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# **IMPERIALISM,**

## **Old and New**

**Hamza Alavi**

Hamza Alavi is a Pakistani writer living in London and former editor of Pakistan Today. This article originally appeared in Socialist Register, 1964 (published by Monthly Review Press, 116 W. 14 St., NYC).

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## IMPERIALISM OLD AND NEW

Hamza Alavi

"IMPERIALISM is the eve of the socialist revolution," wrote Lenin whilst revolutionary hearts were still warm with the apocalyptic vision of the social transformation that was about to take place following the disintegration of moribund capitalism. Monopoly capitalism was in the last throes of its general crisis; imperialism was the highest stage of its development. National liberation movements in colonial territories were an important part of the revolutionary process, for they undermined the positions of imperialism and intensified its contradictions.

Since Lenin wrote, the struggles of national liberation movements of colonial territories have culminated, at least, in formal independence from direct rule. A group of socialist states has emerged also, which is unequivocally outside the imperialist orbit. Two decades have elapsed since the world-wide liberation of colonial territories began after the last war. If this is the end of direct colonial rule, it has not yet precipitated that final crisis which was to see the end of monopoly capitalism and to herald the age of socialism.

Two sets of questions arise. What, we may ask firstly, was the role of imperialist expansion in maintaining the dynamic of capitalist development? How is it affected by the attainment of national independence by colonies? If colonial expansion has a necessary role to play in maintaining the process of capitalist development, as an outlet for surplus capital, which is to stave off an inevitable "realization crisis," does the independence of colonial territories mean that the economies of metropolitan countries will, therefore, automatically be brought to a grinding halt? Or, have imperialist powers acquired a new lease of life and secured their essential economic interests by subverting the newly won independence of colonial territories? Or, indeed, has monopoly capitalism acquired a new dynamic which allows it to continue to function even though colonial expansion is no longer possible for it? These questions of the conditions of capitalist crisis are fundamental to any consideration of the strategy of a socialist revolution in metropolitan countries.

We may look at the same problem from the perspective of the new states which are faced with the task of transforming their colonial economies. What is the reality of the "third world" which they are supposed to inhabit? What kind of relationships have been established between imperialist powers and the new states? Have exploitative relationships of the past between imperialism and the people of these



countries given place to a new era of co-operation, in which aid will be offered and administered in a manner which will promote the economic development of ex-colonial countries? What kind of aims does monopoly capitalism in the advanced countries in fact pursue in dealing with these countries, and by what means?

We shall review some of the contributions to the debate on Imperialism and contemporary capitalism which have appeared during the last decade and consider our questions in the light of the debate and the facts of the contemporary situation. This debate, however, can be reviewed today from an altogether new perspective. It was stimulated, firstly, by the failure of a major economic crisis (which was universally expected after the end of the last war) to materialize, despite several minor crises. Secondly, there was the challenge of the claims made by apologists of capitalism about a social and technological revolution that was said to have transformed the character of capitalism. Oddly enough, although this debate took place against the background of the colonial revolution, which was in progress, the role of imperialism or the significance of its dissolution barely entered the debate. Above all, there was the fact that the debate took place in the intellectual climate of the cold war, and bears its imprint. Today, changes in the world situation and, especially, the great debate in the international communist movement, have helped to put these questions in an altogether different context.

The main issues today are primarily those of an assessment of the objective conditions which must determine the strategy of socialist movements. The task of socialist movements would be reduced virtually to that of waiting for objective conditions to mature if the view were held that the development of objective forces such as the sharpening of inter-imperialist rivalry, the erosion of the bases of imperialism by the success of the national liberation movements and, finally, the culmination of the internal contradictions of capitalist development must in time, and inevitably, bring about its dramatic collapse. But the task of socialist movements would be seen to be, both immediate and far more demanding if the view were taken that the crisis of capitalism, such as it is, is here with us now; not a dramatic collapse but a slow drift into stagnation, overshadowed by the growing concentration of monopoly power in the metropolitan countries and its renewed expansion abroad.

## II

For a survey of current writing in this field, from our point of view, it will be useful to highlight some of the elements of the Leninist theory. The theoretical basis of Lenin's analysis of imperialism was Marx's theory of reproduction and "realization" crises. The core of this theory is the problem of disposal of rapidly growing surplus capital against

the background of an increasing disparity between expanding forces of production and restricted consumption regarded as inherent in capitalist development. Lenin examined capitalism at a new historical stage, the stage of monopoly capitalism which had grown, as demonstrated by Marx, out of the conditions of development of the preceding stage of capitalism, which was based on free competition. In the new historical stage, however, the basic problem remained that of the disposal of the growing surplus. Export of capital, which was characteristic of the new stage of capitalism, Lenin argued, now provided an outlet for surplus capital and offered a temporary reprieve for developing capitalism from the maturing of its contradictions into a crisis. The brevity with which Lenin dealt with this point in his chapter on the export of capital is no measure of its crucial importance for the crisis theory. Lenin wrote: "An enormous 'surplus of capital' has arisen in advanced countries. . . . It goes without saying that if capitalism could develop agriculture . . . if it could raise the standard of living of the masses . . . there could be no talk of a surplus of capital. . . . The necessity for exporting capital arises from the fact that in a few countries capitalism has become 'over-ripe' and . . . capital cannot find a field for 'profitable' investment."<sup>1</sup>

Imperialism, according to Lenin, was the domination of finance capital. "Finance capital," said Lenin, "spreads its net over all countries of the world."<sup>2</sup> In his polemic with Kautsky, Lenin emphasized that "The characteristic feature of imperialism is precisely that it strives to annex *not only* agrarian territories, but even the most highly industrialized regions. (German appetite for Belgium; French appetite for Lorraine), because, (1) the fact that the world is already divided up obliges those contemplating a *redivision* to reach out for *every kind* of territory, and (2) an essential feature of imperialism is the rivalry between several Great Powers in the striving for hegemony, i.e. for the conquest of territory, not so much directly for themselves as to weaken the adversary and to undermine *his* hegemony."<sup>3</sup> However, it was clear that the main direction of expansion was believed to be towards the "backward countries" where the possibility of export of capital was particularly attractive because of a higher level of profits due to the scarcity of capital, cheapness of land and raw materials and the low level of wages in such countries.

