experiments and theory to form a large-scale industry occurs toward the end of the 19th . century. The fitst commercial generating stations in London, Milan, and New York were opened in the 1880’s. The im-portance of electricity is net limited to its use as a new source of light, heat, and power. It is necessary, for example, m the

refinement of copper and aluminum and the bulk production of caustic soda. (The invention of the process for commercial production of aluminum also stems from this period, mcurting in 1886.) For manufacturing procescs in general, the application of electn’city made possible the kind of precise control which permitted the more complete mechanization on which modern mass-production industry depends.

Industrial Chemistry. Chemical processes in metallurgy, tanning, and fermentation had been known and used for many centuries. But industrial chemistry as a separate and large-scale industry originates in the last third of the 19th century. Here again the transformation is due to theoretical and experimental discovcn’es in science. The ability to synthesize organic chemicals in industrial precesses could not appear bcfort; the proper under. unncling of chemical transformations was achieved. Thus the ?J- 5ly to determine the correct number of atoms in a molecule frame txmible once there w:Ls gencml recognition around 1: "’5 ’75 the law that equal volumes of gases under the same " ’ ".mr. contain the sum: number of molecules. The effective :H’a’rpt pl the structural arrangement 0! atoms in a nto!ccu!c "N" in "55. In mntnut with the former almost accidents!

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advances in organic chcmistxy, the new scientific achicvcmcnts created the basis for new mass-production ind istrics. The Solvay ammonia soda proccss and the catalytic processes for the manufacture of sulphuric acid and of ammonia belong also to the same period.

Oil. Here we are not dealing so much with technical and scientific advances as with the discovery 321d exploration of underground petroleum sources, though of course technical , and scientific achievements are significant Both in the techniques of extracting crude oil and in pctrolerm refining. From the historical point of view, it should be noted that large quantities of oil were first discovered in Pennsylvania in 1859. The Standard Oil Company was founded in 1870. Diamond drilling, the effective technique for piercing hard formationsh was first invented in 1864 and was introduced in the United Stata in the 18703.

The earliest phase of large oil discoveries was concerned with nationwide and international distributicn systems for oil in kerosene lamps and for the manufacture cf lubricants. The introduction of oil as fuel in industry and transportation follows from later discoveries of oil sources.

Sometimes referred to as a Hsecond induutrial revolution," these new phenomena werc integral to thc shift from a capitalism characterized by dispersed small competiive units to one in which large concentrations of economic power dominated the industn’al and financial scene. How significant these late 19th century technological developments wer: in accelerating monopolistic trends can I .- sccn by examining the giant corporations of today:

’ Of the 50 largcst industriai corporations in the United States today, 26 (accounting for 62 percent cf the total assets of the whole group) an: in steel, oil, electrical equipment, chemicals, and aluminum.

’ Of the 50 largest industrial corporatims in capitalist countries outside the "initcd States, 30 (accounting for 73 percent of the total asset: of the group) are in these same industries.

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II

HEW IMPERIALISM

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United States business life during the onset 3f the impc .
stage is well summarized by Professor Chan er.
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1870’s, the major indiistnes _seiyiee . ’-
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anding’raiiroad network, the leading indestn? dlmsd 3.100%"?
Ia) ’cultural products and provided farms Wlmthm’) W In atcrink
Tgiizse firms tended to be small, and bcught cir rafactured tor
and sold their finished goc;ds locatry. Xgirenthzy ?:niactow, they
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aniesywere ’naking produced goods, to be use m m . ry,
father than (-n the farm or by the ultimate consumer. Most of the
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major industries had become dominated by a few large enterpr
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These great industrial corporations no longer purchased 1nd sol
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words the business economy had become industrial. Majov m-
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opportunity for the maturation of powerful iinnnctauic n’crgm
that could accumuhte the capita’lIand organize t v-rAsz-auy
that became what Chandler identifies as the grga ,1 ($111"-
intermtcd, centralized enterprises)" The ncw’tce lno 035mm
xxc-vgizions discussed above provided the matena pr -
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bases for such Big Business. The frequent deprcaiions that be-
gun in 1873 were the battleground. And the method of business
organization for this ttmisformation was the corporationawhat
Veblen termed the "master institution of civilized life."

The New Drive for Raw Materials

The new industries, the new tcchnoIong and the rise of
competition among industrialized nations gave a new importance e
to the role of raw matcrizls. The struggle for the control of ifon
ore and coking c0211 on the European contitent is a familiar
story. Even more important was the pressure to gain control
over dismnt territories whose value assumed new relevance.
Barraclough summarizes this trend as follows:

. . . the voracious appetite of the new industialism, unable of
its very nature to draw sufficient sustenance from local resources,
rapid1y swullm-red up the whoie world. It was no longer a question
of exchanging Eumpcan munufacturcs-predon.inantly textiles-
for traditional oriental and tropical products, or even of providing
outicts for the expanding iron and stee1 industrie.. by building rail-
ways; bridges and the like. Industry now went out into the world
in ward: at the basic material: without which, in it: new form, it
could not exist. (Emphasis nddcd.)’

This was part of a gcncml new pattern of economic rela-
tions in the world capitaiist system. During the period from
1860 to 1900, three changes in the economic Iclations between
nations are notable: (l) the number of commodities entering
international trade on a large scale multiplied greatly; (2)
competition between many widc1y separated regions of the world
fimt appeared or grew more intense; and (3’?) the standard
of living of workexs and the profitability of indu:try in European
nations came to depend on maintenance of overseas supplies,
while the standard of living of the producers cf raw materials
came to depend on market fluctuations occurring sometimes on
the other side of the world."

As the need for raw materials grew, the mte of discovery
and exploitation of the resources increased. 1T; was the same
thirty years Urom 1870 to 1900) that most of the undeveloped
agricultural arms of (ht: world Were opened up and that, with
the increase of geological knowledge, though mt all were yet
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Rifnilzhkcl was discovered and developed 1n C’atnttdaa wig:
and zinc in Australia, nitrogen in Chxle, and tm 4n n.
in Malaya. In sum:
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’ commerce that had previously been :3 _
7513101222: 1’39 2 Jingle economy on a world scale. (Emphasns
added)"

Advance in Ocean Transportation and the World Market

rld commerce, as noted earlier, was an emehtlal 1n-
gredizzlx;3 of early capttalism and it pregrcssed _as eaqttahsrfnmtzt
tured. But a new leap forward, involvmg the teasnbt tty o dam
ing cheaply the bulk raw materials needed for the newts,5th
industries, was made possible by the. xnass produetxot; ot m-
and technical innovations in sttipbun1dmg. Mctal-bux t 5 ca d
ships using steel hulls, steel boilers, twm’ screws, and cortrlxpounc-
engines-a usynthesis of existing inventions -beeame te (ptrh:
dominant form of ocean transport in the last twedccadcs or A

19th century." The problems posed by the higher presggges
needed in marine engines uwere not solved tall the later 1 b1 3
and early 1880’s when improved steel bo_11crs and tuhes ena . c
shipbuildels to construct ships witih tnplemexpansmn engxncs
’ at 150 1b. rcssure an more. .
that ?:??:de for Efficient and cheap bulk shipment of
heavy products throughout the worlti, the new. metal steam-
ship which made it possible, and rapxd commumcatlon (trans-
Atlantic cable service began in 1866) set the stage for a com-
mercial revolution. This commercial revolution was fmanccd by
the simultaneous growth of international banking and the crea-
tion of a tisingle multilatera1 xsystem of internattonal payments.
A world market, governed by world prices, emerged for the
first time.""
Enipiro and the New lrnperialism
The above dcvclopmcnts also contributed to a spectt-up
in thc indmtrinliution of lands other than England-the Umtcd
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States, Germany, Japan, France, Belgium, and others. This
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Industrialization occurred under clrcumstnnccs ln whlch con- ,
centration of economic power in large business units, mobiliza-
tion of large masses of capital for particular projects, growth
of protective tariffs, and a wave of militarizlttion" provided
the framework for what was essentially new in the imperialism
of the late 19th and 20th centuries. Above all, what was new
was the extension of imperialist’behavior patterns to most in-
dustrialized nations." It was no longer Britain controlling inter-
national commerce, carving out spheres of commercial influ-
ence, and picking up a colony here and there. Instead, it was
the economic and political operations of other rapidly advancing
countries rushing for their place in the sun which pinned a new
label on modern society.
Under the impetus of this new imperialwn no comer of
the earth was left untouched: the entire world was trans-
formed and adapted to the needs of the new dominant indust
in each industrialized nation, and to the rivalry between these
nations under the pressure of these needs.
Imperialism and Colonies
The complex of economic and political relations that arose
from or were an accommodation to thue specially new phe
nomena encompasses the imperialist era. The change thus marked
off is not an abmpt one: it flows directly from well-entrenched
tendencies inherent in a capitalist economy. The principal new
feature is the concentration of economic power in giant corpora-
tions and financial institutions, with the consequent intema-
tionalimtion of capital.
The urge to dominate is integral to business. Risks
abound in the business world. lntemal and external competi-
tion, rapid technological changes, depressions, to name but a
few, threaten not only the rate of profit but the capital invest-
ment itself. Business therefore is always on the lookout for ways
of controlling its environment-to eliminate as much risk as
possible. In industry after industry, the battle for survival has
also been a battle for conquest, from which the giant corpora-
tions but fitted for their environment have emerged. Their
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tn! NEW IMPERIALISM
rd habits are the result of a process of adaptation’tzthe
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I mtion as ways. of guaranteeing and sustaunng ry. f
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Controlling raw materials sources 15 both a protecuztg
device against prtsure of competitors .215 well as a weaponm
offense to keep non-integrated competitorsnn hnc. O1wnclzfc:
of and control over raw material supplltfs 13: as In ru 3; agroup
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clasic illustration, but this prmctple applies also to the aluminum,
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steel cap 1’ and other indus ’ ,-_
I(2) PcThe pattern of most succusslul manufactormg bun
new includes conquest of foreign markets. Thu 15 5% etteg
where there is as large an internal market as 1n the f me
States In the mass market auto industry, for ciampf, (0:305:
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markets exercxsetl an impoxtan . . . . .
The sixth Ford mr built was slnpped to a Canadian Ellstnltmttord
The Ford Motor Company in its first year 0t operation suar c
making arrangements for building up HS foreign markets.
Despite the very high rate of domestic POPUIIIIIOILIIICIIES:
and the opportunities available in me underdexf’clopc lfzcgu".s
of this country, the drive to develop exports o rIlIIIIIIIItIr’u.__
took root during the very first flush of. nuluftrm II1III7II1I):Im
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Her 7 percent of United States eXpnrts conqstcd of 1m: ICI.
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26 ThE AGE DF IMPERIALISM
inlrmuiiy, a wave of consolidations and th-: move towards Big Business; externally, the drive to capture export markets, including those of industrialized Europe?0
The dynamics of this search for export markets varirs from industiy to industry, and has different degrees of importance at various stages in the evolution of an indus.ry and in different phases of the business cycle. What must be understood in any case is the special significance for industry to maintain these export markets. Lcniifs generalization on this point is most appropriate: Wlihc growth of internal cxcha lge, and particulariy of international exchange, is the characteristic distinguishing feature of capitalism. The uneven and spasmodic character of the development of individual enterprises, of individual branches of industry and individual countries, is inevitable under the capitalist system":l
Foreign markets are pursued (with the aid and support of the state) to provide the growth rate reeded to sustain a large investment of capital and t5 exploi: new market opportunities. In this process, the dependence on export markets becomes a permanent feature, for these markets coalesce with the structure of industrial capacity. In one J:ten’od exports may be the only way out of disaster; in anothee they may be the best way to maintain the How of profits. But as the filling of foreign orders becomes built into the capacity and overhead of the business firm, the pressure to maintain these foreign markets over the long run becomes ever more insistent-especial-1y as competitors arrive on the scene."
(3) Foreign investment is an especially effective method for the development and protection of foreign markets. The clearest histon’c demontzralion of this was th: export of capital for railways, which stimulated at the same time the demand for rails, locomotives, railway cars, and other products of the iron, steel, and machine industries? ’
But this method 01’ penetrating foreign markets becomes ever more prevalent in the age of the giant corporation, characterized as it is by intensification of national rivalries. The roie of foreign investmcnr to capture and exploit sources of raw materiais is evident. More than this, though, is the urgency of foreign investment to withstand the competition, or to pre-emp!
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1:4 HEW IMPERIALISM
nurkets, in the countries where competitive corporate giants
- x’ist. . ’
11:0 The foreign corporate giants. can swing their. own -we1ght in controlling their own domestie markets, or.-In thfiripre-fcrcntial mat’kcts--such as in colonies, degendenues, or sp tents of influence." They can also use their ?olitlcaletrcngth’ to set;p protective tariffs and other trade barriers against outfidcrs. or these reasons, the ability to compete in other com.xtnes and to exercise the kind of market control needed by the giant corporattions calls for a program of foreign in_vestment. The competition between corporate giants resoiycs itself either in eartcl arrangeman or in permanent invasxon of each others markets via. the route of foreign investment. Moreover, this procedure becomes more feasible in the age of Big Business, thahks to the la:ge mam of capital availabie to large .c’orphranons frem their own profits or from what they can mobilize in cooperation with financial institutions.
The foregoing reasons for the spurt of foreign investmertt in the age of imperialism are far from cxhatlstive. There is naturally the attractiveness of increasmg profit rates through taking advantage of lower labor costs abroaci. Ohservc, for example, how The Chase Manhattan Bank slips .m informanon on wage rats in South Korea in its report spelling out the at-

tractiveness of investing in that country.
In fact, the main impetus for Korea’s eeonomic growth ee_rzles
from the determination and drive of its busmcssrpen and 0mm 5.
Americans comment on the dexterity and aptitude of Korean
workers, wht; are available at cash wage rates averaging 651 11
day in textiles and 88; a, day in electronics. These human character-
istics produce industrial results."
Attractive as lower costs are, their :11 Ipeal is not nccessanly
the main attraction of foreign investment. It is merely one of
the influences. Much more important is the spur of develop-
ing raw material resources, creating demand for exports, and
tiling advantage of umonopoly" situations. The latter nnscs due
10 mt: advanzagzcs of Big Business, exclusive patents, superior
tr’tz’wlngy. or preferred market demand stimulated by esleb-
Lianamt at desired brands xi: snlcs promotion. Finally, lomgn
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investment arises from the pressure to establish trade in markets protected by tariff walls or trade preferences. (United States investment in Canada, for examp!c, is a convenient arrangement for participating in British Empire trade.)

The ccmmoniy held notion that the theory of imperialism should be concerned largely with investment in underdevelspcd countries just isn’t co:rcet. The fact is that profitable investment opportunities in such countries are limited by the very conditions imposed by the operations of imperialism. Restricted market demand and industrial backwardness are products of the lopsided economic and social structures associated with the transformation of these countries into suppliers of raw materials and food for the metrepolitan centers.

Our purpose here is not to analyze exhaustively all the factors involved in foreign investment. Rather, it is :0 suggest that there are clear reasons for the spurt of foreign investment in the age of imperialism-as a consequence of the opportunities and pressures accompanying the rise of Big Business. This is not prompted by the maliec of the businessman, but by the nomial and propex functioning; of business in the emditions confronted. The patterns of these investments should be examined in their historical context, in light of the actual situations business firms deal with, rather than in the more usual terms of an abstraction concerning the pressme of surplus capital."

(4-) The drive for foreign investment opportunities and control over foreign markets brings the levd of political activity on economic matters to a new and intense level. The last quarter of the 19th century sees the spreai of prot:ctive tariffs." Other political mcans--threats, wzus, colonial occrpation-are valuable assistants in clearing the way to exercise sufficient political influence in a foreign country to obtain privileged trade positions, to get ownership of mineral rights, to remove obstacles to foreign trade and investment, to open the doors to foreign banks and other financial institutions which facilitate economic cnuy and occupation. ’

The degree and type of political opelation naturally VINT-
In weak outlying territories, colonial occupation is convenirnl-
In somewhat dificrent circumstances, bxibcry of officials N
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Iggns (via banks or state institutions) are appropriate." Among the more advanced countries, alliances and interest groups are (ormcd.

The result of these developments is a new network of international economic and political relations. The network itself changes in shape and emphasis over time as a resuh of wars, deprestions, and differential rates of industrialization." The forms also vary: colonies,.Scmi-colonics, ’ia varieiy of forms of dependent countries-countrics, which, officially, are politically independent, but which are in fact, enmeshed in the net of financial and diplomatic dependeneefm and junior and senior partners among the imperialist powers. The significant theme is the different degrees of dependence in an international economy, 3:: international economy in continuous ferment as a result of the battles among giant eorpoxztions over the world scene and the operations of these corporations along with their state governments to maintain domination and control over weaker nations.

The oversimplifieation which identifies impel’iaiism with colonialism pure and simple neither resembles Lenin’s theory nor the facts of the ease. Similarly fallacious is the version of Lcninis theory that imperialism is in essence the need of advanced countries to get rid of a surplus which chokes them, and that this surplus is divested through productive investments in colonies.

The stage of imperialism, as we have tried to show, is
much more complex than can be explained by any simple
formula. The drive for colonies is not only economic but in-
volves as well political and military ecnsiderations in a world
of (ompeting imperialist powers. Likewise, the pressures behind
lorcign investment are more numerous and more involved than
(nerdy exporting capital to backward countries. There is no
)unpie exphnntion for allithe variations of real economic and
t’lthtiml changes, nor is it fruitful to seek one. The special value
’ii i’llin’lithtory is the highlighting of .’l the principal levers
??.x’ he": moved international economic relations. T hesc levers
’V’ ’t’ I-r’t nwxiatnl with the new stage of monopoly and
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whenever feasible, domination and control over sources of supply and over markets. The fact that these ate still the principal levers explains why the theory is stilli relevant. But the particular forms in which these factors operate and become adapted to new conditions requires continuous reexamination.

Modern Features of Imperialism

The imperialism of today has several distinctly new features. These are, in our opinion: (1) the shift of the main emphasis from rivalry in carving up the wuld to the struggle _ against the contraction of the imperialist sy..tem; (2) the new role of the United States as organizer and leader of the world imperialist system; and (3) the rise of a technology which is international in character.

(1) The Russian Revolution marks th: beginning of the new phase. Before the Second World War the main features were the expansion of imperialism to cover the globe, and the conilicts mnong the powers for the redistn’bution of territory and spheres of influence. After the Russian Revolution, 2 new element was introduced into the competitive struggle: the urge to reconqucr that part cf the world which had opted out of the imperialist system and the need to prevent others from leaving the imperialist network. With the end of the Second World4 War, the expansion of the socialist part of the world and the brcnk-up of most of the colonial system intc Isified the urgency of saving as much as possible of the impetialist network and reconquering the lost territories. Conquest in this context takes on different fomts, depending on the circumstances: military and political as well as economic.

While the imperialist powers did not give up the colonies gladly or easily, the main purposes of co!onialism had been achieved prior to the new politic’tl independence: the colonies had been intertwined with the world capitalist markets; their resources, economies, and societies had become adapted to the needs of the metropolitan crntc: . The current task of imperialism now became to hold on to as many of the economic and financial benefits of these former co!onies as possible. And thi!

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of course meant continuation of the economic and financial dependency of these countries on the metropolitan centers. Neither in the period right after the Russian Revolution nor in our own day does the central objective of extending and/or defending the frontiers of imperialism signify the eIimination of rivalries among the imperialist powers. However, since the end of the Second World War this central objective has dominated the scene because of the increasing threat to the imperialist system and because of the greater unity among the powers imposed by United States leadership."

(2) Up to the end of the Second World War political and military operations in the imperialist world system were carried on in the traditional method of alignment in blocs: competitivetinterests in one bloc were tempomn’ly repressed for the sake of a joint offense or defense against another bloc. The composition of these blocs changed over time as did the tactical advantages sought. Since 1945 the new phenomenon is the assumption by the United States of leadership of the entire imperialist system. As a result of its maturing economic and military strength and the destruction inflicted on rivals by the war, the United States had the capacity and the opportunity to organize and lead the imperialist network of our time.

