

decision-making machinery of the Community, never of the best, was unable to produce a single Community policy. The great central secretariat in Brussels became the target of criticism: bureaucracy, talking-shop, Eurocrat, became the current terms of abuse. Whether the pause of the seventies in the EEC has been that of exhaustion and intellectual sterility, a late reassertion of their true natures by the old plotters of Metternich's Europe, or whether it has been a breathing-space prior to further effort depends mainly on events and perhaps on the emergence of new ideas stirred by events.

Scammell W.M

"International Economy Since 1945"

Chapter 10

## 10

# The Multinational Corporation

'They fight by shuffling papers;  
they have bright dead alien eyes;  
They look at our labour and  
laughter as a tired man looks at flies.'

G. K. CHESTERTON

### (i) INTRODUCTION

In its century or so of self-conscious existence the international economy has shrunk its distances, speeded its communications, widened the scope of its goods and money markets and made the first halting steps towards international decision-making. In the public sector international action has appeared in government-negotiated financial and commercial arrangements and in the activities of international functional agencies. In the private sector national business has spawned international business through the operations of multinational enterprises—large corporations with headquarters in one country and pursuing their activities, in the manufacturing, extractive, or service fields, in several others. Such enterprises are a result of the drive of corporations to extend their international transactions within their own networks of control and influence distinct from the operations of governments in their operational areas. By nature they are large and powerful and they touch the interests of governments and international agencies at many points. Although large firms with diverse foreign interests are by no means new, the postwar period, from the fifties, has seen such growth in their numbers and influence, and they are so changing the nature of the international economy that the multinational corporation must be regarded as the most striking feature of institutional change in the world economy since the war. It is our purpose in this chapter to examine the economics and some of the political implications of this development.

### (ii) THE FACTS

In establishing the facts concerning multinational corporations generalisations are dangerous. In size, behaviour, effect on host countries there is

diversity. It is necessary to examine such enterprises according to a number of characteristics. This we shall do touching sequentially on country of origin, size, organisation, corporate motivation and a number of other matters.

Multinationals are the result of direct investment by enterprises in a base (or parent) country in a number of other countries. A vast expansion of direct foreign investment in the fifties and sixties reflected their proliferation. In 1970 the total value of all direct foreign investment was estimated to be \$250 bln with an annual rate of increase of between 10 and 20 per cent.<sup>1</sup> It accounted for more than 75 per cent of the capital export of the leading industrial nations as compared to less than 10 per cent in 1914. Chief among the investing countries has been the United States, which, in 1970, accounted for 55.6 per cent of the total. European firms accounted for 37.5 per cent, Canadian 3.9 per cent, Japan 2.6 per cent and Australia 0.4 per cent.<sup>2</sup> In fact the decades of the fifties and sixties have witnessed a great wave of American foreign direct investment, at first mainly in the extractive sector, but in the seventies dominantly in the manufacturing and service sectors. Over the whole period Canada has been the largest single recipient but after 1970 Europe went slightly ahead. The total American investment in developed countries has been 69 per cent of the total American investment as against 26 per cent in developing countries. Table 10.1 compares American direct foreign investment with exports and gives a summary geographic breakdown of such investment.

TABLE 10.1  
U.S. Exports, Direct Foreign Investment, 1950-73  
\$ bln

	1950	1960	1970	1973
U.S. exports	10.3	20.6	43.2	70.3
U.S. direct foreign investment (book value) of which:				
Total to developed areas	11.8	32.0	78.1	107.3
Total to developing areas	5.7	19.6	53.2	74.1 (69%)
Unallocated	4.4	10.9	21.3	27.9 (26%)
	1.7	1.5	3.6	5.3

Source: U.S. Congress, Senate Committee on Finance, *Implications of Multinational Firms for World Trade and Investment and for U.S. Trade and Labour*, 93rd Congress, 1st Session, 1973, p. 72. Figures for 1973 were added and obtained from U.S. Department of Commerce, *Survey of Current Business* (Aug 1974) part II, pp. 18-19.

This explosion of American industry into other countries has raised fear and alarm in host countries. In Canada huge proportions of that country's

<sup>1</sup> These figures are quoted in S. H. Robock and K. Simmonds, *International Business and Multinational Enterprises* (Homewood: Ill., Irwin, 1973) p. 44.