At this point one may distinguish between three questions associated with the Leninist theory of imperialism. Firstly, we must consider the role of the export of capital as *outlet for surplus capital* accumulating in the metropolitan economy, thus staving off a "realization" crisis. To make an assessment of this question we must examine the conditions of development of advanced capitalist countries and the alternative outlets which are available for the utilization of the accumulating capital. Was export of capital the only possible outlet? Twenty years before he wrote his work on Imperialism, Lenin had engaged in a



controversy with the Narodniks precisely on the subject of the possibility of the "internal expansion" of capitalism.<sup>4</sup> The development of the internal market, Lenin argued, was possible despite the restricted consumption by the masses (or the lack of an external outlet) because "to expand production (to 'accumulate' in the categorical meaning of the term) it is first of all necessary to produce means of production, and for this it is consequently necessary to enlarge that department of social production which manufactures means of production, it is necessary to *draw into it* workers who then create a demand for articles of consumption. Hence 'consumption' develops *after* 'accumulation'."<sup>5</sup> Thus, Lenin argued, accumulating surplus value could be absorbed, up to a point, in the relative expansion of the sector producing the means of production. But this would only be a temporary reprieve for capitalism because, ultimately, the expansion of the capacity to produce cannot proceed independently of the restricted basis of consumption. However, we note here that Lenin has considered two alternative possibilities of capitalist expansion—the *internal expansion* of capitalism through a relative expansion of the sector producing the means of production and the *external expansion* of capitalism through the export of capital.

The second question, which we must clearly distinguish from the first, is that of the driving force behind the external expansion of capitalism. There are two elements here in the Leninist theory. One is the growth of monopoly capitalism and its drive for hegemony. The other is the differential in the rate of profit realizable in the metropolitan country and the attraction of a higher rate promised by colonial exploitation. In Lenin's argument these two factors combine, to produce a powerful force for overseas expansion. The question today is to consider if the same incentives for the export of capital still apply. We must also consider whether monopoly capitalism has developed new forms of overseas expansion and judge the relative importance of any such new forms as against export of capital. These we shall examine in section V below.

Thirdly, there is the question of the parasitic nature of imperialism and of the role of the "tribute" derived from colonial exploitation in supporting the prosperity of the metropolitan country. Lenin did not examine fully the implications of the return flow of surplus value extracted from colonial countries which would *add to the accumulating surplus in the metropolitan countries* for which an outlet must be found. In theory the greater the amount of the "tribute" the more difficulty it should create for the metropolitan country in this respect. Any evaluation of the effect of export of capital today must therefore set off against it the effect of the return flow of profits earned from the colonies. Indeed, in many cases, the current income from overseas investment is greatly in excess of the outflow of capital for investment abroad.

This is not, however, the aspect from which recent writers have approached the problem of the colonial "tribute." Palme Dutt looks

at the contribution of the tribute to Britain's prosperity and he identifies what he regards as Britain's crisis with the sharp diminution in the tribute.<sup>6</sup> Barratt Brown takes issue with Palme Dutt on this point. But he argues that in the post-war years the contribution of overseas income "*barely reached the level attained in the 1930s when Britain was far from prosperous.*"<sup>7</sup> But surely this is precisely Palme Dutt's argument. It appears that the real point at issue between Palme Dutt and Barratt Brown is that the former sees the post-war situation as a time of crisis to be explained in terms of a fall in the amount of the colonial tribute whereas the latter sees it as a time of prosperity, based on domestic factors of growth, for which the size of the overseas income is insignificant.

Barratt Brown argues that, after deducting payments to foreign owners of property in Britain, the addition to national income from overseas was little more than one per cent, and it could not be regarded as the basis of the postwar prosperity of Britain. The basis on which Barratt Brown has computed the size of the tribute and assesses its importance to Britain, i.e. net overseas investment income as a percentage of the national income, may be disputed. First of all, it is the *gross* income from overseas investment that must be considered by us and not a figure arrived at after deducting payments to foreign owners of property in Britain. That is a liability which stands independently of Britain's investments abroad. If the overseas investment income has helped Britain to meet some of the payments in the reverse direction, that too is part of the contribution to the British economy of the overseas investment income. Secondly, as we shall argue in section V below, remittances of profits and dividends from abroad are only a part of the value extracted from overseas investments. Largely for tax reasons, some of the incomes realized abroad is remitted back in the form of "head office charges," commissions and royalties, etc., which enter the balance of payments statistics as payments for "services." Again we must also make allowance for the fact that a considerable part of the profit comes back in the form of a monopoly profit on the value of the goods sold abroad under particular conditions discussed in section V. Thus even the figure of gross investment income would be an underestimate of the total amount involved. Thirdly, the significance of the overseas income must be seen as an addition to the available surplus being accumulated at home; a comparison with the value of the net domestic investment would be more significant than its comparison with the total national income. If we look at Barratt Brown's figures again, we find that gross income from overseas investments in the post-war years fluctuated between 3.3 per cent and four per cent of the national income as compared with net domestic investment which fluctuated between six per cent and ten per cent. Thus the relative contribution of overseas investment income to the surplus available in Britain for the accumulation of capital was by no means negligible,



even on the basis of a figure which we regard as being an underestimate of the real magnitude of the surplus derived from overseas. The significance of this flow of overseas investment income is even greater for the poor overseas countries from which it is extracted. Not to speak of the extremely poor countries of Africa where the bulk of the surplus is produced in the sector of the economy which is completely dominated by foreign capital, we may take for example the case of India, which might be regarded as the most fully emancipated country from domination by foreign capital amongst the ex-colonial countries. From India, foreign capital takes no less than a quarter of the total of profits accruing to the "organized private business sector," as we shall see more fully below, in section V. Finally, we note from Barratt Brown's figures that the maximum percentage level of net foreign investment to national income was 1.2 per cent during 1948-49, i.e. exports of capital was a fraction of the income being currently derived from overseas.

