

actually flows from the periphery to the center, not the other way around. Both these views will be examined.

According to Amin, the Harrod-Domar "maturity" model attempts to account for an empirical phenomenon, that of "... the difficulty of realizing surplus value in the age of monopoly." (17) In this "age," the answer to the question is found not in the Keynesian view of the monetary transmission mechanism, but in the varying manners of absorption of the surplus. This can be accomplished through waste or public expenditure, for example. (18) Thus, "potential surplus" will be less than "actual surplus." (19) Further, any export of capital from the center is counteracted by a stonger return flow. Profitablity is maintain through waste by monopolies, by the state, or through military expenditure, for example. To support his conclusions, Amin cites a number of statistics from the center and periphery nations. Indeed, the return capital flow of U.S. dollars from Europe and Canada to the United States was \$ 11.4 billion, while for the same time period, from 1950 to 1965, Amin claims the initial outflow was \$ 14.9 billion. Thus, the U.S. economy suffered a net loss of capital in its exchanges with other industrialized economies. Yet, the United States exchange with the periphery during that time gave the United States a net capital surplus. Outflow was estimated at \$ 9 billion while the return flow was \$ 25.6 billion. (20)

Unfortunately, Amin's data and references are dated. Most of his statistical data refer to the world as it was circa the 1950s. The more recent statistics which he does use are limited

to the 1960s. Thus, important current changes have made the work dated since its publication in 1973. The oil crisis, the debt crisis, the drastic changes in interest rates and unemployment, technological change, and more generally the new International Labor Relations and world economic crisis call for a fresh appraisal.

Griffin attempts to add to Amin's framework.(21) Like Amin, Griffin argues that, because the rich nations established the world economic order, they have been able to come out ahead through trade. This has had the effect of possibly increasing the disparity between the "haves" and the "have-nots." Yet unfortunately, Griffin's data is also old. To reaffirm the Griffin/Amin hypothesis, or alternatively, to affirm that of the conservative or Marxist models in today's economic climate, we will need to look elsewhere.

IV. A New Analysis

The bottom line of the disagreements, as have been formulated here, is the question of profitability, or perhaps the perception of profitability, given that investment will flow to the perceived most profitable enterprise, according to traditional economic theory. Thus by observing the flows of investment, we should be able to determine, by definition, whether the first or third world is perceived to be more profitable.

This investigation accepts the notion that we live in a world economy. Thus it attempts to discover where savings are created and where they flow. Further, it assumes a "zero sum" approach, which attempts to determine who "wins" and who "loses" in the flow of funds. Thus, the study departs from the more traditional approaches that attempt to analyse each economy's capacity to generate and keep their own savings.(22) In this respect, more traditional studies look to any outflow, which can take many forms only one of which will be domestic savings. Other outflows can be produced by a variety of sources including service on the debt, the purchase of foreign goods and services, the deteriorating terms of trade, etc. In short, these studies differ from this one in their perception of savings as a good indicator of what is being brought into a particular economy.

While studies have attempted to determine which of the two--the first or third world--is the more profitable in fact(23), these studies lose sight of the fundamental meaning of

profitability, mainly that it is a perception of future income discounted by not only economic factors like the marginal productivity of capital, but also by political and social uncertainties, like the possibility of nationalization or war. I would maintain that only in retrospect can actual profitability and the perception of profitability at that time be differentiated. To do this prospectively would be impossible. Since investment is done prospectively, to claim that in retrospect capital flowed to a less profitable sector is to beg the question. Thus, I will assume that actual capital flow is an accurate indicator of perceived profitability at the moment of investment.

