The Internationalisation of Production and Deindustrialisation

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We now live in an era where production and markets are controlled by giant corporations with a trans-national base. We also live in an era where national and international controls over trade and capital flows have been progressively reduced. The resulting combination of unified international markets and giant international firms bestriding them provides a ready mechanism for the processes of deindustrialisation to develop wherever the conditions for capitalist accumulation are weakened. In contrast to the earlier history of the development of monopolies and cartels around the turn of the century, when protectionism was demanded to restrict or eliminate foreign competition in domestic and colonial markets, the new period of international oligopoly is characterized by demands on the part of the giant corporations for free trade and the supranational institutions to pursue and sanction it:[1)] a global freedom to pursue accumulation, given their own dominance within the global system and given the threat, or potential threat, of organized labour and universal suffrage at the level of the nation state. It might be said we now have a neo-imperalism of free trade in similar vein to the nineteenth century British imperialism of free trade[2)], but this time, rather than being of national origin, the imperialism is that of the Transnationals.

This paper will examine the implications of the evolution of dominant transnational corporations for the pattern of production and investment within and between the advanced industrial countries, and between this group of countries and the third world. The recent history of the British economy will be examined in some detail. Then the question will be asked - is this a zero-sum, global game?

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1) With some significant exceptions - for example the restrictions on Japanese imports demanded by European and American industrial interests (see pp.13-14).

2/ The description of the nineteenth century comes from Krause and Nye (1975).

Do the losses of the advanced industrial countries simply mirror the gains of the newly industrializing countries? It will be argued that the process of adjustment within such a system is socially inefficient and undemocratic. Given this, forms of intervention to secure a globally more efficient and democratic outcome will be briefly discussed.

The New International Division of Labour[1)]

The old international division of labour divided the world up into the advanced industrialized countries and the backward primary producers with international trade between these groups of countries dominating world trade. International firms, if they existed in production, were involved in extracting primary products from the backward countries. With the evolution of the transnational corporation this simple dichotomy was progressively destroyed. Initially the switching of production and investment took place between centre and periphery within the industrialized countries or to their geographical neighbours. Thus U.S. corporations invested in Europe and Mexico, Western European based corporations invested in their southern neighbours and Ireland, and, more recently, Japanese corporations invested in South Korea and Taiwan. Whilst such moves could be stimulated by a myriad of causes it seems clear that an all-pervading, general influence would be the existence of, and changes in, labour cost differentials reflecting differences in the relative power and militancy of labour. By extension, an increasing tendency to switch production and investment away from the advanced industrial countries to the unindustrialized or newly-industralizing countries would be expected. This tendency would occur because of rising worker power and militancy generally in the older industrial countries, associated with the Long Boom of the quarter-century post-World War II period, implying rising relative wages and falling relative productivity, and the growth of a de-skilling technology. The actual timing of such shifts would depend on the innovation

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1) Whilst this term has been popularized by Fröbel, Heinrichs and Kreye (1981), the basis of the analysis was laid by Adam (1975).

the final form, the issue of control, within the process of production and within markets, is more fundamental than the ownership of the production units themselves. The current general promotion of small business is explicable in these terms. Rather than being a threat to the giant corporations it fits in perfectly with their strategy of moving production away from those centres where they have tended to lose control, and will in turn serve to circumscribe the power of organized labour in those production units which must of necessity, at least in the short-term, remain in the old-established centres.

Increasingly the major corporations will become co-ordinating agencies for large numbers of production units, each supplying services to the dominant organization at competitive rates and paying competitive wages[1]. This represents an extension of the notion of the M-form corporation with its centralisation of strategic, capital-allocation decisions, coupled with the decentralisation of operating/production decisions. Now strategic marketing and production decisions are being added, with small business in satellite relation with the dominant corporation, tied-in with long-term contracts. The dominant corporations basic role is then to secure an allocation of production, internally <u>or externally</u>, consistent with cost minimizatiom, whilst maintaining or enhancing market control. This system of control may include a retail sector in the same, internal or external, satellite relation with the dominant supplying corporation, or the retail sector itself may be the dominant element in the system of control. Thus the British Shoe Corporation is a dominant element in shoe retailing, has some production units of its own, but is also a major importer of shoes produced by other firms; whilst Marks & Spencer has long-term contracts with external suppliers, British or foreign. In contrast GEC deals directly with State corporations in its own sphere of