It is the first of the above three points that we shall be mainly concerned with in the next two sections, viz. the role of the *export of capital as an outlet for the accumulating surplus* produced in the metropolitan economy and the breakdown thesis. The last point about the magnitude of the "tribute" from overseas is relevant to this in so far as the inflow on that account must be set off against the outflow on account of export of capital when considering the net effect on the problem of the disposal of the accumulating surplus. In section V we shall consider the second of the above points, viz. the renewed drive for expansion overseas.

### III

In post-war years, two writers have approached the subject of imperialism directly from the point of view of the role of the export of capital in sustaining the dynamics of capitalist development. John Strachey stands at one extreme in taking the view that export of capital is irrelevant to the dynamics of contemporary capitalism and therefore that there is no longer a drive for overseas expansion. At the opposite extreme is Victor Perlo who assigns pride of place to export of capital as a factor in permitting overgrown American capitalism to continue functioning. Michael Barratt Brown disputes the positions of both these fundamentalists and questions the validity of "Hobson's analysis" (Lenin's too, H.A.) "which made empire a function of overseas investment, which itself was a function of declining investment opportunities at home, caused by the lack of consuming power of the masses. . . . Overseas investment has not ended with the end of empire nor with the rising share of wages in the national income."<sup>8</sup>

Victor Perlo states the fundamentalist position when he argues that "The factors of imperialist decay are expressed most sharply in the United States, the most powerful imperialist country. If United States

foreign investments have grown since 1930, the productive plant and especially the profits of huge monopolies have grown faster. . . . At the same time the domestic civilian market, swollen by its growth during World War II, is no longer expanding, but tending to shrink. The pressure of surplus capital for export is *incomparably greater* than that of which Hobson and senator Beveridge spoke fifty years ago."<sup>9</sup> Perlo's data, however, can hardly be said to substantiate his argument. He shows that U.S. private foreign investment increased from \$17 billion in 1930 to \$19 billion in 1949. But that is an increase of only \$2 billion which is very small in comparison with the increase of \$14 billion for the earlier period from 1913 to 1930. It could not be held, on the basis of his figures, that the *rate* of private foreign investment had *increased*—quite the contrary.

Since the war, however, capital transactions on account of the U.S. Government have grown enormously in importance and this figure must be added to that of private foreign investments to arrive at the total of foreign investments. Perlo states that "the U.S. Government held \$14 billion of foreign investments."<sup>10</sup> But in the absence of any further information about this figure or an indication of its source it is not possible to know what precisely it indicates. According to the U.S. Department of Commerce compilation of U.S. Balance of Payments, the net amount of U.S. Government grants and capital transactions *between 1946 and 1949* (inclusive) was \$21,346 million. But this was an exceptional period for such payments and in later years the annual figure was reduced to much less than half of this figure.

To see this question in its proper perspective, however, it would be useful to compare the size of the export of capital with other forms of the utilization of the surplus in recent years. According to a compilation by R. A. Gordon<sup>11</sup> for the years 1929–51—the percentage of foreign investments to G.N.P. rose above one per cent only in the years 1938–40 and again in 1946 and 1947 (when it was 2.2 per cent and 3.8 per cent respectively). In subsequent years the percentage figure was well below one per cent. As compared with this, the figure of Gross Private Domestic Investment fluctuated between thirteen per cent and eighteen per cent during the post-war years and Government expenditures fluctuated between twelve per cent and nineteen per cent. Consumption expenditures fluctuated between sixty-two per cent and seventy per cent. It is clear from this that fluctuations in domestic investment and Government expenditures were far more important factors in the U.S. economy and by comparison foreign investment was a negligible factor *in this context*.

Furthermore, against the outflow of investment funds we must set off the inflow of surplus value derived from overseas by U.S. business which adds to the available surplus in the domestic U.S. economy. According to a U.N. study,<sup>12</sup> "Remittances of profits and dividends by United States controlled enterprises established in foreign countries often equal



and sometimes exceed the outflow of funds for direct investment from the United States." Indeed according to the U.S. Balance of Payments statements between 1950 and 1960 (inclusive), as against an outflow of \$20 billion as private foreign investments and \$23 billion on account of government, during that period, there was an inflow of \$19 billion on account of long-term and short-term investment of funds in the U.S. from abroad and \$25 billion on account of income on U.S. overseas investments. This figure of overseas income understates the real value of income derived from overseas operation of U.S. business for reasons which we have indicated earlier. Thus taking the net overall position, the outflow of funds on account of export of capital was cancelled out by the inflow of funds.

It is interesting to note at this point the implications of Palme Dutt's remarks about the resumption of capital exports from Britain after the war, which reflect curiously on the post-war situation and the motives for export of capital. "During the years following the war," he wrote, "the principal concentration of British policy has been directed, *even at the expense of home shortage* (emphasis mine, H.A.) to endeavour to resume the export of capital and rebuild Britain's overseas capital accumulation. In the course of the five years from 1947 to 1951 (inclusive) new capital investment by Britain in the rest of the Sterling Area amounted to £996 million. A large proportion of this new investment by Britain was achieved on the artificial basis of simultaneous forced loans from the colonies, since during the same period the sterling balances of dependent overseas countries rose by £469 million."<sup>13</sup> It is quite clear that the kind of situation Palme Dutt is dealing with was exactly the opposite of the kind of situation dealt with in Leninist theory. Palme Dutt is talking about the export of capital against the background of a shortage of resources at home whereas Lenin was dealing with export of capital as an outlet for a surfeit of capital accumulating in the domestic economy of the metropolitan power. Secondly, Palme Dutt points here to the fact that export of capital is offset by the return flow of surplus value. He could indeed have gone on to point not only to the sterling balances but also to the annual flow of the tribute to which he has referred elsewhere.

