sovereignty & multi-national companies

Wayland Kennet
Larry Whitty, Stuart Holland

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1. introduction

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Wayland Kennet

Governments in this country exist to do what people want, and to exercise democratic control; the government of a nation state is the only device yet known to man for public participation and control in the shaping of society. Commercial enterprises, on the other hand, exist to make and sell certain things to such people as happen to want those things. Governments see to most aspects of the lives of all people. Firms see to one aspect of the lives of some people.

The theory and practice of political economy has until recently found little difficulty about this; if a firm was felt to affect too many aspects of the life of some individuals, or began to affect the lives of too many individuals, the government concerned could, and sometimes did, take or use power to stop it. In other words, as parts of the whole developed and expanded, the government's sovereign power developed and expanded in parallel, and continued to regulate the whole. The arrival of the international company on the scene over the last two decades has changed this. There has been an uncovenanted passage of sovereignty from national governments to international corporations; instead of being pooled, as it were, upwards into inter- or supra-national reservoirs of a consciously political nature, as many people wished, sovereignty is seeping away downwards into the invisible tuber system of politically irresponsible capital.

International corporations are able to evade or circumvent government, and therefore democratic control. They can drain brain power away from one country to another within their own personnel structure. They can concentrate the menial work of their organisation in one country and the high grade work in another. They can frustrate the geographical planning of one country by threatening to invest in another unless they are allowed to locate development where they choose. They can deprive a government and its people of the tax revenue due to them, by arranging to pay tax on a great part of their operations in which ever country has the lowest tax rate; and they can weaken the effects of exchange control through various devices of internal financing within their groups. Their decision making processes are not subject to scrutiny, nor are they publicly accountable in their investment or personnel policies.

All this would perhaps not matter too much but for the fact that this process is increasing. Measured how you like, and defined in any plausible way, the international company is getting bigger and more effective. It must be looked at both from above and from below, since international companies of United States origin increasingly invest in Britain, and international companies of British and other western European origin increasingly invest elsewhere down the line. The first effects of new investment from abroad in any country tend to be good, but in the long run the drawbacks listed above can take away the initial benefit. Two overall tendencies should worry the peoples of the world and their governments; the sovereignty leak itself, and the inbuilt tendency to reinforce world economic stratification, already bad enough.

The sovereignty leak is well established. Take a couple of household names among British industrial giants; British Petroleum and Rio Tinto Zinc. RTZ pays only 2 per cent of its tax bill to the British exchequer and BP pays none at all, although 37 per cent of its employees work here. The familiar idea of the *tax haven* has now to be joined by the new one of the *dirt haven*. Certain Japanese based international companies are setting up factories in East Africa in order to profit from the absence in that part of the world of any anti-pollution laws. This trend is likely to spread, and it will tempt investment hungry governments to avoid controlling pollution. It is within my own experience at the Ministry of Housing and Local Government how international companies can play off governments against one another in the field of regional and land use planning. During the last government, we had the case of two international oil companies, one Italian based and one US based,

that wanted to build refineries on one of the very few stretches of the banks of the Thames estuary which was still open fields. The South East region, with a third of our population, was receiving more than half the American investment into Britain, and the development areas, also with a third of the population, were receiving 27 per cent; and in any case the local people wanted to keep the fields. So we invited these companies to build their refineries in a development area, incidentally profiting thereby from a substantial government grant; but they said they had to be close to the market, which was for them the people of South East England, the Low Countries and Picardy. If they could not have their Thames green fields they would go to Belgium instead, where the government was not so rigid. The situation kept changing; the Italian company disappeared and the US based one now has two applications for refineries of four and six million tons annual capacity. A decision is awaited.

International companies are more successful than others not only because they are bigger and cleverer and are based on know how already paid for in a highly developed country such as the USA, but also because they can and do play governments off against one another. There is in the very nature of this superiority and this ability, a factor which can only tend to stratify the world. It is true that when a rich foreign company arrives in a poor country it creates wealth. It helps the people there, or some of them, up the first step towards a decent prosperity; but it does not always help them up the second. These companies get their edge in the first place because the US is a great innovating economy, and so to a lesser extent are other western countries. They tend to continue concentrating the innovation there and middle range jobs in countries like those of western Europe, and the bottom jobs in the developing countries.

Undoubtedly many companies try to avoid doing this, and succeed to some extent; but economically, in the growth of international companies, and geographically, in the production and consumption of raw materials, the situation is pushed by its own logic in that direction. When raw materials from the sea bed become available, and it is international companies which are developing the technologies, the third world will find the market even for its raw materials being depressed yet farther.