1) In some cases the production unit supplying the services will be large-scale, but still in some sense subordinate, for example BL supplying assembly services to the dominant component monopolies (see the next section) and the public utilities, under the prescription of marginal cost pricing.

and diffusion of corporate structures capable of handling such global production patterns and of systems of communication and transportation which would facilitate it. The rapid diffusion of the multi-divisional organizational structure across the giant corporations of the capitalist world has provided an ideal environment for the flexible switching of capital flows within the global economy. Rather than simply delaying capitalisms early bureaucratic demise the advent of this organizational innovation has directly contributed to the conversion of the major corporations to their present global status and reach. The recent revolution in information technology has already played a significant role in the same process and will clearly continue as a major accommodating factor.

Given the existence of such flexible corporate structures, the decomposition of complex processes so that only unskilled labour is needed,and an information technology which renders geographical distance unimportant, the social and economic infra structure of the advanced industrial countries remains the only significant economic impediment on the supply side to a wholesale transfer of industrial production to the low wage countries. Also the switching of production between the older industrialized centres and the newly emerging industrial periphery is not entirely dependent on the growth of the transnational ownership of production facilities; it can also reflect the growth of a new putting-out system, which may have a purely domestic basis, but which will often have an international one. Thus an increasingly popular device for circumventing a powerful and well-organised labour force, which has evolved within the conducive atmosphere of the large plant in the older industrial areas over the Long Boom of the post-war years up to the early to mid-seventies, has been the vertical <u>dis</u>-integration of production. More and more of the work is sub-contracted out; to a domestic, relatively-competitive fringe or to foreign suppliers, where the producers face a less powerful and less well-organized labour force. Partly this may represent a first step in a process of transition where production as a whole is shifted from a region or a country with a well-organized labour force to alternative locations, domestic or foreign, where this is not the case. But whatever workers control for worker control - is not yet a normal response to difficulties encountered in capitalist production. The more generally observed tendency is toward subcontracting to other capitalist organizations - or, in some cases, to individual households - either at home or abroad, thus circumventing some of the difficulties giant organizations will inevitably generate, or switching production and investment to new sites where labour is unorganized, has no history of large-scale organization or has been cowed by a repressive regime. Such tendencies will be manifest within as well as between countries - between the "Frostbelt" and the "Sunbelt" within the United States[1], as well as between the United States and Mexico or Brazil; between the North and Midlands and the "M4 Belt" within the UK, as well as between the UK and Malaysia or Singapore. The central feature is an increasing geographical flexibility of capitalist production which allows capital to escape the clutches of organized labour and must ultimately weaken the position of such labour in the areas of production which remain.

Globalism of this sort could of course work the other way round - rather than moving jobs to the (unorganized) workers, domestically or internationally, (unorganized) workers could be moved to the jobs. This was the dominant pattern of the long boom. The old division of labour persisted at the level of nation states but the work force, at least in the industrial countries, was internationalised. The internationalisation of production had a very specific meaning. The impediment to industrial expansion posed by relatively full employment in the Advanced Industrial Countries was removed by substantial migrations from the periphery. But, as Adam (1975) shows, this process started to falter in the late sixties - early seventies due to rising wage demands, with General Motors complaining about the "unpredictability" of the American labour market and leaders of West German corporations stressing the necessity and

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1) Whilst the climate may have something to do with this movement, the use of such terms tends to shift the focus away from the fundamental explanation which lies in the conflict between capital and labour.

operations but is moving towards splitting its existing M-form structure into small autonomous companies, and in its other spheres of operation it uses its own trade marks and advertising to sell goods which are to a substantial degree foreign sourced - sometimes intra-corporate and in other cases inter-firm.