The organizing of the postwar imperialist system proceeded through the medium of the international agencies established toward the end of the war: the United Nations, the World Bank, and the International Monetary 17und-in each of which the United States was able, for various reasons, to exercise the leading role. The system was consolidated through the activities of UNRRA, the Marshall Plan, and the several economic and

military aid programs financed and controlled from Washington.
The new perspective .of United States lcadetship was re-
lcmdtto indirectly by Secretary of State Rusk when he called
mention to the fact that the United States is "criticized not for
urriiiting our national interests to international interests but
!-.:r Icndcavoring to impose the international interest upon other
1.4!th " (Emphasis added.) This criticism is not rejected by
1H ?’i-I’hf) o! Stale. Indeed, he is proud o! It: "This critic.
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The tic-in between monopolistic trends and the flow 01
Investment to Europe is indicated by the 1011owing: in the
three ’biggcst European markets (West Germany, Britain, and
France) 40 percent 01 United States direct investment is ac-
counted for by three firms--E$o, General Motors, and Ford.
In 311 Western Europe, 20 United States finns account for
two thirds of United States investment." Between 1950 and
1965 "more and more of the major companies have bought or
built their way into Europe. By 1961, 460 of the 1000 largest
US. companies had a subsidiary or branch in Europe. By 1965,
the figure had risen to 700 out of 100031"
In short, the internationalization of capital among the
giant firms is of a much higher order today than was the ease
fifty years ago when Lenin wrote.his work on imperialism.
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stock uchanges dealt almost exclusivdy in railroad and bank secunucl-
Until the late 1880’; industrial companies remained too mall and 100
little known to speCulators. It was not until 1890-1893, at the start of the
major concentration and merger drive, thet industrial securities belt!
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ggggndustxllslr Securities, 1837-1902" in The Businr’u Hittory Review 1:11;:
Ch. , pp. 0 J-IJS. See also Gabriel Kolko, Th1 Tn’umph oI Comcrhat’ ’
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12. battle as in. 9, p. 52.
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3:310:25, 1t steady growth In the size and cost 01 armies and tmvics " Qui
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"fatality! to monopoly, he notes: "Concentmtinn has rtn(chet; 111: hill:
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futile tomorrow if new methods are npsliezl "M31633 taday may be made
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"scapitnl are invested." Ibid., p. 83.
18. Mira Wi’kins and Fra 1t ’
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Ford on Six Continents, Dctrtgt, 13:31:13,112"? Amenwn 3mm." Abroad.
. 19. Matthew Simon and David E. Novark, "Some Dimensions 01 th
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64 THE AGE OF IMPERIALISM
Americnn Commercial Invasion of Europe, 1871-1911: An Introductory
Busy," in journal of Economic History, December. 1964-, Table 2.
20. Note K150: "The composition of manufactured export: ha: been
changing Ceasclcssly since 1379 in e hitly consistent tlircction-away from
produt't: of animal or vegetable origin and toward those 0! mineral origin.
Among those of mineral origin, the trend ha been away from com-
moditie: closely tied to the production of nw materials, such as petroleum
products, to metal products, including machinery end vehicles; and
within the metal products group the shift has been to the mom complat
1 machinery and vehicles." Robert E. Lipsey, Price and Quantity Trend: in
the Foreign Trade ol the United Stator, Princeton, 1963, pp. 59-60.
21. Op. cil., p. 62.
22. It is Customary to think of competition and monopoly a direct
opposites. This is quite proper according to dictionary definitions. How-
ever, in Marxist literature, the terms competition and monopoly are
used to designate different phases of capitalist society. 1n neither of
these phases is there either pure competition or pure monopoly. Indeed,
it is the VL'ly essence of the theory of imperialism to recognize that compe-
tition exists within the monopoly phase. Competition is between giants 01' the
um: induatry (within and outside the nation) end between industries
(steel vs. aluminum vs. plastics, for example).
23. Thus, all the iron material for India't railroads wu imported from
England. Even in the United States, which had a growing iron industry,
iron rail: were imported from England. South Wales iron mtuten tool:
part of their payment for this iron in the form of bonds of the railroad
companies.
24. Korea, Determined Stride: Forward, The Chase Manhattnn Bank,
May, 1967, p. 3.
25. For a criLiQue of the "aurplut capital" abstraction and suggestion:
for more tiguilicnut analysis of current developments, tee Paul A. Baum
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of. Economic Dynamics and Planning, Euay: in Honour of)vlt'thal Kaluh',
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26. It is one of the significant ironic: of these times that the wave of
protectionism followed on the heel: of the widespread adoption of the
intermtionul gold :lmdard. "The agrarian crisis and the Great Depret-
sion of 1873-86 had shaken confidence in economic lcll-healing. From now
onward the typical institutions of market economy could usually be intro-
duced only it accompanied by protectionist measures, all the mate IO
because since the Int: 1870.: and early 1380': nations were forming them-
selves into organized units which were apt to suffer grievously from the
dislocation: involved in any tuddeu adjustment to the needs 01' foreign
trade or foreign exchanges. The wpmme vehicle of the expansion of
marlzet economy, the gold Itandard, was thus usually accompanied by the
simultaneous introduction of the typical protectionist policies of the age
luch am social legislation and customs tariffs." Karl Pohnyi, Tho Gun!
Tramiormalion, Boston, 1957, p. 214.
27. For documentation and analysis see George W. F. Haugancn.
Impavialinnw Var 1914, Munich, 1963; Ind Herbert Feit, Europa TM
World': Banker, 1870-1914, New York, 1965.
28. On the quettion of uneven rate of development; "Thus, Gru'
THE NEW IMPERIALISM 65
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rejects the dehmtteh advocated by Karl Kaulskyywhich confinne?)i:hlt?cct:lally-
nut to the .ICquSIIIIOn of raw material! supplying colonies' that is the
.ttempt by Industnali:cd capitalist countries to control and ahnex rrhrian
regions. 11c debate: this point in terms of the condition: existing porim' to
and-dunng World 1N2: 1: "The characteristic feature of imperialism is
ptensel! (llat.ll."rn'6l to annex not only ngriculturhl regions but even
highly tndustnahzcd region) (German appetite for Belgium; Pirench ap-
petite tor Lorraine), because (1) the fact that the world it already divided
up oblige: those contemplating a new division to reach out tor any kind of
territory, and (2) because an essential feature of imperialism is the n'vairy
.' bgtwcen a number of great powers in the striving for hegemony, i.e., for

t e conquest of territory, not to much directly for themselves as to weaken
the adversary and undemtinc hi: hegemony. (Belgium is chiefly necessary
to Germany as A base for operations against England; England needs
Baghdad as a base for operations against Germany, etc.)" Ibid., pr). 91-92
30. We are referring here wturally to the main drift. France’s. aren’t t
to break out 01’ the close ties of the U.S. international system ii 011;
example of strain. Another example of potential strain is the pro mm ’
important group: in West Germany to create a two political gbloc 1):;
Europe which, on the one hand, can compete more effectively with the
us. and, on-the other hand, can be used to pull back some of Eastern
Futopenh locmltst countries (notably East Gcnnany-but other: as w 11)
mm thetr_own imperialist "associations." These tensions are involved in cthe
maneuvering With respect to the international gold exchange and d 11
lystcm, wluch will be disCussed later in the article. 0 31’
31. This and the .c d’
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311:. :11: Economitt, London, January 27, 1968.
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our tn the acqumtlon by the United States of oil reserves in 1mm
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34. Same a. tn. 31, p. 700. m ammo" book
35. Ham H. Landsbcrg, Nulum! Raoulce: Ior US. Growth Baltimore
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36. The Commiuion on Foreign Economic Po1icy, Stall Paper: Pr:-
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THE DEVELOPMENT OF MONOPOLY CAPITAL
THE tendencies in capitalism which lead away from free competition among producers and towards the formation of monopolies are closely connected with the rising organic composition of capital which has been discussed in earlier chapters. Two aspects have to be taken into consideration: first, the growth in constant relative to variable capital; and second, the growth in the fixed portion of constant capital, i.e. in buildings and machines relative to raw, processed, and auxiliary materials. The result of both of these trends is a rise in the average size of the productive unit. Marx noted that this could come about in two ways, which we must now examine.
l. CONCENTRATION or CAPITAL
if individual capitalists accumulate, so that the quantity of capital under each one’s control increases, this makes possible an enlarged scale of production. Marx called this process ’concentration of capital’ Concentration in this sense is a normal accompaniment of accumulation and obviously cannot take place without accumulation. The converse, however, is not necessarily true, since it is possible to imagine accumulation at the same time that individual capitals are declining in magnitude, perhaps through repeated subdivisions among heirs at death. Despite counteracting tendencies of this sort, concentration by itself would undoubtedly be sufiicient to account for a steady rise in the scale of production and for a tendency, at least in some lines, towards the limitation of competition. Alongside of concentration there is a second and even more important process which Marx called ’centralization of capital.’
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CENTRALIZATION OF CAPITAL 25$
2. CENTRALIZATION OF CAPITAL
Centralization, which is not to be confused with concentration, means the combining of capitals which are already in existence:
This process differs from the former in this, that it only presupposes a change in the distribution of capital already to hand and functioning; Its field of action is therefore not limited by the absolute growth of social wealth, by the absolute limits of accumulation. Capital grows in one place to a huge mass in a single hand because it has in another place been lost by many. This is centralization proper, as distinct from accumulation and concentration.I
Marx did not attempt to expound the laws of this centralization of capitals’ but rather contented himself with ’a brief hint at a few facts.’ This was due to the plan of his work and not to any belief that theiphenomenon was unimportant. Even so, his brief hint is instructive and will beat examination.
The primary and underlying factor in centralization is found in the economies of large-scale production. "Hie battle of competition is fought by cheapcning of commodities. The cheapness of commodities depends, ceteris paribus, on the productivencss of labor, and this again on the scale of production. Theres fore the larger capitals beat the smaller.’ 3 Some of the smaller capitals disappear, others piss into the hands of the more efiicicnt concerns which in this way grow in size. Thus the competitive struggle itself is an agent of centralization.
There is another force making for centralization which operates in a different manner, and this is the lcredit system.’ As Marx uses the term, the credit system is to be understood in a .broad sense to include not only banks but the entire financial machinery of investment houses, security markets, and so on.

In its beginnings the credit system sneaks in as a modest helper
of accumulation and draws by invisible threads the money re-
sources scattexed all over the surface of society into the hands
of individual or associated capitalists. But soon it becomes a new
and formidable weapon in the competitive struggle, and finally
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it transforms itself into an immense social mechanism for the centralization of capitals.a

Centralizntion via the credit system, in its developed form, does not imply the expropriation of smaller capitalists by larger, but ’the amalgamation of a number of capitals which already exist or are in the process of formation . . . by the smoother road of forming srock companies’i This is by fat the most rapid method of extending the scale of production. rIihe world would still be without railroads if it had been obliged to wait until accumulation should have enabled a few individual capitals to undertake the constmetion of a railroad. Ccntralization, on the other hand, accomplished this by a turn of the hand through Stock companicsfa

The end of centralization in any line of industry is reached when there is only one firm leftf but for society as a whole the utmost limit would not be reached luntil the entire social capital would be united either in the hands of one single capitalist, or in those of one single corporation."I It is clear from this remark, and indeed from Marxls whole discussion of cmtralization, that he did not regard the process from the point of view of legal ownership-which might be distributed among a large number of shareholders-but rather from the point of view of the magnitude of capital under unified direction.

The main effects of centralization, and to a lesser degree of concentration proper, are three in number. In’ the first place, it leads to a socialization and rationalization of the labor process within the confines of capitalism; in this connection Marx speaks of the progressive transformation of isolated processes of production carried on in accustomed ways into socially combined and scientifically managed processes of production.’ ’ Secondly, centralization, itself the consequence of technical change and the rising organic composition of capital, acts to hasten technical change forward. ’Centralizalion, by thus accelerating and intensifying the elfects of accumulation, extends at the same time the

’To the 4th German edition, Engels added the following footnote: ’The latest English and American "trusts" are aiming to accomplish this by trying to unite at least all the large establishments of a certain line of indmtry into one great stock company with a practical monopoly.’ Capl-MI I, p. 688.

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revolutions in the technical composition of capital which increase its consrant part at the expense of its variable part and thereby reduce the relative demand for labotf ’ The third effect, which did not concern Marx at the particular stage of his inquiry where he treated centralization, is an obvious corollary, namely, the progressive replacement of competition among a large number of producers by monopolistic or semi-tnonopolistic control over markets by a small number.

3. CORPORATIONS

We have seen that Marx recognized the corporation as an essential instrument of centralization. He was also aware that corporations had certain further, and far-rcaching, implications for the character and functioning of capitalist production. These are pointed out in one of the draft manuscripts which Engels put together to form Volume III of Capital," sketchy as the analysis is, it nevertheless shows Marx to have been far ahead of his time in recognizing the significance of this problem.

Marx makes three main points in connection with stock companics:

I. An enormous expansion of the scale of production and enterprises, which were impossible for individual capitals . . .

2. Capital . . . is here directly endowed with the form of social capital . . . as distinguished from private capital, and its enterprises assume the form of social enterprises as distinguished from individual enterprises. It is the abolition of capital as private property within the boundaries of capi-

talist production itself.
3. Transformation of the actually functioning capitalist into a mere manager. an administrator of other people’s capital, and of the owners of capital into mere owners, mere money capitalists."
The first of these points has already been dealt with. The second and third summarize terscly the gist of a large body of literature on corporations of the last two or three decades.
bCapiml l. p. 689. This is not the only effect of centralization on technological change. See below, p. 276.
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Private production, already weakened with the coming of the factory system, disappears almost’entitely in the large corporation, and the actual owner of capital withdrawsmore or less completely from the productive process. Marx, however, does not make the mistake, which many modern writers on the subject have made, of rcgardihg the corporation as a direct step towards social control over production. On the contrary, the consequence of this new development is ’a new aristocracy of finance, a new sort of parasites in the shape of promoters, speculatnrs, and merely nominal directors; 2 whole system of swindling and cheating by means of corporation juggling, stock jobbing, and stock speculation. It is private production without the control of private property.’ ’0

The Marxian theory of corporations was elaborated and extendcd by Rudolf Hilferding in his important work Finance Capital, published in 1910. Economically the most important aspect of the corporate form of organization is the dissolution of the unifying bond between ownership of capital and actual direction of production, ’the freeing of the industrial capitalist from the function of industrial entrepreneur,’ as Hilferding expressed it." it was in developing the implications of this phenomenon that Hilfertling made his most important contribution to the theory of corporations.

It is not the corporate form as such which transforms the industrial capitalist into a money capitalist; a private firm can go through the legal procedure of incorporation without changing anything essential from an economic standpoint. What is decisive is the growth of a reliable market for corporate securities, itself a long hisrorical process which cannot be analysed here. The reason for this. is clear: only through the securities market does the capitalist attain independence of the fate of the particular enterprise in which he has invested his money. To the extent that the securities market is perfected the shareholder resembles less and less the old-fashioncd capitalist-operator and more and more a lender of money who can regain possession of his mnney on demand. One difference always remains, namely, that the shareholder runs a greater risk of loss than the pure lender and hence the yield on shares can be expected to exceed interest on money by a variable risk premium. With this quali-

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fication, the transformation of the shareholder from an industrial capitalist receiving profit into a money capitalist receiving interest is in principle complete.

The first consequence of this transformation is the appearance of ipromotcris profit’ (Griindergewinn), which Hilferding correctly designates as ’an economic category sui generis.’ ’2 if an enterprise (already in existence or projected) will yield, say, 20 per cent on the capital invested in it, and if the yield on shares in enterprises of comparable risk is ten per cent, then by incorporating the enterprise and lfioatingi it on the market promoters will be able to sell shares to double the amount of acttually invested capital. The difference goes directly or indirectly into the pockets of the promoters who are thereby enriched and strengthened for further operations. Promoter’s prolit is both an incentive to the formation of corporations and a source of great fortunes; in both ways it fosters the growth in the scale of production and the centralization of capital.

The act of promotibn is consummated in the issuance and sale of new securities to those who dispose over free money capital. It is for this reason that the specialist in selling new securities comes to occupy a key position in the formation of corporations, frequently performing directly the functions of promotion and reaping the lion’s share of promoter’s profit. In Germany the large commercial banks, with their extensive resourcesiand financial contacts, earlywvent into the business of selling new securities and established for themselves the primary place in the field of promotion. In the United States, on the other hand, it was , the private bankers. dealers in domestic and foreign exchange, who first entered the field of new securities and in this way

gradually evolved the institution of investment banking as distinct from commercial banking, though at a later stage of development the commercial banks entered the investment banking business through the medium of so-called securities affiliates. In spite of the somewhat divergent paths of development, which were probably due as much as anything to differing legal limitations on the freedom of commercial banks. the result in both Germany and the United States, the two countries which Hillicrtling took as the basis for his gcncralizatinns. was substan-
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tially the same. Financiers played the dominant role in promotion and in this way achieved a highly significant. and even for .1 time dominant, position in the corporate structure. It was on the basis of this phenomenon that Hilferding entitled his book Finance Capital. XVe shall see below. however. that Ielilferding erred in the direction of overestimating the importance of financial dominance in the latest stage of capitalist development.

Besides laying the foundation for pronmtcr's profit, the separation of the individual capitalist from his role in the productive process leads to a further centralization of control over capital. Nominally control in the corporation rests in the hands of the

of one's own capital dominance over the greatest possible amount of other people's capital."

We have now to notice the final step in the centralization process made possible by thcicorpomte form. On the one hand, ptomotcr's profit puts vast wealth in the possession of a relatively few capitalists and banking institutions; on the Other hand this wealth can be invested in such a way as to secure control over a far larger aggregate of capital. In this fashion, as lrlilfcrdingr expressed it.

there is formed a circle of persons who, thanks to their own possession of capital or as representatives of concentrated power no

. .. -.-.-..._---..

hotly of shareholders. hut etcn legally the owners of a maymty over other people's capital (hank directors), 5" upon the govern- :

01 me shares '1;ch Virtually complete control over the capital ing boards of a large number of corporations. There thus arises

Contrihutcd by all the shareholders, and in practice the propor- l a kind of personal union lPersom/zmionl, on the one hand bc-

. . . . - n . t u u I '.

non required is ordinarily much less than a majority, into more , tween the ththtcnt corporations themselves, on the orhct he-

! than a third to a fourth of the capital and even less.' '3 Because ! , tween the lilftCl'_ and the banks, a CIFCUP'DWUCC Which ".1"st he

I of this fact the big capitalist who can command a large block of 2 0f the gtcatcstl ""Polrmnci for the POI'CY Of these 'PsFm'm'" f

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! shares in one or more corporations IS able to bring under his I smee among, rm." .t iere nsuansen a L y

.. . - . . l (gememmmc Bentzmterestej.

cuntml an amount of capital several times what he owns. Thls I

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l hriiigs (nit clcaily an attrihutc of the corporate form of organiza- I In many cases this personal unton among insidets Is the '

j mm which I'lllfcrdlng did not make explmt enough, namely, . patent, or at least forerunner, of St!" closer orgamzatxonal um- i

' that while ownership of shares as such is divorced from the ! fication,tntheforn1 0f cartels, trusts, or mergers, mmCdf'WSC'IY)r

; control and direction of production, nevertheless ownership of at monopolistic control over the Inatket. These organizational -

j a sulticicntly large quantity of shares carries with it control over . forms W'" be consndered separately m the next section.

production on a multiplied scalcf' . fhe general consequences of the spread of the corporate form .

Even this, however, untlcrstatcs the possibility of ccntraliza- can be suinnianzed'as follows: IntenSIficatton of the centrahza- f

3 tion of control through use of the corporate form, for it must "0" process along w'm '1" acceleration 0f GCQ'WU'GUOH '" .gen- 1,

t he remembered that one corporation can own the shares of one I etal, 0" the one hanfd;

_On (h? "Th", formation Of a relatively ?

' or more other corporations. Thus a capitalist may control cor- small "PP" ?a-Ycr 0 b'S capitallit? XFHL coutrohextends far 7

a u i . . . V 1 h v ' II t I

1 poration A by owning, say, onc-thlrd of its shares. Part of the be) 0nd HIT hnnts if th eltdogt ""5 EP' he. Lu"; POE"? has been I

. I . ' t ') ' ' . I 1

capital of A may be used to gain Control over corporations B, so gelnenf) lnusunt Lsstoo) mo em writers tnt It is perhaps 1

C and D, and the capital of these in turn to bring into the fold thn’tt a utt N’r h or I.
d h b . f E
-- . -- ’ e e-wmvrc mucao ear’o ’-
sull turther corporations. WVItli the development of the corpo- h’ n rfcc nt y ats l e ’c
la lit 5 Err." n 0 muter :
. . . . I on con to m tie ar e cor oration. t’s s a ’ ’ z
1 rate form there comes into CXISICHCC a spcczal financmg tech- 5 P .r. I t .g. . P u I c
oriect
. . ’l .1 . . . H . description of actual trends if It IS taken to mean that concen-
l nllllIL n llLl has the pmposc ot aaslmng to the smallesr amount
’Da: Fimnzkapital pp. 130-31 Hilfetding noted that ithis technique -’
- - .. -. ;. - 4 - .- . . t. . ’ . . . z
i XX: hate here an apt Ilitistratlon of the d.alectical principle that under has reached
"5 ctfecuon m the financtng of the Amcncan railroad s .5_ i
W certain Circumstances a change In quantity beyond a definite pomt leads tems’ (p. 131).
Ve should have to say today that even this level. high ;
1 m a Chmk’c "1 (N’al’W- as it was. was surpassed in the publicuutility field during the
19205. -’
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...--..-m---.a.v...._.-...t.t.-t...i-.t....._..... . H .t t MN.--" v ..... wan", .._V.
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-..wy.p....n.... ..,.-..aq.-n. .- .-m.....-. n-r-uawN-www-w-u .m

tration of control over capital is not limited by the concentration of ownership. If, however, it is interpreted as implying that control passes out of the hands of owners altogether and becomes the prerogative of some other group in society, it is completely . erroneous. What actually happens is that the great majority of # owners is stripped of control in favor of a small minority of owners. The large corporation means, thus, neither the democratization nor the abrogation of the control functions of property, but rather their concentration in a small group of large property owners. What many property owners lose, a few gain. Ieiilfctding was perfectly correct when he said that ’capitalists form a society in the direction of which most of them have nothing to say. The actual disposal over productive capital be- ’I: longs to those who have contributed only a part of it.’ ’

4. CARTELS. TRUSTS, AND MERGERS ’

The final stage in the development of monopoly capital comes with the formation of combinations which have the conscious goal of controlling competition. This stage is reached only on the basis of a relatively high degree of centralization which, by reducing the number of enterprises in a given line of production, makes competition increasingly severe and perilous for the survivors. Competition tends to turn into cutthroat competition which is beneficial to no one. When this happens the ground is ready for the combination movement.

