WHOSE BALANCE OF PAYMENTS?

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Developments in the international economy over the past two decades have seen the increasing international movement of capital across national boundaries. Indeed, with the associated general reduction in barriers to international mobility there has been a retreat from the very concept of a national economy. What we call 'national economies' are increasingly part of an integrated international economy; perhaps better termed a global economy, since even the term 'international' is formulated by reference to the national form. This proposition should not be pushed to extreme notions that all economic differences between national units have disappeared, or that the nation state is powerless in the face of this international momentum; simply that we can observe a qualitative development in international capital mobility such that there is a conspicuous global logic to accumulation. The nation is no longer the obvious 'natural' unit of capital accumulation.

Nonetheless, analysis generally remains constrained by an assumed national taxonomy of capital and its movement. National accounting and trade theory both adopt nation states as their primary units of analysis. As a corollory, the popular appearance of the internationalisation of capital, both politically and within economic analysis, remains posed as a national issue: 'Australia's' performance in the international economy; 'Australia's' indebtedness; and the impact of international developments on 'Australia'. Hence we see the priority given to policies to improve Australia's 'international competitiveness' and the highlighted concern given to the balance of payments.

Virtually without question, economic space is being defined by political criteria (the space of national sovereignty). This has always been a conceptual anomaly. But so long as the nation state used its political power to constrain the international movement of capital and effectively implement specifically domestic regulations to in some ways insulate the process of accumulation within the national space, political processes served to 'construct' economic units along national boundaries. But this has changed as nation states implement policies to encourage the international integration of accumulation and capital increases in international mobility (Bryan, 1987). In this era, the discordance of economic and political space is increasingly apparent, although this has yet to be recognised within conventional economic categories.

If capital movement adheres to an increasingly global logic, how useful are national units in structuring an understanding of accumulation? In particular, how adequate are national balance of payments data in documenting the movement of capital and in understanding the forces which determine its movement?

This paper contends that the structure of balance of payments accounting is incompatible with the processes it seeks to document, for global capital is not reducable to national categories. The conceptual inadequacy of balance of payments accounting is not an issue of the accuracy of data, but of the categories into which data are entered. So while it **is** clearly **possible** to construct national balance of payments figures as we know them, it is altoghether another question as to whether these figures should be attributed with any substantive meaning. National balance of payments data provide a distorted, even positively false description. Not only are they an inadequate basis for depicting the global process of capital movement, but, more critically, they are also inadequate in describing the **national** impact of this global process.

The use of national accounting creates the false notion that capital movement is determined **by reference to** national units; that is, that money movement and commodity exchange takes place between countries and by reason of the national form, rather than between/within corporations. Yet for the corporations themselves, nationality may be quite arbitrary.

So it must be asked whether the balance of payments really describe national economic performance, or whether the adoption of a national taxonomy of capital based on the assumption of national coherence in resource flows in itself **creates** the very notion of national economic performance.

While it is indeed important to determine how this (global) movement of capital appears within the space of Australia, the critical question is the appropriate spatial unit from which to perceive this process. Analysis must start from the international perspective (ie. the analytical level of the logic of accumulation) and then move to the national unit understood as a segment of the global process - a segment with **some** autonomy, but generally structured by the international logic. The national unit can only be constituted systematically as an object of analysis via this process; analysis cannot **start** from space of national units and still identify the logic of capital flows.

An ironic contradiction has thus emerged for national economic policy. Developments in international transactions have increased the popular concern with international economic processes and state economic policy is being determined significantly in reaction to developments in international transactions. Yet the information source (ie. the balance of payments) from which the state's response to these developments is determined is itself unable to depict those developments. Therefore, all state economic policies based on balance of payments data must be profoundly questioned.

In developing this proposition, three basic issues must be addressed: first, the meaning of the internationalisation of capital; second the conceptual inadequacy of national balance of payments categories for the presentation of significant data; and third, the consequences of economic policy being formulated on the basis of such data.

The Internationalisation of Capital

The international movement of capital (commodities, including labour, and money) is certainly not a new phenomenon, but it undertook a quantitative and qualitative change from the late 1960s, associated with the end of the long boom in the international economy. In quantitative terms, this period saw the increasing global relocation of investment as capitals sought to recover their rate of profit in new locations and/or activities. More significantly, it also saw a massive expansion of international credit, associated most conspicuously with the rise of 'Eurodollars': credit money in a currency other than the currency of the country in which the loan is completed.