The central point is that although systems will differ the aim of the giant corporation will be the control of a sector of the relevant economy so that the maximum level of profits can be squeezed from it. Whilst the ownership of production facilities by such giants may contribute to this objective, this is generally neither necessary nor sufficient. This point can perhaps be best illustrated by the extreme strategy of industrial capital withdrawing into finance or financial capital by handing over control to workers at the point of production, if conditions for capitalist production become very difficult. Charging the appropriate rate for the use of capital, i.e. the appropriate interest rate, the income of workers could be restricted to the competitive wage. Capitalist income could be increased by the elimination of monopoly wages and/or by incorporating into the valuation of the transferred assets, and thus into interest payments, the anticipated increase in the productivity of labour arising from the cooperative organization of production. So long as the corporation retained its control of the market for the product, via long term contracts coupled with its prior investment in advertising, product differentiation and distribution network, workers could be allowed to make all operating/production decisions, being exploited via the market rather than directly in the sphere of production or distribution. In this context it is significant that the former owners of Triumph Motor Cycles saw no problem in handing over control of production to the work force but baulked for more than a year over the control of the name and the marketing of the product. It is also perhaps significant that GEC got involved in the Triumph Cooperative - it might seem a logical extension of its declared tendency towards the decentralisation of production.

Clearly the sponsorship of workers cooperatives by capitalist organizations -

Our conclusion must be that the deindustrialisation the West as a whole has experienced in the 1970's cannot be ascribed to Japanese expansionism. The high relative growth rate of Japanese industrial capital in the sixties took place in a period of relative bouyancy in economic activity in the West. It seems clear that the forces of deindustrialisation which have been most obvious in Europe, have been most active during a period when European industrial capital was increasing its share of the world economy. This is entirely in line with the argument made in this paper.

Deindustrialisation: the Case of Britain.

Whilst there was an observed tendency for the capitalist system as a whole to enter an apparent long-term down swing in the seventies the experience of the British economy has been an extreme one and may be at least partly related to the relatively high degree of internationalisation of British Capital, both industrial and financial. These strong international links and commitments imply that money capital can be readily shifted abroad so that the rate of investment within the domestic economy is retarded. This will be most obviously the case where investment abroad is used to replace the domestic sourcing of the British market by foreign sourcing, or where exports from Britian are being replaced by overseas production, but it can also apply generally as the financing of British investment tends to dry-up. Whilst the giants will always be able to get the financing they require, newer and smaller firms will often face difficulties, and their position in the British economy, in contrast to the other European economies and the US, will be that much more vulnerable[1]. This may help to explain why the British economy has a much weaker small firm sector than, for example, West Germany and the United States, and correspondingly, why the giant corporations in Britain tend to be much more dominant. The argument that giantism is required for dynamism and international competitiveness hardly seems to hold water when we note that the most undynamic and uncompetitive

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1) This does not undermine the previous suggestion that the growth of the small business sector is being supported by the giants. That part of the small business sector which is seen as complementary by the giants we can expect to be financed. The current involvement of the state would support both views.

inevitability of international sourcing in response to the "unjustified" wage demands of 1972/73. He also makes the interesting point that it is not sufficient to say that the recession-induced unemployment of that period led to the cut-back in Gastarbeiter because it was the growth in external investment which led to the jobs cut-back in West Germany. One of the underlying reasons for the switch was undoubtedly the growing resistance to immigration which in turn strengthened the position of labour in such economies. The consequence has been a growth in managed trade and a decline in managed migration.

Perhaps at this stage it would be useful to put Japanese expansionism into perspective since it is often argued that deindustrialisation within the US and Europe has been induced by the rising dominance of Japanese capital and thus the relative decline in European and American capital - i.e. a new industrial division of labour may have come about, but it has not been managed or controlled by the giant corporations of the old order, rather a new order prevails. When analysing the relative performance of national economies this may appear to be so. Japan increased its share of world industrial production and exports throughout the sixties and seventies while the US and Europe (in aggregate) experienced declining shares. However if we measure changes in world sales classified by the nationality of the parent company a very different picture emerges. Whilst Japanese industrial capital made considerable gains at the expense of particularly US capital in the sixties, almost no further advance was achieved in the seventies. The advance of European industrial capital since 1967 has considerably exceeded that of Japanese industrial capital and this must have been achieved by a relatively rapid expansion of foreign production. A significant part of this is undoubtedly due to the rising share of oil industry revenue, but this serves as a reminder of the dominance of European (and American) capital in the markets for many strategic raw materials[1].