Marx completed his economic writings before the combination movement got under way and consequently there is no analysis of it from his pen in the three volumes of Capital. By the time Engels undertook the editing of Volume m in the middle ’805, however, the direction of events was already clear. In a long note inserted into Marx’s discussion of corporations, Engels spoke of ithe second and third degree of stock companies’ in the form

’ Day Finmzzkapital, p. 145. Factual proof of this thesis. so far as the United States is concerned. is now abundantly available in two carefully documented reports issued by the Temporary National Economic Committee. namely, Monograph No. 29, The Diuribmion of O’wmnbip in the 200 Largest Nonfinancial Corporations; and Monograph No. 30, Survey of Shareholding: in mm Corporation: with Securities Listed on a National Securities Exchange.

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of cartels and ’in some lines . . . the concentration of the entire production of this line in one great stock company under one joint management.’ The long cherished freedom of competition,’ Engels remarked, ’has reached the end of its tether and is compelled to announce its own palpable hankruptcy.’ n

Hilferding, with the rich experience of Germany and America in the years from 1890 to 1910 before him, was able to build this insight into the body of Marxian economics. Our analysis follows that of Hiifcrding in general outline though with appropriate modifications for readers more familiar with American than with German conditions.

The specific characteristic of the organization forms which are now under examination, which distinguishes them from corporations as such. is that they are deliberately designed to increase profits by means of market controls of a monopolistic character. The achievement of this aim involves the limitation or abrogation of the independence of action of the enterprises concerned and - their co-ordination under a definite unified policy. Since there is a wide range of degrees of limitation it follows that manv different forms of monopolistic combination are possible. We shall mention some of the most important, beginning with the looses: form of association and proceeding to the complete merger of the competing firms. It must be kept in mind throughout that a community of interest between competitors, based on interlocking dircctorates or common banking connections, if it exists, smooths the way for and greatly strengthens the tendency towards combination. Indeed, it might even he said that a community of interest is in a sense a type of combination which easily leads to more binding forms.

Perhaps the weakest form of combination is the so-called

’gcntlcmenis agreementl which is essentially the articulation of a common policy agreed upon by competitors but without binding force for any of them. The incentive for each individual firm to break the agreement, however, is strong, and arrangements of this nature rarely last beyond a short period.

A further stage is reached with the formation of a Ipool’ in which business is allocated according to a formula agreed upon among the participants. The pool agreement is generally reduced to writing, but its enforcement depends primarily on the volun-

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1. Histerical Background:
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anune 1969 the International Chamber ofCommerce held its fiftieth anniversary congress in Istanbul. To mark the occasion the organizcls wanted to find a suitably momentous theme. So the Chamber’s president, Arthur K. Watson,"’ who was at that time chairman of IBIVPs World,Trade Corporation,1’ proposed "T he Role, Rights, and Responsibilities of the International Corporationh The choice proved a good one. More than 1,800 delegates turned up, among whom were the heads and other senior executives of most of the world’s leading companies. There can be no doubt that in business circles the importance of the growth of large international companies, and the gravity of the resulting problems, is fully appreciated.
th Watson’s choice came in for some criticism. Several of the larger multinationals felt it was dangerous to stir up debate on this subject. Leroy D. Stinebower, a vice-presidcnt of Standard Oil (New Jersey), expressed concern lcst tall this talk lead host countries to believe that international companies are something completely new from what wetvc had in the past, which will cause them either to welcome or discourage investors because they fit some description they’ve read of multinational companies’.1
Another delegate was more succinct: WVe do ourselves a disservice,’ he said, Hf we emphasize the newness of this subject t(-t. ’i The critics represent a substantial segment of business opinion. Many industrialists feel it is-
’Arthur K. Watson is now the US. ambassador to France.
. TThe IBM subsidiary responsible for the company’s non-U.S. Interests.
zBusinm Week, I4June 1969.
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dangerous to discugs the implications ofthe rapid growth of ’
international companies in public. They argue that it tends
to alarm governments and public opinion, and will there.
fore provoke political action that will be harmful to their
interests.
They prefer to argue that international companies have a
long history, and that, despite their rapid growth in the post-
war period, the novelty of the present situation is being
exaggerated by politicians and writers.- They have plenty of
ammunition to draw on. Banking has been conducted on
international lines since the Middle Ages; some academics
trace the origins ofintemational trading companies back to
the hiesopotamians, and even if that thesis is rejected it is
true that the East India Company, which at one time ruled
India, was established in the reign of Elizabeth I; in the
nineteenth century companies from Britain, the U.S., and
several European countries were conducting huge inter-
national trading operations, while othcm were running pub-
lic utilities, such as tramways, and gas and electricity under-
takings in foreign countries; also in the nineteenth century
companies from several countries, notably Britain and the
U.S., exploited the raw material and natural resources of
Latin America, Asia, Africa, and Australia on a vast scale;
from about 1860 onwards manufacturing companies began
to establish production facilities outside their own countries,
and by 1914 many of today’s giants were already operating
in several countries.
International companies are certainly not a new pheno-
menon. But to list these examples is to evade the issue."l The
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’ Comparisons are also sometimes drawn between the enormous inter- .
national investments of Britain in the nineteenth century, and those of
U.S. and other international companies today. These are based on I
misconception.
Britain Was indeed an ennrmnns foreign investor, and at the outbreak
of the First World War its overseas investments amounted to some
1:4,ooom. compared with about ,6 l ,2oom. for Germany, and ,CGoom. for
the U.S. But international companies comparable with those whose
operations are discussed in this book played a negligible role in this total,
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Historical Background
present situation is quite different from the past, and it is
important to be clear about those diITercnccs.
The most striking characteristic of the modem ’multi-
national company il 11: central direction. However large it
may be, and- however many subsidiaries it may have scat-
tered across the globe, all its operations are coordinated
from the centre. Despite frequent assertions to the contrary,
the subsidiaries are not run as separate enterprises each of
which has to stand on its own feet. They must all work’
within a framework established by an overall group plxm
drawn up at headquarters, and their activities are tightly
integrated with each other. They are judged not by their
individual performance, but by the contribution they make
to the group as a whole. Thus a subsidiary which records a
loss but whose operations prevent a rival from moving into
one of its parent company’s more profitable markets may be
fulfilling a more valuable task than a subsidiary with a
better financial record.
. Central direction of this sort only became possible in the
last two decades. It depends for its elTectivencss on rapid and
reliable air travel, an efficient telephone, telegraph, and tclex
system, and computers capable of handling a mass of infor-
mation. W hen trans-Atlantic and trans-Europcan journeys
Some forty per cent of the British investments were in the shares of
foreign or imperial railway compaqim, thirty per cent in government and
municipal bonds, ten per cent in raw materials, and right per cent in
banking and finance. These were portfolio investments undertaken for

the purpose of financial gain. They did not involve control of the operations in question, as the history of the U.S. railroad companies, much of whose stock was owned by Britons, so amply demonstrates. Nor did they evolve ownership ofphysical assets, except in cases of default. Contemporary international companies, by contrast, make direct investments, which means they establish or take over subsidiaries and factories in foreign countries which they own and control.

Portfelise ’ . it still nourishes on a very large scale, as the enormous hm-opcan holdings on Wall Street, and huge investment: by Britons and Americans in Australian shares, show. But there is all the dill’crcnce in the world between buying shares in a foreign company, Ind establishing a subsidiary in a foreign country.

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took several days, and most communications were by letter, it was impossible, Subsidiaries had to be left with a large measure of independence, and their operations had to be kept separate. Each was established to serve its local market, ’ not as a link in an integrated network. ’

- Another factor preventing closer integration, especially between the wars, was the absence ofanypommonly accepted set of rules governing international trade. Countries signed separate and often mutually exclusive trade agreements with each other. T hus a factory in one country might be used to supply components to a plant in another, but it eduld not do so on the same terms to a plant in a third. As a result of the establishment soon after the war of the General Agreement on Tariffs and Trade (GATT), to which all but the Communist countries subscribe, this problem has been immeasurably reduced.

After central direction, the most notable feature of the inodcm multinational companies is their importance, which is increasing all the time, in the industrial and economic life bf the most powerful nations. This is shown by their leading positions in key manufacturing industries, and their influence on the flow of trade among developed countries. In "the past the main impact of international companies, except in banking, insurance, and fmanccfwas felt in the colonial and semi-colonial territories. The companies themselves iwere generally involved in trade, the running of public tutililies, or the exploitation of raw materials through mining, plantation, and ranching ventures. In the more adjvanced countries the role of international companies was .very small until after the Second World War, as the figures gfor U.S. direct investment in Europe show. In 1929 their total book value, including ventures ofevery sort, amounted ;to only 151,4oom.; by 1946 it had fallen to 81,000m. Then Icame the post-war boom, and by 1969 it had risen to "$2 I ,554m.,of which manufacturing companies accounted for’ ’812,225m., and oil companies for $4,805m.’ ’ Department of Commerce.

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Historical Background

The vast and rapid expansion of the last twenty years has brought momentous changes in its train. In the past it was a. characteristic of an independent country that the most powerful economic interests in the state - at first the great landowners and later the great manufacturing companies - should be citizens. Today these interests may just as easily be forcign-owned, and even if they are domestically owned they may have interests and commitments abroad that are greater . than those they have at home.

The forerunners of the modern multinationals began to expand beyond their home countries in significant numbers in the 18605. Among the pioneers was F riedrich Bayer, who took a share in an aniline plant at Albany in New York State in 1865, two years after establishing his chemical company near Cologne. In 1866 the Swedish inventor of dynamite, Alfred Nobel, set up an explosives plant in Hamburg. In 1867 the U.S. Singer sewing machine company built its first overseas factory in Glasgow. Singer was the first company to manufacture and to mass-market a product in basically the same form and bearing the same name across the world. It has the strongest claim to be regarded as the first of the multinationals.

Each company that went abroad in search of higher pros fits had its own particular reason for doing so. But there were a number of’factors that influenced them all. Industrial enterprises were becoming larger, and mass markets were beginning to develop. The improvement in transportation and communications thrmigh the development of the steamship, railways and the telegraph drew the attention of manufacturers to foreign opportunities, and made it pos- i sible for them to exercise some control over distant subsi-

diaries. They discovered that it could be cheaper to manu-
i facture in a foreign market near the final consumer than to
l ’do so at home and pay the cost ofshipment. It was for this
1 reason that Bayer decided to invest in the US. and Singer
in Scotland.
The spirit of nationalism also played a part. Companies
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D ’e U . ---n....4p...-...i 1avewr, wguu ..
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"’ " "" " WWW- .Aw, W ."t ,....W.--,_. ._. w... _-.,.-.x- t. i.

TIM Alullinalianals
local needs through local management: who understood
their customers far better than an export manager m the
establish manufacturing facilities in France because ofstipu-
iations in railway contracts that supplies had to be made
locally. Edison built a plant in Germany because it found
that inational feclingi resulted in local suppliers receiving
preference over imports. In addition governments could in
eH’ect force importers to set up local plants by insisting that
patents should be worked in order to maintain their
validity.
However the most important reason for the growth of
international cbmpanies in the last thirty years of the nine-
teenth century was the spread of protectionism, itself a
manifestation of nationalism. Except in Britain, then the
’ worldis leading manufacturing and exporting nation, gov-
ernments everywhere introduced tariffs in order to reduce
imports of manufactured goods, and to foster the growth of
local industries. Sometimes the tariffs were specifically
designed to encourage foreign companies to invest in the
country concerned. This was the case in Canada where the
government wanted U.S. companies to establish local plants
rather than supply its market from over the border. More
usually the object was to encourage the local citizens them-
selves to create new industries. But as there were no currency
restrictions and few regulations preventing foreigners from
establishing factories if they wished to do 30, the more
tariffs were imposed the more international business tended
to become.
The effect tariffs could have on a companyis thinking was
explained in 1902 by William Lever (later Lord Lever-
huhne), the founder of the Lever Brothers soap empire:
"The question oferecting works in another country,’ he said,
’ is dependent upon the tariff or duty. The amount of duties
we pay on soap imported into Holland and Belgium is
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Logan to realize that it was one" more clTective to supply : considerable, and 1i only re
quires that these shall me to sum - a
home omce. Direct pressures of various sorts emphasized ’
this point. The U.S. Westinghouse Airbrake was induced to -
Historical Background , t
3 point that we could afford to pay a separate staff oh 0’
managers with a separate plant to make soap to enable us to .
see our way to erect works in those countries. When the duty , ;
exceeds the cost of separate managers and separate plants, 1
then it will be an economy to erect works in the country that 3
our customers can be more cheaply supplied from them) i t
Other companies responded to tariffs in the same way. In i
1887 Bismarck introduced a tariff designed to protect Ger- i
man agrarian interests against imported food, and to :
encourage a German margarine industry. Within a year the 3.
large Dutch margarine manufacturer, Jurgens, had built a i
thctory in Germany, and by 1914 Jurgcns and Van den ’
Bcrghs, the other principal Dutch margarine company, each 2
had seven factories in Germany. High import duties also i
prompted Bayer to set: up dyestuffs factories in Moscow in
1876, at Flers in France in 1882, and at Schoonaerde in
Belgium in 1908. .
Most of the leading European countries had companies of
their own involved in the new move, but from quite an early
stage U.S. companies began to play’a particularly promin-
ent role. In the 18805 and early 18905 the U.S. went through i V
a period of intense industrial concentration. Over 5,000
companies were consolidated into about 300 trusts, and, 9:
although a great many small companies remained, these
giants dominated the industrial scene. Some, such as Stan- ’ t
dnrd Oil, United States Steel, and International Harvester, Li _
are still household names today. Most had no desire to
extend their activities beyond North America, except to
export their surplus products and to secure raw materials, ’1
but those that did provided formidable opposition to the ’:

Europeans. 1
Their ntanzmement was frequently more cmcient, and be-
cause of . ..u D : profits at home they could afford to allow
a foreign subsidiary to run at a loss while it established its
’17:: History qf Unilever, Volume I, by Charles Wilson (Casscll). I;
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They knew how to think and plan on a much larger scale. r.
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position. When a U.S. company went abroad it often did so in a massive fashion. In 1901 the British were surprised to learn that the local American-owned Westinghouse factory was the largest single industrial plant in the country. john Di Rockefeller's Standard Oil was the largest oil company in Europe, and by 1914 Ford was producing a quarter ofthc cars made in Britain.

Moreover the American emphasis on research and innova-tion coupled with the high cost of American labour often meant that the U.S. secured a lead over other countries in some of the most technically advanced industries of the period, such as telephones, heavy electrical equipment, sewing machines, and cars. Many ofthese had been invented in Europe, but were first mass-produced in the U.S. The result was that Europeans and others frequently went to American companies with suggestions that they establish a foreign subsidiary. The early expansion of the Ford Motou Company occurred in this way. Within a year ofits estab-lishment in 1903 Henry Ford was approached by the Canadian Gordon MacGrcgor with a proposal for a Cana-dian subsidiary, and in 1906 the British I'crceval Perry went to Dearborn with a scheme for a British Ford Company. These approaches enabled Ford to build up its overseas network far more quickly than ifit had to rely entirely on its own efforts.

The movement across the Atlantic was both ways. Some European companies secured very important positions in the U.S. By the outbreak of the First World War, to take only three examples, the British Courtaulds dominated the new and rapidly expanding U..S rayon industry through its subsidiary the Viscose Company (later and better known as the American Viscose Corporation), that dynamic Dutch-man Henri Deterding had established Royal Dutch Shell a! a force to be reckoned with in the oil industry, and Lever Brothers was prominent in soap. In dyestuffs, the forerunner of much of the modern chemical industry, the U.S. pro-ducers were hopelessly outweighed by the Germans and toa

lesser extent the Swiss. U.S. producers supplied only about gen per cent of their own domestic market, and even for this small output they imported about ninety per cent of their intermediates.

In both the U.S. and Europe foreign companies aroused controversy. But the U.S. was so large that beyond their particular industries foreigners did not make a great impact on public opinion. In Europe, by contrast, the U.S. com-panies by virtue of their size in relation to the markets aroused widespread fears. In 1902 F . A. McKenzie wrote: iAmei-ica has invaded Europe not with armed men, but with manufactured goods. Its leaders have been captains of industry and skilled financiers whose conquests are having a profound ellbct on the lives of the masses from Madrid to St Petersburg.' Nothing, he felt, was safe before this on-slaught: 'Our aristocracy marry American wives, and their coachmen are giving place to American-trained drivers of American-built automobiles. . . . Our babies are fed on American foods, and our dead are buried in American coiiins." McKenzie was referring as much to the Hood of imports from the U.S. as to the establishment of U.S. subsi-diaries in Europe. But his outcry was to be the forerunner of many similar attacks on American business abroad down to the publication in 1967 ofjean-Jacques Servan-Schreiber's Le 1)th Americain.

- By l9l4 the concept of the international company was firmly established. This was especially true of those indus-tries, such as cars, oil, chemicals, and aluminium, which are so important today. But the scale of the international com--panies' operations in relation to total economic activity in the industrialized countries was very small. In what were then the most important industries - coal, railways, iron and

’steel, engineering, shipbuilding, textiles, and above all agri-
culture and agricultural products - international companies
played an insignificant role. All the main companies in the
’77:: American Invader: by F. A. McKenzie (Grant Richards,
1902),
’37-?
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leading countries were locally owned. Relevant figures sm- 1
’ almost impossible to produce since countries drew no dis. ’1
. tinction between direct and indirect investment in their
. statistics. But it has been estimated by Professor John
- Dunning that in 1914 ninety per cent of all international
f capital movements took the form of portfolio invutmenti
(by individuals and fmaneial institutions, whereas today
1 seventy-(ive per cent of the capital outflows of the leading
. industrialized nations are in the form of direct investment
i by companies.1’ Another indication of the small scale of
;pre-First World War direct investment is that in 1914
j Britain, the main recipient of U.S. investment, had only
_-’ 12,000 people employed by U.S.-owncd companies:

During the inter-war period a number of companies con-
1 tinued to expand their international interests. T hey were
mostly in the new technologically advanced industries ol’the
i day, or producers of goods for which there was 21 mass con-
: sumer demand. General Motors and Ford were particularly
active in establishing manufacturing facilities in Europe and
elsewhere, while the oil companies created petrol distribu-
tion networks to keep pace with the growth in car owner-
ship. Hoover, Remington Rand, and Procter & Gamble
all crossed the Atlantic in this period, and by 1939 more than
half the employees of the Dutch Philips Electrical were
outside Holland. Another notable international investor was
the German IG Farben chemical trust. Initially in the 1920:
it set out to recover as much as possible of Germany’s pre-
war position in the industry after the expropriations and
sequest’rations ofthe allies. In the 19305 it went on to become
the most powerful chemical company in the world. But the
trend was not all one way. Many companies disposed of

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’For an explanation of the diil’erence between portfolio and direct
investment, see the footnote on pages 30-31. ’ .

1’The Multinational Enterprise: Some Economic and Conceptual
I 151163.. Speech by Professor John Dunning at a conference on the mulli-
l national enterprise held at Reading University, 28-30 May 1970.
l 1 The American Talu-Oucr oan’lain by James McMillan and chanl

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Harris (Lulie Frewin).

their international interests to concentrate on their domestic
markets.

In the intcr-war years conditions were not favourable for
3’ rapid expansion of international direct investment, or the
wth of international companies. There were many factors
to discourage the expansionist. What might be described as
’war psychology’ was the most pervasive. People were not
only living in the shadow of the 1914-18 holocaust, they
also believed for most of the period that another war of some
sort would probably break out. This simultaneously de-
terred companies from investing abroad, while encouraging
governments to aim for industrial sclf-sumciency and to
discriminate against foreigners.

Nationalism was strongest in Nazi Germany where the.
government required companies to ’swearl that they were ’
lpurc German’, and not under lforcignhlewish or Marxist’
control. But it was to be found everywhere. In the U.S. the

American Viscose Corporation, which was the worldis largest rayon producer and owned by Courtaulds, was hounded in Congress and the Press until in 1941 the U.S. Government insisted that it should he sold at a knock-down price as a condition of lend-lease aid to Britain. In France, when the Czech llata company wished to construct a shoe factory, the Poullcn Law of 22 March 1936 was passed forbidding the opening of new factories or ateliers for shoe manufacturing, or the enlargement of existing ones.