Palme Dutt has argued that the accumulation of overseas investments was, in the main, financed by surplus value extracted by exploitation of the colonial peoples. He writes: "The initial main basis for Britain's export of capital in the second half of the nineteenth century lay in the profits of Britain's industrial and trading world monopoly . . . the "export" of capital was *from the outset* in reality a reinvestment of profits made on the world market and from world exploitation." Michael Barratt Brown puts forward statistical evidence produced by A. H. Imlah in support of the same argument.<sup>14</sup>

John Strachey writing on the *End of Empire*, takes the Leninist argument about the role of the export of capital as his point of departure.<sup>15</sup>

Strachey argues that Marx's theory of capitalist development, which is the basis of Lenin's theory of Imperialism, postulates "the ever increasing misery of the mass of the population" which does not allow for internal expansion of the capitalist economy. However, if we recall Lenin's contribution in his work on the *Development of Capitalism in Russia*, we would find that this is not an accurate presentation of Lenin's (or, for that matter Marx's) theory. However, Strachey goes on to say that "the fact is that most, though not all, contemporary economists reject the above assertion that mature capitalism have even a tendency to produce a plethora of capital for investment and so drive the investors to seek foreign outlets. . . . The imperialist surge . . . can be accounted for simply by the fact that immensely profitable opportunities of investment presented themselves abroad. These glittering opportunities pulled out the surpluses being created in the imperialist countries: there is no need to assume "a push from behind," as it were, caused by insufficient profitability of investment at home."<sup>16</sup> It appears that Strachey himself has not fully examined the implications of this statement. Thus he comes to the rather facile conclusion that America would not embark on imperialist expansion not only because of such factors as anti-imperialist sentiment which he admits would not stand in the way of imperialist expansion, the growth of nationalism in the underdeveloped countries, and the counter-power of the Soviet Union and China, but also because in his view the scope for internal expansion in the U.S. economy is so great that there is no surplus capital seeking more profitable investment overseas.<sup>17</sup> Indeed such argument slurs over the entire record of U.S. Imperialism, some aspects of which we shall discuss in section V below.

#### IV

The conclusion, suggested by the available evidence, that export of capital has not been the factor which has maintained the dynamics of post-war capitalism appears to be implicit in much of the discussion of contemporary capitalism. This was the case in the first major debate on crisis theory that took place in the British Communist Party, since the war, towards the end of 1957.<sup>18</sup> Amongst the factors responsible for the "postponement of the crisis," it was suggested, were (1) state expenditures on social services and public investment as well as, and above all, armaments, (2) investment by nationalized industries and (3) the impact of the post-war revolution in technology and the relative expansion of the sector of the economy producing means of production which were both induced by factors (1) and (2). These factors take a central place also in a symposium edited by Prof. Tsuru entitled: *Has Capitalism Changed?* which had contributions from Baran, Bettelheim, Dobb, Galbraith, Kronrod, Strachey, Sweezy, and Tsuru himself.<sup>19</sup> Barratt Brown adds one more factor to the list, viz. the stimulating effect on the British



economy of rising exports which are associated with a change in the terms of trade *in favour of primary producing countries* which increases their purchasing power and capacity to import goods from abroad.

We shall resist the temptation to plunge into this controversy which has produced some valuable contributions towards the understanding of the dynamics of contemporary capitalism. However, it remains to be said that having considered these explanations of the continued functioning of the economies of the advanced capitalist countries which have helped to "postpone the crisis," the question of the inevitability of the final crisis still remains unresolved. Diversion of resources towards armaments and all forms of public and private waste that capitalism can produce, could partly absorb the growing productive capacity. But these may only reduce the rate of economic growth; they cannot eliminate growth itself so long as some positive net investment and technological change are taking place. It is also said that the relative expansion of the sector producing the means of production can only provide a short-term reprieve, a postponement of the final crisis: by its very nature, this can only further raise the rate of economic growth and thus intensify the disparity between the expanding forces of production and the restricted consumption which should bring about a crisis.

It is questionable whether such short-term explanations are at all adequate when we consider the secular expansion of capitalist economies. Sophisticated Marxists would qualify the prediction of the final crisis by a warning against interpreting the theory of crisis in a mechanical fashion. We should take into account, they would say, the influence of counteracting tendencies which could *temporarily* offset the basic tendencies working towards the final crisis. It is the timing of the crisis which, they would argue, cannot be foretold with accuracy; its inevitability is not questioned. Such qualification smacks of sophistry when we are considering a time span not of a few years but of decades. It is a hundred years since Marx wrote; and nearly half a century since Lenin wrote of the eve of the socialist revolution. Such a prolongation of the life of capitalism calls for a more searching analysis of the changes which have taken place since then.

The contradiction between the periodic crises of capitalism and its secular growth is sometimes sought to be resolved in theory by an explicit or implicit assumption that periodic crises somehow serve to restore a balance between the inflated forces of production and restricted consumption. Thus, Emile Burns writes: "Because profits are turned into means of production, productive capacity and actual production increases; but the purchasing power of the mass of the people does not increase in the same proportion, so that a gap develops between production and consumption. A crisis shakes this out, and gets rid of the excess in one way or another. . . ." <sup>20</sup> This is an assumption which needs a fuller discussion. In simply rejecting this assumption here we would

merely point to the fact that over the last one hundred years we have witnessed a vast expansion in the productive capacity (and production) not only of the means of production but also of consumption goods. Corresponding to this rise in production of consumption goods, there has been a rise also in the real incomes of the people which has made it possible for the capitalist to realize the value of this increased production through sale. This is a fact which theory must take account of and explain.