The qualitative aspect was to see capital, increasingly freed from its nation of origin, being allocated in different activities and locations according to international criteria of profitability. Further, the availability of credit saw debt increasingly supersede equity as a source of capital. The fact that this debt was generally of international origin (that is, not the currency of the country in which the credit would be used) gave a new international orientation to accumulation. Individual corporations have increasingly lost ties to their nation of origin

This tendency was amplified by the concurrent decline of the Bretton Woods system of international finance. The international loss of faith in the US dollar from the late 1960s was manifest in the demise of the US dollar as the universally accepted international currency and the breakdown of the system of fixed exchange rates. The value of currencies became increasingly regulated, directly or indirectly, by the international money markets rather than by a state-determined parity with the US dollar. Intervention by nation states could only modify, and for short periods, the rule of market determination.

Along with technological developments in the financial sector this international exchange market has generated an international mobility of money capital not imagined twenty years ago.

These were the preconditions for developments and transformations which continue at an accelerated rate into the late 1980s. This is a period when credit and banking are truly international and equity investment and other financial assets are following the same pattern. Both are eminently logical responses by individual capitals to an era of internationally-mobile capital.

This capital mobility diminishes the autonomy of national economies, but it does not involve any demise in the power of the nation state. The confusion of economic autonomy and the economic power of the state involves a conflation of economic and political space. Indeed, the state in Australia has **actively** implemented policies to facilitate this mobility, so it would be false to interpret this as the state having diminished power. But it would also be false to understand the shift in policy as a simple product of government policy, and thereby subject to substantial change with a change of elected government. This shift in state policy over the past decade is predominantly a reflection of a shift in the dominant form of capital accumulation as capital internationalises (Bryan, 1987).

In Australia, the impact of internationalisation was not strongly felt until the late 1970's. The legal form of the development was seen in the removal of the restriction on 'Australian' investment overseas (1982), the floating of the Australian dollar and the registration of foreign banks in Australia (1985). Beneath this legal form was the growing international operation by companies (including financial institutions) of Australian origin, and internationally-mobile debt entering and leaving the capital market in Australia.

Internationalisation of Capital in the Balance of Payments

While the internationalisation of capital has been a crucial economic development of the last two decades, balance of payments categories fail to capture the characteristics of this development in two basic respects. First, the structure of the balance of payments cannot permit an adequate recording of the international movement of capital. Second, in an era of international mobility, the attribution of a nationality to capital becomes an increasingly arbitrary, and thereby purposeless exercise.

Can the Balance of Payments Record the Internationalisation of Capital?

At first thought, we might look to the capital account of the balance of payments to find evidence of this internationalisation process. But the capital account provides little useful evidence, for it has been constructed as an accounting category to meet quite a different need: the increase/decrease in the level of foreign equity and debt within the 'national economy'. Such information, it is conventionally believed, is critical to notions of administering a 'national economy'1. An international perspective on data is thereby obscured by the demands of nationalist interpretation.

There are two essential ways in which the capital account of the balance of payments is unable to depict critical dimensions of the international mobility of money.

First, the capital account is not a recording of international financial transactions in any complete sense. It does not record the **flows** of money capital (debt and equity) in and out of the country over time; it records only changes in **stocks** of capital at a particular point in time. It is the flow of capital into Australia, out of Australia, and, in the hands of international corporations, even within Australia, which reveals the process of inter-

1. This is particularly true of the period of history in which 'Keynesian' policy was dominant. Active state intervention in national economic management required data on the international impacts on domestic aggregate demand and money supply. The current account and the capital account respectively were the critical sources of such information. It can be noted from the economic journals of the late 1940s and early 1950s (the beginning of 'Keynesian' demand management) that debate focused on the relationship between Keynesian categories and balance of payments categoties. See for example Machlup (1943; 1950), Meade (1948-49), and Tsiang (1951).

nationalisation of capital - the rate at which capital moves spatially over time in the process of international accumulation. Any given change in stock of capital may occur on a large or small turnover, but this latter dimension is immaterial for the capital account. Thus, we cannot find out from the capital account of the balance of payments the rate at which money capital enters and leaves Australia, how long it stays or what it is used for.