The currency situation was another major deterrent to international investment. Before 1914 currencies were based on gold, funds could be moved easily from one country to another, and inflation was not a serious problem. After the warchnostook the placeofcertainty. ln Germanyand Austria in the early 19205 inflation reached the point where money ,bccnme worthless. Nowhere else was it so bad, but every country suffered to some extent. Inllations were followed by dellations, currencies lacked confidence, and exchange controls began to appear.

Finally there was the Great Depression, which brought

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with it a catastrophic decline in the levitl ofworld trade and i U.S- chemical concerns t
hat had been absorbed into those
sent company proftts tumbling like the walls ofjcricho. In i giants. i
thelight of all these factors it is perhaps surprising that I
’ particular industry within one country was frequently re-
inte’rnational companies were able to expand as much as
they did.
The most characteristic form of international industrial
enterprise in the inter-war period was the cartel. There were
many variations on this theme from a straightforward ex- .
change ofinformation on prices and investments at one end
of the scale to common marketing arrangements at the
other. The specific aims of each cartel varied, but the
underlying objective of all was to maintain prices and pro-
ftts, and to provide some mechanism whereby companies
could reconcile their conllicting intereSts without loss of
blood. Inevitably this tended to reduce the level of invest-
ment undertaken by companies in the markets of their
rivals.
As Adam Smith, the father of economics, pointed out in
the eighteenth century, businessmen have an instinctive
preference for curtailing competition rather than for intensi-
fying it. Cartels may be found anywhere, and at any time,
and they still exist today. But in the intcr-war period condi-
tions were particularly ripe for their development on an
international scale. Industrialists were worried about excess
capacity. In many industries they had expanded their l’ac-
torics during the war only to find that after an initial boom
the level ol" post-war demand was lower than they required.
With the onset of the Great Depression the problem ofover-
capacity grew worsct At the same time the number oflargc
companies involved in most industries was quite small owing
to the rise of great monoliths incorporating many smaller
concerns that had taken place through the industrial con-
centration of the preceding decades. It was obviously much
easier for the British Imperial Chemical Industries (1C1),
the German 10 Farbcn, and the U.S. Du Pam and Allied
Chemical to reach understandings with each other than it
would have been for the plethora of British, German, and
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’ To the men who ran the monoliths the concentration of a
garded as merely the first step towards an agreement with
similar concerns abroad. The founders of 101 (established
in 1926) certainly took this view. A Du Pont ollicial recorded
for his company’s confidential files the following account of a
conversation with ICPs chairman Sir Harry (later Lord)
McGowan: iSir Harry . . . went on to give me a general
picture of what he and Sir Alfred Mond (another of ICI’s
founders) had in mind in the matter of international agree-
ments . . . Sir Harry explained that the formation of ICI is
only the fttst step in a comprehensive scheme which he has
in mind to rationalize the chemical manufacture of the world.
- The details ofsueh a scheme are not worked out, not even in
Sir Harryis own mind, but the broad picture includes
working arrangements between three groups - the IG in
Germany, Imperial Chemical Industries in the British
Empire, and D11 Poms and Allied Chemical and Dye in
America. The next step in the scheme is an arrangement of
some sort between the Germans and the British.’ "
The first international cartels were formed well before
1914. One of the earliest documented examples is in the
aluminium industry in which the U.S. Alcoa and the Swiss
AIAG reached an agreement in 1896. In 1901 this was
expanded to include three other producers. Also before the
war the Nobel Dynamite Trust, which at that time had
subsidiaries in Britain and Germany, the German Vereinigte

Koln-Rottwciler Pulverfabrikcn and Du Pont formed an explosives cartel to divide world markets between them. However it was not until after 1918 that the cartels became really widespread. At one time or another they were to be found in practically every major industry. Sometimes their internal arrangements were so extensive

’ Cartel: in Actinn by George W. Stocking and Myron W. Watkins (The Twentieth Century F und).

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and the degree ofrcooperation demanded from their mcm.
bers so far-rcaching that, on paper, the scope of their activi-
ties looks much the same as that of an international company
;with subsidiaries in several different countries. But the
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modern international company is a highly coordinated,
disciplined, and integrated form oforganizmion. The cartels,
by contrast, tended to break down under stress, and the
members often failed to fulfil their obligations to each other.
In the lirst steel cartel, established in (926, the main steel-
producing companies of Germany, Luxembourg, Belgium,
the Saar, and France, undertook, in effect, to pool thcir
interests. It was agreed that each country should be allotted
broduction and export quotas, and that those members who
exceeded their limits should be fined. T o contemporaries the
formation of the cartel seemed an event of great historical
signilicance. A representative of the U.S. Department of
Commerce in London said: IThe conclusion of the Euro-
pean steel agreement has been hailed by some of its sponsors
as the greatest recent economic development and the first
step towards the formation of an "Economic United States
’ of Europe"."’I _
These high hopes were quickly shattered. The Germans
were suffering from an enormous over-capacity, and ex-
ceeded their export quotas from the start. In the first year
of the cartel their fines amounted to the equivalent ol’810m.,
which was ninety-five per cent of the total penalties incurred
by all the members. This situation could not endure, and by
mid-193l the cartel had collapsed.
A second arrangement was started in 1933 to which the
British, Americans, Czechs, Poles, and Austrians in due
course adhered as well as the original members. A central
management group consisting of representatives from each
country was set up, and another representative committee
dealt with the export and sale of the various products (bars,
rods, structural shapes, and the like). The exports of each
country were determined centrally, and all export sales
" Cartel: in Action.
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were made through the central organization. Distributors in
the importing countries were licensed and guaranteed both
a fixed profit margin, and a share ol’their local market. This
cartel was more successful than its predecessor. Prices rose
throughout the duration of its life. But this was at least partly
due to the revival of business conditions in general, and to
the fact that the German rearmament programme meant
that the German companies no longer had to fight for
exports.
The oil cartel was olIicially formed in 1928 when Shell,
AngIo-Penian (nuw British Petroleum), and Standard Oil
(New jersey), the three largest oil companies in inter.
national trade, agreed to combine their ron-U.S. interests,
and to share each other’s facilities. In various markets this
offer was extended to other companies, and usually accepe
ted, even by the Russian export agency. The cartel members
agreed to charge common prices, and not to steal each
otheris customers. At one time they even agreed to co-
ordinate their advertising, and to submit their individual
plans to a joint committee. These commitments undoubt-
edly inhibited competition, and helped maintain prices at a
higher level than would otherwise have been the case. But it
is signilicant that the rules were broken so often that four
separate agreements had to be signed. Even in Sweden,
where there was a relatively small market, few companies,

and unusually close cooperation, Shell estimated that the cartel never achieved more than fifty or sixty per cent effectiveness.

The less ambitious tartels fared no better. In 1927 Courtaulds, and the leading rayon producers in Germany, Italy, Holland, Switzerland, France, and Belgium reached an agreement for limiting exports to the U.S. in order to maintain prices there. Within months it was broken. When the Depression began in 1929-30 the rayon companies put forward ambitious plans for exchanging information on all their activities and setting sales quotas. But as soon as business began to revive in 1933 these were forgotten.

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In all industries the desire of management to increase sales at the expense of the other companies always remained stronger than the desire to cooperate when it actually came to the point of having to choose between securing a contract and making a sacrifice for the common good. It also proved impossible to devise rules to which the members of the cartel would adhere in bad times as well as in good, and which could be enforced at lawf I

Another weakness of the cartels was that companies were not sulllciently tightly organized for the central management always to know .what its subsidiaries were doing. In 1936 my father, Dr Georg Tugendhat, and Dr Franz Kind started an independent rclining company in Britain called Manchester Oil Refinery. This was contrary to the interests of the cartel, and a leading figure in Shell warned them that they would not be able to secure supplies. However, without much difficulty they found an American broker, who dealt in crude oil on a wholesale basis, and he provided them with cargoes purchased from the Shell subsidiary in the U.S. The major companies also tried to prevent Manchester Oil Refinery from selling its output in Britain, and this problem was circumvented when the Belgian subsidiary of Gulf Oil, another cartel member, agreed to buy it.1’

For all their deficiencies the cartels were a step in the evolution of todayls multinational companies. They gave industrialists a training in international cooperation. They also gave them an understanding of national differences, and of the need to modify business practices to take these into account. Instead of thinking primarily in terms of supplying their home markets, and exporting surpluses, they became accustomed to approaching the problems of their industries on a world basis. T hese lessons were to prove extremely useful in the changed conditions of the post-war world, especially to the Americans.

’For further details see Appendix. V . . .

TFor full details of the pre-war international oil cartel see Oil: Till Biggest Bun’ueu by Christopher Tugendhat (Eyre and Spottiswoodc).

2. The American Invasion:

The period since the end of the Second World War has seen a complete transformation from the situation prevailing between the wars. It has been marked by an explosive expansion in international direct investment, which for much of the time has been rising at twice the rate of the world gross national product. The international company with subsii diaries in many countries is no longer a rarity; it is well on the way to becoming the characteristic industrial organization of the age.

The Americans are mainly responsible for the change. Between 1946 and 1969 the book value of their foreign direct investments rose from $7,2oom. to $70,763m. As a result U.S. companies now account for an estimated sixty per cent to sixty-fivc per cent of all foreign direct investment. The balance between European interests in the U.S. and U.S. interests in Europe has been completely upset. Until :956 European compztniesl holdings in the U.S. exceeded those of U.S. companies in Europe. In 1957 the Americans went ahead when the value of their European direct investments reached $4,!51m. comfmred with European investments in the U.S. of $3,753m. Since then Europe has been left far behind. At the end of 1969 the book value of the U.S. stake in Europe was $21,554m., while that of Europe in the U.S. was only 88,5tomf

Few U.S. companies can claim the same depth ofexperi- cnce or range of interests as the largest and the longest establivlew’ European international companies. For all their talk .. .nultmationalism. and despite such remarks as one by

’ Department of Commerce.

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the President of Dow Chemical Europe, that Dow is ’3
global company whose headquarters happen to be in
Midland, Michigan; ’ they are usually firmly American in
Ownership, management, and the outlook of their execu-
tives. The great majority are still dependent primarily on
the U.S. market, and it is rare to find non-Americans
in senior positions at headquarters. None the less they have
been the principal agents in the creation of a new inter-
national business structure in which European and other
companies will have to live for as far ahead as can be seen.
It is a structure in which large companies must think in
world terms. t
_ The revolutionary improvement in communications of
every sort has done much to make this possible. With the aid
(if the jet aeroplane and modern telecommunications the
liead office of an international company can coordinate and
control the activities of its foreign subsidiaries to a degree
that would previously have been unthinkable. It is necessary
to give only two examples to illustrate this point. Ford has
linked its engineering centres in Britain and Germany to
Detroit by telephone cable so that the designers in those
countries can use the head office computer facilities; while
I B M has over three hundred international communications
centres through which more than ten thousand tclctypcd
messages pass every day. A critical limitation on the growth
of human organizations is the ability of the centre to control
and coordinate the extremities. During the last twentyrlivc
years the abilities of international companies in this respect
have been extended enormously. It is (lillicult to over-
EStilrnate the importance of this development in contributing
to their growth.1’
’Hcrbert Dean, as quoted in Time, 29 December I967.
I 1Prol’essor Raymond Vernon has pointed out (’ Economic Sovereignty
. at Bay’, Foreign Ajru’n, October I968) that between I953 and 1965 the
Etrivals and departures of international travellers in Netth America and
_ uropc grew at the rate of about ten per cent a year. Ovet this period
U.S. direct investment in other advanced countries rim: at the same mt:-
He suggests that there is a direct relationship between thee two figure!-
The world itself has changed as dramatically .u; m euuh
munications. Throughout the post-war era political and , I g,
economic conditions have, in contrast with the inter-wat , .
years, favoured the growth of international direct invest- y
World trade has ins ’
ment and international companies.
creased steadily from year to year, and, despite oceasional ’ r i .
alarms and recessions, there have been no major setbacks k 3
comparable with the Great Dcprcssioan every industrial- ; L:
izcd country, and in many others as well, the standard of ,1
living has risen rapidly. In these circumstances companies 3
have felt encouraged to undertake new investments, and to 1
seek to open up new markets ins
to protect their existing interests.
countries have been brought muc
inter-war years so that it h -
abroad. Through the General Agreement on Tariffs and
Trade (GATT) nations have accepted a common set of
principles to gove
tcad ofworrying about how
At the same time the economies of the non-Communist
h closer together than in the
as become much easier to expand
rn their international trade instead of
negotiating mutually exclusive trading agreements with
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each other. Despite frequent backsliding they have also , i
been consistently dedicated to removing tariff and other
non-tariff barriers to trade. These two factors opened the x
way to the establishment of inter-relatcd plants in different
countries, whereas under the old system it was only practical

to establish foreign plants to serve their own local national
nterorelated plants has been
formation of the European
ropean Free Trade Area
markets. The trend towards i
considerably helped by the
Economic Community and the Eu
within which companies can operate on a continental scale
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formerly possible only in the U.S. It is not only the oppor- l
tunities for international direct investment that have im- E
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proved since the war. The attitude of governments towards
foreign-owncd companies has also changed. The old aim of
industrial self-suilieiency has been largely forgotten. Central
ocal authorities are now obsessed with the
high level of industrial investment and a
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governments and I
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low level of unemployment. Ever since 194.5 they have been competing with each.other in their efforts to persuade international companies to help them.. ’

From the outset U.S.-owned companies were better placed than others to take advantage of the post-war changes. In the early years most of their rivals were either completely or partially destroyed. The world was crying out 1:01- American goods, and dependent on American financial aid. Although Europe began to recover very quickly, U.S. companies continued to enjoy immense advantages until at least the early 1960s. In many industries they were able to seize the leading pesitions, and they still set the tone in which much of international business takes place,

For many years European governments were so short of foreign exchange that it was very dimcult for European companies to invest abroad at all. They had to seek per-mission from their parent governments, and support their applications with a wealth of evidence to show that the proposed investment would promote exports from the parent country. Even then it was diflicult to secure. In its 1954, annual report the German chemical company, Hoechst, expressed the view that, iExpericnce has shown that the success of the export drive has become dependent to an increasing extent on the support of local manufacturing plants controlled by the company.’ Yet when Bayer, another ofthe German ehcmical giants, wanted to invest in the U.S. it could not transfer funds direct from Germany, but had to raise the money in Switzerland. It was only with great difficulty that it managed to persuade the Bundesbank to allow it to provide a guarantee of repayment.

Only Britain was able to make much headway. In the U.S., the Commonwealth, and the Middle East in particu-lar, it began with a substantial existing base. By retaining profits where they were earned rather than repatriattng them to Britain the companies concerned were able to expand. But British companies too faced huge problems in persuading the authorities to allow new operations to be

established in Europe or elsewhere for which money had to be raised at home.

Not until 1958 did most European currencies become convertible again, and it was only in about 1960 that it became apparent that the rest of the world’s shortage of dollars had come to an end. Since then foreign investment has become much easier, but most governments continue to restrain capital outllows for balance of payments reasons. This is true to some extent even within the Common Mar-ket, although the Treaty of Rome laid down that there should be free capital movements between members,

U.S. companies were not only free to invest abroad when others were not, they were positively eneouraged to?do so. The U.S. Government hoped that a flow ofcompany invest-ment funds would reduce the level of omcial loatis and grants needed to launch Europe’s economic recovery. It exhorted companies to go overseas, and took practical steps to help them by negotiating double taxation agreements with a large number of governments, and by guaranteeing their investments against restraints on the repatriation of profits. The European governments, for their part, wel-comed the U.S. investor as an invaluable helper in the task of rebuilding their war-shattered economies. Some estab-lished omces in the U.S. in order to attract American companies to their countries, and most oll’ered financial in-

ducements and tax incentives of various sorts. The import controls operated by most governments provided a further inducement to the more daring U.S. companies since a company which built a local plant in a eountry with import controls could capture a larger share of the market than one that relied Em shipments from the U.S. ’

At first progress was slow. Companies were happy td invest in Canada, which was near, politically stable, and prosperous. But Europe was another matter. The Soviet threat, political instability, and closer government regulation of economic and industrial affairs than was customary in North America combined to deter many companies from

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crossing the Atlantic. It needed time for businessmen to accept that Europe’s recovery was firmly based, and its growth potential worth taking risks for. For many years Britain attracted most attention. There were several reasons for this. U.S. assets there had emerged relatively unscathed from the war, its politics were more stable than the conti- pcnt’s, the lack of a language barrier made it easier for American executives to lind their, way around, and an f investment in Britain provided the additional bonus of access to Commonwealth markets on preferential terms. So Britain secured more U.S. direct investment than the six Common Market countries combined, and it was not until 1963 that it lost its overall lead.

The formation of the European Economic Community, or Common Market, in 1957 had a decisive impact on the atti- tude of U.S. companies towards investing in Europe.- Bctwecn 1957 and 1962 the value of their holdings more than doubled, and between 1962 and 1967 they did so again. At the same time the emphasis switched from Britain to the Six. U.S. companies saw that if the hopes ol’the signatories to the Treaty of Rome were fulfilled another continental market similar in scope to the U.S. would be created. They would be able to use there all the techniques for large- scale production and distribution which they had developed at home. They saw too that its success would have the double effect of enlarging the market for the individual producer within the Community, while discriminating against U.S. exports in favour of sales from Community plants. It there- fore became more attractive to locate a plant in the Com- munity than it ever had been to put one in an individual member country. The formation of the Community also convinced many American businessmen that Europe would combine political stability with economic expansion. They assumed that it was the first step 011 the road to a united Europe. The European Free Trade Area (E FTA) was regarded as another move in the same direction, and wel- come in itself inasmuch as it created another large trading

area for manufactured goods. If Britain had joined the Common Market in the early 19605 it would have remained the most favoured location for U.S. investment, but as hopes that this was imminent declined so the weight of U.S. investment shifted towards the continent. Another reason was, ofcourse, Britain’s disappointing economic performance compared with that of its neighbours.

Europeans were also excited about the formation of the EEG, and believed that it would lead to much closer economic and industrial cooperation between the members. But they were acutely aware of the problems that had to be ovcrcome, and they continued, as they do now, to think primarily in national terms. Americans, by contrast, imme- diately began to think in terms olu the European consumeri, and ’thc European market’. A report’V prepared by the American Management Association provides a typical ex- ample of this approach. It declared that iThc European consumer . . . has dcep-rooted traditions and displays a degree ol’distrust toward new equipment and tcchniquesf and that ’ another " notable" characteristic is the Europeanis general distrust of the written wordi. It asked, lWhat, generally speaking, is the European’s motivation? T0 Europeans themselves, accustomed to thinking of national frontiers as representing cultural as well as political divides, this sort of generalization appears absurd. It can also lead to gross misjudgements ofhow an individual market is likely to react to a product that has already been tested in another. None the less it has helped U.S. companies to think big tabout Europe in a way that Europeans have found im- possible Thk’ in turn, has enabled them to see and take

adva1.. .30 01 uinportunitics that European companies either
failed to see, or were afraid to go for.
Most of the U.S. investmentsin the 19405 and 19505 and
the greater part ol’those in the 19603 were made by the larger
companies. This is not really surprising. Some of them, such
’Amcrican Management Association report number 18, entitled The
European Common Alarket, New York, 1958.
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Th: Multinational:
- as Standard Oil (New Jersey), better known as E530, Gen. f
, eral Motors, and Ford had been well established in Europe -
before the war. They were the first to see the new oppor.
tunities that were opening up, and other large companies
were not far behind. Smaller companies were slower to
- react, and when they wanted to they found it harder to
; hrrange the necessary finance than their bigger rivals.
., ()ther considerations must also be taken into account. In
, 1965 the economist Stephen Hymer drew attentionh to the
I relationship between oligopolistic market structures in the
U.S. and the foreign investment activities of U.S. com-
panies. He pointed out that forty-four per cent ofthe princi-
: pal U.S. foreign investors came from industries where four
5 companies supply three-quarters of the total sales, although
, those industries accounted for only eight per cent of the
value ofU.S. industrial output. At the same time only one of
the seventy-two firms classified as major foreign investors
came from an industry where the four largest companies
supplied less than a quarter of the total sales.
In an oligopolistic market it becomes increasingly dimcult
for the leading companies to capture a larger share of the
, total sales. Each additional percentage point in a companyls
share of the market becomes more expeniive to secure than
the one before. The easiest way to grow is through the acqui-
, sition of rival concerns. But if the rivals are all about the
’ same size this is frequently impossible. Even when it is prac-
tical it is very expensive. Moreover the Department of
5 Justice has, since the war, become progressively more reluc-
l tant to allow mergers or takenvets by larg: companies of I
2 each other that would reduce competition. Consequently
’forcign expansion has offered companies in oligopolistic
; industries the best prospects for further growth.
’ ’ l Direct Foreign Invtstment and International Oligopoly’ by Stephen
i Hymer, June 1965 (mimeographed).
For a further discussion of this point see ’American Direct Investments
5 in the Common Market’ by Bela Balassa. (Banco Nazionalc dd Lawn ;
1 Quarterly ReviewJune I966.)

