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Monthly Review; Jul/Aug 2016; 68, 3; Social Science Premium Collection
pg. 114

Multinational Corporations and the Globalization of Monopoly Capital

From the 1960s to the Present

INTAN SUWANDI AND JOHN BELLAMY FOSTER

In 1964, Paul Baran and Paul Sweezy wrote an essay entitled "Notes on the Theory of Imperialism" for a *festschrift* in honor of the sixty-fifth birthday of the great Polish Marxist economist Michał Kalecki. Later reprinted in *Monthly Review* in March 1966, the essay offered the first major analysis of multinational corporations within Marxian theory. Parts of it were incorporated into Baran and Sweezy's *Monopoly Capital* in 1966, two years after Baran's death. Yet for all that book's depth, "Notes on the Theory of Imperialism" provided a more complete view of their argument on the growth of multinationals. In October and November 1969, Harry Magdoff and Sweezy wrote their article "Notes on the Multinational Corporation," picking up where Baran and Sweezy had left off. That same year, Magdoff published his landmark *The Age of Imperialism*, which systematically extended the analysis of the U.S. economy into the international domain.[1]

In the analyses of Baran, Sweezy, and Magdoff, as distinct from the dominant liberal perspective, the multinational corporation was the product of the very same process of concentration and centralization of capital that had created monopoly capital itself. Likewise, it was to be understood in the context of the class-based society of capitalism and the capitalist state. As the main mechanism of monopoly capital abroad, multinational corporations were not to be analyzed merely in terms of the firm versus the state, but as components of an imperialist world system, in which firms were bound to state structures and class societies, and stood to gain from the hierarchy of nation-states within the world capitalist system and the division between center and periphery. Not only was such an analysis more complex, dynamic, and structurally rooted than mainstream studies; it better explained the long-term evolution of global corporations. Other radical thinkers, such as Stephen Hymer,

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Samir Amin, James O'Connor, Richard Barnet, and Ronald Müller, also contributed crucially to uncovering the role of multinational corporations in the 1960s and early '70s.

From the beginning, three interrelated issues dominated discussions of multinational corporations on both the left and right: (1) the reasons for their rise; (2) the distinction between multinational corporations and the mere international operations of firms, as well as the possibility that fully transnational firms might emerge; and (3) the degree to which such giant, globe-straddling corporations could supplant nation-states themselves. In addition, within Marxian theory, there was the question of how the rise of such firms, founded on foreign direct investment, might transform Lenin's theory of imperialism, which had focused on the export of capital, primarily in the form of portfolio investment. Today, the earlier analysis of the relation of the multinational corporation to imperialism, as developed by Marxian theorists in the 1960s and '70s, provides us with the critical tools to understand the new imperialism of global monopoly-finance capital, rooted in global labor arbitrage.

Three Big Questions on Multinational Corporations

1. The Origin of the Multinational Corporation

For neoclassical economics, the most difficult task was to account for the emergence of multinational corporations in the first place. Unlike Marxian economics, neoclassical analysis had no distinct theory of the concentration and centralization of capital connected to the accumulation process, and thus no theory of the tendency toward monopoly within the system. Although imperfect competition theory and industrial organization analysis took into account the growth in firm size, these forms of analysis were outside the central framework of bourgeois economics itself. In the 1960s, neoclassical economists sought desperately to account for the extraordinary rise of multinational corporations within the framework of a competitive model that largely excluded monopoly power. They invariably stressed that such globe-straddling corporations were simply more efficient instruments aimed at optimal allocation of resources within competitive markets. But the reality belied such a perspective. The initial devices in mainstream thought for explaining the growth of multinationals highlighted such factors as (1) different endowments of labor and capital among countries; (2) risk premiums in international equity markets; and (3) the need to expand firms' markets using internally generated surplus funds. None of this, however, got to the heart of the matter of multinational corporations in the sense of accumulation and power.[2]

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It was in this context that the leading neoclassical economist on international economic relations, Charles Kindleberger, was to draw heavily on his former student Stephen Hymer's 1960 dissertation, *The International Operations of National Firms: A Study of Direct Investment* (published posthumously in 1976) to explain the rise of multinationals.[3] In accounting for multinational corporate investment, Hymer had emphasized: "Cheaper costs abroad than at home are not enough. What must be explained is why the production abroad is not undertaken by local entrepreneurs who have an inherent advantage over outside investors."[4] Here the key point to recognize was the power of the multinational corporations to take over such local firms and to appropriate all their advantages.

Hymer, who was to emerge as the preeminent theorist of multinational corporations, based his analysis on the growth of multinationals on industrial organization theory, building on the analysis of monopoly and oligopoly.[5] Relying on Hymer's work, Kindleberger introduced a degree of realism into the mainstream analysis of the origin of the multinational corporation, explaining it in terms of what he referred to as Hymer's "monopolistic theory of direct investment."[6] However, neoclassical economics, reflecting its apologetic character, increasingly tended to theorize multinational corporate development largely in terms of "transaction cost analysis," wherein firms sought to internalize external transaction costs in order to maximize efficiency.[7] Although a significant element in the analysis of the firm, such views tended to explain away what was most distinctive about multinational corporations: the formation of global monopoly power.