Some information on the flow of capital is found in the current account, in the form of profit and interest inflow and outflow. Yet these are only partial indicators for there is but a loose connection with credit and equity flows. Moreover, the two accounts combined make no recording of the movement of money unassociated with credit and equity: most conspicuously, short term speculation in commodity and money markets, even though these speculative currency movements have the largest value per unit of time of all international transactions 2.

The second problem for the balance of payments associated with the international mobility of capital is that transactions conventionally associated with capital inflow and outflow now do not necessarily involve money entering or leaving Australia. In particular, now that it is legal to purchase equity in so-called 'Australian' companies (see below) in stock exchanges outside Australia, to buy and sell Australian dollars in money markets outside Australia, and even to issue private bonds denominated in Australian dollars, the capital account of the balance of payments records only a (shrinking) portion of credit and equity transactions which may be said to involve 'Australian' assets.

2 This is not a question of the **stock** of speculative capital at any point in time (and thus the problem of defining speculation); it relates to the *flow* of capital. No data are published on this in national balance of payments, nor by the various investment markets. Recent estimates indicate that only 5 to 10% of world foreign exchange activity actually supports international commodity exchange (Hogan, 1987:11-13). It is the velocity of circulation of money in international investment markets, where money capital changes currency sometimes many times per day, which determines that these flows far exceed the value of flows of goods and services listed in the current account.

With the international integration of capital markets, and the consequential loss of any real notion of a distinct 'Australian' capital market the question to be asked of the capital account is whether it is important to monitor net capital movements which only physically enter/leave the space of Australia, or is there a wider range of transactions deemed critical to the process of accumulation in Australia. The former provides (conceptually) clear criteria for data collection, yet it may be arbitrary to accumulation whether Australian dollars are purchased in Sydney or Zurich, or whether Bond Corp. deposits money in the ANZ Bank in London or Perth. The latter, by contrast, can overcome this arbitrary spatial element, but loses clear criteria as to which transactions should be included.

Can Capital have a Nationality?

The principal expression of a nationally-defined taxonomy of capital movements is that transactions between **individuals** (either people or companies) which happen to cross political boundaries are recorded as transactions between **nations** (the nation's export income, foreign equity holdings, debt, etc.). Thus the International Monetary Fund's *Balance of Payments Manual* (by which all countries construct their balance of payments) defines the balance of payments (in part) as "changes in ownership ...in (an) economy's monetary gold, special drawing rights, and claims on and liabilities to the rest of the world" (IMF,1977:7). The assumption here is that capital is owned by **'the economy'**. But there is no analytical sense, let alone legal sense, in which 'the economy' is owner of capital.

The implication of this national aggregation is that cross-national transactions appear as having a national coherence (eg export income owes to the nation as a whole). This was consistent with the popular adherence to the notion of a coherent national economic unit, but it critically depends on capital having a national identity and all interactions of the 'nation's' capital with the rest of the world feeding back through the domestic economy.

To be sure, it is conceptually possible for the state to monitor the value of capital which crosses its borders. But to describe this as the export and import of capital between **countries**, as balance of payments categories require, is a qualitative misunderstanding of the international logic which drives capital flows. These are increasingly flows which see national units only as an impediment to mobility and the individuals and corporations which initiate these flows are not particularly bound to a nation of origin.

One clear manifestation of this within the balance of payments categories themselves is the difficulty of defining the place of nationality of individuals and enterprises - important for individuals and enterprises, as income earners, traders and capital borrowers and lenders, who may operate in multiple or changing national localities. The increasing international mobility of capital makes this an issue of growing, and now substantial importance.

Balance of payments categories demand that each individual and enterprise be allocated a nationality and a residence. The category of residence is sufficient for commodity exchange (exports and imports), for these are classified with reference to the place of 'production' of the commodity, irrespective of who produces it. For this purpose, an enterprise incorporated in more than one country is divided into separate enterprises, each with its own nation of residence (IMF, 1977:23). From this point, data collection treats a foreign 'resident' the same as a 'local' producer.

But for money capital movements (not to be confused with the capital account on the balance of payments) 'residence' is not a sufficient criterion. Here the nation of origin is deemed appropriate. We shall look shortly at how nationality is defined within the balance of payments. First, it is important to determine why the attribution of nationality is essential to the **structure** of the balance of payments.