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1) Detailed calculations on these points are contained in Dowrick (1983).

Limited attempts have been made from time to time but they have generally floundered on their implicit unwillingness to address the root cause. As a result brief periods of expansion have been followed inevitably by sharp cut-backs - the stop-go history of the 1950's and 60's, which finally led in the mid-seventies to a move away from Keynesian to monetarist policies as the rate of inflation increased. Given the lack of success of the British economy there was a boiling-up of worker dissatisfaction which got translated into inflationary pressure. Thus the forces which led to the lack of success, like the international posture of British capital, inevitably led to the adoption of deflationary policies by the state, which led via an extended process of cumulative causation to further deterioration in the relative performance of the British economy and at the same time weakened the position of British capital in its global stance.

The British Motor Industry: A Case Study.

The car industry in Britain has clearly been in sharp decline over the past decade, with production falling from a peak of almost two million in 1972 to less than one million in the early eighties. However it would be wrong to conclude that the British motor industry generally has been an unprofitable area of activity for capital, whether British or American. Ford, the dominant assembler, has continuously made very substantial profits in the UK, but has progressively switched production away from UK despite increasing its share of sales in UK market, and firms in the British motor components industry have occupied a dominant and profitable position in both the domestic and European markets. The British car industry is much less vertically integrated than in other countries, with 55% of the cost of a British car going to component and materials suppliers. Five firms (Lucas, GKN, Dunlop, AP and AE) dominate the industry, with individual firms dominating the market for specific products e.g. Lucas supplies 95% of all starters and 80-85% of lamps and horns, GKN 80% of axle shafts, AP 90% of clutches, and AE 75% of pistons, see Bhaskar (1979). Recently these firms have been switching and increasing the proportion economy also possesses most of the giant firms in Europe[1].

The short-run impact of the retarding of domestic investment, if uncompensated by other forms of expenditure, will be a cut-back in output and employment in Britain. The longer term impact will be that domestic productivity growth will fall relative to other economies without such international connections, which in turn will lead to lower levels of investment in new processes and products and therefore to a relative decline in internal and external demand for the output of the British economy. This leads into a process of cumulative causation. A relative decline in external demand feeds through, via a variety of mechanisms, into a relative decline in the growth of output, productivity, innovation and capital stock, which in turn leads to a further twist in the relative decline in the growth of external demand for British output. The British economy has entered the vicious circle of relative decline partly because of the special international connexions of British capital, whereas, in contrast, the continental European economies and Japan, largely exploiting foreign markets from a <u>domestic</u> production base, have, as a result, entered the virtuous circle of cumulative causation, with productivity growth responding to the growth in output following external demand. Success breeds success, failure breeds failure, <u>at the level of the national economy</u>, but, as we have already seen, we should distinguish carefully between the success of national economies and the success of national capitals. However, in the British case, it could be argued that the relative demise of the national economy has gone so far as to have had a marked deleterious effect on the national capital. Despite its strong and pervasive international connexions, British capitals' lack of a strong domestic base has probably severely damaged its future prospects. One question which might be raised about this story is why the British state has not intervened to secure a break-out from the vicious circle of relative decline.

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1) A recent survey by the Financial Times (Thursday, Oct. 21st 1982) reveals that no less than twenty-five of the top fifty corporations in Europe are British based.

However, the story needs more differentiation. Whilst BL had little to gain from entry into the EEC, this was not so for other important elements of the motor industry. The other major assemblers, Ford, Chrysler and General Motors (Vauxhall), were all seeking to integrate their European operations, and the British components industry was in a powerful position to gain from entry. Unimpeded intra-European trade meant that the American assemblers based in the UK were now free to source their UK sales from any production facility within the EEC. This implied that labour militancy within the UK would be met with the threat or reality of a switch in production and/or investment away from UK plants, and a reciprocal threat could be issued to labour forces in the other countries of the EEC. Similarly each nation state within the EEC would be more exposed to the threat of a switch in production and investment by capital with an actual or potential trans-national production base within the EEC. As a result we would expect a growth in the subsidisation of production and investment by the state. The Ford engine plant in South Wales was a case in point with the state providing more than 50% of the investment expenditure, this outcome being the result of intense competition between the French and British governments.