<sup>2</sup> *Ibid.* p. 37.

new manufacturing industries are American-owned and controlled.<sup>3</sup> In Europe American infiltration came at a time when the American image, darkened by Vietnam and the crude ambition of the Nixon Administration, was already tarnished.<sup>4</sup> In Asia, Japanese economic expansion has caused nervous misgiving in countries anxious to develop their own industrial sectors. Thus, by small countries mindful of the threat of powerful neighbours, by countries resenting the invasion of an alien culture, by developing countries anxious to keep control of their own economic destinies, by organised labour seeing a threat to their bargaining power and by the intellectual left seeing the flowering of a resurgent capitalism, the proliferation of the multinational enterprise has been viewed with suspicion and resentment.<sup>5</sup>

One general effect of the size and ubiquity of the multinational corporation has been to transform many aspects of international trade itself. A considerable part of international trade is now intra-company trade, taking place at 'transfer' prices (i.e. accounting or imputed prices) which are internal to the firms themselves and not determined by market forces. Such trade is by its nature manipulated and is a function of company policies. For example, in 1968 about 25 per cent of British manufactured exports was by firms to their own subsidiaries. A second general effect on the international economy was in the changes which have been wrought in balances of payments by the wave of foreign direct investment. In the United States the value of such investment far exceeds exports and is the main tie of that country to the world economy. For other countries fundamental changes have been wrought in the structure of both current and capital sections of balances of payments, although these changes are too complex and often, at this stage, too indeterminate to analyse here.

Although multinational enterprises vary greatly in size, bigness and global extension are certainly their main attributes and judged by any acceptable criterion they include the largest corporate enterprises in existence. We must not only account for this size but also for the comparatively recent growth and proliferation of such enterprises. Before the Second World War multinational enterprises were not uncommon: after 1950 the increase in their numbers and also in their average size was phenomenal. Why was growth so great and its occurrence so clearly marked in time? There are probably several reasons.

One reason certainly was the general tendency towards increasing size of firms which has been a feature of business since at least the beginning of the century. Economies of scale had for long been increasing the marketing, technical, financial and managerial optimal size of operation. Take-overs,

<sup>3</sup> For a Canadian cry of alarm and warning see K. Levitt, *Silent Surrender: The American Economic Empire in Canada* (Toronto: Macmillan, 1971).

<sup>4</sup> See J.-J. Servan-Schreiber, *The American Challenge* (New York: Atheneum House, 1968) and Edward A. McCreary, *The Americanization of Europe* (New York: Doubleday, Garden City, 1964).

<sup>5</sup> For a balanced American view of the phenomenon see R. Vernon, *Storm Over the Multinationals. The Real Issues* (Cambridge, Mass.: Harvard University Press, 1977).

mergers, groupings and consortia became prevalent. With technical innovation the technical optimum size of many operations was necessarily raised, and finance, management and marketing had to follow suit. But this tendency towards increasing corporate size does not in itself explain the extent to which size increased. It would have been likely that, in the absence of other factors, the tendency towards growth would have spent itself, checked by normal diseconomies of scale. Outside the multinational field comparatively small firms were able to make profits and often hold their own in competition with firms of greater size.

But other factors were operative and they coalesced in the postwar period. The first was the growing divorce of ownership and management in larger firms which ensured that management became a *corps d'élite* with its own criteria of corporate success and motivations somewhat different in emphasis and ranking from the entrepreneur of classical firm theory. Profits, although still important, became secondary to growth of the enterprise and to corporate power to manipulate shareholders, consumers and government. A second factor making for growth lay in the common practice whereby governments in their taxation policies favoured retention of profits as compared with their distribution. A large pool of reserves was therefore typically available for expansion. But over and above these two factors there were three influences which in the late fifties enormously favoured the international expansion of corporations and pushed far out the point at which diseconomies of scale would normally have become operative. These were the revolution in communications and transport which made world wide operations swift, easy and comparable to intra-regional operations a generation earlier; the advent of computerisation and business-machine accounting which provided for wider coverage of salient information and more elaborate planning of corporate operation; and the revolution in business education and management science which caused a far more technically efficient generation of managers and planners to be produced. If all this is accepted it provides an explanation of why in a decade the private sectors of the great industrial powers were able to grow and ramify and had incentive to do so, in a way not possible until that time.

With the great size of multinational enterprises has come a redistribution of power in the international economy but, before examining the redistribution, it is necessary to distinguish the types of organisation of the multinationals themselves for this is one determinant of power. With a multiplicity of corporate organisational forces three broad classes of multinationals seem to emerge. First is that where a large corporation in a parent country, say the United States, exercises control, by majority holding, over subsidiaries in various host countries. The subsidiaries are regarded as subservient to the parent company, existing primarily to enhance that company's power in its own country. Management and intra-subsidiary relations are international only in the sense that they cross national boundaries. The reality is likely to be

that the strength of the parent company and its country transcends the welfare and interests of the subsidiary and its host country. The multinational company in this form can be seen as an expression of economic nationalism, even of neo-imperialism. It was thus that critics such as Servan-Schreiber, Levitt and others saw the influx of American enterprises to their countries.