For movements of money capital, 'residence' identifies the side of the ledger on which an international money movement is located (an entry or exit of capital), but not the account in which the entry is located. The recording (such as it occurs) of the international movement of money capital is spread across both accounts: foreign investment and credit/debt being recorded in the capital account, while the associated income flows, profit and interest are recorded in the current account. Yet how do we identify the difference between income (current account) and investment (capital account) when the only recorded information is an international movement of money? In the balance of payments, the difference between foreign investment (capital account enteries) and profit (current account entries) is identified only on the basis of the nationality attributed to the enterprise which initiates the flow. That is, foreign investments are defined as international money flows which emanate fromthe nation of origin, while income is defined as international money flows received by the nation of origin. This is the **only** criterion by which the balance of payments can differentiate income from foreign investment.

The critical point is that the allocation of nationality to each enterprise is crucial to the structure of the balance of payments. So the definition of nationality within the balance of payments must be seen as an important conceptual issue. It must also be arbitrary, for there are many criteria for defining nationality of capital; for example, by reference to the nationality of major stockholders (but what constitutes 'major', and should their nationality be defined by residence or passport?); the dominant nationality of directors, or the location of corporate head office. There is no reason for any of these to correspond.

The criterion used in the *IMF Balance of Payments Manual* is an individual's or enterprise's "centre of interest". No conceptual category in the Manual has undergone greater transformation than this one. In the first edition of the *Manual* (1948), nationality was defined by reference to an individual's and enterprise's "centre of interest". Each country compiling its own balance of payments could decide how to define "centre of interest". By the fourth (and current) edition of the Manual (1977), increasingly detailed, though conspicuously arbitrary, rules of thumb are included for defining "centre of interest" in terms of threshold proportions of shareownership which might determine 'foreignness'(IMF, 1977, chs3&18; ABS, 1984). Yet while an expanding definition adds precision to the classification, it is no less clear that precision is only achieved by the imposition of **arbitrary** criteria.

There can be no solution, for the real problem is not the search for an accurate and non-arbitrary set of criteria for determining capitals' nationality. The problem is the very exercise of attributing a nationality to that which has no national focus. The growing international mobility of capital has given rise to a substantial population of individuals and corporations which, in fact, have no real national 'centre of interest'. They are in some real sense 'global', freely investing in whichever location is deemed profitable.

Indeed, the internationalisation of capital has tended to make the attribution of 'centre of interest' a variable corporate decision. In this respect, there is a distinct arbitrary element in the differentiation of current and capital accounts and even in what is and is not recorded in the balance of payments. For example, John Elliott has several times 'threatened' to take the head office of Elders IXL from Australia to Britain. What would be the effect of such a move? For Elders there may be benefits of preferable taxation rates or some such economic environment, but in essence the corporation would run as it had. Specifically, Elders would move money capital internationally according to the same criteria as apply when its head office was in Australia.

But there would be a dramatic change in Australia's balance of payments. First, Elders' asset growth in Australia becomes inward foreign investment; its overseas assets drop out of Australia's balance of payments. Second, monetary flows from Australia to Britain, formerly classified as foreign investment, become classified as income paid back to head office. Hence, the **same** flow, which Elders initiates by the same decisions and for the same purpose, not only changes from debit to credit, but also shifts from the capital account to the current account due simply to the relocation of head office3. Third, Elders' foreign loans used to fund international expansion would no longer be audited through the Australian balance

3 This problem of accounting was first noted in 1897 by W.P. Sterns, observing the U.S. data on international payments for 1789 (Sterns,1895:28). He noted the impact on U.S. indebtedness of the migration of William A. Astor to England, and the marriage of Miss Vanderbilt to the Duke of Marlborough

of payments but the British balance of payments. So instead of the Australian balance of payments showing the debt-funded internationalisation of Elders as an inflow of debt matched by a subsequent outflow of equity (ie. a zero net entry) there would be no entry at all; and in the process, Australia's foreign debt, the cause of so much policy concern, would instantaneously fall. All of these changes, it must be emphasised, would result from a simple relocation of head office, without any change in Elders' pattern of accumulation.

The only sense in which the I.M.F. *Manual* (and the Australian statistician) recognise the existence of a conceptual problem in relation to nationality is in the handling of retained earnings (now officially renamed 'reinvested earnings'[4] (ABS, 1985:7)) on foreign investment: that part of income on foreign investment not remitted to the parent company. Although in this case money neither leaves nor enters the country, it is nonetheless recorded in the balance of payments as a capital inflow. This is clearly based on certain expectations about how that retained income will be used, but it is a definite inconsistency in accounting procedure if the balance of payments is to be seen as a record of international movements of money and commodities. What it signals is an awareness that international accumulation cannot be determined by reference to national borders.