In the following analysis, a number of other assumptions should be made explicit. First, like Noble and Grahl, I would affirm that control and access to new technologies will be the key to future economic development.(24) Second, I would assume that the access to this technology will come through investment in both research and actual hardware. The Economic Commission for Latin America (ECLA) has also noted that foreign investment could also bring new management techniques and job training for the domestic labor force.(25) For the time being, these assumptions will also be accepted. Thus if we are to assume that the influence of the new economic realignments has had a positive effect on the "have-nots" relative to the "haves," it must be that investment in these less developed, capital-scarce nations has transpired and will continue to transpire, modernizing their economies. As a corollary, it must be that the

new economic order has made these nations at least appear to be more profitable, with respect to the first world economies. However, if investments are not flowing to the third world, we will be led to question their future capacity to adapt to the changing landscape of high technology. Further, some authors have gone as far as claiming that in the aggregate, developing economies are financing economic development in the center nations, that the outflow from the poor nations far exceeds the return flows.(26) The "have-nots" will have even less, and will continue to be perceived by investors as less profitable.

The analysis begins by examining the identity "Savings = Investment." This assumes that no money is held in the form of liquidity under the Keynesian scheme. This is the position of the Monetarist or Neoclassical School of economics, and probably of the majority of economists today, given that interest rates have not fallen to their all-time lows of the Great Depression in recent years.

Within a given economy, the Monetarist assumption of the equivalence of savings and investment becomes more problematic. To determine how much investment escapes a given economy, we need to alter the identity. Let GDS(1) be the gross domestic savings, which we can also define as the amount of gross domestic capital formation financed through national output. Further, let GDS(2) be defined as GDS(1) plus net current transfers from abroad.(27) GDI will be defined as gross domestic investment(28), and finally GDIO shall be gross domestic investment overseas, or in other words, leakage from the given economy to others. Using these variables, we can establish the following:

$$GDS(2) - GDI = GDIO$$

and

$$GDS(2) - GDS(1) = T$$

The variable T is defined as the amount of unrequited transfers from abroad. GDS(2), as defined above, will thus denote the total dollar amount available for domestic investment. On the tables that follow, GDIO, if negative will denote an outflow of funds, or leakage. It will be presumed, as in conventional economic theory, that this will be capital seeking a higher rate of return on capital. If the figure is positive, this will indicate an inflow of capital into the given economy by private investors who again will be presumable looking for the best rate of profitability. The data source for this study comes from the World Bank's publication entitled World Tables, which was published in 1984.(29) Data cover the period 1970-1981.

The data source classifies the various nations into several categories which I will follow. These categories include developing countries, capital-surplus high income oil-exporting countries, industrialized market countries, and centrally planned East European nations. I will further subdivide the developing nations into six geographical groupings and then by per capita income. The six regional areas are Africa South of Sahara, North Africa and Middle East, East Asia and Pacific, South Asia, Latin America and the Carribbean, and South Europe. Sub-dividing the per capita income group, economies with a GNP of less than or equal to \$ 405 U.S. dollars per capita in 1981 will constitute the "low-income countries" while countries above that mark will be

labeled "middle-income countries." This division of economies is borrowed from the data source.(30)

Under this system of analysis, all countries are given equal weight. Thus, for example, American Samoa influences the averages as much as Mexico, within the Middle Income Group, despite the fact that Mexico has a much larger economy. This is a necessary evil of using percentages as a means of avoiding use of local currencies. Thus the proper way to analyse the data tables' aggregate averages would be to say that "On the average, a country in a given region has a GDS(1) percentage of X."(31)

Turning now to the tables themselves, the data seem to confirm that investments flow from areas of high income, or the "center," to the areas of low income, or the "periphery." This holds true whether we group economies geographically or economically.

Table 1 lists the developing nations below a GNP level of \$405 per capita in 1981. On the average, only about 40% of total investment could have potentially been financed by domestic economies. While some of the GDS(1) amount could have leaked out of the economies, any outflow was more than countered by an inward flow. The net effect of these flows was the leaving of large investments in the poorer nations of the third world. Thus domestic savings of about 40%, unrequited transfers from abroad of about 35% and an inflow of about 25% enabled these economies to finance their domestic investments.