A second type of multinational organisation is that where subsidiaries of a holding company are allowed to act with a high degree of autonomy. The connection between parent and subsidiary remains in the field of ownership and does not extend to management or control. There is little sense of corporate entity or of a headquarters to be obeyed. There is equally much less cause for friction between host country and parent country.

The third type, and it applies to some of the largest multinationals, is that where the parent country and subsidiary relationship is soft-pedalled and replaced by the concept of an integrated international enterprise claiming international objectives and an international corporate identity and image. The scope for clashes of subsidiaries with host-country and regional governments is great, but now it is not a clash with another country or culture so much as with a faceless international colossus in which it is difficult to identify the motivations and locate the sources of power and control. Such an organisation is more truly international than either of the others in that integration takes place in production between many locations, marketing strategy is aimed at many markets and seen as an overall world operation, capital is obtained in many capital markets and working capital in several banking systems. National governmental authority is not so much aggrandised for a parent country as avoided so far as possible. What emerges is a global enterprise organised to avoid national or regional pressures or at least to subordinate them to the corporate plan.

These three categories oversimplify the diversity of multinational firms. Within each group there are many variants. There are hybrids which partake of elements of all the groups. It is true also that the third group is never so divorced from a national identity as we have pictured it. General Motors, in many ways distinctive of this group, is still seen, however it may see itself, as an American corporation. Nevertheless, it is tempting to argue that, if growth of corporations continues at the headlong speed of the past two decades, it may be towards the third group that multinational enterprises, existing and to come, are tending.

We have sketched how in the fifties and sixties a number of influences allowed multinationals to grow and proliferate swiftly. These influences were, however, largely permissive. It is necessary also to ask: What motivates growth, other than economies of scale? What leads domestic firms to become multinational? What leads those already multinational to expand their activities?

Extractive industries have always shown a tendency towards multinational organisation, particularly for materials existing in short-supply deposits and

requiring continual augmentation from new sources. The law of diminishing returns drives firms inexorably towards exploration and the forestalling of discovery or exploitation by competitors. It is no accident that oil, nickel, uranium, bauxite and ores are the stock in trade of many companies on the Fortune list.

In the field of manufacturing the motives for international expansion are many and familiar. Most are economically rational, some are highly irrational. We list a few. Firms already with foreign markets invest in subsidiaries in those markets in order to lower production costs, eliminate transport costs, facilitate after-sales service, give the product the spurious appearance of native production, pre-empt local or other competition, or obtain a production footing within a trade barrier. Firms may follow peers. One American bank in a European centre in the sixties brought the others. One oil company in a developing country brings the rest, drawn by emulation rather than hope of immediate profit. Despite the allegations of many host countries of foreign penetration and take-over, subsidiaries of multinationals were often planted there at host-country request or went in response to the baits of tax holiday, subsidy, free accommodation or other tangible or intangible benefit. Even Canada, whose nationalists are loud in condemning the American industrial pressure, has been a beneficent host on many occasions. There are few countries which have not, for purposes of employment or regional policies, sought the establishment of plants controlled from abroad. Finally, although it may seem a truism, manufacturing firms pursue profit by planting subsidiaries in fast-growing markets. There can be little doubt that the attractions of prosperous Europe and the growth of the European Community was a major cause of the wave of American direct investment there during the sixties.

In the service field direct investment, coming as it did rather later than in manufacturing, has reflected a determination by firms to provide multinational services for multinational business. Thus is explained the proliferation of American overseas banking in the sixties, the spread of multinational hotel chains, management consultancy, accountancy, advertising and the like.

### (iii) THE IMPACT OF MULTINATIONAL BUSINESS

When we come to consider the impact of the great increase in multinational business we may do so in two stages: the influence on the single nation-state and the influence on the international economy as a whole. First the nation-state, which, in this context, we may distinguish as host or parent country. In some cases, of course, it may be both.

Attitudes in the host country towards establishment of foreign subsidiaries is varied, ranging in spirit from the welcome-mat to legal control or virtual exclusion. The attitude may differ over time. The country which welcomes

the establishment of a multinational plant in a regional unemployment blackspot may in five years be deploring its presence because the region has become dependent upon it. A country at a certain stage of industrial growth may be encouraging direct foreign investment within its boundaries: at a later stage it may be deploring the foreign ownership of its main industries. Interest groups, industries, policy-makers and governments may have different views at one time and another to foreign industrial penetration. The argument is disorganised, the balance of view uncertain. We can but report some of the main concerns.

There is a long tradition of hostility towards foreign corporations in extractive industries. These are often in developing countries<sup>6</sup> and in remote areas where the company town and the foreign enclave become features. The management and atmosphere is foreign, the product is mainly exported, the benefits, save that of employment, accrue elsewhere. Thus natural resource exploitation by the foreign corporation has become to critics the archetype of economic imperialism. The latter-day sensitivity to pollution and rural spoliation has tarnished the image yet further. Perhaps this stereotype is somewhat overdrawn, but it has been drawn from life.