The treatment of retained earnings reveals anomalies in balance of payments categories. If retained earnings are to be **included** in the balance of payments, consistency would require that foreign loans, taken out by supposedly 'Australian' companies for equity investment outside Australia, be **excluded** from the Australian balance of payments, as no capital physically enters and leaves Australia. That is, if retained earnings are included in capital inflow because it is **as if** the capital were repatriated as income

4 The term 'retained earnings' will be adopted in this paper. The term 'reinvested earnings' makes unsubstantiated presumptions about the use of the retained funds. Indeed the change in title may be seen as a recognition of a conceptual problem, and an attempt to cover it over by semantics.

and re-entered as investment, so foreign loans for funding foreign equity investment should be excluded because it is **as if** there were no entry and exit of capital.

But within the existing accounting structure, this procedure is not possible. For where **should** such transactions be recorded? To leave them unrecorded anywhere means that, internationally, national balance of payments data record only a portion of international transactions. Moreover, to not record them in the Australian balance of payments requires an assumption by the statistician that there is a direct connection between the loan and the 'foreign investment': that is, a prior knowledge of the international logic of accumulation.

In this sense, the I.M.F. *Manual* displays an irresolvable contradiction in handling internationalised capital. Quite simply, if the criterion by which retained earnings are classified as capital inflow were applied **throughout** the balance of payments, the existing categories of accounting would be unworkable. This is not an issue of the precision of definitions of existing categories, but of the categories themselves.

So why are retained earnings recorded in the balance of payments as an inflow of direct foreign investment, even though no money crosses national boundaries? In essence, retained earnings illustrate the fact that economic space and political space are not coterminous: the 'foreignness' of investment is not determined by the (re)location of capital (an economic process) but by the ownership of capital (a politically defined issue). The exceptional treatment of retained earnings reflects a nationalist political priority in data gathering (a concern to document foreign ownership).

Implications for Understanding Balance of Payments Data

The balance of payments categories have given a false signal by attempting to squeeze international processes into national categories. But the balance of payments remains a powerful determinant of government policy in Australia. Concern to reduce the balance of payments deficit has become the principle reason why the state should run a budget surplus (the so-called 'twin deficits' problem).

More generally, the economics profession and the government, with widespread support including from the Australian Council of Trade Unions, pose the state of the balance of payments as a 'constraint' on the national economy. There is argued the need to improve Australia's trade performance so as to generate national income and meet the growing debt burden.

Central here has been a policy of real wage reductions. In part, this has been to reduce import demand. More critically it is to ensure lower export prices and that falls in the value of the dollar convert into better export performance and import competitiveness based on reduced labour costs in production (Hamilton, 1988:12-14). 'Competitiveness', defined in terms of the current account of the balance of payments, and domestic wages are linked, via a simplified labour costs version of comparative advantage theory, as the key objective of current government management.

The result is that the costs of capital are being systematically displaced onto those who are indeed nationally constrained, and particularly the working class. This is not simply felt through the effects of the balance of payments on the formulation of the state's budget, but it is built into the very structure of the balance of payments. By the process of national aggregation of data, a deficit in the balance of payments is immediately taken, at face value, to be a burden for **all** nationals. Yet if we understand the situation as a relation between capitals, and having an international logic, a balance of payments deficit takes on a different meaning.

The following illustration can clarify this. The expansion of private sector debt, funded by international borrowings, is recorded in the Australian balance of payments as a deficit; a burden on the national economy which must be paid off over the life of the loan out of the nation's income.

Yet this is not a collective debt to the national economy; nor need it be repaid from collective current and future national income. It is the debt of a particular corporation, and must be paid for out of that corporation's income. Should the debt not be paid, it is a contractual issue between borrower and lender. In no sense is the state or the general population required legally to function as guarantor.