Interestingly, the data for the middle-income developing nations reveal a slightly different result. Using the same

analysis as we did with Table 1, Table 2 uncovers that the net inflow of funds fell to about 20%, down from 25% in Table 1, as the GNP per capita rose to above \$ 405. The Harrod-Domar and leftist hypotheses of diminishing returns to capital thus appear to be confirmed in these instances.

Geographic analysis also yields a similar result. Table 3, Africa South of the Sahara, displays a large sample size of economies. Notice the average inflow of capital, about 24%, approximates the results of Table 1. The notable aberration is the nation of Lesotho, with an outflow of about 22%. This should not be surprising since this land-locked nation has in the past been the victim of an unfavorable political climate, being located in the south of Africa. Thus, Lesotho was perceived as less profitable than other economies even though as a general rule the data seems to show that poorer nations are perceived as more profitable.

Table 4, however, gives significantly different results than the prior 3 tables. It relates the data from Northern Africa and the Middle East. Here the inflow fell to roughly 8%. Further, the figures for the various economies spanned a much wider distribution, from an inflow of about 73% for the Arab Republic of Yemen to an outflow of nearly 58% in the case of Iraq, and nearly 38% in the case of Iran. Given the smaller sample size, the data from Iran and Iraq tend to skew the results towards a smaller average inflow for the entire region. And, like the above analysis of the Lesotho situation, it is likely that these two nations are perceived as less profitable due to the Gulf War and allegedly repressive governments resulting in an

exodus of capital from their domestic economies.

Table 5 covering East Asia and the Pacific and Table 6 covering South Asia both show inflows of investment less than the norm for economies similar in economic GDP per capita. Yet the inflow is still quite strong, about 15% for East Asia and the Pacific, and about 16% for the South Asia nations. It should be noted, however, that data was unavailable for many East Asian economies, as reflected in Table 5.

The Latin American and Caribbean economies, as displayed in Table 7, received nearly as much private foreign investment as the African nations south of the Sahara, about 24%. Here, nearly all the data was available for the larger and more significant economies. Interestingly, there is again a wide distribution, from an inflow of capital of nearly 57% in Guyana to a flight of capital in Trinidad and Tobago of an amount equal to about 14% of that economy's total investment.

Latin America's wide distribution of inflow rates of capital has a parallel in Southern Europe, as shown in Table 8. Here, the distribution ranges from an outflow from Malta of just over 8%, to an inflow of over 60% to Portugal. Yet, removing these two aberrations leaves the overall average for the region little changed from its original inflow of capital of about 21%.

We can obtain a better understanding of the situation in the developing world if we contrast it with other sectors of the global economy, namely with the high-income oil producing states, with the industrial market economies, and with the non-market economies of East Europe. Unfortunately, due to the scarcity of

data on the non-market economies as shown in Table 11, this comparison will prove impossible. Yet we can progress in the other two areas.

Table 9 lists the high-income oil exporting economies. With the exception of Bahrain, each of the nations for which we have data experienced a flight of capital during the period of 1970-81. Even more revealing is the degree to which the flight took place. About 104%, or well over half their total domestic savings, was reinvested outside the economy. Again this tends to confirm the Leftist and Conservative models, since these are capital rich nations which are witnessing a massive flight of funds from their own economies.

Between the extreme wealth of the oil exporting states and the capital-scarce third world lies the industrial market economies. These are depicted in Table 10. Being the middle group, we would expect neither a great inflow nor a great outflow of capital when examining these nations, according to either the Conservative Harrod-Domar approach or the Leftist approach. And this is precisely what the data show. Over the years 1970 to 1981, there was a modest inflow of capital into the region equal to just under 5% of total investment, on the average. Significant too is the relatively more narrow distribution of inflow/outflow figures, from an outflow from Switzerland of under 13% to an inflow to New Zealand of less than 18%. This too would appear to support the Conservative and Leftist frameworks.