The manufacturing multinational is more complex. As such it integrates itself more into the host economy. There may be a native presence in its management: the product may be for local consumption. The unit is likely to be large, a good employer with a good community image. It exists not in isolation but more often as a part of the general industrial structure with competitors which are a check on its activities and suppliers who value its demands.

The tangible benefits of a foreign enterprise to a host country are several; why else are they accepted and often courted? It is worth listing such benefits. First, foreign direct investment represents an infusion of development capital which may accelerate growth and, whether profits are reinvested or not, generates income. Moreover, since the project has presumably been vetted for profitability by the foreign investor, its marginal efficiency may be high. Even if the host country is itself capital-rich the foreign enterprise frees capital to be used elsewhere. Advanced industrial countries, alive to the hostility often invoked by foreign enterprises, have been quick to accept them only on one special term, locating them in depressed areas and welding them into regional development policies. American investment in Western Europe has frequently been directed to development areas – in Scotland, South Wales, the less-prosperous regions of Belgium and Germany.

The second advantage of direct investment to the host country is then employment creation. U.S. industry in Britain has been accepted, albeit grudgingly, by the more insular elements of the Labour Party and trade

<sup>6</sup> A leading exception to this is Canada, where resource industries – nickel, uranium, pulp and paper, oil – are mainly owned and operated by the U.S. multinationals.

union movement, because of its employment benefits.<sup>7</sup> In Western Europe and Latin America the employment effects have also been high. The secondary and tertiary effects of these injections are not known, but have probably been considerable.

Third, we may cite certain probable balance-of-payments benefits accruing to countries hosting foreign firms.<sup>8</sup> The goods they produce may compete with imports and reduce these: they are likely to export at least part of their output; to the extent of these effects the merchandise trade balance is likely to be improved. There are the favourable balance-of-payments effects of the initial investment outlays, the establishment costs and possible ongoing outlays for subsequent expansion. Against this capital account influx must, however, be set the debits of outflow of repatriated dividends and profits, royalties payments and fees for patents, industrial knowledge and management services. Such credits and debits in the balance of payments, but not their net effect, are anticipatable. Other secondary effects are possible: local firms may be stimulated to greater export and import-competing effort by the competition of the multinational; a larger industrial base and hence more foreign trade may be encouraged by the subcontracting and factor needs of the multinational; there may be increased dissemination of knowledge and industrial know-how stimulated by its very presence.

One thing is certain in regard to balance-of-payments effects: the task of quantifying them, for either host or parent country, has only just begun and, aside from a few gallant estimates by individuals and groups, we have no reliable data, and have to fall back on mere impressions. We may, as we have done above, identify the main debit and credit flows in the balance-of-payments accounts but we cannot separate elements in the flows which are our concern from other flows. Almost complete disaggregation of many standard balance-of-payments items would be required. As to the indirect and long-term effects they are probably unknowable in any precise sense. The impression—it is little more—exists that the balance of payments is advantaged for the host country by direct investment. Professor John Dunning has estimated that U.S. direct investment in the United Kingdom caused a net gain on current account of the balance of payments in 1965 of \$33.6 m.

<sup>7</sup> The Economists Advisory Group, a private research organisation, has estimated that one-third of U.S. direct investment in Britain has been in official development areas and has provided some 150,000 jobs. Cf. 'United States Industry in Britain', by J. H. Dunning and R. Pearce (London: The Financial Times, 1974) p. 4. For a good discussion of why host countries welcome multinationals see J. N. Behrman, *National Interests and the Multinational Enterprise* (Englewood Cliffs, N.J.: Prentice-Hall, 1970) chap. 2.

<sup>8</sup> The total impact of foreign direct investment on partner and host countries' balances of payments is imponderable and the subject of controversy. Since we cannot describe the whole of this debate we are content to list, in their places, the probable balance-of-payments advantages and disadvantages. The net effect cannot be stated in general terms, but might be researched for individual case studies.

and inward capital flows in that year of \$204.0 m.<sup>9</sup> To the extent that the estimate is reliable it points to impressive balance-of-payments effects on a host country at the height of the U.S. direct-investment wave.