What of the British components industry? The firms involved had secured a potentially powerful independent position because of the lack of vertical integration in the UK assembly industry and because of the early development of advanced engineering concepts in British cars. Given this favourable asymetry they were anxious for easier access to the rapidly expanding European market for their products. Accession to the EEC initially led to a rapid expansion in the export of components, but subsequently there has been a switch from exports to direct investment within the EEC by the major British component firms[1].

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1) Gaffikin and Nickson (1984) detail the recent history of ten major trans-nationals with bases in the West Midlands and two of these, GKN and Lucas, have dominant positions in the motor components industry.

of their investment abroad, particularly within the EEC, due to the relative decline in the British car assembly sector.

Whilst it can be argued that entry to the EEC was one of the factors leading to the precipitous decline of the British motor industry it is necessary to identify gainers and losers. It is clear, in an era of monopoly (or oligopoly) capitalism, that the creation of a tariff-free area like the EEC need not imply an increase in international competition in the sense that prices are held below what they might have been. Imagine a reduction in tariffs between two countries, each with a tightly-knit oligopoly group of similar size and efficiency dominating the car industry. Under such conditions potential rivalry will be seen more or less symmetrically by all participants, and this will serve to sustain the degree of collusion. Price cutting, and other attempts at market share expansion, will generally not take place because the response by rivals will be seen as substantial and immediate. The very closeness of rivalry will serve to sustain the oligopolistic structure. However, if the reduction in tariffs happens to coincide with an emerging assymetry, then we would expect to observe a substantial change in market shares as the stronger oligopoly group expands at the expense of the weaker. The evolution of the EEC has witnessed both cases. Whilst UK entry led to a rapid import penetration of the UK market, the same was not true of France and Germany where the reduction in tariffs led to a much slower interpenetration of markets. The symmetry of rivalry between the French and German motor industries led to the preservation of their domestic market shares. In contrast the UK motor industry entered the EEC in a position of grave weakness. It was no threat to the rest and therefore aggressive policies could be pursued in the UK by EEC importers. This process was made easier by the displacement of a large fraction of the distribution network within the UK by domestic firms[1].

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1) Bhaskar (1979) estimates that almost 7000 dealers of domestic cars were disenfranchised over the period 1968/76 and a majority of those who remained in the industry established import franchises.

tried to allocate the blame for the de-industrialisation of this sector on the Japanese in order to cover-up shifts in its own production and investment patterns which are largely responsible for the de-industrialisation and resulting job loss which has been observed. The facts are clear. Whilst the share of the British car market captured by imports rose dramatically from 33% in 1975 to over 50% today, the Japanese share of the market rose from 9% to only 11%, whereas the share of imports from the EEC rose from 20% to 38%, and a substantial fraction of this increase can be traced to the activities of the UK-based American assemblers, who have chosen to source an increasing proportion of their sales in the UK from their facilities on the continent. Ford dominates the UK car market with a share of around 30%, more than half of which has, in recent years, been sourced from plants outside the UK. It is in fact the biggest car importer into the UK[1].

The question of the control of imports by elements of the domestic oligopoly groups also brings into focus the question of the impact of tariff reduction and currency appreciation on the price level. The myth of fierce price competition within the European car market has been exploded by well-documented observations that the retail prices of the same car (before tax) showed enormous variation across countries within the EEC, Ashworth and Kay (1982). It is clear that the European market is effectively cartelized - the major car companies are acting as discriminating oligopolists, at least in terms of the <u>perceived</u> elasticities of demand in the different countries. The process of import pentration into the UK is not leading to lower prices but is leading to the loss of jobs. The process is being facilitated by the switching to the continent of production and investment by the American assemblers and by the entry into the UK of an increasing array of imported models, with the associated stream of advertising expenditures. Market shares are being re-allocated by a process of non-price competition[2].

1) Recently GM has climbed into second place and also imports more than 50% of its UK sales.

2) Widening profit margins following from the dramatic appreciation in sterling between 1979 and 1981 gave an added inducement to such activity.