For Marxian theory, in contrast, multinational corporations arose out of the concentration and centralization of capital integral to the capitalist accumulation process. The growth of multinational corporations was thus inherent in the evolution of the firm. As Baran and Sweezy explained in "Notes on the Theory of Imperialism,"

> The big monopolistic corporations [formed in the late nineteenth and early twentieth century]...proved to be enormously profitable.... These giant corporations are the basic units of monopoly capitalism in its present stage; their (big) owners and functionaries constitute the leading echelon of the ruling class. It is through analyzing these corporate giants and their interests that we can best comprehend the functioning of imperialism today....
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> Most of the corporate giants which dominate the United States economy have taken the road long since pioneered by Standard Oil. They have become, in *Business Week*'s terminology, multinational corporations. It is not enough that a multinational corporation should have a base of operations abroad; its true *differentia specifica* is that "its management makes

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> fundamental decisions on marketing, production, and research in terms of alternatives that are available to it anywhere in the world."[8]

A similar view was later developed by progressive scholars Richard Barnet and Ronald Müller, who were among the first to use the term "globalization" in the context of the global expansion of multinationals. In their 1974 book *Global Reach: The Power of the Multinational Corporations*, they saw the rise of the global corporation as representing the "globalization of oligopoly capitalism." The structure of such a corporation, they argued, arose from a process of concentration and internationalization of capital that allowed a handful of companies that did not "compete with one another according to the traditional rules of the classic market" to substantially control the economy.[9]

The result was an enormous expansion of monopoly power, as giant monopolistic and oligopolistic corporations were able to take advantage of low wages, capital shortages, and weak states all over the world to leverage their profit margins—siphoning, as Baran and Sweezy demonstrated empirically, massive amounts of surplus from countries in the global South. All the subsidiaries of multinationals were subject to a principle of profit maximization and accumulation for the benefit of the firm as a whole, with their financial and administrative headquarters typically located at the wealth-amassing center of the world system. Indeed, if the logic of multinational corporate development were carried out globally, Hymer observed in "The Multinational Corporation and the Law of Uneven Development," "one would expect to find the highest offices of the multinational corporations concentrated in the world's major cities—New York, London, Paris, Bonn, Tokyo."[10]

As Magdoff and Sweezy observed in 1969, "the great majority of the 200 largest nonfinancial corporations in the United States today—corporations which together account for close to half of the country's industrial activity—have arrived at the stage of both conglomerateness and multinationality." The more these monopolistic corporations conglomerate and multinationalize, they added, "the further removed their top managements become from any particular product or production process." Indeed, "[t]he concerns of headquarters are increasingly purely financial, i.e., profit- and accumulation-oriented; while matters of production, technology, etc., are relegated to the division, subsidiary, and plant managers who are responsible for producing and even to a larger extent selling the corporation's many products." The multinational corporation, they concluded, "is the key instrument of finance capital in the second half of the 20th century."[11]

The Marxian view offered a far greater realism and clarity than did mainstream analyses, leading to a sharper conception of the future

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evolution of multinational corporations on a world stage, as well as their power vis-á-vis states, and of the eventual transformation of the imperialist world system. In Hymer's work, especially in the more radical later phases of his thought, in which he linked up with the Union for Radical Political Economics and *Monthly Review*, the core issue in the development of multinationals was the exploitation of global labor power within an imperial or unequal exchange context.[12] Similarly, in his *Accumulation on a World Scale*, Samir Amin connected his analysis to Baran and Sweezy's *Monopoly Capital* and to the critique of the "big multinational corporations," pointing in many ways to his later treatment of "generalized monopoly capitalism."[13]

2. Multinational or International/Transnational?

In April 1963, the year before Baran and Sweezy wrote "Notes on the Theory of Imperialism," *Business Week* brought out a special report entitled "Multinational Companies" that addressed the growing internationalization of business operations undertaken by U.S. companies. "The term 'multinational' may sound like a mouthful," the article said, but it "serves as a demarcation line between domestically oriented enterprises with international operations and truly world-oriented corporations." A little more than a year later, in June 1964, *U.S. News and World Report* claimed that U.S. corporations no longer perceived the United States as a fertile ground for profit. Instead, they looked abroad for both lucrative markets and investment opportunities, as reflected in the rapid expansion of foreign direct investment with an emphasis on manufacturing—as well as the "fast growing return" from sales by U.S.-owned plants abroad. It was an unstoppable, profitable global "adventure" worthy of praise. As *U.S. News* confidently proclaimed in the article's opening sentence, it looked like "American business—and the fast-stepping businessmen who manage it—cover the globe these days."[14]

Many mainstream analyses of multinational corporations, and even many popular left analyses, were inclined from the beginning to see such corporations as detached from nation-states, constituting entirely independent economic forces. This, of course, conforms to a reductionist outlook in which the state and economic actors are seen as separate, rather than structurally integrated entities within definite historical modes of production or social formations.[15] In *American Business Abroad*, published in 1969, Kindleberger observed that national firms with foreign operations were "in [the] process of evolving into multinational firms and showing signs of ultimate evolution to international corporations" divorced from nation-states. Kindleberger mistakenly claimed,

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anticipating later globalization misconceptions, that "the nation-state is just about through as an economic unit."[16]

Thirty years later, this same general outlook was being propounded in the context of a renewed discussion on globalization—one far removed from Barnet and Müller's early description of "the globalization of oligopolistic capitalism." Instead, in the 1990s, the governing ideology of the globalization discourse reinvented the multinational corporation as a transnational or even supranational corporation, constituting a kind of neutral body or functional unit of a universal market, one increasingly divorced from states and political-economic power. Thus, management guru Peter Drucker, in a 1997 *Foreign Affairs* article, distinguished between "transnational" and "multinational" corporations, arguing that even though most corporations were still organized as traditional multinationals—defined as a "national company with foreign subsidiaries"—they were fast transforming into transnational companies, to whom "national boundaries have largely become irrelevant." Indeed, "successful transnational companies," he contended, "see themselves as separate, non-national entities." They have "only one economic unit, the world." As a consequence, although the nation-state would probably survive economic globalization, Drucker argued, it would be greatly changed, "especially in domestic fiscal and monetary policies, foreign economic policies, control of international business, and perhaps, in its conduct of war." Characteristically, Drucker's analysis failed to distinguish between the very different relations to nation-states exercised by multinational corporations, depending on whether these nation-states were in the core or periphery of the capitalist world economy.[17]