A fourth benefit to the host country may lie (though this is often disputed) in the acquisition of technological and managerial skills. The products, methods and processes of the multinational may be disbursed through its subsidiary.<sup>10</sup> Mere observation of its method of operations may be beneficial to native industry. At the least there is a 'production demonstration effect', at the best there is dissemination of knowledge, training programmes, lessons in capital intensity. There may be a general upgrading of industrial activity from receiving talented, knowledgeable and ingenious immigrants of this sort.<sup>11</sup>

Last among benefits must be listed the significant contributions to tax revenue which come from large multinationals wherever they are located. It has been estimated that, in 1970, foreign subsidiaries of American multinationals paid \$8.4 bln in income taxes to host governments, while taxes, other than those on income, probably amounted to \$10 bln.<sup>12</sup> The revenue of major governments from the oil companies in recent years, especially since the establishment of the Organisation of Petroleum Exporting Countries (OPEC), must have been immense.

So much for the benefits of hosting multinational enterprises; what of the disadvantages?

Probably the greatest claimed disadvantage of receiving a multinational subsidiary is the submission to corporate power. The multinational parent may be so great as to challenge the government of the host country. We are treated to many sensational indicators of the size and hence the power and influence of the largest multinationals.<sup>13</sup> These are crude but startling comparisons, unscientific but worth while for their shock effect, for certainly there should be no complacency about the potential challenge of corporate giants. One aspect other than the mere size of multinational corporations is their pervasiveness and the uncertainty as to where within them are the power points upon which, in negotiation or quarrel, one must act. If this is true of the large-power governments how much more is it true of developing countries

<sup>9</sup> Quoted in *The Growth and Spread of Multinational Companies*, Economist Intelligence Unit, OER Special No. 5 (Oct 1969) p. 22.

<sup>10</sup> To the extent that the return on superior technology and/or managerial skill is absorbed by the foreign company, prices of commodities and of native factors remaining unchanged, there is no direct benefit to the host country.

<sup>11</sup> Great importance is attached to the dissemination of knowledge, technology and skill in the host country by Harry Johnson. For an examination of the welfare effects of direct investment through this and other channels see 'The Efficiency and Welfare Implications of the International Corporation', in C. P. Kindleberger (ed.), *The International Corporation* (Cambridge, Mass.: MIT Press, 1970) pp. 17-35.

<sup>12</sup> See Senate Committee on Finance, *Implications of Multinational Firms* (1973) p. 444.

<sup>13</sup> For example we are told that the sales figures, profits, cash flow, whatever may be chosen for the comparison, exceed the GNP of Belgium or the Netherlands, *a fortiori* that of Somalia.

which often are perceived host to multinationals in pursuit of industrial development. Certainly, and in the last resort, the size and power of multinational corporations is a new survival kit for capitalism. In the nineteenth century (up to say 1914) firms were national and typically small but their survival and interests were protected by identity of interest with government and ruling class. In this age when government, as like as not, is collectivist in sympathy, size and power will enable the corporate sector to survive and, so far, prosper.

A second concern of host governments is that it is usually in the most profitable, technologically advanced and growth-potential industries that multinational subsidiaries appear, thus moving control of the best of the industrial sector to foreigners. From this it is but a step to argue that diffusion of technology between countries is at the mercy of decisions made by multinational corporations. The multinational corporation is therefore seen as symbolic of the technology gap long apparent between the developing and developed countries.<sup>14</sup> From the mid-1960s this became an anxiety also for mature industrial countries. Not only was the United States' technological dominance a source of apprehension, but it was expressed in great part through the vast expenditures of American multinationals on research and development and was a special manifestation of the new 'technology gap'. In industry after industry the technological sophistication of the United States appeared to spring from the large sums deployed to research and development by American-based multinational firms.<sup>15</sup> The fact is that all governments wish to have tight supervision over technology, seeing it as a dynamic mainspring of their industry. They wish to nurture it for themselves, feeling threatened if it is disbursed from abroad and still more menaced if it is withheld by foreign corporations. Technology nurture has become a desired aspect of national sovereignty.

Supporters of multinationals claim beneficial effects from them in technology transfer.<sup>16</sup> Not only is their technology and expertise exported to host countries where it has beneficial effects, but multinationals by reason of their wealth and power are the natural exponents of research and innovation. It is argued that multinational subsidiaries spend more heavily on research in

<sup>14</sup> For example in 1968 payments for imports of technology by thirteen developing countries, embodying 65 per cent of population and 56 per cent of GNP of developing countries was estimated at \$1.5 b. - over one-half of the flow of direct foreign investment to all developing countries during the same year. See U.N., *Multinational Corporations in World Development* (New York, 1973) p. 50. For an interesting assessment of the cost of acquisition of new technology to developing countries, see *Transfer of Technology*, Report by the Secretariat of UNCTAD (Geneva: Nov 1971) pp. 17-18.

<sup>15</sup> For some American firms, e.g. IBM and Kodak, the resources applied to research were equal to or greater than the gross sales of their European competitors. See K. Waltz, 'The Myth of National Interdependence', in C. P. Kindleberger (ed.), *The International Corporation* (Cambridge, Mass.: MIT Press, 1970) p. 217; and J. Dunning, 'Technology, United States Investment and European Economic Growth', p. 165 of the same book.