The Department ofjustice has also done much to encour-
age competition in foreign markets. Between the wars U.S.
companies, often through their Canadian and other subsi-
diaries, played a prominent role in the international cartels.
During the late 1930:; and 19403 the U.S. Government
hardened its attitude and policies against this sort of activity.
The anti-trust laws were tightened up, and government
agencies took steps to publicize cartel arrangements in such a
way as to make it very diflicult forthcm to be re-l’ormed. In
the case of oil, for instance, the Federal Trade Commission
published :1 document in 1952 called the International
Petroleum Cartel, which showed with a wealth of detail how
_ the international oil companies had contrived to maintain
high prices and to reduce competition before the war and
afterwards.
The Department ofjustice made full use of its powers and
the opportunities they provided to attack a variety of ar-
rangements that smacked of cartelism. One of the earlier
cases concerned titanium pigment, the manufacture of
which was based on three independent inventions. National
Lead and Du Pont each had certain rights with respect to
these inventions, and had used these rights to divide world
markets between them. In the case of United States v.
National Lead Company, the company was forced to divest
’ itself of interests in four foreign titanium companies, and
both National Lead and Du Pont were directed to grant
non-cxclusive licences to any interested party, U.S. or
foreign.
1n the case of United States v. Aluminium Company of
America (Alco’a) the shareholders and directors of Alcoa
were forced to divest themselves of the lifty-one per cent

stake they held in the Canuuian Aluminium Limited after the court had decided that the Canadian company’s in-volvement in the pre-war aluminium cartel had affected the. U.S. import trade. As a result of the case ofUnited States v. Imperial Chemical Industries that company and Du Pont were forced to break up a joint company in Canadgl, and to a

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dissolve a long-standing agreement for exchanging patenu and technical information and allocating markets. These cases and several others were decided between 1945 and 1952. They showed that no company, large or small, U.S. or otherwise, could become involved in a cartel w1thout run-
,’ ning the risk of falling foul of the Department ofjustice. So I for a U.S. company that wanted .to operate on an inter-national scale there was no longer any chance of avoiding the enormous cost involved in foreign investment by forming a cosy alliance with foreign competitors. .
The big companies who led the way after the war are stlll by far the most important U.S. investors in Europe. Indeed it comes as something of a shock to discover how few of them control how much. It was estimated in 1967 that forty per cent of all U.S. direct investments in France, chst Germany, and Britain beionged to Standard Oil (Newjerscy), General Motors, and Ford. Altogether two-thirds of the total existing U.S. investment in Western Europe in that year was held by twenty companies."l Another study, conducted in 1969, showed that in the UK. alone forty per cent of the total U.S. stake was held by five companies, and another forty per cent by twenty-five c0mpanies.1’ 9
In future the overwhelming preponderance of this small group of giants will diminish as more and more U.S. com-panies go overseas. Between July 1960 and December 1966, according to one survey,1 2,507 U.S. manufacturing com-panies established about 3,000 new overseas manufactunng facilities and expanded about 1,000 old ones. In 1968 the Department of Commerce stated that 3,300 compamcs, not all of which are engaged in manufacturing, were rcporttng to its OiTlce of Foreign Direct Investments. Many of these
’Tmmallantic Investment: by Christopher Layton, Second Edition. anuar 1968 The Atlantic Institute). .
J 1771:y Role g(f American Investment in the British Ecomny by John H. Dunning. PEP Broadsheet 507, February 1969.
tNew Foreign Business Activities of US Finns, Thirteenth report by Boon, : Allen and Hamilton.

are quite small, and their investments tiny. But there is a clear trend towards an evcr-incrcasing internationalization of U.S. industry.
During the 1950s and even more in the 19605 Europe’s growth potential was attracting a growing number of U.S. companies. This was particularly true of those industries regarded as characteristically American, such as cars, con-sumer durables, sophisticated plant and machinery, oil, and chemicals. When the post-war boom in the U.S. had worn itself out and the local markets for these products seemed to be nearing saturation point, it became harder to achieve impressive increases in sales, wages were rising, and pioiits dinicult to find. Europe seemed to provide a way out of the impasse. It was rapidly acquiring U.S.-typc tastes, and the demand for goods that U.S.. companies could satisfy was insatiable: Between 1950 and 1965 production of motor vchiciesin the U.S. rose by 39 per cent compared with nearly 500 per cent in the rest of the non-Communist world, while telephone sales rose by about 100 per cent in the U.S. and 200 per cent outside, to give only two examples.
The first step was to export goods from the U.S., and the next to invest in the eoulitrics where they were being sold. The arguments in favour of undertaking the investment ainstcad of relying on sales from home have been well ex-plained byjohnj. Powers, President and Chief Executive of Chas. Pfizer & C0., 3 leading chemical and pharmaceutical concern. iTo compete effectively for a good share of any major market) he argues, Requires direct investment in the

marketplace in the form ofsales ofiices and warehouses and, at least, packaging and assembly plants, if not basic production units. It is just not possible for a mere exporter to become a major long-term factor in a market in this second balfof the twentieth century) " This view is held by executives in many companies. They are convinced that local

"The Multinational Company.’ A speech by John Powers to the semi-annual meeting and midyear conference of the Manufacturing Chemists’ Association, New York, 27 November 1967.

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plant gives the customers more confidence in a company’s long-term ability to provide a service, as distinct from its ability to fullil a short-term need. It also enables a company to take advantage ofa sudden change in the level ofdemand or in the type of product required by its customers more quickly than a rival whose supply lines extend back to the U.S. In the opinion ofmost U.S. industrialists, the Choice facing a company that has established a pusition in a foreign market is not between building a local plant or not doing so. It is between building or accepting a slower growth rate than its rivals with such plants, and possibly the complete loss of the market. The dilemma has been neatly expressed by an omcial of Du Pont: i Should we choose not to set up a plant ourselves, the void would be tilled by a domestic competitor. Hence we have the altcrnatives of losing business- either to a domestic producer or to ourselves. We prefer the latter.’ "

Sometimes a local plant is essential if a company is to establish itself at all. In many less developed countries govennnents insist on a local plant as a condition ofentry to the market, or impose such sttharillit that local production becomes essential. In industrialized countries governments often pursue the same aim with more subtlety. T hey demand that buyers whom they can directly influence, such as their own departments, the post oflicc, the armed services, and the public utilities, should buy their equipment only from companies with local plants. They may also make it clear that ifa company wants something from the government it had better help the balance of payments by replacing the imports it is bringing into the country by local production. A classic example ofthis policy in action occurred in Britain in 1964 when the government was allocating licences for the North Sea search for oil and natural gas. These were much sought after by the international oil companies. When the government declared that preference would be given to those

"lnvmtments in the Common Market’ by Bela Balana. (77:: Band Nazional: dc! Lawn Quarterly Review, June 1966.)

3 companies which could show the greatest contribution to the country’s fuel economy, several announced that they would build refineries so that they could import crude oil instead of the more expensive products that had been refined elsewhere. Quite apart from pressures of this sort, and the desire to be in a position to take advantage of whatever opportunities may arise, U.S. companies have had sound financial incentives to invest in Europe. At first in the 19505 the rate of return that could be earned on investments in Europe was much higher than in the U.S. It was this prospect which helped to overcome the initial reluctance of many companies to establish themselves in an unknown territory. Wage rates and production costs are still generally lower in Europe than in the U.S., but the boom-time profits have disappeared. The effect ofcompetition on prices has seen to that. However even in those instances where the rate of return on investments in thc U.S. and Europe is the same, the company which has established a market position in Europe, or the one wanting to do so, must still invest there. For il’it relied on a U.S. plant the combination of tariffs and transport costs would bite deep into its profits.

Once a company has begun to invest in one European country continued growth draws it into establishing plants in several others. This is partly because it sees new ways of taking advantage of the particular strong points of various countries, such as, for instance, the port facilities in Holland and the availability of labour and the investment incentives in Scotland. Another factor is the desire to show the govern. ments ofthc countries where they sell that they are making a

contribution to the local economy through the provision of jobs, the payment of taxes and the building of local plants rather than relying on imports from neighbouring countries. Finally there is the desire not to appear too big in any one place. From long experience in Latin America U.S. companies know that the larger at company is in relation to the local economy the more exposed it becomes to political _ pressures and nationalistic rcsentments. .

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Tlu Multinational:
Once the leading companies in an industry have started to invest successfully abroad, great pressure builds up on the second and third rank companies to do, the same. There is an element offashion in this, which should not be disregarded. It can be seen in the way company presidents like to boast about their companies having become multinational. But , there are practical reasons as well. As one executive put it:
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’Our competitors were going overseas, and we were afraid that they would get a hcadstart in a potentially rich market, or would acquire a cheap source of supply for possible rc-import into the U.S., thus threatening our market posi-tionh’I There is a strong feeling in corporate, as in other, circles that if you are doing the same as the crowd and it turns out to be wrong you can not be blamed, whereas ifyou stand out against the prevailing trend and you are wrong you will have no defence. In short, once the leaders in an indus-try start to move overseas, the rest begin to think not so much of the risks inherent in following as of those they will run by not doing so.
Some of the later comers have missed the large rewards of the forerunners and run into a good deal of trouble. In France General Electric lost 847m. in the Iirst forty-two months after taking over the ailing Machines Bull in tgG4 in an eII’ort to challenge IBh’Ps position in’the European com-puter market. In 1968 Chrysler’s foreign operations pro-vided less than one-eighth of its pre-tax prolits, although they accounted for a quarter of its total production and a fifth ofits total sales. In Italy Raytheon had its subsidiary’s plant in Sicily taken over by the government after it had threatened to close down, and was forced to file a suit for bankruptcy on its behalf.
During the 19705 U.S. companies are unlikely to maintain their phenomenal expansion of the last few years in Eutope. The annual increase in U.S. investment abroad reached a peak in 1965, and has been declining since. This is partly
"The Rewarding Strategies of Multinationals’ by Sanford Rose, Fortune, 15 September 1968.
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because of the restraints imposed by the U.S. Government. But in any case the time has come to pause for breath. The big companies have established a firm base, the Europeans themselves have become much more competitive, and the overall rate of return on U.S. manufacturing investments feII consistently during the years from 1964 to 1967 when it went below ten per cent.
However, even if the pace of the advance is slower the invasion will continue. Most of the influences that set it off are still present, and some are stronger than ever.
The anti-trust division of the Department oIiJustiee is intensifying its activity. In 1969 it declared that it will probably attackany merger involving the top two hundred companies in the country. It will also usually challenge any proposed merger between a company with twenty-Iiveper cent or more of a local market, and a potential entrant into that market. In addition companies are to a greater extent than in the past being forced to divest themselves of subsi-tliat’ics acquired several years previously in order to increase competition. It was no coincidence that General Foods Corporation’s 1969 attempt to take over the British Rown-tree came soon after it had been forced to dispose of its SOS household products subsidiary in the U.S.
Europe is no longer crying out for U.S. investment to rebuild its ruined cities and factories. But European govern-ments are more than ever anxious to develop their depressed areas. The inducements offered to companies to help with

this task become more attractive each year, and provinces and towns compete with each other to persuade companies to come into their regions. This was true even of France under de Gaulle. When Fairchild opened a new plant in southern France in 1966, the company said that government and local oIIiciaIs had .-.L;ved heaven and earth to provide’ us with facilitiesif When IVIotoroIa expressed an interest in establishing a European plant the town ofToquusc imme- diately sent a. representative out to the companyis head- ’Fmru’e zlttut-llz, 14 December 1966.

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quarters in Arizona, and when company officials arrived in the town they were accorded a civic reception. In Belgium U.S. investment is so important that as soon as the U.S. Government announced its mandatory festrictions on over-seas investment in 1968 the Belgian Government started work on a scheme to help U.S. companies find the money they might need for new projects and expansion in Belgium from local and European sources.

The newcomers to Europe and those companies which try ’to expand primarily through takeovers rather than the development of their existing operations will come from a number of different categories.

Some will be relatively small companies, which live by providing goods and services to larger concerns. A typical example is Eaton Yale and Towne, which manufactures components for the motor industry among other things. Explaining why his company came to Europe, its president, E. M. de Windt, said: iOriginplly it was quite simply be-cause our major automotive customers rather strongly sug-gested that we establish manufacturing facilities in the various countries where they proposed to build trucks and cars, in order to supply them with the same components that they were accustomed to obtaining from us in Detroit - but made by local labour from local matcrialsf From this begin-ning it was a logical progression for Eaton Yale and Towne to look for customers among the European car manufac-turers, and the company’s international activities acquired a life of their own. They iare now expanding rapidly under their own steam’, says de Windt. iNo longer are they con-sidered the uugly stepsisters" who used to be a constant source of irritation at the domestic plants with their never-ending requests for drawings, speeilicatione, and technical assistanceft’ Many other companies have been virtually ii’l’he role of the multinational company in the world marketplace)

Remarks by E. M. de Windt during a European tour, 1969.

The overseas expansion of U.S. banks, advertising agencies, and law firms can to a great extent be explained in the same way. But their activi-ties are outside the scope of this book.

pushed abroad by their customers in the same way as Eaton Towne and more will follow. . .

Yafniihler group, will consist of companies explortmg :ew products or products that have been improved to sue an extent that they are regarded as new. European cortipames are less inventive than the Americans; and,. what if mege important, they are slower to apply the fruits of scuentl c research to commercial ends. There are, ofcourse, numerous exceptions to this generalization, but the statistics leave n3 doubt that a technological gap exxsts between Europe an the U.S. Some of the most thorough research on this subjeet has been carried out by the Organization Eor Economi; Cooperation and Development (OECD), which pubhshe its results in 1968. These show that U.S.:baeed companies had the highest rate of ioriginal innovation over the p16: vious fifteen to twenty years. i Of 140 innovations examined, said the reportf i they have originated approxttnately snxlty t per cent.’ This proportion is not Wildly out ofhnc With t e size of the U.S. economy in relation to that of the other OECD countries combined. But the record of the Ameri-cans at commercially exploiting scientific and technological i breakthroughs is vastly superior to that of the Europeans.

i. When Professor Joseph Ben-David of the Hebrew Univer-l .- sity, Jerusalem, conducted a surveyT 9f majer industria

innovations, he found that of the ’xnyenttons behmd
I them, ten had been initiated by Britain, France, an?i
Germany, and nineteen by the U.S. but only seven ha
i been converted into final product Innovations by the
three European countries as against twenty-two by the
U.S.
It is not only in high technology that the U.S. leads. The
cu .ty p.0vides the largest, richest, and most competitive
market in the world for goods of almost every sort. Conse-
quently it is the place where most new products. are
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’OECD Obmuer, April l968. _ . .
1’Fundameiital Research and the UnivchlllcS. Some comments on
international differences by Joseph Bcn-David, OECD, Paris, 1968.
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1961 7-742 3-104 3-523
1962 8-930 3-722 3-805
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1964 12-109 5-426 4-457
1965 13-985 6304 5-123
1966 16-209 7-584 . 5-657
1967 17-882 8-405 6-101
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1969 21-651 10-255 7-190
1970 24-471 11-695 8-015
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Source: U.S. Department of Commerce;
At the other extreme from the technological and new
product thizz kids’ are those companies with long estab- :
lishcd products, which find that it is cheaper to manufacture
overseas in countries with lower wage and other costs than 1
the U.S. One such company is Singer, which now sells its ’
customers approximately three sewing machines produced :
abroad for every two produced in the U.S. In 1969 an
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The American Invasion
takeover of a British concern said that some products could
be made in Britain and delivered to the U.S. at three-
quartcn of the cost of making them in the U.S. itself. The
main reason why most U.S. companies have expanded
abroad is their desire to capture foreign markets; but in
somc industries the time may be approaching when com-
panies go abroad in order to establish low cost facilities with -
which to supply the American market. i
Finally it must not be forgotten that one of the most i
common reasons why one company decides to take over i
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executive of a U.S. engineering company considering the i
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another is the belief that it could do better than the existing
management. Better in this context means quite simply
transforming a loss into a profit, or a small profit into a
larger one. Some of the best European companies have
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managements that are as good as the best that can be found i;
in thc U.S. But the general level in the U.S. is higher. For as i7
long as this remains true U.SL companies will see opportuni- I
tics for earning money in companies where Europeans are
losing it.
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4. The European Merger Boom
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The rapid expansion of intcmational companies during the 1960s, and the growth of large integrated markets in the European Economic Community and the European Fret Trade Area, has had a cumulative effect and provoked a merger boom of unprecedented dimensions. Throughout Europe large and small companies alike are coming to-gather in attempts to take advantage of the new oppor-tunities and to create defensive formations to withstand the new competitors. A small, though highly publicized, per-centage of the mergers involve contested takeover bids, but the vast majority are carried through on an amicable basis. In Britain it is estimated that almost ninety per cent are agreed between the participantsf and in Europe as a whole the proportion is almost certainly higher. Mergers are only one aSpect of the industrial concentration that is taking place. Companies may also form joint subsidiaries and co operate in numerous other ways inorder to achieve some of the advantages of a merger while retaining their indc-pcndcncc and separate identities.

The advantages are readily apparent. Throughout the post-war era the scale of almost every aspect of industrial activity has increased substantially. If a company is to generate the funds required to finance the enormous re-search and investment programmes required in large-scalc, capital intensive, and internationally organized industries, it must be built on a substantial basis. The examples 0; IBM spending $5,000m. on the develcpment of its 360-

"1 am indebted to David Hargreaves, Division Director - Acquisitionli and Mergers, of PA Management Consultants, for this estimate. 3

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The family tree: of three mergers
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1. British Leyland Motor Corporation
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series of computer, and Ford 850m. simply on tooling up for the production of the Mustang show the type of money that is sometimes needed. These are exceptional projects, but in many industries large groups with international markets and resources have been dazzling their smaller rivals. When Lord Stokes, the chairman of British Leyland, i’ said that ia company cannot survive in international markets without size, without marketing and service outllets, and without the advantages of scale for research and development," he spoke for virtually every industrialist who finds himself in competition with international companies.

In a growing number ofindustries there is no longer any question ofa company deciding for itself whether or not to compete internationally. If its markets are invaded it has no option. Either it lights a defensive battle on its home ground against the internationals, or it carries the light into their camps. In the great majority of cases the latter is the. best strategy. Whichever is chosen, mergers are likely to result. Large resources are required to invade foreign markets, and a merger is the quickest way in which a company can expand. The defence of the home market also leads to mergers. ()n the one hand the defenders want to prevent the newcomers from taking over local concerns, while the newcomers are trying to do jtist that.

There are other reasons why companies have come together in recent years, and will continue to do so. Overcapacity and the need to close down surplus plants is one, and shortage of funds for new investment is another. The desirc to reduce competition in order to increase prolits is a third, and the ability of one management to earn larger prolits on existing assets and therefore to pay better dividends t0 the shareholders than the existing management is a fourth. In some industries competition from international companies and the internationalization ol’competition constitute the merger boom’s main fuel. T hese factors have also

’Forlune, 15 September 1968.

encouraged governments to support many mergers on the ’ grounds that the new combine will be able to compete I more effectively in international markets- than its componcnt parts. Indeed governments sometimes give the impression that they regard it almost as a matter of prestige that the largest locally owned company in a particular industry should be at least the same size as comparable foreign concerns.

The most dramatic manifestation of the merger boom occurred in Britain in 1967 and 1968. During those two years more than 5,000 British companies were involved in corporate marriages of one sort or another. Nearly seventy of the countryis top one hundred companies entered the bidding, or were bid for, and more than a quarter of the companies registered at the beginning of 1967 with a value of (:tom. or more were taken over. A sum in excess of ,(;6,1oom. was offered for the equity of those companies that lost their identity."’ Quite apart from all this, the steel industry was nationalized in 1967, which resulted in the formation of what was then the world’s second largest steel company, the British Steel Corporation.1’ This was done partly on grounds ofSocialist dogma, but partly too because it was believed that a unified B1 itish steel industry provided the best hope for competing in international markets.