It should be added that increase in the capacity to consume may come about not only through the increase in wages of workers engaged in production but also through a relative increase in the number of "non-productive workers," i.e. those who are engaged in administration, selling, financing, advertising, etc. Also some of the increased productive capacity would be absorbed in the increasing amount of public and private waste (of which non-productive employment is a part) which is so characteristic of contemporary capitalism. Thus one would not expect increases in real wages to be in the full measure of increased productivity of the worker. All that is needed to keep the machinery of capitalism ticking over is that the rise in real wages should be sufficient to absorb what is left of the expanded productive capacity. Baran quotes statistics compiled by Prof. Barger which show that in the period "1909 to 1956 there has been a considerable gap between the growth of productivity and the rise of real wages of production workers. While the output per man hour of production workers has risen in the course of that half-century by 277.1 per cent, their real average hourly earnings increased by 230 per cent. . . ." <sup>21</sup> The fact which we find most impressive here is the actual rise in real wages which has in fact been achieved, without which the further expansion of the economy would be inconceivable. Here we are on the very thorny subject of the Marxist theory of wages. Some years ago Maurice Dobb, criticized the "interpretation of the so-called 'Law of Absolute Impoverishment' that was pronounced until quite recently by Soviet economists . . ." (which is still being defended in France and has appeared from time to time almost unquestioned in Marxist writing in this country). . . "My own view," he added, "is that it is extremely doubtful whether Marx ever meant to propound a law of falling wages (the 'Law of Capital Accumulation' which he talks about in *Capital* referred to the growth of the industrial reserve army). Even if he had, he would surely have been the last to suggest that any such tendency could remain unaffected by the outcome of the class struggle—by the economic and political action of the Labour movement." <sup>22</sup> Thus Marxists are coming to terms with the fact of the rise in real wages. It must be said, however, that the admission of the possibility of a rise in wages fundamentally alters the implications of the Marxist model. Marx had argued that a rise in wages by inducing the capitalist to resort to a higher degree of mechanization would cause technological unemployment and thus replenish the industrial reserve



army. It was assumed by him that the consequent intensification of competition for jobs would bring down wage rates again. This position would be modified, however, not only if we consider the role of organized labour in defending wage levels, but also if we postulate a situation in which accumulation is proceeding sufficiently rapidly, so that the displaced workers are re-employed in an expanding economy. Secondly, the effect of the increased mechanization and the consequent rise in productivity would allow an increase in wages *without undermining the rate of profit*.

The implications of such a change in the assumptions of the Marxist theory of capitalist development which merely fastens on a rise in wages, commensurate with increased productivity, but ignores all other respects in which Capitalism has changed, are far reaching.

For now we would have a dynamic system, rapidly expanding its productive capacity, in which the capacity to consume can also increase likewise. To take such a view would be to ignore the many other changes which have been brought about in the functioning of monopoly capitalism, since Marx's day. This is precisely the kind of error committed by John Strachey,<sup>23</sup> for a recognition of the ability of workers to achieve a rise in wages is central to his argument. But he fails to discuss the many other aspects of contemporary capitalism which would reveal its other, and in some respects new, contradictions. The distortions and waste resulting from a system in which the consumer is no longer sovereign but is an object of manipulation both individually and collectively (i.e. by way of the allocation of public expenditures) by those who seek profitable sales outlets, in which the private determination of production plans and allocation of investment impose strict limits on their being rationally integrated, and, above all, in which the full potentialities of the resources of scientific discovery and development of technology cannot be realized in their full measure because of the necessities of oligopolistic competition—these are the directions in which a critique of contemporary capitalism must proceed. One of the most admirable contributions along these lines is Paul Baran's work<sup>24</sup> which, despite Baran's adherence to the breakdown thesis, exposes the built-in tendencies in contemporary capitalism towards both stagnation and the distortion of any rational priority in resource allocation. A complementary set of arguments, which should be taken in conjunction with Baran's critique, was put forward by me in an article entitled "Can Capitalism Survive."<sup>25</sup> We do not suggest that capitalism shall be free of crises—for the conditions postulated in theory for the achievement of growth with stability cannot be realized within its framework. What we do suggest is that there is no *necessity* for a dramatic major crisis which would ensure the automatic collapse of capitalism. The change in perspective from the breakdown thesis to the stagnation thesis is important to destroy illusion, and complacency. The stagnation thesis puts much greater emphasis on the conscious

mobilization of the people for bringing about socialism—the contradictions of capitalism will not necessarily do the job for us.

## V

What then becomes of the drive for imperialist expansion, if we now maintain that export of capital is not a necessary condition for sustaining the process of capitalist development and that its conditions for internal expansion are sufficient to provide an outlet for accumulating capital? The answer to this question must be sought in the drive of monopoly capitalism to expand and to extend its domination over the whole of the capitalist world and in the intensity of oligopolistic competition which demands such expansion for the survival of the giant oligopolies. Even as monopoly capitalism expands within a national economy, destroying and absorbing smaller businesses, so also it expands outwards repeating the same process on an international scale. The drive for the export of capital is but an expression of the expansion of monopoly capitalism itself and its drive to dominate all market outlets and sources of supply of raw materials. The source of the higher rate of profits and the incentive for export of capital lies in the conditions of monopoly exploitation itself; it is not always to be found simply in the differential in wage rates between the advanced capitalist countries and the backward countries—low wage production is not always low cost production. Furthermore, acquisition of overseas investments is by no means the only, or one may add even the main, form of penetration by monopoly capitalism based on the advanced capitalist countries into other market economies. It has developed a variety of instruments which it is able to bring into play, especially through the agency of the machinery of government which it controls. Marxist preoccupation with the export of capital has been responsible for underestimating the new significance of these other methods in the changed situation of today.

Expansion of overseas investment there has been in recent years; the rate of export of capital from the main capital exporting countries increased from \$2 billion a year in the period before 1955 to about \$4 billion a year in the period after 1955.<sup>26</sup> But the direction and the composition of this capital outflow appears to be determined by factors other than the incentive of exploitation of cheap labour which features in the Leninist theory. According to the U.N. Survey quoted above, only about half of the capital outflow in recent years has gone to "low-income underdeveloped countries." Of the investment in underdeveloped countries the lion's share is taken up by the petroleum industry and "trading", much of which again represents investment in oil distribution. In this field low wage cost is an insignificant element in the fabulous profits that are extracted. As for the rest, the traditional pattern of foreign investment in extractive industries, which was typical



of an earlier era, is now mainly to be found in countries such as those of Africa where the extreme poverty of the people provides a very limited internal market for monopoly capital to exploit. Here much of what has been said before about the effects of such a pattern of foreign investments still holds good. But, one should add, that for monopoly capitalism the relative importance of such investment is relatively less in the present period.

The rich new field for exploitation is in the growing internal market in the underdeveloped countries which monopoly capitalism of the advanced countries has always striven to pre-empt rather than allow domestic industry to develop. Today this expansion of colonial trade has to take place in an entirely new environment which requires new techniques on the part of the monopolist. He has resorted both to new forms of private investments and operations as well as new types of inter-government financial and economic relationships.