The outcome of all this is a British motor industry which is either simply part of the integrated European activities of American capital or which has an increasingly important EEC production base. Deindustrialisation within the UK has proceeded in this sector either because of the peripheral position of the UK economy in the European context and/or as a response to the power and militancy of workers in the UK. Production has been run-down and investment shifted except where substantial state inducements are offered. Ford for example was producing 400,000 fewer cars in the UK in 1979 than it did ten years previously. Thus the crisis induced by entry into the EEC is a crisis of production, investment and employment in the UK rather than being directly a crisis for British or American capital with interests in the UK. The one exception to this is BL, which had neither the European production base of the American assemblers nor the relative strength of the British components industry.

One consequence of these developments was that the British motor industry has proved very resistant to any suggestion that its problems may be alleviated by general import controls. Such controls would obviously impede trade and investment flows within its own sphere of influence. In contrast we would expect to observe a general inclination to recommend import controls where the trade flows were outside its sphere of influence. Japanese Cars would be an obvious target, but so also would be imports from Eastern Europe, although they, are at least for the moment, much less threatening. The campaign by the British Society of Motor Manufacturers and Traders against Japanese imports goes back to 1975 when state intervention was obtained to secure "voluntary" restraint by Japanese exporters. Since that time there has been a mounting crescendo of hysterical outbursts by the industry, which culminated in 1980/81, all aimed at this very selective target[1]. Whilst obviously a problem for "British" capital, the reaction to Japanese expansionism has had an important diversionary role. The British motor industry (and increasingly other industries) has

1) More recently things have calmed down somewhat. This probably reflects the growth of accomodatory moves to the Japanese threat. Many European and American companies are engaged in talks with their Japanese rivals about various forms of joint venture.

(according to BL). Thus the circle is complete. BL's existing model range with a high fraction of British-made components is phased out in orderly fashion to allow the British components industry time to adjust to its new European role, and at the same time new models are introduced using components supplied by the same British firms, but produced elsewhere. The British components monopolies maintain their dominance in the domestic market while jobs are being transferred out of the UK.

A Negative Sum Global Game.

It is often argued that deindustrialisation and industrialisation are simply mirror images of each other. Industrial growth and decline are simply off-setting tendencies within the global system, representing part of a zero-sum, or even positive-sum, global game. Those who believe in a self-regulating market mechanism would see the trans-national corporation as a suitably efficient and flexible capital-allocating device capable of securing an efficient allocation of resources at a global level. The shift of simple production processes from the advanced industrial countries to the developing countries would, at one and the same time release an educated and skilled labour force for more sophisticated forms of production whilst allowing labour in the third world to move from relatively unproductive employment in the agricultural sector to more highly productive employment in industry. Full employment, according to this view, is the norm and would be maintained as the world economic system adapted smoothly to the new opportunities. Some transitional or frictional unemployment may be observed but this would be of little significance compared with the enormous rewards attached to such a global reallocation of production.

Given the present global economic crisis this view will appear unrealistic to at least a segment of the prevailing orthodoxy and they will argue that the position can be restored by an international Keynesian intervention to secure a global demand expansion which will allow the mechanism described above to operate without the frictions which have arisen as a result of the global

Despite a substantial drop in market share BL has survived with substantial government aid and a question which might reasonably be asked, given the monetarist stance of recent governments, is why has the state actively intervened to save a company like BL? Some might argue that the social consequences of its demise would have been to severe to contemplate. But why should the state draw the line at BL when it has revealed itself willing to allow the numbers of unemployed to rise to four million? Or at least why did the state not eliminate the major loss-making division, Austin-Morris (i.e. volume cars), and either run or sell-off the remaining profitable divisions? The answer would seem to lie in the crucial importance, at least in the short or medium term, of BL as an assembler of bought-in components produced by the profitable segment of the British-owned motor industry. To shut-down the volume car division of BL would have had a major impact on the profitability of companies like GKN, Lucas and Dunlop. In the long-run they could look elsewhere for markets, and they have indeed been investing heavily in the EEC in order to capture an increasing share of a rapidly growing market (see Gaffikin and Nickson) (1984)) but in the short-run they could easily have gone bankrupt. It was important that the state should manage BL in such a way as to give them a breathing space to reorganize their production and marketing. This is what the state obligingly arranged, under the direction of a chairman seconded from the components industry.

