ECONOMIC NOTES:

U. S. Capitalism and World Economy

PART II – FOREIGN INVESTMENTS – EXPORT OF CAPITAL

(Truman's Global Concept)

In his inaugural address of January 21 of this year, President Truman set forth as point 4 of a program for "peace and freedom" what *Fortune* (Mar. 1949) neatly termed "Truman's Global Concept." The President stated that "We must embark on a bold, new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas."* This was very general language, indeed.

It was left to Secretary of Commerce Charles Sawyer to put into plain, outspoken words what President Truman merely implied: the necessity of stepping up the export of capital, and increasing U. S. foreign investments abroad. In a speech last April at Cape Henry, Va., Sawyer declared that "government guarantees will be worked out for American industrial brains and dollars abroad." In the same breath that he stated that the "backward area development must be largely financed and carried on by private American business," he also remarked that "It may be desirable to finance some projects through the World Bank or through Government lending agencies." (*Detroit Free Press*, April 25, 1949.) In his tripled-edged talk about private industry having to do the job of financing capital investments abroad, and then adding that the government will have to do some financing of its own, in addition to furnishing guarantees to private investors, Secretary Sawyer revealed the basic changes that have taken place in the field of foreign investment and the export of capital in the past ten years. Further, altho he himself may be unaware of it, Sawyer also pictured the changing role of the state in the economy as a whole.

*"President Truman's Speech," THE WESTERN SOCIALIST, March-April, 1949, p. 15.

Altho it is a fact that during World War I the U. S. government loaned billions of dollars abroad, and that during the 1920's through the Dawes and Young plans the government financed German economic recovery, yet prior to World War II capital was exported abroad mainly by private investors, the government confined its role to using its political, judicial, and military forces (the machinery of the state, in other words) to obtain governments favorable to American investors, and to suppress native rebellions against American interests. This policy has been variously called *Oil Imperialism, Banana Imperialism,* and the *Yankee Menace.* Under Roosevelt, this terminology was refined (no doubt with the aid of the large petroleum investments in Latin America), and was altered to the term, *Good Neighbor Policy.*

The various administrations, and Truman's is no exception, have explained the purpose of these foreign investments and exports of capital as "helping the free peoples of the world." A better explanation, one based on economic analysis, can be given, and it will assist us in understanding the new role of the capitalist state, that is being itself the main exporter of capital today.

WHY CAPITAL IS EXPORTED

The basic drive of capitalist economy, whether it be controlled by the state or by so-called private capitalists, is the extraction of profit, or surplus value as Marx called it, from the working class. With this profit the various groups within the exploiting class (the capitalists, industrial and financial, the bankers, the landlords, the coupon clippers, the small merchants, and others) are able in the first place to take what they need for their own physical well-being, and enjoy a much higher

standard of living than the working class which they exploit.

Secondly, out of these profits come also the taxes for the upkeep of the government, which in turn employs its complete apparatus to protect, maintain, and defend the profit system, and as is the fashion nowadays, to become the *collective* supplier of sops to the working class — social security, unemployment compensation, welfare, etc.

However, even after the capitalist class takes it share, in the form of salaries, bonuses and dividends, and gives a share in taxes to the government, there still remain undistributed profits hungrily looking for investment. The capitalist needs and uses these profits to expand his plant facilities, to bring in more improved machinery and processes, and also to purchase the additional raw materials and labor power necessary for this increase in production. By thus revolutionizing his own means of production, the capitalist is able to cut the cost of production, that is, the number of hours of labor that go into each commodity produced, and by lowering prices, to place himself in a more favorable position in the struggle for markets, both domestic and foreign. Idle profits (outside of those used for reserves and depreciation) are of no use to the capitalist unless they are utilized to make additonal profits, and thus renew the process of extracting surplus value from the workers.

When thus converted for the purpose of making additional profits, profit becomes CAPITAL. Only through the use of capital is profit created. The employment of capital is thus necessary not only in the struggle for the markets, but also for the purpose of investing the profits on hand and lying idle.

This drive to convert profit into capital yields second place in intensity only to the drive to obtain profit in the first instance.

When capital cannot longer be profitably invested in domestic industries, and/or when it brings a higher yield on foreign investments than in the domestic field, then we have the export of capital. The exporting of capital is merely extending the conversion of profit into capital from the domestic into the international economy.

BEFORE WORLD WAR I

In the years before World War I, when the United States was still a debtor nation, there was no lack of capital investment opportunities at home. Indeed, foreign investors, especially British, exported considerable capital into this country. During this period capital was exported abroad for the second of the two reasons given above, altho in some cases the first motive was not completely absent. That is, before 1914 foreign investments were made because they yielded a higher rate of return than domestic enterprises, owing to the cheap labor in the backward countries, the unbridled speculation, and the greater risks involved. In time the export of capital became more important than the export of goods, bringing in as it did a much greater profit, as well as a higher rate of profit.

Eugen Varga in his *New Data for Lenin's Imperialism,*** basing his information on British and American private and government sources, estimates England's return from foreign trade at £51 million, and total income from foreign investment as £378 million in 1929. For the same year U. S. income from foreign trade amounted to $241 million, and from foreign investments, excluding war debt payments, $979 millions. (pp. 215, 217).

Another good index of the profit to be gained from foreign investments is the fact that between 1920 and 1940, U. S. net foreign income (interest, dividends, amortization payments, and net resales of securities) amounted to 17.37 billion, altho during this same period only 11.7 billion was invested abroad. (*Rebuilding World Economy,* 1948, Buchanan and Lutz, p. 216.)

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