Moreover, the income from which interest is paid need not be earned within Australia. For example, when, Bond Corp. borrows $US400m in Zurich, it is recorded in the Australian balance of payments as a debt of (approximately) $A500m. According to popular interpretation, this debt must be serviced out of Australia's national income, and particularly its foreign exchange income. But Bond Corp. may in fact utilise the credit to expand production outside of Australia and it may also service the debt out of revenue generated in its North American breweries, imposing no cost at all on the 'Australian economy'[5]. It is significant that Alan Bond defends the high gearing of Bond Corp. in terms of "the reliability of its cash flow generation - its brewing interests in Australia **and America**" (emphasis added)[6].

It can be noted, moreover, that the real transaction involves no conversion into $A. The conversion into $A is purely a construction of balance of payments accounting. So the whole credit process can be independent of the value of the Australian dollar, even though the value of the Australian dollar (and state economic policies in Australia) is significantly influenced by the level of debt appearing in the Australian balance of payments.

5 It cannot, of course, be assumed that this revenue would otherwise have been returned to Australia, thereby amounting to 'lost' income by the Australian economy. This assumes too much about Bond Corp's investment strategy.

6 Quoted in 'Bond: can he make it', *Sydney Morning Herald* 11:6:88.

Yet the accepted wisdom is that the growing level of debt recorded in Australia's balance of payments means that Australians **collectively** are living beyond their means. Wages must be cut. Thus, the popular interpretation of balance of payments data suggests that while the funds generated by foreign loans remain the private property of the borrower, the debt burden is socialised as 'Australia's' debt, to be paid back by means of wage cuts. (Income repatriated from overseas, of course, is not recognised as a rationale to increase the general wage level, for the income is private!)

This case illustrates that the IMF *Manual*'s attempt to define the nationality of capital by reference to a national "centre of interest" is really a wrongly posed question, for it remains an attempt to attribute nationality to an inherently international process. Thus, for example, BHP or Elders IXL are classified as 'Australian' and their international transactions are audited through the Australian balance of payments even though their processes of accumulation have no long-term primary attachment to Australia, especially if this is judged by the pattern of location of their **new** investments and thus **current** movements of capital.

The probable response of those who would defend conventional balance of payments interpretations is that this internationalisation is expanding Australia's wealth as it will generate profit flows back to Australia or even that it could one day be 'cashed in' and returned to Australia as income. Yet this misunderstands the very nature of capital, for there is no basis to believe that capital is dominated by the sentiment of national loyalties. Even that which 'returns' to Australia as income may well immediately depart as new investment. Such is the nature of internationalised accumulation.

Thus we reach the ultimate irony of the relationship between the balance of payments and the era of internationalised accumulation. The companies which are currently depicted in Australian society as the 'success stories'- the Bonds and Elders- are, in their very success, exerting a detrimental impact on the Australian balance of payments. Their success is manifested in their tendency to internationalise their accumulation. But in the process, two critical things happen. Instead of producing beer in Australia and exporting it to the world, these companies now produce beer in overseas countries. This is profitable, no doubt, for the individual companies, but it is displayed in Australia's balance of payments as a fall in export revenue (a worsening trade performance). Second, to fund their international production, they take out international loans which, no doubt, are paid for by international beer sales, but they are displayed in Australia's balance of payments as a debt which must be paid for out of Australians' incomes. Successful accumulation in a period of internationalising capital, it seems, calls forth balance of payments deficits[7].

Interest rates are another area of policy which is currently determined by the contradictions of national categories being used to analyse international processes.

Currently, the Australian state maintains high interest rates (by international standards) so as to attract capital inflow to compensate for the sustained current account deficit. Yet such a strategy is based on a profound confusion: that the purchase of Australian dollars, or even bonds denominated in Australian dollars, involves a capital inflow into Australia. In an era when Australian dollars and bonds denominated in Australian dollars are bought and sold in large volume **outside** Australia and beyond the jurisdiction of the Australian state, the effect of a high 'domestic rate of interest' is more to influence the **currency** in which money market participants hold money rather than the **nation** in which they hold it.

From an international perspective, the effect of high 'domestic interest rates' will be more to push up the value of the Australian dollar than to generate Australian balance of payments equilibrium. This tendency is al-

7 There is something systematic about this process. Individual capitals, in the process of their accumulation, expand internationally in different ways (trade, credit, investment) at different stages of their growth (Bryan 1987), such that one form of internationalisation (eg exporting commodities) may lead to other forms of internationalisation (eg debt, investment). The former is expressed in the national balance of payments as a positive contribution; the latter, directly or indirectly, are a drain on the balance of payments.

ready apparent in mid 1988. The obvious irony is that the current account deficit which the high 'domestic' interest rates were designed to offset causes a currency revaluation which will, by all accepted theory, accentuate the current account deficit!