A similar approach was adopted by world-systems theorist Giovanni Arrighi, who in his 1994 book *The Long Twentieth Century* followed mainstream transaction cost analysis rather than Marxian theory to explain the growth of "transnational corporations," and what he saw as the demise of nation-states. Arrighi claimed that the "explosive growth" of such corporations undermined the territorial exclusivity of states. Since around 1970, he argued, "transnational corporations had developed into a world-scale system of production, exchange and accumulation, which was subject to no state authority and had the power to subject to its own 'laws' each and every member of the inter-state system, the United States included."[18] This argument understated the differences between center and periphery and exaggerated the delinking of such corporations from the states at the center of the system.

Such views contrast sharply with the way in which Baran, Magdoff, and Sweezy approached the question of multinationals in the 1960s.

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Their analysis had disparaged all attempts within the dominant economic ideology to see multinational corporations as independent of states and transcending state structures, countering claims frequently found in "the apologetic literature," which claimed "that up to now multinationals have been owned and controlled in one of the advanced capitalist countries, but the *trend* is toward a genuine internationalization of both stockholding and management." Against this, Magdoff and Sweezy argued that the giant, globe-straddling corporation would—notwithstanding investment flows and a degree of interlocking management and hiring of foreign management—continue to be multinational "in the sense that it operates in a number of nations" while being "headquartered in one." The goal of profit maximization was geared towards "the group as a whole," embodied in the parent company, instead of purely "on a nation-by-nation basis." However, the financial headquarters, the centers of accumulation, and the ultimate control remained national.[19] If French investors invested in a U.S. firm, this did not mean that the capital held by the firm was equally U.S. and French—rather, it meant that a primarily U.S. corporation was able to make use of French capital in its operations. Multinationals remained linked to particular states and classes, for historical, political, and economic reasons that were unlikely to be transcended, since capitalism was inherently a system divided into nation-states as well as classes.

Although multinational corporations operated in numerous countries and took into account the markets and the possibilities in all of these countries, so as to benefit the multinational as a whole, including its parent companies and subsidiaries, "in all other decisive respects," multinationals represented the major configurations of national capitals associated with particular states and concentrated at the system's core. The key issue here was control.[20]

Magdoff and Sweezy insisted in "Notes on the Multinational Corporation" that capital was not merely a quantitative phenomenon, but was also predicated on qualitative relations, namely social relations of class, inequality, and property. In its essence, capital was "the relation of exploitation between the owning class and the working class." This was complicated, however, by the fact that the working class included various strata within itself, while the capitalist class was likewise heterogeneous and hierarchical, divided into various class factions. Nation-states mattered in this web of hierarchical relations, with some corporations and capitalists possessing more capital and thus more power than others. "For reasons which reach far back into the origins of capitalism," Magdoff and Sweezy wrote, "the deepest and most durable divisions

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within the global capitalist class have been along national lines." Capital without a state was therefore "unthinkable."

The notion that capital remained in significant respects nation-bound had deeper roots than just a statement about divisions based on nation-states. Throughout history, class struggles were fought, often violently, and the state, serving as capital's protector, had always had a role in maintaining exploitative relations between classes through coercion. States also protected the rights of their major corporate-economic entities abroad. Thus, "it follows that to exist capital must have nationality."[21] In his dissertation, Hymer also emphasized the significance of nationality for corporations, observing that, "their nationality is of the utmost importance, for it affects the way they behave, and it affects the treatment they receive."[22]

Even mainstream economists like Kindleberger himself, who argued for the internationalization or transnationalization of capital, could not entirely escape the discussion of nation-states as crucial actors in the fates of corporations, or the codependent relations between corporations and particular states. From the standpoint of pure theory, he argued, the international corporation is "committed to carry out the will of no country." Yet the harsh reality was that states, especially large and rich ones, could still assert power over foreign multinationals, while inevitably seeking to promote the international operations of their own multinationals. Moreover, corporations exerted a push-and-pull power on those states in which they were headquartered, while frequently lording it over weaker states in which they introduced foreign direct investment.

In Kindleberger's global liberal view, the role of multinational corporations in various states depended simply on varying national policies, from laissez-faire to interventionist. Such giant corporations could develop in different ways: perhaps as "a monopolist or as an instrument of national goals," or, perhaps, the other way around, as an entity that operates in "the cosmopolitan interest to spread technology, reallocate capital, and enlarge competition." But the least selfish way for the United States and other major state actors to proceed in regulating their multinationals, according to Kindleberger, was the "internationalist" approach: "the development of harmonized international policies to regulate the international operation." According to Kindleberger's "factual" observation in that period, the multinational was said to be evolving into the international (or in today's terms, transnational or supranational) corporation—a kind of global citizen. Thus, governments and international organizations needed to catch up and develop "adequate policies to meet it" and ensure the promotion of a global equilibrium.[23]