Our argument is best illustrated if we take the case of India, as typical of the new pattern, which has now emerged, of the penetration by monopoly capitalism and its domination of the expanding market in the developing countries. The popular image of India is that of an independent democratic country progressing towards a "socialistic pattern of society" which is the declared aim of its leaders. India is held before the so-called "third world" as a model worthy of emulation. But, behind this flattering image lie the rude facts of concentration of economic power and domination by foreign monopolies who occupy strategic positions in the Indian economy.

Foreign capital holds a far stronger position in the corporate sector of the Indian economy than is commonly realized. According to calculations by Dr. Mazumdar, of the Indian Statistical Institute, of the total assets held in the "Organized Private Business Sector" in India in 1953, 33.2 per cent of the total assets were attributable to foreign investment.<sup>27</sup> The April 1948 Statement on Industrial Policy had declared that, in the case of foreign investments, "the major interest in ownership and control should always be in Indian hands." This was, however, qualified by the proviso that "power will be taken to deal with exceptional cases in a manner calculated to serve the national interest." This proviso appears to have become a universal escape clause because only thirteen per cent of the total foreign investment in India, was in companies controlled by Indians. Sixty per cent of it was in branches of foreign companies and another twenty-six per cent was in companies owned and controlled from abroad.<sup>28</sup> As regards the latter, we find from the results of the Reserve Bank of India Survey that Indian participation in such companies was negligible. Companies accounting for fifty-nine per cent of the total share value of foreign controlled companies were 100 per cent foreign owned. Companies accounting for another thirty-three per cent of the total share value had between forty per cent and ninety-nine per cent foreign ownership.

The important fact to consider about foreign investment in India today is the change that has taken place from the old pattern to the new. Thus, in 1911, according to figures given by Nurul Islam, about seventy-five per cent of foreign capital in India and Ceylon was in the extractive industries (of which sixty per cent was in plantations). Only 3.7 per cent of the total foreign investment was in "commercial and industrial undertakings"—but investment in "industry" was at the time heavily concentrated in the Jute industry.<sup>29</sup> But, if we turn to the contemporary situation, we find that in 1956 as much as thirty-six per cent of the total foreign investment was in manufacturing and another twenty-five per cent in trading (but four-fifths of this, i.e. twenty per cent of the total was in oil distribution). Plantations accounted for only twenty per cent of the total, public utilities for thirteen per cent and the rest, including mining, accounted for eleven per cent.<sup>30</sup> This is a complete contrast from the old pattern. But the precise nature of the foreign investment in "industry" requires further examination before we come to any conclusions.

"All heavy industry and most of the western-type consumer goods industry were being organized in India with either foreign capital or foreign technical collaboration. But Indian indigenous enterprise was managing and investing in older types of industry: oil, milk, cotton gins, weaving and spinning," was the conclusion of Daniel Spencer after his study of foreign capital and mixed enterprises in India.<sup>31</sup> However, referring to an American Consulate Survey, Spencer added: "The necessity of thwarting Indian import control regulations was listed as the prime motive for joint investment. . . . Many of the American manufacturing firms are not concerned so much with the remittance of profits as they are with the sale of raw material which is imported from the U.S. as a basic ingredient of their product. The general point is not, therefore, to maximize dividends which the Indian subsidiary may be able to pay, but instead to maximize the market for its manufactured product in order that the parent company in the U.S. may maximize its production."

This does not, of course, mean that profits made by foreign capital in India were negligible. The total of profits realized by foreign enterprises during the period 1948 to 1955 amounted to Rs.4,170 million which compares with the total of profits made in the rest of the "corporate sector" amounting to Rs.12,460 million, i.e. foreign enterprises appropriated about a quarter of the total of the profits made in the corporate sector of the economy.<sup>32</sup> This figure, moreover, excludes the profits of foreign "portfolio investment." The point in Spencer's remark, that the pursuit of profit is not the principal aim of foreign enterprise operating in India is not, therefore, that the profits in themselves are negligible but that the "profits" made by branches and subsidiaries in India are only a part, and a small part, of the total profit derived from the operation.



The most important feature of the neo-colonialist penetration in India is, however, not the increase in direct investment and expansion of branches and subsidiaries of foreign monopolies, although there has been a very great deal of that too. The most important new feature is the much greater expansion which has taken place in partnership with Indian big business. The key to the understanding of this new feature lies in the fact that the most profitable part of the operation is in establishing a market for goods manufactured in the metropolitan country and setting in motion a stream of payments by way of royalties and fees for "technical services," use of patents and brand names, etc. Indeed, these other benefits are so large that even a quarter of the total profits earned in the corporate sector in the Indian economy is regarded as relatively unimportant by comparison. Unfortunately no estimates exist of the magnitude of such gains made by monopoly capitalism; nor is it an easy matter to identify such gains from the available statistics. But the fact that they exist and are extremely large is confirmed by foreign businesses themselves who know how much such other benefits mean to them.

Referring to foreign investment in partnership with Indian business as "the newer pattern of investment in India," Daniel Spencer, who has made a special study of such investments, writes: "Here the Indian interests are dominant with the foreign interests taking a small share of the capital. The small share of the capital is probably in payment for the provision of machinery and technical services. In fact the arrangement may be regarded as an extension of the technical assistance contract. . . . The advantages of such an arrangement are those of having a toehold in the Indian market. The foreign corporation makes money on contract as supplier of technical assistance and equipment and has an edge on competitors in obtaining further contracts."<sup>33</sup> The word "dominant" in this context could only refer to the ratio of the shareholding. For, in the nature of the circumstances, it is the Indian company which finds itself in part dependent, for its very existence, upon the continuation of the agreements which have been made with the foreign monopoly for the use of patents, supply of components and materials and technical services. The object of the nominal foreign shareholding is certainly not the small amount of dividends that may accrue. Rather it entitles the foreign monopoly, usually as a part of the overall agreement, to appoint a director to hold a watching brief for them.