In summary, the World Bank data seem to show a net flow of private investments from the center to the periphery. The more affluent the nation, on average, the more funds tended to flow

out of the economy. Conversely, the poorer the nation was, the greater were its chances of having a larger net inflow of investments injected into its domestic economy from overseas. However, greater private investment does not necessarily produce greater employment, increased access to technology, or greater output. To determine why this is so, we need to re-evaluate some original assumptions and look to other theoretical works.

V. Temporing the Results

The weaknesses of many economic models are found more often in the assumptions than in the actual reasoning process. Thus is the situation here. Originally it was assumed that private investment would allow a country to obtain the new technology making modernization possible and creating new employment. This needs to be re-examined. Further, the textual data need to be evaluated in the context of the New International Division of Labor, the New Industrial Relations and the rise of the Multinational Corporation (MNC).

Muller has noted a "revolution" in the development of MNCs in the third world over the past twenty years.(32) He has also noted that this has lead to a number of problems. First, law enforcement officials in developing nations lack full understanding of the operations of MNCs, making the policing of their economic activity near impossible.(33) This in turn is just a symptom of a larger second problem--the inadequacy of the law itself to regulate unfair restrictive market behavior on the part of the MNCs. Third, unions have little influence in the industries in which these MNCs are becoming involved.(34) Thus, unlike the developed world where there are a number of checks on the activities of MNCs, the third world is ill-equipped to deal with these oligopolies, and thus they make super-normal profits.

Vernon notes that empirical data can be interpreted to show that MNCs (which are sometimes also referred to as "Transnational Corporations" or "TNCs") in fact make small or normal profits in

the periphery economies.(35) Yet these figures are probably well understated. Profits are more likely to be excessive, as Muller notes(36), given that subsidiaries pay more than market price for technology from their parent corporation. Thus, while profits are kept low in the periphery nation, overall profit for the parent corporation becomes super-normal. This too will tend to confirm my prior assumption that investors, being economically rational, will tend to invest their savings where they can yield the highest returns.

It was hoped originally that an influx of private investment from the MNCs would supplement existing business in the periphery. Unfortunately, the opposite has transpired. The MNCs have become substitutes for and not supplements to existing domestic businesses.(37) Further, rather than building new factories and facilities, MNCs often "buy up" existing plants producing no net increase in productive capacity. Yet this change in ownership might be acceptable if it meant creation of jobs. This too however is miopic.

According to Muller, MNCs are "...eliminating many more jobs than they create."(38) MNCs import technology from the center nations and introduce Fordist techniques of production. Yet technology invented in the first world attempts to be more capital intensive and less labor intensive due to the relative scarcity of labor in the center economies. Thus, as this new technology enters a periphery nation, unemployment will rise accordingly.(39)

Four other dilemmas also arise with the introduction of new technology. First, the developing economies depend upon the

developed nations for their source of new technology. This in turn, Muller has argued, leads to bigger profits and increased oligopoly power for the brokers of the new technology--the MNCs.(40) Second, Muller has also observed that as technology increased, economic inequality also increased. Absent regulation for redistribution of wealth and a government capable of carrying such a redistribution plan out, the periphery economy will tend to experience an accentuation of the gap between the rich and the poor. Aggravating this too will be the influx of consumer ideology via advertising by the MNCs. Since few in the third world can afford luxury goods, advertising will increase an already present feeling of frustration and lack of participation in the economy.(41) Third, local savings may be invested in the MNC, making those funds unavailable to competing local firms.(42) Thus, local enterprise is "squeezed out" of financial markets. Fourth, often the technology introduced is not made available to the state, but kept in the hands of the MNC. While a new plant in a periphery nation may create jobs, under the Taylorist method of production, the laborers will not be required to have skills nor will they be taught them. Instead skilled labor is often replaced with deskilled labor which is usually young, female, single, and nonunionized.(43)

Having MNCs may be beneficial to a periphery nation if the MNCs could introduce large amounts of hard foreign currency into the domestic economy which could then be used to purchase other needed technology. Yet empirically this does not often work out. In fact, data have shown that MNCs have no superior export