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Such an idealist stress on the transnational, rather than primarily nation-based, character of the multinational corporation was central to the business ideology in discussing these enterprises. The 1963 *Business Week* cover story on multinational companies also referred, albeit briefly, to how the topic of multinational corporations had excited business scholars, including those from Harvard's Graduate School of Business and Columbia University. These academics were optimistic that multinationals could be more than just profit seekers and serve as "a means by which business can act as a stabilizer in a world full of tensions"—tensions seen as normally characterizing the relations among nation-states. *Business Week*—known for putting realism before ideology—was not quite as optimistic. Still, it gave the business schools a nod by arguing, in a similar internationalist business tone as Kindleberger, that the multinationals might "help erode some barriers of national sovereignty," by superimposing "a further set of interdependent business enterprises" on already interdependent nation-states.[24]

3. Multinational Corporations and Imperialist Nation-States

The confused, banal, reductionist, idealist, and generally incoherent nature of the dominant accounts of multinational corporations all derived from the ideological requirement imposed on such establishment theories: somehow they had to explain the reality of international political-economic relations while excluding the main structural feature of that reality, namely, the imperialist world system. It is this issue of imperialism in a world of monopoly capital that was the focus for Marxian and other radical scholars.

In *The Age of Imperialism*, Magdoff explained that the great expansion of foreign direct investment coincided with the rise of U.S. leadership in the post-Second World War imperialist system, especially in the realm of manufacturing: "While the urgent need to develop foreign raw material sources contributed to the momentum of capital exports after the war, the acceleration of investment in foreign manufacturing ventures added a new dimension to the internationalization of capital." The goal of foreign operations of the giant, monopolistic (or oligopolistic) corporations was to penetrate new industries and new markets, as well to exploit global wage differentials and cut costs in other areas.[25]

Not surprisingly, foreign direct investment brought a net return of income back to the United States, in amounts that far exceeded the capital export itself. Baran and Sweezy concluded in "Notes on Imperialism" that due to the high return of such investments, "far from being an exporter of capital, the corporation is a large and consistent *importer*

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of capital into the United States." This meant that not only did such investments become a means to transfer wealth from the global South to the global North, but it was also enabling "the richer to expand their control over the economies of the poorer."[26] Looking at the inflow and outflow of income associated with multinational corporate investment in the United States in the 1950s and early '60s, Baran and Sweezy in *Monopoly Capital* observed: "One can only conclude that foreign investment, far from being an outlet for domestically generated surplus, is a most efficient device for transferring surplus generated abroad to the investing country."[27]

Once a country was penetrated by multinational corporations, Magdoff and Sweezy suggested in "Notes on the Multinational Corporation," "control over *both* size and utilization [of surplus] passes into the hands of others who are owners or functionaries of capital of a different nationality." And since the size and utilization of a nation's surplus is central to its economic development, it could be said that "multinational corporations are the enemy, perhaps not of *any* development in the host countries but at least of any development which conforms to the interests of any class or group within the country other than those who have been denationalized and coopted into the service of foreign capital."[28]

James O'Connor similarly argued in *The Corporations and the State* in 1974 that multinational monopolies pressured the U.S. government, the European powers, and the U.S.-dominated international agencies to "formulate and implement political-economic policies which will create an 'attractive' investment climate abroad, in particular in the underexploited countries." Under the pretense of promoting economic development, imperialist powers were trying to integrate these "underdeveloped" countries "even more closely [into] the structure of world capitalism." So-called national development in peripheral countries was therefore more and more directed by the private interests of multinationals. The task of a state like the United States was thus to convince the "underdeveloped" countries that the increased penetration of U.S. capital into these countries is "useful and necessary for their economic growth and development."[29]

Although much has changed with respect to the role of multinationals over the last four decades, this basic fact remains. The result has been a perpetuation and heightening of inequalities across national borders, instead of their elimination. That monopolistic corporations—along with the imperial states that supported them—could wield such power over nation-states in the periphery was emphasized by Amin in the 1974 edition of his *Accumulation on a World Scale*. Following his second systematic reading of Marx's *Capital*, which coincided with his acquaintance with

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Baran and Sweezy's work, Amin had incorporated their analysis of monopoly capital and multinational corporations within an overall theory of imperialism and underdevelopment—leading eventually to his current analysis of "generalized monopoly."[30]

Globalized Monopoly-Finance Capital and the New Imperialism

The basic theory of multinational corporations, rooted in the theory of monopoly capital and Marx's general analysis of accumulation, which was developed by Marxian political economists from the 1960s on, has an advantage over all other perspectives, in that it can help us understand the tectonic changes occurring in imperialism in our time, events which mainstream theory has ineffectually approached through the overarching concept of globalization. In terms of its economic dimensions, the defining shift in global production under the new imperialism of globalized monopoly-finance capital has been the global labor arbitrage. This has allowed a shift of manufacturing industry in recent decades from the global North to the global South, with the share of world industrial employment in the developing countries rising from 52 percent in 1980s to 83 percent in 2012, and the share of foreign direct investment in developing and transitional economies rising from 33 percent in 2006 to 51 percent by 2010.[31] The question now, with the transformed role of multinationals, is how the system has been able to shift production to those parts of the globe with the lowest unit labor costs, while maintaining, and in some ways even increasing, the overall center-periphery division within the capitalist world economy.