By the very nature of foreign investments of this new type, their importance by far exceeds their nominal value. Statistics of such investments are therefore of a very different order and cannot be compared meaningfully to the size of domestic investment in India or to the value of the traditional types of foreign investment in India which are still in existence. Thus if we take statistics at their face value, asset value of shares attributable to foreigners in companies controlled by Indians has been computed by Mazumdar at thirteen per cent of the total

foreign investment in India in 1953.<sup>34</sup> Again, the value of such foreign investment as a proportion of the total assets of "the organized business sector in India" in 1953 has been computed by Mazumdar at 4.36 per cent.<sup>35</sup> But the scale of operations which are possible through such a shareholding is really reflected by the total assets of the Indian companies which are deployed in the operation.

Foreign capital holding a minority shareholding in Indian companies has a well-established partnership with Indian big business itself. The degree of monopoly concentration in the Indian economy is also a source of strength for the foreign monopoly groups who stand behind the Indian monopolies. The rapid growth of monopoly concentration in India has been frequently commented upon by experts as well as laymen.<sup>36</sup> However, it is only in recent years that the situation has begun to be analysed methodically and much work remains to be done.<sup>37</sup> The names of big Indian monopoly groups are household names—Tata, Bira, Dalmia, Mafatlal, Walchand, Mahindra, Bird-Heilgers, Sahu-Jain, Bangur, Singhanian, etc. Hazari has explored the ramifications of the 491 companies controlled by five of these groups who are taken as a cross-section of Indian monopoly capitalism.<sup>38</sup> These 491 companies had a share capital of Rs.1,545 million and total assets amounting to Rs.8,209 million. Hazari lists the names of five other groups not included in the survey and adds that "It would not be surprising if groups other than those studied here were also found to control and influence a corresponding wide area of corporate activity."<sup>39</sup> Thus the total assets controlled by ten monopoly groups in India could be estimated to be in the neighbourhood of Rs.16 billion. This would be a very big slice indeed of the total of corporate sector. Whilst we have no strictly comparable figures, some idea of the relative position of the ten monopoly groups can be had by comparing their estimated total assets of about Rs.16 billion with the figure of Rs.22 billion which was the estimated total for *all* Indian joint stock companies in 1953, as computed by Mazumdar.<sup>40</sup>

In the companies of the five monopoly groups examined by Hazari, foreign companies held shares worth Rs.45.4 million and individuals abroad held another Rs.12.5 million. In the case of industrial companies of the five groups the percentage of foreign shareholding comes to 3.4 per cent of the total. This is an overall average; actual foreign participation in particular companies may well be larger. But the point which is important is not the relative magnitude of the foreign shareholding but the degree of foreign control which exists. After all such foreign investments are not motivated by simply a share in the dividends. Where foreign shareholding exists, the position of the foreign investor is reinforced by the terms of inter-company agreements. The resulting degree of foreign control is out of proportion to the percentage of shares held abroad. Such foreign participation thus multiplies the effectiveness of the actual foreign investment because it is associated with a large



block of Indian capital which serves its needs. The total asset value of foreign investments in India (in 1953) has been computed by Mazumdar at Rs.9,210 million. Of this only Rs.1,210 is attributed to the shares owned by foreigners in Indian controlled companies. But this latter figure is effectively multiplied in association with local monopoly capitalism. It is the total of such capital employed, both the amount of foreign capital as well as the Indian capital associated with it, which determines the scale of operations from which foreign capital derives large profits.

Thus, the Leninist picture of foreign capital being invested in the underdeveloped regions principally to take advantage of cheap labour etc. is not at all typical of the emerging new pattern today. Instead, monopoly capitalism in the advanced countries prefers to expand productive capacity at home where it is more secure and economically more advantageous for it for a variety of reasons. It seeks, instead, to extend its sway abroad in order to establish captive markets. It seeks to thwart any real efforts in the underdeveloped countries to make progress towards industrialization, which would affect the secure exploitation of these markets by monopoly capitalism. To the extent that it cannot prevent progress towards industrialization, it seeks to contain the drive towards it and to secure for itself participation in what cannot be prevented. But the nature of such participation is such that in effect it undermines further progress. For the emphasis is on assembly and packaging plants for foreign products, which so often go under the false label of manufacturing establishments. This effectively circumvents measures taken to protect domestic industry and to give incentive for industrial development in the underdeveloped countries.

It would be a mistake to underestimate the very real progress which has been made in India since independence. But it would be an even bigger mistake to ignore or underestimate the continued and renewed drive outwards of monopoly capitalism of the advanced countries and the powerful and strategic position it occupies in the Indian economy. The high water mark of progressive thought in India towards a policy of independent development was the publication of the Mahalanobis "Plan Frame"<sup>41</sup> in March 1955, which was to be the basis of the Second Five Year Plan. But with the heavy attack launched on the Mahalanobis proposals, by Indian big business as well as from abroad, the retreat started and has continued ever since. The Second Five Year Plan, although an advance on the First Five Year Plan, was a watered-down version of the original proposals. However, it was in undermining the implementation of the Plan that business had its major success. A final blow to whatever was left of a progressive economic policy was delivered at last during the last one and a half years when anti-Chinese and anti-Pakistani hysteria was worked up as the main weapon of the right wing, and governmental efforts towards the further development of basic industry were (and still are) diverted by the insistence that the Government

should concentrate on defence and defence production. Thus Romesh Thapar, editor of *Seminar* wrote in *The Economic Weekly*: "The still dominant private sector of the economy made planned development and foreign aid subservient to its profit motive, diverting funds from fundamental development to non-priority consumer goods production. This trend, noticeable towards the middle of the Second Five Year Plan, became more accentuated as the Third Plan (1962-67) was launched."<sup>42</sup> Thapar refers to the real fears of "the organized private sector which agitates for a 'full and ungrudging military commitment to the West': the fear is of the movement of the Indian people towards socialism. He adds: "The desperate attempt to run away from this brutal fact is seen in the effort to encourage foreign investors to enter India in sectors hitherto denied to them while the public sector concentrates on armaments." *The Economic Weekly* ruefully commented on the fact that, although India has received far more economic aid than China ever did, "With a steel output lower than that of India in 1953, China is now producing about 15 million tons of steel as against India's less than 4 million tons, and her output of coal today is 350 million tons as against India's 60 million. And, above all, despite reports of famine and starvation, the fact is that per capita availability of food is *higher* in China than in India and that it is much more equitably distributed—which is not unimportant, from the point of view of India's defence potential."<sup>43</sup>