From a domestic (Australian) perspective, there develops a major disparity between borrowers of money. Companies with access to international capital markets can borrow at lower rates of interest (even allowing for exchange rate risk), and thus add to the recorded national debt which has precipitated the policy of wage cuts. For those without access to international capital markets, of which home ownership and consumer credit are the predominant part, the high local rate of interest must be paid. Again we find the false signals of balance of payments data leading to labour bearing the costs of capitals' expansion - this time as borrowers.

Conclusion

A recognition of the inadequacy of balance of payments categories and data requires a wholly different conception of international transactions and exchange rates. The national basis of accounting must become more irrelevant. In this process, exchange rates lose their significance as a market assessment of the performance of 'the Australian economy'. Companies can already insulate themselves from exchange rate variations not only by mechanisms of insurance, but by borrowing in the currencies in which they receive revenue. In these circumstances, the value of the currency in which production takes place can be of relatively minor significance8. The same can be said of the effect of 'domestic' interest rates.

A probable further development in this direction will occur when Japanese yen and US dollars are recognised as means of exchange **within Australia** as well as in international transactions. When that point is reached, varia-

8 Indeed, companies can insulate themselves from exchange rate variation by ensuring that the currencies in which revenues are achieved are directly proportional to the currencies in which expenditures must be made.

tions in the value of the Australian dollar and in Australian dollar interest rates will lose their current meaning. The conversion of transactions into Australian dollar values for the purpose of constructing national balance of payments will become a contrivance. Variation in the value of the Australian dollar to redress a balance of payments deficit will be a meaningless exercise. In this circumstance, the whole weight of 'domestic adjustment' would fall on wages.

To the extent that these processes are already foreshadowed in contemporary developments, there is need to challenge the current use of both the exchange rate and the balance of payments to pass judgment on the performance of the 'Australian' economy and to determine state policies within Australia.

Three possible policy perspectives may follow. First, if balance of payments categories and data are deemed inadequate, a policy option is simply to stop collecting the data! A moderate version may be to collect data on merchandise trade only. From this perspective, market decisions about the exchange rate and the creditworthiness of particular corporations would have to be determined by perceptions of specific performance, with no reliance on a (falsely) aggregated data source. Indeed, within the philosophical code of the market operators themselves, such a policy initiative may create the opportunity for a market for information about international transactions. We could wait and see if the market can provide better data than ABS!

This is, no doubt, a simplistic solution, for it appeals purely to the notion that no information is better than false information. But it takes the data themselves as the problem, rather than as the representation of a conceptual problem. It in no way addresses the need for economic analysis to address conceptually and statistically the limitations of nationalist precepts.

A second policy option is to conclude that the above analysis shows that the balance of payments 'constraint' is not as restrictive as we thought: in particular, that foreign debt is not the problem we are led to believe. Thus, it may be argued, there is a case for 'belt loosening' and wage rises in Australia.

But such an option would be based on only a partial appreciation of the analysis. The issue is not that the balance of payments 'constraint' has been formulated too tightly, but that the very formulation of such a constraint bears all the contradictions of nationalist taxonomy. Debate about **how** restrictive the constraint is must be seen as the wrong debate. Put another way, for internationalised accumulation, there is no such thing as a balance of payments 'constraint'; the perception of constraint on capital is a product of national aggregation.

The third option involves not the initiation of new policy, but a reinterpretation of existing policy: appreciating what needs existing policy meets, despite its analytical weakness. This involves the broader perspective that the essential function of the nation state is to secure the conditions of capital accumulation through the regulation of labour. In an era of intensified international movement of capital, the provision of cheap, trained labour is one clear dimension where the nation state **can** systematically promote accumulation for **all** individual capitals.

Hence, so long as the extant categories produce data which provide a rationale to reduce real wages and maintain disparities between capitals' and labours' borrowing rates, capital is hardly likely to demand a reevaluation of balance of payments accounting. The implication of this paper is not that the state **should** do otherwise (for this is a distinct issue), but that the balance of payments be demystified as a rationale for the function of the state. The case for a reduction in labours' living standards should be seen clearly as a consequence of the contradictory logic of capitalist accumulation, not as a solution to a (temporary) problem of bad housekeeping.

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