The global labor arbitrage—a system of unequal exchange based on a worldwide hierarchy of wages, sharply dividing center and periphery—is a means for multinationals to take advantage of differential unit labor costs within an imperialist system of "world value." Under monopoly capitalism, giant oligopolistic corporations control much of the world market through their international operations. In addition, the global market is asymmetrical: although capital (when not met by obstacles such as monopolistic controls by powerful firms or protectionism exercised by rich nations) can move relatively freely, labor cannot. Labor in general is largely confined within national borders—its movement restricted by immigration policies. This asymmetry allows multinationals to take advantage of immense labor price differences on a global level, and to possess more freedom in pursuing higher profits through the substitution of higher-paid labor with low-paid labor globally.[32]

As Albert Park, Gaurav Nayyar, and Patrick Low wrote in their 2013 World Trade Organization study *Supply Chain Perspectives and Issues*,

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> The basic driver of offshoring and outsourcing is lower cost. The economic divergence between the global "North" and "South" through the first part of the 20th century set the stage for the cost savings reaped by [multinational] firms, starting in the second half of the 20th century. With wages in the developing countries at a fraction of the cost of wages in the developed countries, the potential savings to be reaped from labour arbitrage grew with economic divergence. What triggered the realisation of these savings, however, were the technological innovations and regulatory environment that drastically lowered the costs of doing business across firm and country boundaries. Organisational innovation then arose to capture the possibilities created through these economic enablers, driving the growth of supply chains.[33]

From the viewpoint of capital, the global labor arbitrage, often referred to more obliquely in terms of value or supply chains, is just another "urgent survival tactic" needed in the changing dynamics of the global economy arising from competing mega-corporations. Such firms are purportedly driven by the "new imperatives of cost-control" that "push" corporations to seek new ways of containing costs.[34] Expansion of foreign direct investment inflows to the global South (connected to intra-firm trade by multinationals) has continued in the last few decades, now "exceeding flows to developed economies for the first time ever, by $142 billion." But in addition to this, the new prevalence of subcontracting—or what the United Nations Conference on Trade and Development calls "non-equity modes of international production" (NEMs)—is quite striking. Such practices have increasingly become a major part of global value chains, with growth concentrated in the global South. Between 2005 and 2010, NEM growth in several manufacturing sectors—including electronics, pharmaceuticals, and footwear—far exceeded the growth rate for global industry as a whole.[35] All of this is a product of a rapacious desire on the part of corporations to exploit labor in the South, using multiple forms of control. NEMs have in many cases become a means of developing more extreme forms of exploitation, akin to the horrific "modern domestic industry" of Victorian capitalism detailed by Marx in *Capital*.[36]

Economists William Milberg and Deborah Winkler view the profusion of such subcontracting practices as a "shift in corporate strategy," which involves the pursuit of production strategies through which corporations can increase profits by reducing costs and raising flexibility.[37] Sociologist Gary Gereffi and his colleagues developed the concept of "buyer-driven" commodity chains to emphasize the booming offshore subcontracting by "merchandiser" multinationals that no longer (or never did) manufacture their products, but merely design and market them.[38] While these views can help explain what is happening on the surface, a radical or Marxian perspective is needed to understand the imperialism that underlies this

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shift in corporate strategy. Global labor arbitrage is not merely a survival tactic, but a means to maintain and expand the oligopolistic control of multinationals in their attempt to accumulate capital. The result has been the creation of new forms of labor precariousness worldwide.

As stressed above, Magdoff and Sweezy had already indicated in the 1960s that as multinationals conglomerate and multinationalize, their top management become increasingly detached from the production process. This phenomenon has reached a new level today. With the widespread adoption of subcontracting practices, multinationals' direct involvement in production is mostly (if not totally) removed. Many corporations do not make their own products, but relegate the process to factories abroad, often in the form of sweatshops. In the last two decades, impressive case studies have been conducted of arm's-length-style multinationals like Nike—a company that began as an importer of shoes from Japan, and which "has subcontracted nearly all of its production overseas [mostly in Asia] ever since."[39]

Of course, not only arm's-length manufacturing companies like Nike, but all multinational corporations headquartered in the global North continue to benefit from the unequal exchange relations of the global labor arbitrage, exploiting labor from one Southern country after another and obtaining enormous profit margins, often 50 percent or more, on the export price of their products. The subcontracting system, meanwhile, has the effect of "defusing much of the criticism associated with such gross exploitation" because corporations can shrug off responsibility by blaming their localized, foreign subcontractors. The more traditional multinationals, previously focusing on foreign direct investment, have now heightened their use of subcontractors or arm's-length production as well, so that foreign direct investment itself is no longer an adequate representation of the totality of the global operations of monopoly-finance capital.[40]

The big question is how the giant corporations, mainly located in the West, are able to maintain control over production and to continue to siphon profits under conditions in which the majority of production—and much of the most advanced production—is now being carried out in the global South as part of a system of global commodity chains, with the benefits disproportionately going to the global North through processes of value capture, as opposed to value creation.[41] The paradox here seems all the greater with respect to the new forms of subcontracting, where foreign direct investment by NEM-style corporations like Nike—and now many others—amounts to control of both the production process and the profits from afar, without direct involvement in production. Here presumably the main leverage of the NEM firms is that they can abandon

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a production site even more quickly, relocating somewhere else, since they do not even have to pull up shop. There can be no pretense in such a case that multinational corporations are internalizing transaction costs; rather, they are externalizing them—a reality made possible by their enormous hierarchical power. As pointed out by Vivianne Ventura-Dias of the Latin American Trade Network, despite mainstream economics' association of such corporations with the internalization of transaction costs, "multinational corporations are prepared to externalize any activity that is not fundamental to competitive advantage in their market or industry and that can be carried out at lower cost or more effectively by third parties (including overseas), when the risks associated with externalization are limited or can be contained."[42]

Still the risks for capital grow with these kinds of operations where control has to be exercised from afar. The location of the majority of global commodity production and manufacturing production in the global South—whether in the form of foreign direct investment or arm's-length manufacturing—carries enormous dangers, threatening capital's ability to reap where it has not sown. What if emerging economies and their states become strong enough to assert some control over production, over the information systems governing production, over legal and trade conditions, and so on? What are the dangers of labor unrest arising from superexploitation? How can the multinational retain control of technology under these circumstances? How likely is it that the global commodity chains on which these corporations now depend can somehow be broken?