The events of 1967-8 were the culmination of almost a decade ofindustrial concentration, which transformed the face of British industry. When the British Leyland Motor Corporation was formed in 1968 following the merger of British Motor Holdings and Leyland Motor it included ten companies that in 1960 had been independent. Similarly

the formation of International Computers Limited as the
largest computer company outside the U.S. was the result
of a series of mergers spread over ten years and involving a
total of nine companies 01 divisions of companies. Until "
Vfllcse figures are derived from hfanagemmt and Merger Activity by
Gerald D. Ncwboultl (Guthstead, 1970);
TA small private sector remains dealing mainly with special steels.
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The Multinatiorial: 7
1967 Britain had three major electrical engineering con.
cerns - the General Electric Company, Associated Electrical
Industries, and English Electric. By the end of 1968 General
Electric, which is no relation to the US. company of that
name, had absorbed the other two.
The concentration of industry enjoyed the active cn-
couragement of the government. In December 1966 the
f I’Labour administration established the Industrial Reorgani-
I
zation Corporation in order to create an industrial struc-
u ture Hvliich will enable us to make effective use in years
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ahead of our resources of skill, management, and capital."
It became extremely active. As one commentator put it in
March 1970: "The IRC has spent the last three years
loping through one industry after another, shotgun in
hand, pushing sometimes reluctant, sometimes eager, com-
panies to the altarff As well as the government’s moral
support, the IRC was given the authority to draw up’ to
5 150m. of public money with which to lubricate the deals
it wished to push through. Its influence was felt in prac-
tically every sector, although its most spectacular inter-
ventions were in the largest mergers. In electrical engineer-
ing it backed Sir Arnold Weinstock 0f the General Electric
Company as the man likely to carry through the reorgani-
zation and contraction of the industry’s capacity most
eniciently, and helped him gain control of Associated
Electrical Industries and English Electric. In motors it
selected Lord Stokes, and consistently used its influence on
behalf of his Leyland company. The IRC was not always
successful, as for instance when its proposed threc-way
boiler merger between International Combustion, John
Thompson and Clarke Chapman came unstuck. But its
financial resources gave it enormous leverage. When George
Kent and the Rank Organization were bidding against
’ The Industrial Reorganization Corporation. White Paper, Command
2889.
f’Europeil Love AlTair with Bignus’ by Philip Siekman. Fortune. .
March 1970.
i
i The European Alcrgcr Boom
: each other for Cambridge Instruments the IRC decided
that George Kent better represented British national
interests, and provided the company with the money needed
i to carry the day.
i Many mergers took place in which the IRC played no
part, but its inlluence extended far beyond its own im-
mediate activities. Its mere existence, and the fact that its
policies were known to enjoy official blessing, acted as a
catalyst throughout industry, and so intensified the merger
mania of the period.
By the beginning of 1970, however, doubts about the
wisdom of the I R C’s approach were beginning to be widely
expressed. It was felt that its policy of creating enormous
companies, sometimes incorporating virtually the whole of
the British-ownetl sector of an industry, was going too far.
Fears of the dangers inherent in monopoly situations star-
ted to reassert themselves, and as the problems involved in
massive mergers became more widely appreciated the
opinion spread that a more gradual and organic form of
industrial growth might be preferable. IVith the return of
a Conservative government the IRC found its freedom of
action progressively curtailed, and in October 1970 its
abolition was announced.
While the IRC appmach was losing support in Britain,
it was gaining adherents in France. In March 1970 the
Government announced the formation of the Institut de
Developement Intlustriel, commonly called the IDI. It
was given access to 1,000m. francs (200m. francs in the first

year), and the task of converting mcdium-sizcd companies into bigger units that would be more competitive in world markets.

Even before the establishment of the IDI, the Government was acting as an unomcial marriage broker in an CIIort to speed up the pat . of change. In 1968 about 2,200 corporate marriages of various sorts took place, and in 1969 a further 1,800. During the decade as a whole the structure of the country’s industry was dramatically altered. In steel

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The M ultinational:
Usinor and Wendel-Sidelor accumulated two-thirds of the total crude production. In the electrical and electronics industries companies responsible for forty-five per cent of all sales were absorbed into the Compagnie Generale diElectricite and Thomson Houston-Hotchkiss Brandt. As these two already cooperate in a number of ways, most notably through their joint ownership of the Compagnie Inte1 nat1onale pour l Informatique, France ’s entry for the international computer industry, further moves seem quite possible. In motors the state-owned Renault and the private enterprise Peugeot cooperate to the point where they collaborate on research and purchasing, and own a joint engine factory near Lille. Elsewhere St Cobain, which has made glass since the reign of Louis XIV, and Pont-a-Mousson, which specializes in steel pipe and other heavy industrial equipment, have come together. In September 1970 plans for an even largEr mcrgcr were announced by Pechincy and Ugine Kuhlmann. By any standards this will be a major European industrial event. Pcchiney is Europe’s leading aluminium company and has large copper re-fining interests, while Uginc Kuhlmann leads in the stain-less steel and steel alloy fields besides being the world’s second largest producer of fcrro-chromium. When the deal has been’completed the new company will be among the largest in the world outside the U.S.

In France contested takeover battles on the British and American pattern are rare. There is also a tolerant ap-proach towards intcr-company understandings and equity cross holdings. Consequently much industrial reorganiza-tion takes place through the hiving of? by one company of certain activities to another in exchange for shares, and through collaboration agrcements. This makes it diilicult for the outsider to evaluate the implications of many of the changes that take place, but their long-term signifi-cance is none the less considerable. In 1970 it was estimated’ that three giants, Pont-a-Mousson-St Gobain, Rhone

’Guardian, 27 January 1970.

Poulcnc, and Pechincy together already employed one in every forty Frenchmen. For a country which still has a sub-stantial peasant population this represents a considerable degree of industrial concentration.

In Germany merger mania has been less apparent than in France or Britain. This is partly because the countryis economy has been the most consistently successful in Europe since it recovered from the worst of the post-war devastation.Gc1rnan industry, therefore, has not been under the same pressures to reorganize as its counterparts in France and Britain.

There are other reasons as well. Successive governments have favoured competition in the sense that there should be-sevcral diil’crent companies operating in every market. At the same time there is a certain cosiness about German ina dustry that softens the effects of this system. Much of the ecdnomy is controlled by the big three banks, the Deutsche Bank, the Dresdcner Bank, and the Commerzbank. These owe their position to the fact that they offer a far wider range of services than banks in Britain and the US. They lend to industrial companies, which in these countries would be more likely to raise money through the issue of shares or loan stock; they run investment trusts; they do the work ofstockbrokcrs; they run large portfolios on their own

behalf and for clients; and they manage new issues ofshares. Their directors are to be found on the boards of every sort ofcompany, and their inllucnce is felt throughout industry. Until a few years ago a single banker might be a director of twenty or thirty companies, but a law was passed limiting each man to ten. Another feature of the German industrial scene is that the country has a strong tradition of companies working together through cooperative agreements and understandings, rather than swallowing each other up.

’1 bus the rise of the General Electric Company 1n Britain Is paralleled in Germany by the increasing cooperation between the two electrical giants, Siemens and AEG-

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TIM Mullinaiional: T
Telefunkcn. In 1969 they formed two joint Iuhsidiaries,
Kraitwerk Union for power generating equipment, and
Trafo-Union for transformers. They also joined forces for
the construction of a sodium cooled fast breeder reactor, ’
developed by Siemens. Similarly in steel Thysscnhuette and
Mannesmnnn worktclosely together. In 1969 they unveiled
a far-reaching plan, which involved handing over their
tubc-making capacity to a joint subsidiary two-thirds con-
’ trolled by Mannesmann, while Mannesmann’s rolled steel
plant passed into the control of Thyssenhuette.
Even in motors, where Germany produces about twice a:
many cars as Britain, there are signs of increasing coopera-.
tion. In 1969 Volkswagen took over NSU so that there are
now only three Germnn-owncd concerns left, the mighty_
Volkswagen itself, Daimler-Benz (which makes Mercedes),
and the relatively tiny but highly successful BMlVJ
which resisted a takeover from Daimlcr-Benz in 1959. A
merger between Volkswagen and Daimlcr-Benz in the near
future is highly improbable. But it is significant that the
two companies have a jointly owned subsidiary known as
the Deutsche Automobil Gcscllschaft.
Through this company they pool certain results of their
research and development. Should either one day find itself
in serious trouble the link could provide the basis of a
merger. If that does not happen it is still likely to lead to
greater mutual understanding and more limited competi-
tion than would otherwise be the case. In the truck end of-
the business the pattern is very similar. As a result of
acquisitions and takeovers there are here 100 only three
German-owned concerns, Daimler-Bcnz, MAN, and
x
Kinckner-Humboldt-Deut2. The lirst two have a joint:
alliliate to handle their interests in the making of jet
engines. This is only a limited link, though it could turn on!
to be important if the turbine propulsion of land vehicles
ever becomes a commercial proposition, but it shows the
way the companiesi minds are moving.
qt: oilicial, though rarely used, name is Bayerische Motoren Wetkc
92
The European Merger Boom
l
When an industry is faced with really intractable prob- t
lems and the need to adjust to new and unfavourable eon- ’
ditions, the Germans can merge with the best, and the l
government is quite prepared to act as marriage broker. E
The rapidly declining coal industry provides a good illus- i
tration. Twenty-(ive mining companies have been brought t
together in a single unit called Ruhrkohle, which accounts
for over ninety per cent of the total Ruhr outEut. I l
Il’Germany is the country where the government has held i
most aloof from direct involvement in industry, Italy is the i
one where interventionist policies have been carried furthest. i
The most famous names in Italian industry, Fiat, Pirelli, i
and Olivetti are in private hands, and each dominates its
own sector of the economy. But the state holding company, i
lstituto per la Ricostruzione lndustriale, IRI for short, t
controls an enormous area of commercial, financial, and I
industrial activity. Altogether it owns about 140 companies. ’
These include Alfa Romeo,’Alitalia, the major steel con- i
cerns, telephone, telegraph and broadcasting companies, i
several banks, and a host of other enterprises. lts industrial 9
companies are estimated to account for some fifteen per cent i
of the country’s total industrial output.
lRI was set up by Mussolini during the Great Deprcs- l
tion as the centrepiece of the governmentis efforts to counter
the effects of the collapse of a number of banks. Since then ’
it has grown, like Topsy, with the post-war expansion of the i
Italian economy. Its chairman, Dr Giuseppe Petrilli, has
described the process as one of iempiricnl evolution’ with i

the state wanting to maintain its role as iguamntor 0f the i
public intercst’, without compromising the workings of a ’
’marl-et eronomy’." i
1 man, respects IRI subsidiaries operate exactly like i
other commercial enterprises. Many have shares that are i
traded on the stock exchanges, and they can raise money i
direct from the public. Their executives are powerful men
with minds and policies’of their own. It would be impoy i
Vila: and Alone; by Paul Ferris (Hutchinson).
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13. U.S. Department at Comlllcrce. Sum, 01 Current Hmiueu. op. cit. Augult. I970.
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l5. W. E. Weulsel. "Deutichen Invulmenl in Sudul’rih: Ein tCne 5tudy’-Siemem," paper presented to bunincn seminal on South Africa in the Federal Republic ul Cemmny. Nov. 4. I976: lrunuluted by Nev: Mnkleth.
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The Technological Revolution and Growing Competition . 2’

The accumulation and reinvestment of capital in the lea-ding capitalist nations after World War II intensified the contradiction: which culminated in the re-emergence of the general crisis of the 1970-. An underlying factor aggravating the contradictory features of this process was the technological revolution. This chapter will look. first. at how technelogy on the an hand multiplied productivity. and facilitated the changing international division of labor; and. on the other, generated prelsxures contributing to a growing competitive struggle between transnational corporations to penetrate the crumbling British. French and Portuguese empires that, for over half a century, had spanned the Afncan continent.

chhnolugicnl Revolution:

World War II gave rise to newtlciencel and technologies like contenten and Aeronautics. which formed the buis for adv’unced eophtsticatcd induzitries in the core developed countries. After recovertng from the war. Eurgpean and Japanese firms begun to compete with U.S. firms in the area of technological ptogress. endeavoring to cut costs attd.develop new products. This contributed to rapidly rising economies of scale. Between 1948 and 1966. US. expenditures on research and development in industries multiplied over five times in col. dun...hs.’ Although still smaller in absolute tetmn. the rate of gtowth of spending in the 19605 and ’703 in other countries was even hugher.2 Heavy government outlays. a feature of growing state intervention in all developed (’upitalisl countlics. frequently for military projects: spurred technological innovation. Despite its official "free chterpnne" stance. the U.S. government spent more on research in utrcrdft and electronics through its military and spare programs alone than (l-Id the FJLU" U.K.. and French govuumcnts combined t’ It; tprndmg in these ."upt-nkife. fnst-mm-iug uecton" 5mm "U S. in-du-tt) u commumliug l-.-utl.’q I . I

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Table 2-1. h d
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C vernment Spending In Selected Count
Develoltment. I960 and I970: The Unltetl Kingdom, Federal Republic o!
’ Grrm-ny, France IIII’ Japan compared to the United State-
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t’h ’ I’ T hnology end the U.S. Economy.
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1914) p. 66.
Suture: K. Plvitt. ’
Problem?" National Srienu Foundutwn.
In! on the U5 . Economy (Washington, D.C. : July.
The resulting technological revolution led to rapid tnu;;sel I23:
duetivity. From 1960 to 1970. output per work hour :3" I Rpm:blic or
the U.S.. 43 percent in the U.K.. 74 percent In tshe Fe ere cpl 5 ma
Germany (F.R.C.) end 289 Kerient iili :Inpamrot fienwr:lt:lr::I; Iaboyr
illustrate the impact of tee no ogien tnnova I M1 biahi developed
V requirements and increasing economies of-scalel. .I and 30 cam or
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end nutomationf In the United States. about belt of 51; :ew mnfcs;
tools introduced by the mid-"lOs were computerized an .nusnler l" 1
controlled." Steel plants. in an industry always churneterlelti. Wm":-
economies of scale. required production of at least an: mt ton
year to achieve optimum scale.
The average contract for trans
firms rose from 813 million in t
1974.7 .
The. technological revolution
international division of labor.
national engineering and construction
he mid-’003 to about $100 million in
facilitated a fundamental shift in the
Drnmutic advances in distribution nnd
communication technologies made possible the transfer ofenftitie ::::&
fncturing plants to remote. low wage regions. Atrplaneshtgclgciibimy
improved telecommunications systems greatly increase . er-Shippins
of world trade. By the 19705. the widespread tise of cgnltrhmcmlliom’
reduced the cost ll’ld facilitated the expansion of u I
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Tlll-l TECHNOLOGICAL REVOLUTION l9
.tude. sharply cutting the amount of labor involved in shipping produce
from one region of the world to another. -
The huge size and capital expense of new project: designed to take
advantage of these new technologies necessitated increased coopera-
tion between transnational corporations in the form of consortia and
joint ventures to remain competitive in the world market. Increasingly,
the competitive pattern that emerged involved. not individual firms. but
huge corporate alliancee.’ These alliances were built on and fostered
corporate mergers. creating vast conglomerates which dominated whole
sectors of national industries and spilled over into unrelated Fields in
the core developed countries. ’
The heavy costs of the technological revolution stimulated the con-
tinuous expansion of finance capital. The largest industrial conglom-

erate: became increasingly interlocked with the dominant banks and financial institutions of their home countries. The vast amounts of capital required to Finance the technological revolution spurred the growth of the largest banks. By the mid-’70s some 30 or 40 dominated the international banking market.9 lln. I975. 16.5 percent 01’ the total assets of the largest 300 banks was held by the top 10 banks. . .the size of the top five banks was greater than the size of the bottom 100 banks altogether. ml

The growing capital requirements of the largest transnational: in each core industrialized nation led to their close allinnre with at least one or two ofthe largest hunks which dominated their home economics. The particular mechanism facilitating these linkages varied in each country in conformance with their national legal structures.

In the U.S. and Britain. industrial and banking ties were typically embodied in shared directorships. In the F.R.C., bank: could legally own stock: of industrialJirms. In Japan. many of the largest banks joined as integral members of massive industrial groups. Through these relations. the banks played a major role in organizing the consortia necessary to finance the costs ofhuge new projects.

The ’mll . Mttvities both reflected and contributed to the expansion of Burchmuey markets. The " ishrinkage’ of time and space brought about by the technological advances in transportation and glnbzii’ com-munications systems"" facilitated thc’shift of bank capital from the U-5- ’0 Japan and Europe. and from Europe and Japan to Africa. to ftnunce expanding transnational corporate activities there.

The competitive efforts of transnational unrpnrutiuns to expand their Imtput emltribuled to overpmduction which. by the lute ’00: and "1’05. "l’t’inlly chariu-tt’riu-l lmuvyjmlustrir-s. This uverpnulm-liun became O tmmtim-nt feature of thr- t’ttmtumic crisiu thut sprrmi through the W W 1?"

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capitalist world. especially in auto.
transnational corporations entere
20 INTENSIFIED TRANSNATIONAL CORPORATE COMPETITION
’1 steel.’3 and chemicals.H The
d into ever more vligoroun competition
to sell their surplus manufactured goods.
The technological revolution. in short. aggravated the prenuren for transnational corporate expen$ion in a competitive Ienrch for new sources of raw materials and markets. But historical circumstance-shnped differing responses In these pressures on the part of group: of tmnsnaliouuls based in different cure countries.

The Crumbling ol’Culonlul Rule:

The giant companies lmsetl in Britnilltund France. II the heart ol’their coluniul empires, steadily lost ground al’ter World War "a They had long profited from production of low-cont ruw materiel: in the colonies. where imperial rule nlso grunted them a nenr-mono’poly on the sale of manufactured goods. The biggest British and French banks had facili-tated their profitable activities by establishing supportive colonial branch networks. Thirty years after World War II. British and French firms retained the most extensive branch networks of all transnational corporations operating on the African continent.

In the colonial era. British and French corporations and banks relied on noII-economic ties to retain their African markets. Both nations had industrialized early and relatively smoothly; they had already installed extensive industrial plants in the home country by the time they partici-puted in the uscramhle for Africa" in the late 19th century. Secure markets at home and in the colonies made development and installation of new technologies in home factories seem unnecessary. Instead of renovating domestic productive capacity. the giant firms invested in their expanding colonial empire. securing ever-greater control over cheap sources of agricultural and mineral raw materials, plus markets fer their manufactured goods. By World War II. they had already begun to full behind the U.S. and Germany in terms of technological innova-tion. ’, The lug was rzlcurest in Britain’s outdated steel industry. to
As their colonial empires collapsed after World War II. British Ind
dominant in Africa by virtue oftheir
earlier investments and institutioamlized relationships with the newly independent countries. As their home markets became saturated. prof.
its frum these low-wnge. high-relum areal became increasingly im-
llorlunt. Rio Tinu Zinc. one of the largest British mining firms. fot’ example, reported in 1974’7 that while only 6.7 percent at its turnover
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French companies at first remuincd
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TH; TECHNOLOGICAL REVOLUTION 21
an in Africa. it relped 14.4 percent of its distribut
contrast. the 23.2 percent of its turnover in Englendeaisrgrlibztzjl’t !"
eontmental Europe produced only 6.7 end 5.6 percent. renpectivel Inf.
, Ill profits. To this day. two of the largest U.K. banks. Barcle eyelill
Stenderd. remain the leading commercial banks in most of the lam
Bntish African colonies. especially in southern Africa. They accumzr
lnted well overe fourth oftheir international profits from South Africa-alone. In the mId-’7OS. Over time. however. transnational: from other nations. primarily in the United States th F R G
challenge British and French hegemony. c . I ’ "ld 13W". best" m
U.S. Trlnanationale’ Penetrntion:
U.S. companies had a long history of investmert end dom’ ’ ’
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ventures wtth’Europenn partners longgestablishedllhnAiiigftlhi? xiii?
Uils. transnational corporations initially entered the African men only w an they purchased shares in British and French firm: in the cou yf their expansion into Europe after World War II. me o
A few U..S nrms had acquired subsidiaries in Europe in the 1920-0
Ie’ven earlier, perticularly in the auto industry. Following World War "I
lggzvir. giggnvestnient in Europe multipliedfrom about 82 billion ill
MOM; oF d Illlon In 1965. ’, The "big three" auto firms. General
bu in . lor. and Chrysler. penetrated the West European market by
rulyowig ante antlequtpment there. U.S. companies in other industries