The "British" part of the British motor industry therefore should be viewed as a small group of powerful and profitable components manufacturers being supplied with assembly services, at or below competitive rates, by an independent downstream assembler (BL), which, on becoming unprofitable, partly as a result of their own activities, was taken over by the state rather than being allowed to go bankrupt. Since that point, the components firms have progressively switched their production to a continental EEC base, which has allowed BL gradually to be run-down. One of the more recent developments in this realignment has been the introduction of the Metro, with, it is reported, 70% of foreign components, but with 90% apparently supplied by British companies

Thus the allocation of production and investment is not guided primarily by questions of efficiency - that is getting more output from given resources - but by the question of profitability, where profitability is determined by the price of labour and the amount of work that can be extracted at that price. The process of de-industrialisation can therefore be initiated by increases in wages or reductions in the input of effort in one country and may result in the industrialisation of a country where the output resulting from any given amount of effort is lower. Two points arise from this: first the direction of movement need have nothing to do with social efficiency and second the frequency of movement will generally exceed the social optimum. Misdirection is possible because of distributional considerations - excessive frequency will occur because the trans-nationals are not faced with the full social costs of their locational decisions. Shifting production from country to country will not only mean that whole communities which have been built-up to serve the interests of capital will simply be deserted, with all the social costs being absorbed by that society, but also the costs of social infrastructure required by the newly industrialising country will in turn be borne by that society. Thus the direction and frequency of locational change will tend to be socially inefficient in a world dominated by giant firms with a global reach. But the argument can be deepened. Not only are such giant firms flexible in their pursuit of profit on a global basis; they are also powerful. They are generally powerful enough to influence the terms under which they choose to operate. Not only do they react to the level of wages and the pace of work they also act to determine them. Thus the distributional consequences are much more general, affecting those who remain in work as well as those who lose their jobs. The credible threat of the shift of production and investment will serve to hold down wages and raise the level of effort. By making investment conditional on the level of wage costs transnationals may also be able to gain the cooperation of the state in securing the appropriate environment in which wage costs will tend to be held down. By threatening to export investment, profits taxes can be held dislocations following the OPEC crisis of the early seventies. Thus a basically efficient process for the allocation of the world's material resources could be provided with a suitable international macro-economic environment in which to operate. Whilst ignoring the problem of explaining how such a system could have degenerated into its present crisis, such a policy of global reflation would be advocated on, what are claimed to be, pragmatic, non-ideological grounds. The Brandt report captures the flavour of this position.

In contrast to these alternative versions of the prevailing orthodoxy I wish to argue that the process of global industrialisation and deindustrialisation, which is being currently orchestrated by the trans-nationals, is a socially inefficient and undemocratic process. Capital has become increasingly nomadic, leaving a trail of social disruption in its wake and imposing huge costs of growth on the industrialising nations. Whilst it will be privately efficient for each trans-national corporation to adopt such an existence, reflecting as it does an appropriate response to rising labour costs, the opportunities offered by improvements in communications and transportation and by a more flexible production technology and internal organisational structure, it means that an international transmission mechanism for production, investment and jobs will have been largely adopted for income distributional reasons. Whenever workers act to raise wages, or control the intensity or duration of work, they will lose their jobs to other groups of less well-organized and less militant workers in other countries. Thus deindustrialisation is a consequence of the struggle between labour and capital in such a world. We can expect to see long swings of development and decline being inversely related across economies with different industrial histories. The alternating long swings of international monopoly capital will follow the rise and fall of the power and militancy of the working class.

The process is basically inefficient because it is motivated by issues of control and distribution - the control of the work process by those who hire labour, and distribution in favour of those who control the location of production.

but also against the wishes of those who are being industrialised. The terms in each country are being set by the trans-nationals and as a result the real democratic gains of universal suffrage are being undermined. The power to determine their own future is being taken away from the people at both ends of the process. The provision of investment and therefore jobs is being made conditional on the suppression of progressive forces which would allow the growth of economic and political self-determination.

Concluding Remarks.