What multinational corporations must maintain above all to keep this exploitative system of global appropriation going is monopoly control over finance and technology, backed by the imperial power of the states at the center of the system. Indeed, as Amin has explained, the control exercised at the center of the world economy is maintained by the five monopolies of finance, technology, the planet's resources, communications, and military power.[43] Maintenance of these five monopolies requires the active role of states at the center. Today's "generalized monopoly capitalism," Amin argues, relies on the combined operations of the triad of the United States and Canada, Western Europe, and Japan to ensure the system runs smoothly—with Washington, as the hegemonic power, providing the main coordination.[44] Financial, technological, and communications control at the center, supported by the military and geopolitical control exercised by the capitalist states, enables multinationals headquartered in the major imperial states to relocate production globally without fear of appropriation, allowing them to extract the lion's share of the value produced.

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Conclusion

From the foregoing analysis, it is clear that global labor arbitrage is the key element of the contemporary imperialist system. It enhances the exploitation of the global South and expands the global reserve army of labor required by global capital accumulation, which needs "huge potential pools of labor in the third world to create a vast low-wage workforce."[45] Since multinationals rely on opaque processes of unequal exchange (where the differences in the wages are greater than the differences in the productivities) and increasingly lack any direct relationship with workers or farmers who produce their goods, the flows of profits from foreign manufacturers or producers to their Northern customers are difficult to discern and are consequently understated. Much is concealed by the national income accounting which equates "value added" with whoever receives the income.

In "The GDP Illusion" and *Imperialism in the Twenty-First Century*, John Smith has pointed to the value "captured" from the global South by firms headquartered in the North—and thus lost by the superexploited workers in the South who created it.[46] Far from moving towards "transnationalization," global labor arbitrage reflects the fact that capital accumulation processes are tied to the unequal relations among nation-states and to the higher rate of exploitation of workers in the global South—with the state still serving as an instrument of and locus of capital accumulation.

Lately, the growth of emerging economies that threaten to destabilize the domination of the global North over the world economy—exercised in large part through their multinational corporations—has led to attempts, initiated in the center of the world economy, to force new international trade agreements designed to perpetuate the power of the present imperial core. Economist Jayati Ghosh observed in 2015 that within the last twenty years, the world has seen "an explosion in the treaties, agreements, and other mechanisms whereby global capital imposes rules, regulations, and modes of behavior upon governments and their citizenry." The two major recent trade agreements, the Trans-Pacific Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (T-TIP) are examples in which the economies of the triad—the "old imperial powers"—safeguard their continuing dominance, "making it more difficult for emerging nations to catch up, while also securing the power of the mega-multinational corporations with their headquarters in the core economies."[47] This is a manifestation of what Amin calls the "contemporary capitalism of generalized, financialized, and globalized monopolies," which today "tightly control all the systems of production."[48] Apologists often frame this as an inevitable, neutral outcome of "globalization"—but

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once we look closely and critically, it is clear that the present phase of globalization is none other than a new phase of imperialism, used by capital and their state instruments to put forward a "set of demands by which they exert control over the productive systems of the periphery of global capitalism (the world beyond the partners of the Triad)."[49]

More than half a century after Baran and Sweezy's "Notes on the Theory of Imperialism" first appeared, their analysis of multinationals remains striking. The great ambition of corporations, they argued, is "to make a world safe" for themselves—"in more ideological terms, this means to protect the 'free world' and to extend its boundaries wherever and whenever possible, which of course has been the proclaimed aim of United States policy ever since the promulgation of the 'Truman Doctrine' in 1947."[50]

We can see this in the most blatant forms today. As Obama, speaking at the Nike headquarters in May 2015, declared: "We have to make sure that America writes the rules of the global economy, while our economy is in the position of global strength.... Because if we don't write the rules for trade around the world," there will come a time when "guess what—China will."[51] Likewise, in a commencement speech at Rutgers University in May 2016, he advised the new graduates—who soon would "go out there and conquer the world"—against dreaming of the "good old days," because they actually "weren't that great." But there were exceptions, he quickly added, like the periods following the end of Second World War and the Cold War, "when the world bent more easily to our will." Today, he assured his audience, things are once again improving, and the United States need no longer fear the future, because "we seized the future and made it our own." The world is more interconnected than ever, and "building walls won't change that." In this "age of global supply chains," the nation's task is to "make sure that international rules are consistent with our values."[52] The word *value* works in two senses here, given Obama's reference to global commodity chains. In his vision, the world should continue "to bend to our will" and to "our" freely appropriated, commodified values—rather than theirs. For all the president's talk of the future, a look at the history of the imperialist global economy shows that the assumptions underlying these remarks are anything but novel.

Notes

1. Paul A. Baran and Paul M. Sweezy, "Notes on the Theory of Imperialism," *Monthly Review* 17, no.10 (March 1966): 15-31; Harry Magdoff and Paul M. Sweezy, "Notes on the Multinational Corporation, Part I," *Monthly Review* 21, no.5 (October 1969): 1-13; "Notes on the Multinational Corporation, Part II," *Monthly Review* 21, no.6 (November 1969): 1-13; Paul A. Baran and Paul M. Sweezy, *Monopoly Capital* (New York: Monthly Review Press, 1966), 191-202; Harry Magdoff, *The Age of Imperialism* (New York: Monthly Review Press, 1969). The term "multinational corporation" was coined in 1960 by David Lilienthal, former head of the Tennessee Valley Authority, and popularized by *Business Week* in 1963. See Baran and Sweezy, *Monopoly Capital*, 193.