E suit, pgmully by acquiring controlling shares in existing
uropeen firms. merthstand this invasion and strengthen their own
enpablllty to take advantage of the most modern technological innovn-
tlons. the Ingest European firms further combined the linancinl J
Industrial cnpeeity within each nation. In the auto industry for ex m
ple. Flattook over Bianci end Luncia to become the largest’euto fun-
not only In Italy. but on the continent. FJLCRs Volkswagen tool: :32;
Audi and NSU to become the ’e "mm! largest. British Leyland absorbed _ -
EI:.:EC#.RZ. unto producing tucilities except the subsidiaries of U.S.
.n" .b teI Swedish firrns. Saab and Volvo, merged." followed uhonly
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22 INTENSIFIED TRANSNATIONAL CORPORATE COMPETITION
: The largelt U.S. blnlu had forged close ties to the U.S. transnational industrial tirml engaged in penetrating Europe. Chase Manhattan. for .ettample, the third largest bank in the world and closely Imit into the Rockefeller network. shared director: with norm of the hiuelt U.S. industrial firms. including Firestone. General Moton. Chrysler. E:-xpn. General Electric, AT&T. U.S. Steel and ether domestic corn-tpaniel. as well u the giant Royal Dutch petroleum." Ropreuentativel ot’the Japanese Mitaubishi group. the Italian firm Fiat, the Swiu-owned Nestles. the British Dunlap. and the Swedish company. Volvo. alto nit on Chase’s International advisory board. The bank retain former U.S. Secretary of State. Henry Kissinger, an advisor. These liven enabled Chase to mobilize capital and organirxe consortia to expand production in a wide range of industries outside the U.S. y
’The U.S. transnational hanks serviced their induatrial clienta’ ex-pansion abroad by opening overseas branchel. In the 19600. the U.S. Federal Reserve Bank imposed regulations in Ill effort to prevent capital from leaving the U.S. and l’urther augmenting the nation’a belance of payments deficits. Since the regulations prohibited bank. from re-exporting funds returned to the United State: from their over-seas operations, they simply left their accumulated capital in their European branches. This movement of U.S. finance capital overseas was reflected in and contributed to the growth ofthe Eurodollar market. It; enabled U.S. bank. to mobilize increasing amount. of credit for further overseas investments outside of U.S. government controla. l. U.S. transnational banks were highly concentrated. By I975. the 20 I ’rgest controlled 92 percent of the total foreign branch assets of all .5. banks. These banks controlled about 30 percent 0! all banking attsets within the U.S. as well."
I
lrj addition to the I37 lending hanks domiciled in the United States there are 5! ht’tnhs in the OECD countries and 29 hank. eIIewhere that are subjected to mpjority control of U.S. hanks. Thus 2"). or more than one-third of the 605 l’ihancial entities are American or Americ-In-eontrollerl.3
It; the 1970:, especially a: the international crisis deepened. U.S. bank chpital began to expand abroad more rapidly, although industrial in-vestment there lagged. Between 1970 and 1975. foreign uaeta ot’ U.S. hfmlta rose from 8 to 18 percent of their domestic assets. In the nine period, U.S. hanlu’ international credit expanded by about 30 percent. more than three times the rate of expansion of domestic credit in the U;.S. itself. 21
THE TECHNOLOGICAL REVOLUTION 23
By the mid-"IOI. the overseas activities of some of the lnrgeut U.S. hanltl her! become more important than their domestic business. In I977. Cttlhanlt. the Iecond largest U.S. hank. held over half of it-;::::et::.l1d earned over 80 percent of its profits outside the United lncreuingly. U.S. hank: Ihifted their financial headquarters abroad from Europe to "financial centers" in places like the Caribbean where they faced neither revere regulations nor high taxes. By 1975. their Europenn branches’ share of overseas business had dropped’lo 26 pert:ent._ret.lecting the rapid growth ofthe Caribbean financial centers
The hour share of U.S. investment in Europe was in Engluiii
Between 1962 and 1969. U.S.-owned fixed assets there grew 80 per: cent, compared to a 45 percent growth in those of British companies B 1966 U.S. controlled firms accounted for 10 percent of the mam: feeling! goods output in the U.l(.. and 17.5 percent of British ex-ports. . By 1970. U.S. investment in England totalled $8 billion . approxtmately 10 percent ofall ULS. overseas investments.m I ln.e.nurnber of basic industries. in single British giant confronted the auhstdienes ofU.S. firms on equal terms. The U.S. company. IBM and the British owned ICL, for example, together dominated the British computer Industry. Leyland and U.S. subsidiaries split the auto in-dustry. ’ In several sectors. the British companies remained inde en-dent of U.S. control only with the help of the British governmenr In auto. Leyland was ultimately taken over entirely by the state." -
U.S. firms similarly penetrated basic French industries. but the Frenchpovernment protected the integrity of its domestic Firms more aggressively. In several cases, it forced reduction of U.S. com)anies’

shares in major Frenlch companies. 1.! I
. A tltnnber of U.S. transnationals indirectly expanded their interests
In Afr-tca through their British and French affiliates. British ties were
elpectllly important in providing U.S. companies with entree into
.50th ’M’rtca. The U.S. banks. in particular. maintained few branches
In Afrtca: only 1.6 percent of all their foreign branches in 1966
dropping to 0.6 percent in I975." Almost all these branches were
lncatett in South Africa. with a scattering in the largest independent
trol-tnlnes: Egypt, Nigeria. Zaire. lnstetul ofopening their own branches
In .Inde’pentleHI African countries, the largest U.S. ilatthSt)pCl’tlttd there
lmmnnly through llritilh amt French affiliates. Thu.- neroml biggest
hank in the U.S.. Citit’urp. urquirml 1’) peu-enl oflhe French llunque
Il’ "rique th- I’Uurtt. which hml hrunvh-m ii
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bunk. Crimllnye. which had long been active in East and Centnl Africanu The largest bank in the world. the Bank of America. joined Bnrcluys in a consortium bank. the Societe Financiere Europeene. and established direct ties to the British bank. Kleinwort Benson Lonsdale, which had two South African umliates. The Kleinwort Benson connection also linked the Bank of America to the British consortium hunk, Midland and International Banks. of which the Standard Bank had become n member. Standard remained onetofthe most important transanational hunks in Anglophuuic Africa, with over a third of its busineu ’5. bank. had in South Africa. Chase Manhattan. the third largest U. formed ties with the large French banlt, the Societe Generale de Bunque.m as well as extensive contactthith Standard.

These links enabled the U.S. banks to provide ndditional channel. (see below pp. 208-91 into the former British and French colonial preserve. for their clients. the largest U.S. transnational industrial’compuniel.

New Rivals:

The largest companies based in the Federal Republic ofCermany and Japan grew strong enough to seek entry into Alricln market. and raw material sources only in the late ’603 and early ’70:. Unlike British and French firms. they had managed. with extensive Itate support. to withstand the invasion of U.S. transnational finance capital. At the same time. they managed to take advantage of U.S. eompaniel’ technological contributions. .

U.S. investment in the F.R.C.. second only to that in Britain. reached 82 billion by 1965.17 U.S. Firms took over many smaller local companies. Even well into the ’603. in fact, U.S. companiee’expnmion in the F.R.C. market seemed irresistuble. By the late ’605. however. F. ILC. tmnsnationals began to compete increasingly successfully. The largest corporate conglomerates and banks emerged as major European rivnls of the l’niteel Statea. hoth in export markets and foreign investment. By the W703. they had mounted a counter-ol’fensive that threatened the U.S. hegemony in the capitalist world. and led to their own entry into Africa. ’

After the Second World War. industry in the F.R.C. lay in ruins. Where the actual industrial plant had not been destroyed, the leading companies had lieen broken up because of their assistance to Nazi aggression. In several cases. their top managers were tried as war criminals. The largest bank. the Deutsche Bank, was split into three companies. and only reunited in l956. LC. Farben, the chemicals

combine, which produced Zylum-B for the Nazi . . . gas chambers. w dwuled Into Bayer. BASF. and Hoechst. German overleaa inventmenlt: were confiscated in all but Ieven countries. one of which was 50th , Africa.

U.S. rtrml becked by the Marshall Plan. ntepped into thin Iitultion. A number ol’major hmericnn compunien-among them Singer. IBM and Standard OIl-had Invested in Germany before World War I. They were Jotaild by ot’l’terEFIncluding l’l’l’. General Motors. Ford and Woolwo s-tnt e ’ 9. But by far the lat est wnv l’U.S ’ i the F.R.C. followed World War ll." 3 e 0 . "Hemmer" ’" By the mid-’60s C M ’s 0 l ’ ’ i , . . pe subsultary end Ford. to eth r, - trolled 40 percent of the West German auto market; U.S. oisl coiitpafiiL accounted for 35 percent of the petroleum industry; Owens supplied 40 percent of the glass market; and U.S. rubber companies had captured 20 percent of the market for mbber goods. IBM Iupplied four fifths of the market fer electronic duta equipment. Over a third of all foreign tnvesltritlefntsbtn the F.R.C. was from the United States. Hall was accoun ’ ’ ’ pm 130 Jilliifgrmjm concerns. each of which held assets worth over F lie; the penetration of U.S. capital affected the huge indigenoul . : -. compantu-the chemical. auto. engineering Ind steel comp’t’mlesnand the bnnks-relatively little. Foreign interelts acquired sM’eres. In a few, hut the largest consistently acted independently. I;rtortty shareholding: in some instenceu may have led some into I II):ncea wtth U.S. (Irma. but they rarely permitted their own interests to co:ne eubordihate." U.S. investment further stimulated increased concen ration in ’. .0. industry. as U.S. firm th I

firms took over smaller companies. 3 0" ’5 "Sc" RRC-
F 3y the early "(’03. the rate of expanding U.S. investment in the
’. .C: had.alowed.. From 1965 to 1970. the capital of F.R.C. enter-
lllrxesnth whlch foreign firms held at least a fourth ofthc equity rose from
11-. " nt ofthe cnptial ofnll F.R.G. companies. In the following
P re.. ,fnrs. the rate ofgrowth slowed no that their share rose only three
ercen more to 34 percent. nltl I II b "
terlnts remained about the same. lo’ugl w ’ 3""3 K’OWlh "’ money
It contrast to the situation in Britain wholl l ’
. . y ocnlly owned LKC.
fifths grew faster than foreign. firms’ holdings in the heavy industrial
utters: notably chemicals and steel. The shine ofpartiully-heltl foreign
enterprises hegan tn decline in these sectors in the early ’70:. The
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In eeveral industrien. the share of capital owned by foreign-contmlled films grew. The share of time with minority foreign plrticigltion. on ’the other hend. dropped." This p’attem renecteti the incteumg poler-izetion in many impottent markets between huge Foreign conttolled and domestic Iitms. Thin parallelled the continued tendency toward. in-ciensed eoncentntion. In more and mote capital was required to pur-’chnae mlchinery and equipment embodying the moat advanced tech-noIo ies. _
. DEnpite the continued high level of foreign hoidtnp. EKG. hued tmnsnetionnl corporations had emerged as e dynnmic independent force by the 1970!. Their rejuvenation wu partly I result of thelrIcIoee ties to the largest banks, and partly due to vigorous Itete cellutelllt intervention. The bank: played I cnicinl role. A- one euthonty ex-plained:" I .’ ;
’ " ’ ’ I the ueconomic
The use of high finlnce (In the ERG.) II not the teeult o miracle" alone. It he! I system. Although the nlhee broke up the Semen hauling concern. utter the War. the put: noon tejoined each othet. Today these institution. ue centnlized Ind univenll. Iinlncillly strong end eureuively managed. equalled by only I few banking giant. around the world. The lreedotn of Action of the German Gro-sblnkien in much larger then that of 4-... their colleagues in moot other countries.
! The biggest banks, the Grossbnnken, functioned u the kingpin. in the rapid recovery ofthe Fedenl Republic’s economy:
A vast numbet of Inge German compeniel are closely eontroIIed. today by n’ relatively "null number of financial institution: end orgnnlutlom. These . enjoy greet innuence ovet every npect of the development of Went mups . .
nu
ennln Indultry.
In the F.R.G.. national legislation permits bank: to become directly involved in ownership of industrial firms. In the 1979. they owneg about 10 percent of the Itock of all firms." As one nuthonty observede In the F. ILG. . . .tiee between the credit eltnhlinhmente. in peniculu the the: "Crosehnnlten" and industry Ire mnny and traditional . . .. The consequence it hat the bank. ere repreeented IIMOSI in entirety in the administrative organ: 0’ Ijor enterprinee. Thus. they Il’e enured of euentinl nonme- ol’ Information. In fact. the bond of directon in charged with conttolling the mnnngement oI ,msineu.

The bank: own outright major interests in such huge industrial com-panies u Daimler Benz. Metnlgeaellschnft and Deutsche Babcock.4s Most of the share. Ire held by the three Crossbanken. Deutsche Bank. Dresdner Bank. and Commenhank. The Deutsche Bank. with the Ingest holdings in induntry of any F.R.C. bank. had especially close tie! to the big’electricel corporation. Siemens. Both companies were founded by the same men in the 19th century. and a Siemen’s repre-sentative still sat on the bank’s board in the l970s.
The F.R.C. government, as well as the Crosshnnken. played a key role in strengthening domestic industrial units’ ability to withstand the penetration of U.S. finnn. The F.R.G. government’s close relationship to industrial capital stretched back into the early days of German industrialization at the turn ofthe century. It was reinforced during Nazi rule and, despite the allies’ initial efforts to break up the largest industrial cartels, persisted in the postwar period. In 1963. the total value of industtiee controlled hy_ the F.R.C. govemment. excluding banks and constluction companies but including the railroads and poet. accounted for npptoximately 21 percent of all corporate capital. This represented 13 percent of all cotporalc turnover. 7 percent of total employment. and 9 percent of non-agriculturnl employment.n
The EKG. guvemment participated directly in some of the largest manufacturing firms. The State of anse Saxc and the Federal govern-ment each held 20 percent of Volkswagen’s capital. The Federal gov-ernent nominated VW’s chair and four of its ll directors. The Fedeul government became involved in VEDA, which primarily produced Ileel, coal and electricity." The Federal government also owned a majority ofsharea ofSnlzgitter, founded under the Nazis to develop iron and manganese production. F.R.G. state governments controlled sev-eral major banks. including the Westdeutsche anleshank Circzen-

trale. one of the largest in the country.
The F.R.G. government used it: pnrnstntals to bolster private in-
dustry. Producing basic inputs for manufacturing industries. puru-
etntuis hold down prices to ptivnte firms to ensure the iulters’ profit-
ability. The government strr’ "honed its ties to the private wctor by its", .
uhnhit of electing to the board ofdirectors members ofthe private sector
II well as government functinnulrit-s.""
In nlmrt. the bunks. government. and private industry in the Federal
erntth of Ct-rtmmy funm-tl a timely inlc-gmtc-tl lu-Imorlt covering all
main! industries. Tilt’il’ mmnlinntion mu Lu’ilitutni hy and contributed
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xtries here (in the EKG.) are now dominated by just I hmdful of
. icompunies."9 The auto industry. displaying the full flowering of the
.Itnte-corporation-bnnk complex. was dominated by Volkswagen. with
’its state connections; Daimler Benz. in which the Deutsche Bank (28.5
iperccnt) and the Commcrzhhnk and Friedrich Flick holding company
- ’were mujor shareholders; BMW; and the subsidiaries ol’ Americnn
:covnpunies. The three companies formed from I. C. Farben-Hoechet,
Buyer. and BASF-togclher with the chemical division of the state-
’owned VEDA and llenkel. dominuted the chemicals industry. Dresdner
.Bnnk shared the ownership of llenkel’s largest subsidiaries. Degusaa.
l Three of the largest machinerye manufacturers. Metnlgesellschaft
:(controlled by the Dresdner Bank and Siemens), Cutehol’l’nungshule
.and DEM AG, a subsidiary of Munnesman AC, shared directors.m This
:sorl of extreme concentration, linked together by the banks and sup-
Iportetl by direct government purticipntion characterized Ill bnsic in-
:tlnstry in the Federal Republic.
’ In one sense, the destrucliuu of World War ll had been an advantage:
it enabled RILG. firms to install a totally new industrial plant. Con-
centrution and state intervention enabled F.R.C. companies to mobil-
ize the necessary knowhow and financial backing to adapt and utilize
: the advanced technologies initially transferred into the country by U.S. ’,
to lag in several home industries. notably steel.5’ The F.R.C. mn-.
chinery and equipment. chemicals and steel sectors grew especially
quickly in thc l9003. Only in the most technologically advanced ICC-
) tors. like petroleum and computers, did US. firms remain dominant.
As F.ll.C. firms grew in the 19605 and "105. they rnpidlylexpanded
their exports, and then their overseas investments. By the 1970:. only
l Japan exported as high I: percentnge of its output.,2 The F.R.C. com-
panies by then were investing more capital outside their home country
i tlmn foreign firms were investing in it.
l penetration. In contrast. U.S. transnationals permitted theirequipment
l
Table 2-2.
Foreign Inveotment in the F.R.G. compared to Investment abroad
by P.ILG. eomguuleu, l956-’76 (in million- of Deutoebe Marker
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l Average nununl enpiI-l now for lnveutmelll
I 1905-155 1969-72 1973-76
Into the FJLC. 33" 3526 47I5
From the FJLC. I498 3651 5087
Ration of uptiel inflow tn
cleit-l oulnow 2.2:I I.0:I 0-92.
Souru: Deutschen Bunde-blnk. Monulsberichte. relevnnt yea". -

Furthermore. EKG. investment: abroad expended more rapidly
than exports: ,
The export orientation he- been greatly ltrengthened Iince I961. While II that
time 15.I percent of industrial production went for export. in 1972 this there
reached 20.0 percent. . . .The oveneu involvement of IWe-ll Cennnn enter-
prise. thmugh direct investment has developed Itill later then through exponl. "
F.R.C. firmn’ foreign investment totalled DM570 million (8135
million) in 1956. By 1965. this annunl rate had doubled and began to
climb more rapidly the following year." Between 1967 and 1977.
FJLC. foreign holdings multiplied almost aeven times. from 83 billion
to $20.5 billion.,5 It is important to note that F.R.C. investment data.
unlike those for the U.S. and Britain. do not include funds reinvested by
overseas subsidiaries. They simply sum capital outflows. To provide
comparable data. the F.R.C. figures should probably be raised by a
minimum of 30 percent. so
This rapidly growing capital outflow reflected the determination of
the largest F.R.G. firms to take advantage of cheaper oversees labor
and to acquire new markets for their expanded manufactured goods
output. markets which could in many cases be penetrated only through
investment.57
FJLC. based companies, many still somewhat smaller than their
U.S. competitors. used their advanced technology to win contracts in
the more wenlthy developing countries. A director of Metalgeaellschaft
claimed that F. KC. companies provided "lens capital, but more know-
how, technology, advances in construction, corporate initiative and

experts" than other countries." The branches of industries which predominated in F.R.C. exports and foreign investment were precisely those most technologically sophisticated. In order of importance. they were: machinety. chemicals. auto. iron Ind steel. and textiles. Theue branches exported In average of 29 percent of their output in 1972, compared to 11 percent for the rest of West German industry. In all. foreign production accounted for a higher share of total overseas sales and grew more rapidly than the average for the economy."

The six industries which exported and invested most abroad were thuue in which the importance of foreign investment had grown most eluwly or declined in the recent past. They were also churucterized by Illa highest degree of concentration in the FJLC. itself. Mnny of the dummunt rotnpunirn in then.- bram-hu. lile Siemens. AEC-Telrfunlen. "on in nu! the nurrrnsor- of I. C. liurlwn. hull fllnlllnltrd mayo! plulwlum iu’liilin uut-ule (irtzn-n) l-riure hurld Wu H. l’utrngn