Independent development is undermined not only by the role of private foreign investment, but other techniques have assumed a far greater importance for neo-colonialism. Indeed, with the end of direct colonial rule, the most remarkable feature of the post-war situation has been the emergence of foreign aid, with the *ostensible* aim of helping the underdeveloped countries towards economic development, as the principal basis of relationship between advanced capitalist countries and ex-colonial countries. Strachey misses the point entirely when, criticizing Baran, he exclaims: "But after all, for the first time in history, a good deal of money has been actually given by rich countries to the poor countries for the express purpose of development. It is perverse to make no distinction between, say, the monies provided under the Colombo Plan, or the American Point Four programme and the traditional imperialist investment for profit by private enterprise."<sup>44</sup> Such illusions are not easily removed by criticism which does not go to the core of the matter. The criticism that is usually made is that the amount of aid is inadequate and that much of it goes to developed countries anyhow (which begs the question of the benefits of aid administered by monopoly capitalism), that a high proportion of it is military aid, that much of it goes to support reactionary governments in power, that much of economic aid is used to provide the infrastructure for more profitable foreign investments, and so on.<sup>45</sup> An additional point of communist criticism is that more aid is given



"because the socialist countries are now extending economic aid to these latter (underdeveloped countries) on an already large and steadily increasing scale."<sup>46</sup>

Such criticism misses the whole question of the way in which the processes of the administration of foreign aid set up a complex series of operations which are integrated with the business operations of monopoly capitalism enabling it to penetrate the economy of the aid-receiving countries in a manner which secures for it the lion's share of the development expenditure being undertaken in the country on completely monopolist terms. I have, in collaboration with Amir Khushro, examined these processes with regard to U.S. aid to Pakistan in some detail in our publication "Pakistan Today" (Autumn, 1961).<sup>47</sup> It is not possible to summarize here the many aspects of aid administration. But the key to the whole process lies in the fact that by virtue of a small "aid component" in all development projects, the bulk of the money for the projects comes under the control of the Aid Mission which has authority over their implementation at every stage. The experts who assist the Mission as well as those who are sent under Technical Assistance Programmes are employees of large corporations whose services are lent for short periods. Through them, as well as through their overall influence with the machinery of government both in the U.S. and in the aid-receiving country, the U.S. monopoly groups are able to secure control over the disposal of a huge amount of funds meant for development projects. They are able to keep out other monopoly groups, through this means, from having a share in the money that is spent and are able to impose on an aid-receiving country monopoly terms so that the country loses heavily in the monopoly prices which she has to pay—such losses largely cancel out the benefit of the aid. Moreover, the real loss is infinitely greater when so much of the "aid" is given in the form of surplus commodities which, in some cases, is as much unwanted by the recipient country as by the U.S. Such "aid" is, for that reason, defended on spurious financial grounds. In fact, it bears heavily on the recipient country's foreign exchange resources through the expenditure generated by it. In the case of Pakistan, oddly enough, a considerable proportion of Military Aid is received in the form of surplus agricultural commodities, but generates expenditure for military hardware which is ploughed back into the U.S. economy. The procedure is that Pakistan pays in rupees for, say, surplus wheat received under commodity aid programmes. The U.S. then makes some of the rupee funds available to the Defence Ministry which uses these funds to buy dollars to make purchases in the U.S.

To sum up, we find that the principal aim of neo-colonialism or the new imperialism is not the export of capital as a means of exploiting cheap labour overseas. It is rather that of concentrating investment at home to expand production in the metropolitan country and of seeking to dominate the world markets on which it establishes its grasp by a

variety of means—overseas investment as well as aid are instruments which it employs in pursuance of this aim. The exceptions to this are the large investments abroad in extractive industries, especially in oil production which are of particular importance in certain regions of the world. But the new pattern tends to impose itself even as the process of development begins to enlarge the markets of the underdeveloped countries. As for the export of capital, we find that overseas investments are largely financed by the reinvestment of profits extracted from overseas and the net outflow of any capital from the metropolitan countries is more than cancelled out by the inflow of profits extracted from overseas. As regards the size of this “tribute,” earnings of overseas branches, etc., grossly underestimate the amount of surplus that is actually extracted, for most of it goes back in the monopoly prices of commodities sold and in the form of royalties, commissions, head office charges and other “services.”

The new situation in the metropolitan countries is characterized by stagnation rather than by the imminence of a breakdown. In the underdeveloped countries on the other hand, the sharp issues of the national liberation struggle are replaced by a division of class forces. To confront the new situation, neo-colonialists seek to associate with their activities some sections of the local bourgeoisie and rich landowners, as a political insurance. On the other hand, it seeks to maintain its own independent authority *vis-à-vis* these elements by manipulating and controlling the state machinery in the new countries. This it does not only by political subversion (with the Cold War as its principal weapon) but also more directly by the corruption of the bureaucrats and the officers of the armed forces (who are thus given a vested interest in the new set-up) and also by utilizing the power and the influence of the metropolitan state. Extensive powers in the hands of the bureaucrats, a powerful army both tied to the metropolitan state through a complex network of “aid” operations and a proliferation of foreign advisers who infiltrate the government of the new states at all levels, all help to maintain the authority of monopoly capital operating in the new states. Political struggle in the new states against the new imperialism is undermined to the extent that illusions persist about the need of their economies for foreign capital and about the apparent generosity of the metropolitan powers in bestowing “aid.” But as the movement for a fundamental social transformation and an advance towards socialism develops in the new states, the role of the new imperialism becomes more and more apparent and the struggle against it become an integral part of the struggle for socialism.

#### NOTES

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33. Daniel Spencer, *op. cit.*, pp. 201-2.
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