2. Perhaps the most important early work on the multinational corporation in the liberal tradition was Raymond Ver-

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non's development of the product cycle theory, whereby technologies no longer considered advanced were diffused to economies in the periphery by means of foreign direct investment. However, Vernon's insights, though important, dealt with a relatively small, if crucial, part of the problem, largely avoiding the larger systemic questions of political economy and power. See Raymond Vernon, *Sovereignty at Bay* (New York: Basic, 1971).

3. Stephen Herbert Hymer, *The International Operation of National Firms* (Cambridge, MA: MIT Press, 1976), *The Multinational Corporation* (Cambridge, UK: Cambridge University Press, 1979).

4. Hymer, *The International Operations of National Firms*, 13.

5. On the significance of Hymer's contributions, see John H. Dunning and Alan M. Rugman, "The Influence of Hymer's Dissertation on the Theory of Foreign Direct Investment," *American Economic Review* 75, no. 2 (May 1985): 228-32; John H. Dunning, ed., The United Nations Library on Transnational Corporations, vol.1, *The Theory of Transnational Corporations* (New York: Routledge, 1993), 17-43; Robert B. Cohen et. al., "General Introduction," in Hymer, *The Multinational Corporation*, 2-3. Hymer was closely associated in his last years with Sweezy and Magdoff at *Monthly Review*, and wrote for the magazine. At his death in 1974, he was scheduled to be part of a debate at the United Nations Staff Club in New York, to consist of himself, Magdoff, and Sweezy, in opposition to Kindleberger and other defenders of the multinationals.

6. Charles P. Kindleberger, *American Business Abroad: Six Lectures on Direct Investment* (New Haven, CT: Yale University Press, 1969), 27. See Charles P. Kindleberger, "Introduction," in Hymer, *International Operation of National Firms*, xxi.

7. Hymer incorporated this aspect in his analysis as well, though giving it a subordinate role.

8. Baran and Sweezy, "Notes on the Theory of Imperialism," 18, 25.

9. Richard J. Barnet and Ronald E. Müller, *Global Reach* (New York: Simon and Schuster, 1974), 213-14.

10. Stephen Hymer, "The Multinational Corporation and the Law of Uneven Development," in *The Multinational Corporation*, 64.

11. Magdoff and Sweezy, "Notes on the Multinational Corporation, Part I," 13; "Notes on the Multinational Corporation, Part II," 6-7.

12. Hymer, *The Multinational Corporation*, 256-72.

13. Samir Amin, *Accumulation on a World Scale* (New York: Monthly Review Press, 1974), 590-92, 604-05; *Capitalism in the Age of Globalization* (London: Zed, 2014), xvii.

14. "Multinational Companies," *Business Week*, April 20, 1963, 63-64; "For New Opportunities: Now, the Word is 'Go Abroad,'" *U.S. News and World Report*, June 1, 1964.

15. For a collection of early mainstream writings with reductionist views of multinational corporations, international trade arrangements, states, and economies, and which used these to question the existence of purely "economic imperialism," treated as a straw argument to be knocked down, see Steven Rosen and James Kurth, eds., *Testing Theories of Economic Imperialism* (Lexington, MA: D.C. Heath, 1974).

16. Kindleberger, *American Business Abroad*, 184, 207. The notion that transnationalization of capital has undermined the relevance of the nation-state is also entertained by critics of capitalism, including Leslie Sklair, William Robinson, and William Carroll–with Robinson going the "furthest" with his definition of the new bourgeoisie as the group "that owns leading worldwide means of production." In his article "Transnational Capitalism or Collective Imperialism?" (Znet, March 25, 2011, http://zcomm.org), Samir Amin argues against their notion that a transnational capitalism is emerging, claiming that we are instead looking at another form of "collective imperialism." Amin explains that such a transnationalization thesis obscures the imperialist nature of historical capitalism. He writes further: "I believe that capitalist societies are national societies... They always have been and they always will be, in spite of transnationalization, which as it happens has always accompanied the global distribution of dominant national actors." For an alternative view, see William I. Robinson, *Global Capitalism and the Crisis of Humanity* (Cambridge, UK: Cambridge University Press, 2014).

17. Peter F. Drucker, "The Global Economy and the Nation-State," *Foreign Affairs* 76, no.5 (1997): 160, 167-68. Drucker had written an article in 1974 for *Foreign Affairs* that similarly distinguished between multinational corporations and transnational corporations (seeing the former as dominant and the latter as ascendant), and that was even more explicit in denying any center-periphery notions, or that there was such a thing as "global exploitation" involving multinationals and core states. He presented as a kind of universal truth the notion that, "the major manufacturing, distributive and financial companies of the developed world would barely notice were the sales in and the profits from the developing countries suddenly to disappear." Not only was this analysis misleading as to the political-economic trajectory of the time, but revisited today, when most manufacturing production occurs in the periphery and its value is largely captured rather than created in the core, the article shows an utter lack of foresight. Peter F. Drucker, "Multinationals and Developing Countries: Myths and Realities," *Foreign Affairs* 53, no.1 (October 1974): 121-22.