<sup>16</sup> See reference to H. Johnson's view in note 11 on p. 155.

their host countries than do domestically-owned industries. While economists of the right see multinationals as the natural dispensers of technology among countries, governments, economists of the left and a good many middle-of-the-road analysts see them as contributors to the technology gap. Certainly there is no sign that technology passes according to any sense of mission on the part of corporations. It is a function of profit and the corporate interest. Governments have little influence over the nature of technology transfer, its timing or its influence on domestic as distinct from foreign-owned industry.

A special aspect of technology transfer which has been much discussed has been the growth of royalties, fees and patent rights flowing to firms for the use of their techniques abroad. Payments of such fees approximately doubled between 1965 and 1973.<sup>17</sup> The location of patents and the flow of royalties have been cited as evidence that developing countries tend to become consumers of technology and that this is particularly so in certain newer industries.<sup>18</sup> A picture is drawn of backward countries whose growth is not only stunted but whose malformation is the source of rich revenues to multinationals.

A third concern, or group of concerns, springs from the new nationalism of the sixties, concern with subordination of one's economy and country to a particular foreign country which because of its foreign policies or other characteristics is in disrepute. This is the aversion to American corporate domination, exemplified in French abhorrence of American influence in any form; it is the national aversion to American industrial penetration in Canada, nervous ever of its large, unpredictable and unruly southern neighbour. It is anti-Americanism (and repugnance for the Japanese) manifesting itself in a particular field. It is a disquiet which has many facets, some of which must be mentioned. There is the fear of political penetration following the economic. The American Government, it is alleged, has control over corporate policies of parent companies in the United States. These policies are passed on to subsidiaries abroad regardless of whether they are acceptable to host governments. American anti-trust laws come to influence mergers in the host country; export policies of subsidiaries become subject to American influence. Business decisions, it seems, are taken abroad and are subject to the coercion of a foreign government. Canada and Latin America have been sensitive to such influences. Then there is the apparent threat to national identity and culture. Foreign standards and economic values are imposed. Through advertising the pattern of life is threatened by foreign behaviour which is the prerequisite of the mass market. *Per capita* income may be increased but it is at the price of a 'candy-floss' society which is its unwelcome accompaniment.

<sup>17</sup> The estimate is that of R. Vernon and was compiled by him from IMF sources. See *Storm Over the Multinationals* (New Haven, Conn.: Harvard University Press, 1977) p. 7.

<sup>18</sup> See, for example, C. V. Vaitsos, 'Patents Revisited', *Journal of Development Studies*, vol. ix (1973).

A fourth host concern is that decisions of the multinational enterprise, taken elsewhere, will be detrimental to the host economy. The very flexibility of multinational management makes it possible to eliminate plants here and replace them elsewhere. Employment policies can be threatened by sudden shut-downs or labour layoffs.<sup>19</sup> Such actions may be justifiable in terms of the economic plans for the multinational corporation but be inimical to the interests of one or more host countries. In the extreme case a multinational may shut down its operations in a country entirely if it considers the economic climate unfavourable.<sup>20</sup> There is a degree of flexibility and mobility in multinational corporate operations which states do not command in their economic (and regional) policies.

A fifth concern of the host country may be with what we may call the micro effects of foreign investment; that is, the effect which multinational enterprises may have in the host country upon groups, particular markets and interests. Labour comes at once to mind and the sense of impotence which trades unions often experience in negotiating with foreign-owned firms is well known. But there are other groups. Skilled labour and, in particular, specialised management and research personnel are likely to be attracted to the large enterprise by larger salaries, better working conditions and the prospect of personal career advancement in an international milieu. Smaller domestic firms will object to the withering competition of the international giant. Equally they may be inhibited by not being able to obtain locally the money capital which the foreign-controlled enterprise can obtain easily from many sources abroad. In factor buying, product design, marketing and finance the multinational is likely to have the competitive edge on the domestic firm.

It would be difficult to exhaust the list of criticisms and doubts which are generated in the host country by foreign investment. It follows a spectrum which runs all the way from reasoned economic argument to blind prejudice and xenophobia, but in the last resort it reduces to three points of conflict. First, the multinational corporation is seen as the agent of a foreign power which, through the subsidiary, can exercise its influence in the host country. Second, the foreign-controlled company is suspect simply because it is foreign; and third, the multinational corporation is able to evade the checks and controls of the host-country government while not being subject to regulation by any international agency, as governments may be.