Not only is rapid de-industrialisation the outcome for many of the older industrialized economies in a world of mobile industrial capital, but it is part of a negative-sum global game. Flexible capital, rather than leading to an efficient allocation of the worlds' resources, leads in the opposite direction. It also contributes to increasing the share of potential, if not realized, profits; worsens the stagnationist tendency, which is a major feature of monopoly capitalism; and is fundamentally undemocratic. Clearly social control over the trans-national corporations has to be established, but equally clear, this is an objective not easily realised. It is obvious that labour does not have the global organisation and reach possessed by capital, and it is pretty obvious why this is the case. Realistic, but inevitably limited measures which can be taken in the near future must grow out of local, national and European initiatives. Thus enterprise boards at local level can seek to gain influence within British based transnationals. Closely associated with this, trustees on Pension Fund Boards can seek to establish some sort of control over the flow of funds, and can seek to ensure that enterprise board initiatives are funded and that overseas investment is subject to close social scrutiny. Much broader and longer-term perspectives will be required to ensure that the pension funds contribute to the welfare of their members and beneficiaries. At the national level the regulation of capital and trade flows will be required to ensure the phased expansion of the British economy. Whilst an international approach to the regulation of the trans-nationals is down and subsidies for investment can be raised. Such threats will stimulate competitive profits-tax cutting and competitive subsidisation of investment by national governments which must ultimately work in favour of a redistribution toward profits.

The increasingly nomadic nature of capital and its distributional implications are also likely to induce a general global tendency to stagnation. Partly this is to do with the tendency toward the monopolization of product markets which is served by the growing dominance of giant global corporations and which leads to problems of maintaining a level of aggregate demand in the system as a whole sufficient to avoid a significant increase in unemployed resources, see e.g. Cowling (1982). But the more direct link to the processes of de-industrialisation is via the inevitable frictions involved in such processes. For countries (and regions) where production and investment is moving out unemployment will inevitably rise and purchasing power will be lost. This will lead to a spiralling down in economic activity in general. The new nomadism will contribute to the quantitative significance of this effect and off-setting gains from expansion in the newly industrialising countries will be attenuated by the underlying redistributional tendencies. Forces leading to lower global wage shares are likely to contribute to stagnationist tendencies because of the reduction in aggregate demand which can be expected to result. Whilst remedies are technically possible they are likely to be politically infeasible on the international plane within which these processes are operating and the very existence of transnationals makes the use of such remedies more difficult.

Thus we have a process, socially inefficient and eroding the gains made by working people in the older industrial countries in their recent history of struggle, but also contributing to the erosion of democracy itself. The process of the flexible international transmission of work within the transnational is encouraging the competitive, national bidding for jobs and competitive tendencies to the repression of labour. This whole process can be against the democratic wishes of not only the people whose countries are being de-industrialised, obviously desirable it is important not to be pessimistic about what can be achieved at the national level. The nation state, if it chooses to use it, obviously has substantial leverage. For example, to return to the case of the "British" car industry, it is clear that the British government could achieve much in terms of the expansion of production and investment in the UK by the American trans-nationals if it were willing to threaten them with progressive exclusion from the highly profitable UK market for cars. Clearly there are enormous political difficulties, but a determination to intervene decisively in a particularly crucial sector would provide a salutory lesson for the trans-nationals in general. However, as well as acting independently, the British government should be pressured to reverse its present stance regarding the international control of the trans-nationals. Irrespective of whether governments have been Conservative or Labour they have apparently held the same view of the national interest in voting within the UN agencies in favour of exempting the trans-national from close regulation, see Cable (1980). It is clear that a voluntary code of conduct for the trans-nationals is insufficient. As Fine (1983) has argued, whilst such a code may appear under the guise of international control <u>over</u> the trans-nationals, it is better seen as a code of conduct <u>amongst</u> the trans-nationals themselves. Whilst a more effective policy may be sought within the United Nations, perhaps a more immediately effective policy could be campaigned for within Europe, and specifically within the EEC. General concern about deindustrialisation could be used as a platform from which to advance a policy for effectively regulating the production and investment policies of the trans-nationals, at least within Europe, and hopefully growing into a more global strategy allowing the EEC to take a much more positive role in development issues.

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