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investment was even more concentrated than was domeetic FJLG.
production. VW and Daimler Benz. for instqnce. accounted for 90
percent of all foreign production by F.R.G. eitto tinn- in 1969. The
three largest chemicals firms, Hoechet, Bayer end BASF. held about 60
percent of F. KC. foreign investment in chemical: production in 1971."
The high cost of sophisticated technologies and the rich involved in
investing in them oveneu may explain this pettent.
F. R.C. banks began to expand their foreign nctivitier rapidly in the
late ’60: and early ’70:. alongside the increned foreign investment of
the mnjor industrial firms. The Crossbnnken. with their close ties to
F.R.C.-bued transnational corporations. organized bank eoneortie to
finance the massive expansion of FJLC. exporte. Frequently the
F. ILG. govemment underwrote the bnnlu’ financing package. for over-
leas sales. ’ :
As the international monetary crisis matured: the strength of the
Deutsche Mark helped the F.R.C. banks move into intem-tionel Iner-
Itets. The bunke’ new international strength was reflected in the growth
of the DM-Eurohond market. monopolized by the Croubanken."
Even more than their American counterparts. FJLC. bank. con-
ducted wholesale operations outside the Federal Republic. They oper-
ated primarily through their own or uaociated consonin’e representa-
tive offices. and to e lesser extent through local eftiliatee. eepecielly in
peripheral countries.
In I978, one authority observedu:
Foreign involvement hu developed nix time- :- strongly :- intern-I bulineu.
In the lust live yearn. turnover with foreign cuetomere hen multiplied more then
three Iimee; with domestic customers, in contrast. only one and e half timee.
The three Croub-nlen today earn about 1 third of their total protite outside the
country.
The largest banks increased their capacity to operate by forming inter-
national consortia. Most of them belong t3 ’one of inert! group: of
affiliated banks designed to Facilitate the mobilization of major inter-
national credits. They provided member banks with contacts in a larger
number of nations than each could maintain alone.
All the Crossbanhen joined international consortir-the Deuteche
Bank joined EBIC (European Bank: International); Dreadner Bank. the
Societe Financiere Europeene (SFE); end Commenbank. Credit Lyon-
nnise end the Banco di Roma.u Through these consortia, the bank-
could draw on greater resources and contacts outside the FJLG. to
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tinnnce new investments. in addition to their use of representative
offices and their participation in consortia. the Crossbaniten operated
through Imliatel in developing countries. Unlike the U.S. bunks. they
generally did not acquire major shareholdings in British or French
bnnlte. Rather. they forged links to locally based banks. In Africa, the
Grouhnnlten became alliliated with or represented by banks in ten
countriel. mostly in west and north Africa. Theirahnrchuldiugs in these
bnnlu ringed from 0.4 to 18 percent. In South Africa. they opened their
own office. or jnined consortia to represent them. They appeared to rely
on their Iuperit-r international contacts to expand their innuence.
. Japanese post-wnr reconstruction followed a pattern remarkably
etmillr to that of the Federal Republic of Germany. Some observers
maintain that. after World War H. "Japan was transformed into a huge
captive market for United States exports."’" In the late ’403. the U.S.
supplied two thirds of Japanese imports. but bought only a quarter of
Japanese exports.u
U.S. companies nevertheless failed for several reasons to penetrnte
ananese industry even to the extent that they did on the F.R.C. in the
two decades after World War II. First. the successful revolution in
China convinced the U.S. government of the need to help Japanese
industrialist: rebuild their own industry and "develop
market. . . .in South East Asia in order to counteract Communist trade
efforts.""
U.S. military ventures in Korea and Vietnam contributed to Japanese
industrial growth by stimulating regional demand for both military and

civilian goods. In the 19505, U.S. military procurements in Japan averaged $600 million a year. As late as 1958-59. the foreign exchange Japan earned in this way covered l4 percent of Japanese imports. The cncnlntion of the Vietnam war provided an even larger market for expanding Japanese productive capacity. In 1966-67. U.S. military contract: with Japanese firms totullcd $505 million. and "war-related _ cum ’ " rytmunted for an even larger 51.2 billion. 07 ’ . . ..c Japanese government had initially introduced rigorous mechan- tetns to protect Japanese industry against foreign penetration. Afterthe Second World War. all foreign ca’pitul investment was subject to prior authorization by the Foreign Investment Counril. Among the main criteria for this authorization were cunsidemtinn: us to "whether the Applied ruse would contribute to incrcuxihg annnil furvign exchange huhiing nml hitt’lilt’f it would expedite imimtriul :ierx-lupmrnt am! the Pt’mumuc n-ii-rriinnre u! Jupun."" The annnrsr putrrnmrnt primar- i’! lmlell ll "intrmiucing hm-ign tn’huhlup an dnumg funny: in- WW.W""’W.NWRtW gunman: nI-p’ ymmw-mwmm I
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vestments as development funds into Japanese indutttry.u This pro-
, tective policy severely restricted U.S. investment in Japan. After 1967.
I under considerable U.S. pressure the Japuriese government gradually
eliminated restrictions on the entry of foreign capital. By 1975. all the
x remaining limits had been removed." By then, howevet, Japenele
industrialists, their domestic holdings greatly strengthened Ind highly
concentrated. did not have to worty about U.S. domination except in I
few sectors. U.S. transnational corporate holdings in Japan in 1975
totalled only 83.3 billion. 2.5 percent oftotal U.S. foreign investment,
compared to nearly $50 billion in Europe. /
; V Companies with important foreign participation (over 20 petcent)-
mainly from the U.S.-provided less than 6 percent of the total Japan-
ese market sales in all except four’industries: pharmaceuticals (where
the marketishnre was 8.2 percent); petroleum products (56.1 percent);
rubber products (16.8 percent); and general and transport machinery
(6.4 percent). Only one foreign-owned company. the Japanese nfliliate ol’
1 the U.S. computer firm IBM. dominated the domestic market." Even
more than in the F. KC. , U.S. firms dominated what foreign investment
there was in Japan. In the 19703, U.S.icompenies held about four-lifthe
of it directly or indirectly. Foreign investment was also highly concen-
Ihere was any foreign participation."
I lly the end of the 19605. the Japanese economy once lgein had
become essentially divided among a handful of huge Japanese owned
industrial financial groups: ’
i Ench industrial youp constitutes a colonel pyrumid whose apex cnneiltl of-
i handful of leading companies. The loundntion conni-t- of thouundl of mull
subcontracting firms. The innuence of such pyramid. reaches every corner of
Japan. n
These oligopolistic groups had been outlawed under U.S.I preenure
! immediately after World Wu: H. largely because oftheir tole in Japan’-
’ imperialist ventures. The laws were soon changed. however, and by the
eally ’605 the groups had re-emerged. 15
Mitsubishi. one of the three largest. was Iypicnl. ltI member com-
panies engaged in finance, brewing. tayon, paper, chemicals. petro-
chemicals and plastics, glass. mining and cement, aluminum and steel.
;electrical equipment. transport equipment. and real estate. among
father endeavors.m In 1970, Mitsubishi member companies accounted
ilor almost 6 percent ofthe nominal capital ofnll Japanese compnnicl. 11
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. trutetl. ln I973, the IS largest affiliates afforeign companies accountedw
I for over half the turnover and profits ofnll companies in Japan in which ’

Enclr group wu nuociated with key financial inltitutiom which
played an important role in assisting them to accumulate and reinvent
capital:
The ’c-tllylt’ in the fomiltion of induutriel group: wu loans from linenci-l
institutionl. Ipecificelly city banks. to their eflilieted comp-niee from the
1950: to the lint hellof the 1960-."
Thirty-one percent of the outstanding 1974 debt of the Sumitomo
Group member companies. for instance. had been borrowed from asso-
ciated financial institutions. The ligures for Mitsubishi and Mitsui were
29 and 21 percent, respectively." A Japanese financial journal de-
t clued. "most industrial companies are actually run by the banks from
which they borrow.""
The auto industry exemplified Japanese industrial concentration.
Two companies controlled about four-ftfthu of its output. The largest
tingle company, Toyota. had been associated with the Sumitomo Group
lince 1970..I Each of the two companies had taken over several smaller
lime in the 19603. As in the F.R.C., the Japanese auto industry
epplrently became more and more polarized between entirely domesti-
cllly-based oligopoliel and only slightly Imaller Firm: associated with
foreign tranenationaln. The smaller auto companies sold shares to the
big U.S. luto firms in order to compete with the larger Japanese firms.
Chrysler bought 10 percent of Mitsubishi Motors, the relatively small
auto affiliate alone of Japan’s largest industrial groups. General Melon

purchased 34’ percent of Isuzu.
In the basic iron and steel industry, The big companies produced
over nine-tenths ofthe pig iron. thtee-quarten ofcrude and rolled steel.
and hall’olspecial steels. Only ten integrated compuniel produced Iteel
"from pig iron to final products."" The sector was "often referred to u
the citadel of monopoly capitalism" in Japan. :3
The reason: advanced for Japanese industtial concentration in-
cluded: (l) the Japanese companies’ desire to avoid takeover by foreign
capital; and (2) the need f ’ystcmntic organization of technology. "" .
This last was particularly significant in view ofthe lending groups’ deep
involvement in the development of new industries like nuclear power
and data services. Concentration enabled ll": domestic companies to
llllte advantage of foreign participation to gain control over foteign
technologies:
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superior foreign technology. Thi- explninn why direct foreign inve-tment concentnted in the mnchinery. chemical: and petroleum l’Ieldl. "
.. The Japanese sovemment helped private domestic companiel to adapt and control foreign technologies. Because of deatmetion during World War ll, Japanese firms like those in the F.R.G.. had to install the newest technologies. The Japaneseigovemment’s licensing lystem prevented imports oftechnology which would not. in its view. contribute to Japan’s industrial strength. The effect ofthis policy)": reflected in the changing geographical distribution of the technological export: of ; Japan. In the first half ol’the l9503, 89 petcent anpanese technological exports went to less developediAsian countries while only 7 percent was sold loNorth America. By 1961. the Asian share had dropped to 40 percent. while the North American share reached 21 percent.u Furthermore, between 1960 and 1974. the value of licensed export: of technology. as a proportion of the value of licensed technological imports. grew from 2 to 16 percent."
l Dependence on the United States as a source of technology we. overwhelmingly important until the W703. About 70 percent of technological impotta l’rom I949 to l970 originated in the U.S." By 1975, however. the U.S. share had dropped to 50 percent and was still filling. while the F. TLC. had risen to second place as a supplier oftechnology."
. The Japanese government provided essential support for the poet-
! World er ll recovery and expansion ot’the shipbuilding. steel, power. coal and chemicals industries. The government save these industries.
. now among the top Japanese exporters, long-term, low interest loom
l and export financing,o
l Close coordination of business. govemment and banks helped leln to become one of the major industrial power: of the world. Its modern technology gave it an edge over its rivals on the intemalional scene in uevenl sectors. Japan’s "big six" nteel companies. for example. plo-
. ducetl 80 percent of their output by the modern oxygen-blut system. icompnred to about 60 percent of the output of US. (inns. Japanese
’ industry boasted 10 of the l5 largest blast furnaces in the world)I Japan’s steel companies moved further than any others in introducing icomputerized controls)2 As a result. Japanese steel output per wolkhoui rose 166 percent between 1964 and ’75. while in the U.S. it rose only 17.5 percent. In the Inner year, Japanese steel workers produced about 9.35 metric tons of finished steel per hundred workhoun. comlpmed to 8. 13 metric tons in the U.S.93 .
By the 19709. however. continued Japanese domestic economic 5expausi0n confronted several difficulties. Two were mm! ilnportllm
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lint, pran’s industry expanded and became increasingly dependent on imported raw materials. By the 1960:, it was importing wool. natural rubber, bauxite. phosphate rock and nickel; and over nine-tenths of its demand for crude petroleum. tin ore. sugar. and iron ore." Between 1956 end 1975, the share of imports in total coal supply rose from 8 to 86 percent), The share olimports in iron ore consumption rose from 73 percent in 1968 to 86 percent in 1975. Second, as its domestic market became relatively saturated. Japanese industry, like that ol’lhe F. R.C. . became increasingly dependent on exports. This became particularly evident in the economic crisis ofthe 19705. The growing dependence of Japanese manufacturing industries on expanding exports was typified by the steel and auto industries. The auto branch. especially. began to export rapidly when high oil prices cut domestic auto demand. In 1976. the Japanese auto companies exported about hulloflheir production. In

that year. while production rose 13 percent over 1975. exports rose 39 percent and domestic consumption dropped by 5 percent." It was argued that "for Japan. . .steel exports are widely considered as a matter of corporate survival." The country exported 44 percent of its crude steel production in 1976.97

Low Japanese wages permitted Japanese firms to penetrate and compete effectively in overseas mntkets. Resulting high profits cun- tributed to rapid accumulation and reinvestment in new technologies in expanding domestic industries. In 1964, labor costs in manufacluring avenged eighty h’ve cenls an hour in Japan. compared to 84.61 in the ".3. In 1976, the average U.S. wage had risen to 8l2.22 an hour. while the Japanese wage. although rising at a faster rate. had only reached $6.31 an hour)" Only after the prolonged devaluation of US. and Western European cutrencies. in the context of Homing exchange rates in the late ’70:. did the Japanese industrialists finally lose this com- parative advantage.

Japanese transnationals began to expand their foreign investment in the 19705 to secure their hold on vitally needed sources of raw mute- I’ials. as well as markets f0r_lheir expanding domestic manufnclutrd- sooth. Their overseas imwunents more than (IUUlJlt’ll from less than Ieven billion dollars in l97lW lu uluuwl sixteen liilliun in I976. The lnnmll licensed capital outflow fur investment uwmgc-d MS million in l’Isl-Ol: met! to 590% million in IUTU; iluul-Ic-d the- tnllouing yrar; and ruminunl Io rim: at a rule of on-r $2 lvillum prr)rnr thmugh thv- mid ’Ttk, um I" l075v. it n’urhml 5.10 hilli-m. w.

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i Japanese foreign investments was in Southeast Asia (where U.S. invest-
; ments were mininml).’oz By the early "10;. Japanese investments in
1 Europe and the U.S. were growing more rapidly. although developing
’ countries still accounted fer well over half. Japanese investment in
i Africa grew to 2.5 percent ofthe totul. Japanese lirms were not allowed
. l by their government to invest in South Africa, which probably limited
f the amount of Japanese direct investment on that continent. but they
: fuuntl other means of participating in the prolitable South African
1 economy. (see below. p. 84). /
The structure of Japanese foreign investments in the early ’70:
i reflects the basic reasons for Japanese expansion overseas. Like trans-
nntionnls from other major capitalist countries. the Jupuneue invested
; primarily in mining. especially in developing countries. to ensure raw
. materials supplies; and in last stage manufacturing to secure markets.
9 The two largest cutegories were fishing and mining (35 percent of all
I foreign investments) and manufacturing (26 percent). The concentra-
tion on mining is far more evident in developing countries like tltoscjn
Africa. Over half of Japanese investment there was in mining alone.
Only a little over a filth was in manufacturing. mostly last stage n-
semhly. "n
concentrated their manufacturing investments, forthe most part. in the
western developed countries and in a few regional centers in developing
countries, notably in Taiwan, South Korea, Brazil Ind. indirectly.
South Africa. Investment in manufacturing. in developing countriel,
aimed primarily to penetrate otherwise closed market: And to like
I
I advantage of cheap luhor.
I A survey by the Japanese Export Import Bank reported In the primary
reasons for Japanese investment in foreign manufacturing: good pros-
pects for local markets (32 percent); abundant labor (28 percent); and
domestic industry promotion policy (16 percent).
Japan explicitly aimed to develop raw materials sources overseas.
i
I This was achieved by contracts and participation in equity. usually
I
through minority shareholdings. "u ln l95l-69, 36 percent of all
Japanese foreign investment was directed to such "resource develop-
ment projects."’o, At first located primarily in Asia. since the late ’60!
these investments had spread throughout the developing world. Much of
Japanese companies’ resource development was carried on through
joint projects with trunsnntionuls based in other countries. notably the
United States. Britein and South Africa.
w""’""’ ’ ’WWF 1"""’" t ’i’fvw’WWw-m WW’""’
. I i . I W. ’Wm... ’;’1if".l I i.
’ Japanese transnationals. like their U.S. and FJLC. counterparts;

J ’ 0 . D Table 2-3.
.pu I venee- ependeney and Resources Develo In t ’ I
end 1975. for Iron Ore, Coal and Urenlun: 9’ ’ 963
Iron Ore Co-l U
nnhun
(0000 (0000 (Ihorl tonne.)
1968 1975 I968 I975 I968 I975
Demlnd 77.000 IM.000 45.000 87.000 -- 4 000
Oveneu Dependency 85% 90% ,
Developed import: 72% 86% 100% 100%
n % total inert. l0% 52% ll% 52% -
Note: ’In contrast to lim l ’ i
. p e Imports. whlch are carried on thmu h f ’
tzlnuetlonl. Idevelopment imports are import-tion ol’ re-oureeo deteltim’; 3:5:
I rough J-pen I direct or indirect participation in development. PC I
Scum: M. Saito. "h In’n 0 ’ " ’
Economic 3mm". summzr’ 191 51.". Resource Development Policy. In Japan"
The growing involvement of annnele lime in v r i i
prolects was reflected by their increased representatitih 2:31: ahntizs
hMetal Exchange. Until 1973. broken on the Exchange were all con-
trolled by North American. European and South African companies B
the late 70:. Sumitomo had obtained representation through bu iii Z
50 percent share in the aluminum division ofAMAX; Mitsui purchased

share? In Anglo-Chemicals. a member of the South African An In
American Crotlp; Mt. Inn entered into a joint venture with ASARCOs a
U.S. lirm; NleO-IWAI, a Mitsubishi affiliate. and Metllgesellschhft
corttrolled Metllgclellschaft Ltd.; Mitsubishi nlao acquired share: it
Tnllrld Trading; end Consolidated Gold Fields. a British lirm witli
Luca:ielltlo:South Alston" holdings. controlled Tenant Trading with Maru-
Prohibited from investing directly in South Africa. Japanese com-
pemee negotiated long-term contract: to purchase raw materials es Ie-
cmlly neon end coal. there. These contracts contributed criticall; to ihe
economic Viability of several major South African development pmjects
f Japtlneee auto companies made a significant share ol’hpanese menu:
Ifcturlng tnveii2ments overseas. Auto firms controlled almost 8 percent
33917he foreign Investment and loans ofthc top 50 Japanese companies in
deyfl’ A.n tmportarit share ofthis investment was in assembly plant: in
Sl;mu:;:t;lg countries. Toyota. In particular. mlvunced into Africa. ’97
"and :panes-e firms. unable to compete through trade alone. in-
mi! curate: tn lust-slnge ussrmbly plants to uvure murkeu. In the
It wevemum. the)- lmtl larger foreign holding- than the much larger
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companies. Toyota and Datsun-Niuen. although the letter eeeh exported twice In much from their domestic plants. ’0’
The How of Japanese capital abroad, lik’e thlt of the F.R.C.. was largely controlled by a handful of firms. Five commercial houlel controlled almost half-43 percent-of the foreign invenlmentl end loam of the 50 largest Japanese companies. These top groups were Mitsui. Mitsubishi, Mambeni. C. ltoh and Sumitomo. ’o, The next Ingest investors were the auto companies. but their share in overseas investments was small compared to the holdings of these giants.
Japanese banks. like those of the F.R.C., extended their operation: overseas alongside and contributed to the rapid growth ofdirect foreign investments by Japanese industrial corporationa.’" Starting in the eatly ’70: Japanese hanks also entered the international money market through minority participation in consortium bunks. mostly formed with European partners. They established even fewer overseas branch networks than their F.R.C. counterparts. They operated almost solely a_e wholesale banks through their ties on the international tnoney market. ’ " They created jointly-owned merchant bank: with Europeln banks: Sumitomo Bank with the British-Swiu Bank. Credit Suisse-White Weld: Mitsui Bank with the British Hambros; and the Industrial Bunk anpan with the F.R.C. Deutsche Bank. ’ uThe Mitsubishi Bank hecame linked to the Orion Bank. a consortium hank controlled by the U.S. i’lrm, Chase Manhattan. By 1975. Japanese hanks held over 18 percent of the assets of the top 300rbanlts in the world. ’ ’1
Ileiglltened Competition:
The growth of F.R.C. and Japanese industry and overseas invent-mcnts led transnational corporations from these countries into direct connict with U.S.-hased transnationala. The changing positions of F.R.C. and Japanese transnationals among the top 500 companies in the world illustrated their increasing importance. In 1965. U.S. based firms constituted nine of the ten largest transnational: in the world. By i 1977, this figure had dropped to seven. While U.S. corporations still i dominated the top 15 places. primarily accounted for by their leading role in the oil industry. inost of the other companies in the top fifty were non-American. Between I970 and 1976. the numberofU.S. companies ’ in the top hundred dropped from 59 to 40. largely replaced by Japanese and F.R.C. firms. ’ M
In the Field of international iinnnce. likewise. the U.S. hanks’ shim-itt assets of the top 300 banks dropped. The Japanese there. in contrast. had risen to IE percent. and that of the EXILE. to II percent. Cum-
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bind. the trananationnl hanks based in these three countricu held over two thirds of the Insets of the top 300. Only French-hesed hunks, with neven percent til the assets, were nearly as important; and. as noted above. some of the larger French banks had become elowly nllicd with those based in the U.S. ’ ’5
Growing production in the core cnpitalintnatiom, and increasing t-ompetition in the most important sectors of industry, sharply reduced the U.S. share of world trade. By the early ’70:, the U.S. share of manufactured exports had dropped to a Fifth of the total. Japanese and F.R.C. shares. in contrast. Were rising rapidly. From I963 to l97l . the Japanese share rose over 40 percent to account for 10 percent of all manufactured goods exports in the latter year. ’u
By the late ’705, the growing pressure for government protection by U.S. industries. especially textiles. televisions. auto and steel’ ’7, underscored their weakness on international markets. When world demand began to fall with the 1974-75 recession. U.S. companies could no longer compete effectively in these areas. even within America. While they complained most about Japanese competition. the F.R.C. had also begun to penetrate the U.S. home market.
Stummnry:
The accumulation and reinvestment of capital. nided by rapidly

expanding state capitalist expenditures on research and development. revolutionized industrial technologies in the core capitalist countries. They multiplied the size of investments required for hnsic industrial plants. reduced the relative amounts of labor employed per dollar invested, and rapidly expanded industrial productivity. This process fostered intensified eoncentration among the lending industrial firms in the core nations, and stimulated closer links between them and the largest national banks to ensure adequate finance. At the same time. it Ipurrcd the largest industrial conglomerates to compete in a global search for essential mineral: and outlets for sale of their growing surpluses ofmnnufucturetl goods. including mm-him-ry tmti equipment. But this process did not proceed evenly and harmoniously nnmng the CUR (’tlpitulist nations. The hmm- industries anritish :Iml Fn’lwh firms hnd lt-mh’d to Ittttgtmle. Over the: years. they hml im-mm-d much vitht’ir ll’l’ltmulult-tl vupilul in the export tlt’l’lttl! uf lhrir t-uluuinl holdings Illtlrml of remnnltttg thrir nulmmivd t,tllltt’blit’ imithtnrs. U.S. Inma- "flI-malu imn-lrtl the mat nums nt’rmnuhtni in ii mid Wm H In hm up l’t’I-l-FAII tmiu-ln, npn-uily in England. 33mm; an entrung whip- "-k- then prnittnl’h- Aim en huum-u. ICE lluttllllltoluil nlu l-euphl ;.._-,.., .c -e .. ,. ,,..., .