Before leaving national country concerns with the multinational corporation it is necessary to touch briefly on the matter as it may appear to parent

<sup>19</sup> In 1977 the International Nickel Corporation laid off 3000 workers from its plant in Sudbury, Ontario—a company town with little alternative employment. Simultaneously its operations at a plant in Guatemala were expanded.

<sup>20</sup> On several occasions between 1974 and 1976 Henry Ford threatened to close Ford operations in the United Kingdom because of the unfavourable industrial-relations climate; in 1977, in an improved industrial and economic climate, the location of a Ford plant, estimated to cost £250 m., in Britain was the subject of high debate and was courted by the British Government for location in one of a number of areas of high unemployment.

states. This is less discussed and until the end of the sixties there was a tendency for critics of multinationals to assume that they are always an asset to their parent countries. In the late sixties the criticism of the New Left and after 1971 of the American AFL-CIO was brought to bear on several aspects of American multinational operations which were held to be detrimental to the economy of the United States. In Europe, British and Swedish labour began to voice similar concerns. At the same time a number of revealed scandals of Nixon-Administration collusion with American multinationals abroad tarnished the corporate image. Much of the criticism was anecdotal and poorly documented, but it was powerfully argued and must be summarised here.

The labour movement was concerned about the export of American jobs. It was alleged that, with high American labour costs, exporting plants in the United States were being replaced by manufacture in countries to which the goods had hitherto been exported. Sometimes the products were imported back to the United States. The American balance of payments thus lost on four counts: the original foreign investment, the loss of export sales, additional imports and the investment of profits in the host country rather than through repatriation to the United States. Moreover, there was, it was alleged, a transfer of technology to the foreign country which, thus equipped, soon would emerge as a competitor to the United States.

Two other sources of parent-country displeasure have been identified by U.S. critics. The first lay in the tax advantages enjoyed by American multinationals. Since U.S. tax codes enable corporations to retain earnings abroad incurring tax liability only when profits are repatriated, such profits are reinvested abroad, a double loss to the United States, which loses the revenue and the benefit of the investment.<sup>21</sup>

A second cause of concern lies in the identification of American multinationals with the foreign policies of the United States. The foreign connections of large American firms leads them to seek 'friends' in Washington. Such friendships may be cultivated for mutual advantage, firms expecting U.S. Government support in their foreign operations in return for information or assistance in foreign countries penetrated by the firms. Not only is this inimical to the detachment with which foreign policy should ideally be conducted, but it implants in foreigners an image of the United States in which private firms are identified with official policy.

We may summarise these parent country concerns about the effects of multinationals under one broad reaction: fear that the firms operate beyond the control and without thought for the interests of the parent government.

<sup>21</sup> The Nixon Government in 1973 and 1974 tried to reduce tax advantages accruing to multinational firms. Cf. R. Vernon, 'Does Society Also Profit?', *Foreign Policy*, no. 13 (1973-4) p. 110.

## (iv) TRADE

The effects of direct investment on the balances of payments of host and parent countries has already been touched upon. There are, however, wider implications, especially those for the international monetary system and world economy as a whole, which must be mentioned. Here again, meaningful statistical measurement is often not possible, but the existence of broad flows and their implications can be seen. Two such flows are relevant here.

First of these is the huge volume of intra-firm trading which now takes place within the general flows of exports and imports recorded by countries. These exports and imports are internal transactions to international corporations, either finished goods for direct resale abroad or 'further manufacture' goods - components, sub-assemblies and the like. The dimensions of these flows are hard to determine but certain general magnitudes are accepted. In 1975 32 per cent of all U.S. imports were from U.S. affiliates in which the United States had a 50 per cent or greater interest. If the criterion were expanded to include U.S. affiliates in which the U.S. interest was 5 per cent or more the comparable figure was 42 per cent. This figure does not include non-U.S.-affiliate sales of which British, Swedish and others must have been considerable. It seems that, according to the definitions one adopts, a third to a half of American imports in 1975 were in the form of intra-firm sales.<sup>22</sup> Apart from merchandise trade there certainly is a considerable amount of intra-firm invisible trade. Putting all together one economist has estimated that 50 per cent of world trade should now be regarded as being on an intra-firm basis.<sup>23</sup> Disaggregating, one finds that for certain commodities, both in food, primary materials and manufactures, the percentage (by value) of intra-firm trade as part of total trade is often in excess of 50 per cent.

The significance of such trade is great, but cannot be explored here. We must be content to list the fields in which recognition of its importance has become essential. The first and most general is in the field of international trade theory itself. Accustomed as international economists are to regard trade flows as being impelled by relative factor endowments of trading countries and adjusted by changes in relative prices, they must now see them, at least in part, as the product of a command system within firms and at prices which often bear little relation to costs of production. Second implication is that the effects of devaluation for the adjustment of a trade balance must be reassessed in the light of these new facts. Large parts of trade flows it would seem, are beyond the reach of such adjustment. Nor is the list yet complete.