18. Giovanni Arrighi, *The Long Twentieth Century* (London: Verso, 1994), 74.

19. Magdoff and Sweezy, "Notes on the Multinational Corporation, Part I," 3-4.

20. Magdoff and Sweezy, "Notes on the Multinational Corporation," Part I, 3.

21. Magdoff and Sweezy, "Notes on the Multinational Corporation, Part I," 7-9.

22. Hymer, *The International Operations of National Firms*, 29.

23. Kindleberger, *American Business Abroad*, 184-85, 210.

24. "Multinational Companies," *Business Week*, 68.

25. Magdoff and Sweezy, "Notes on the Multinational Corporation, Part II," 1-2.

26. Baran and Sweezy, "Notes on the Theory of Imperialism," 21, 24-25.

27. Baran and Sweezy, *Monopoly Capital*, 107-08.

28. Magdoff and Sweezy, "Notes on the Multinational Corporation, Part II," 10, 13.

29. James O'Connor, *The Corporations and the State* (New York: Harper and Row, 1974), 195-96.

30. Samir Amin, *Accumulation on a World Scale*, 589-611; "Reading Capital, Reading Historical Capitalisms," in this issue.

31. Samir Amin, *The Law of Worldwide Value* (New York: Monthly Review Press, 2010); United Nations Conference on Trade and Development (UNCTAD), "Inward and outward foreign direct investment flows, annual, 1970-2013–percentage of world," http://unstadtsta.unctad.org. See also John Bellamy Foster, "The New Imperialism of Globalized Monopoly-Finance Capital," *Monthly Review* 67, no.3 (July-August 2015): 11, 21-22; John Bellamy Foster and Robert W. McChesney, *The Endless Crisis* (New York: Monthly Review, 2012), 128; Martin Hart-Landsberg, *Capitalist Globalization* (New York: Monthly Review Press, 2013), 19.

32. See John Smith, *Imperialism in the Twenty-First Century* (New York: Monthly Review, 2016); Foster and McChesney, *The Endless Crisis*.

33. Albert Park, Gaurav Nayyar, and Patrick Low, *Supply Chain Perspectives and Issues* (Geneva: World Trade Organization, 2013), 57, http://wto.org.

34. See Smith, *Imperialism in the Twenty-First Century*, 188-89.

35. UNCTAD, *World Investment Report:*

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Global Value Chains (Geneva: United Nations, 2013), xii; UNCTAD, *World Investment Report: Non-Equity Modes of International Production and Development* (Geneva: United Nations, 2011).

36. See the analysis in R. Jamil Jonna and John Bellamy Foster, "Marx's Theory of Working-Class Precariousness," *Monthly Review* 67, no.11 (April 2016): 1-19.

37. William Milberg and Deborah Winkler, *Outsourcing Economics* (Cambridge, UK: Cambridge University Press, 2013), 12.

38. See Gary Gereffi, "Global Production Systems and Third World Development," in Barbara Stallings, ed., *Global Change, Regional Response* (Cambridge, UK: Cambridge University Press, 1995), 100-05, 113-18; Gary Gereffi, "The Organization of Buyer-Driven Global Commodity Chains," in Gary Gereffi and Miguel Korzeniewicz, eds., *Commodity Chains and Global Capitalism* (Westport, CT: Praeger, 1994), 99.

39. Miguel Korzeniewicz, "Commodity Chains and Marketing Strategies: Nike and the Global Athletic Footwear Industry," in Gereffi and Korzeniewicz, eds., *Commodity Chains and Global Capitalism*, 252.

40. See Intan Suwandi, "Behind the Veil of Globalization," *Monthly Review* 67, no. 3 (July-August 2015): 37-53. On the enormous gross profit margins obtained by multinationals from production in the global South, see Foster and McChesney, *The Endless Crisis*, 137-43, 169-74; Foster, "The New Imperialism of Globalized Monopoly-Finance Capital," 12-14.

41. Multinational corporations have not given up on maintaining control of the product cycle, of course, but rather seek to speed it up—with the practical diffusion of technology still under their control—to take full advantage of low wages in the global South. This requires a concerted effort to ensure control of the most advanced technologies, either through outright control of knowledge, or through legal-monopolistic means such as patents and copyright.

42. Vivianne Ventura-Dias, "Service Offshoring: Notes on Patterns, Determinants and Policy Implications for Latin America," paper presented at conference on Offshore Services and Global Value Chains, CEPAL, Santiago, Chile, October 19, 2012, 18, http://redlas.net.

43. Samir Amin, *Capitalism in the Age of Globalization* (London: Zed, 1997), 4-5. The order of the first two monopolies has been altered here, with finance put first.

44. Samir Amin, "Contemporary Imperialism," *Monthly Review* 67, no. 3 (July-August 2015): 23-36.

45. Foster and McChesney, *The Endless Crisis*, 127.

46. John Smith, "The GDP Illusion," *Monthly Review* 64, no.3 (July-August 2012): 86-101; *Imperialism in the Twenty-First Century*, 266-72.

47. Jayati Ghosh, "The Creation of the Next Imperialism: The Institutional Architecture," *Monthly Review* 67, no. 3 (July-August 2015): 147, 150.

48. Samir Amin, *Three Essays on Marx's Value Theory* (New York: Monthly Review Press, 2013), 19.

49. Samir Amin, *The Implosion of Contemporary Capitalism* (New York: Monthly Review, 2013), 15.

50. Baran and Sweezy, "Notes on the Theory of Imperialism," 30-31.

51. President Barack Obama, "Remarks of the President on Trade," speech at Nike, Inc., Beaverton, Oregon, May 8, 2015, http://whitehouse.gov.

52. President Barack Obama, "Remarks by the President at Commencement Address at Rutgers, the State University of New Jersey," May 15, 2016, http://whitehouse.gov.

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