<sup>22</sup> The source for these estimates is W. K. Chung, 'Sales by Majority-Owned Foreign Affiliates of U.S. Companies, 1975', *Survey of Current Business*, vol. 57, no. 2 (Feb 1977) p. 35.

<sup>23</sup> A useful survey of intra-firm trade was made by G. K. Helleiner in a paper 'Intra-firm Trade and the Developing Countries: Patterns, Trends and Data Problems' given by the author at a seminar at the University of Sussex, 7-11 November 1977.

Customs-union theory, tariff policy, foreign-exchange controls and corporate fiscal procedures must also be reassessed.

The second effect of multinational corporations upon balances of payments concerns leads and lags in international payments and hedging against exchange rate fluctuations. Here we have no statistical evidence. It is impossible to separate multinational leading and lagging in payments for traded goods from the aggregate flows of the balance of payments. Neither is it possible to distinguish inflows and outflows of hot money which originate in precautionary transfers of funds by accountants anxious to avoid risks in holding this or that currency. Nevertheless, from the mere proliferation of multinational enterprises and from their size it is evident that the redistribution of their financial flows must be large. How far such redistribution extends from the role of risk-averter to risk-taker it is also impossible to say. To protect the organisation from uncertainties is one thing; how far fund movements are used to exploit currency uncertainties is another. The Rubicon must often be crossed. In particular the one-way-option speculation of the Bretton Woods adjustable peg system before 1971 must often have offered large pickings. It was certainly observable during the heavy speculative attacks on the pound and dollar between 1964 and 1971 that a new force was at work in that the sheer volume of withdrawals from a currency were now so great that official monetary authorities were unable to counter them with the reserves at their command. A new situation had arisen, in that if it was widely considered that a currency would be devalued, then adverse speculation decreed it so. That situation has continued, even under floating exchange rates, into the seventies.

## (v) POLICY

This chapter has been concerned not with events but with changes in the economic environment, changes which are clearly discernible but not easily measurable. From such a situation inevitable differences of interpretation arise. There is scope for prejudice and irrationality. In particular there is cleavage between political desirability, however that may be interpreted, and economic welfare. In the rich countries the political left and the nationalist right form uneasy alliances against what they present as a capitalist rogue elephant. In the developing countries the contribution, past and potential, of the multinational firm to development is either only grudgingly acknowledged or is presented as a form of neo-colonialism. The value of its contribution is hotly debated.<sup>24</sup> The economist, faced with the inevitable weighing of a balance of advantage, has his own problems of interpretation

<sup>24</sup> This is demonstrated by the many reports of international agencies, particularly UNCTAD, upon the relation of multinationals to the development problem.

and of presenting his findings to an audience which has usually prejudged the issue.

As this writer sees it we face three issues if national policies towards multinationals are to evolve.

The first task is for national governments to face the conflicts which arise between the immediate material benefits usually arising as a result of investments by multinationals and economic nationalism. It must be accepted by national governments that to pursue policies of discouragement to foreign firms implies a probable lower rate of economic growth in the long term. Not only will such policies diminish the industrial sector of the country concerned by forgoing the location of foreign-controlled plants, but it may invoke negative reactions by firms already there. The power of multinationals is more likely to grow than not. What is required is a policy seeking for an optimal degree of foreign penetration, sufficient to stimulate, augment and diversify the host economy while avoiding the threat of foreign economic manipulation and cultural submersion. The measures which express such an optimal policy require to be subtle, flexible and many-faceted. This is an age of resurgent nationalism, difficult to endure because it is often mistaken for patriotism and difficult to combat because it is irrational. But economic horizons grow larger and cannot be contained and the multinational is a creature of world economics towards the encroachment of which economic nationalism is a defence mechanism.

The second task is to recognise one aspect of national hostility to the multinational firm, the fact that it appears to operate beyond host-country control; and establish international obligations under which it must operate. As a former age attempted to control firm size and potential for exploitation by anti-trust legislation this age must by international agreement define the limits of corporate power. A case has been made earlier in this chapter that certain aspects of multinational behaviour may fall outside host jurisdiction or indeed any jurisdiction. A series of international agreements covering specific areas or a code of corporate behaviour to which countries might be invited to subscribe would be a first step in the direction of international surveillance.

The third task is, at this stage, indefinable but concerns the actions of multinationals in the world financial field, in their relations to national monetary policies, currency stabilisation, international capital markets and flows of investment funds. At many points in this sector the monetary policies of national governments and the transactions of multinational corporations cross and become entangled. It is necessary to know the areas of conflict and in turn move to eliminate them.

## Part Three

# The Years of Crisis, 1964-82