There are those among the leaders and philosophers of the international corporation (particularly George Ball, formerly of the US State Department) who see them as the first appearance of a supranational world order in which the conflicts of nationalism would be superseded by an international organisation for production regulated by the impersonal motive of profit. There are even those who believe it will be possible for this new profit dominated world order to stretch beyond the iron curtain and envisage hook ups between the western based international corporations and Soviet state industry. This view assumes that economic efficiency and sound profits could entitle an organisation to political power over people's lives, and does indeed accord rather well with the new five year plan recently announced for the Soviet Union by Brezhnev, which adumbrates a society devoted exclusively to the maximising of production under absolutely rigid state discipline promoted by the massive use of computers. It is not only impossible for any socialist to accept economic production as the sole political criterion, but it is also equally impossible for any democrat. Moreover, it is striking how closely the views of Brezhnev and Henry Ford on the rôle of the trade unions resemble each other.

Internationally, the trade unions are now working towards a situation of "countervailing power". Capital has internationalised far and fast, and organised labour must now internationalise to keep up with it; but if this is all that were to happen, we should simply repeat on an international scale the raw conflict between labour and capital which existed in certain individual nations a hundred years ago, and which led to the setting up of the modern regulatory state mechanism. It follows that if we are to take

control in the international economic jungle, governments too must internationalise, in order to mitigate the conflict and to ensure that the general will of peoples is not frustrated by the operations of those who are properly concerned only with satisfying some of the needs of some of them.

How then can governments combine to retrieve together the sovereignty they have lost alone? Nationalisation is no use for an international company; by definition it was the remedy when power became grossly maldistributed within a self contained social entity; the nation. Power is now grossly maldistributed across the boundaries of many social entities, and the entity within which it is maldistributed, the world, has no self contained government which could use this remedy. The remedy can therefore only be a form of inter-governmental machinery regulating and controlling the power of the international company. What then is the right group of nations, the right social entity, within which the power can be gathered and operated?

This matter is not discussed enough within the Labour Party. It is the most urgent issue of the day as far as asserting or restoring social control over the operations of capital is concerned, and for that reason alone, would merit discussion in the party which pioneered that control in the first place. If we in the Labour Party do nothing about it, nobody else is going to; today's Conservatives believe in the economic jungle. However, it is also among the most important of the issues which, whether or not we join the EEC, can only be resolved by inter-governmental co-operation. So we have also to discuss whether it points us towards the EEC, or away from it.

There are four obvious forms of inter-governmental regulating power which might be developed separately or in combination; no doubt others can be thought of. (1) Governments could combine to compel international companies to adopt a standard charter or document of incorporation which would include a duty to reveal information to the governments, and would lay down certain types of behaviour and procedures. This is broadly the approach towards which the European Economic Community is working. (2) A group of governments could set up an inter-governmental organisation for negotiation and adjustment among themselves in order to prevent international corporations playing one government off against another. This is broadly the approach of the Latin American countries in the Andean pact. (3) Governments could combine to insist that no international corporation should be allowed to operate on their soil without the appointment of one director, or more, to the board of either the local or of the parent firm, by the relevant government or group of governments. This would undoubtedly be a sign that inter-governmentally co-ordinated measures, perhaps including partial public ownership, could be expected if conflict between the corporation and the governments went unresolved. (4) Governments could refuse to allow international corporations to operate on their soil unless they themselves had a holding in them, and they could develop a joint holding body for the purpose. This body could also provide governmental or inter-governmental directors and would grow naturally out of the state holding bodies which already exist in certain countries, the most famous of which is the Italian IRI (*Istituto per la Ricostruzione Industriale*).

An arrangement comprising all or some of these measures could be reached in a new international organisation, or it could be built into an existing one. Convenience, and the shortage of high administrative talent, if nothing else, strongly suggest that it would be better to use an existing organisation; but should it be global or regional? In theory the United Nations would be the place for the job, yet in practice to turn that way would be to prolong the present situation as far as the eye can see. Common ground would be so limited that the companies would continue to play governments off against one another, while negotiations were proceeding in an *ad hoc* sub-committee of the whole on the

venue for a general conference in five years time which might discuss possible general draft guidelines for the formulation of proposals . . . The Organisation for Economic Co-operation and Development (OECD) might be attractive, in that all the parent companies of international groups are located in the nations belonging to it; but it has one disadvantage, it excludes the developing countries, and the problem is at least as much theirs as ours, possibly more.

Regional organisations, perhaps aiming at a UN involvement later, might provide the answer. The Economic Commission for Europe (ECE), though a body which ought to be strengthened by undertaking any job which it possibly can, is not the right one for this job. Indeed, the problem is by definition one which does not arise in eastern Europe. One could say that the operations of Soviet state commerce and finance within the Council for Mutual Economic Assistance (CMEA) are analogous to those of the great international companies and that the smaller eastern European countries might like to club together to avoid being played off against one another by the Moscow computers. That indeed may be so; but the truer it is, the less are the Russians going to allow the ECE to take on the job. The Council of Europe is not equipped on the secretariat side, though otherwise it would do well. The North Atlantic Treaty Organisation is a military alliance, and should be kept that way, since the more civilian jobs it takes on, the harder it would be to get rid of it, if ever there were a *détente* in Europe so thorough going as to permit the winding up of both military alliances.

This leaves the enlarged European Economic Community (EEC). The six are close to us geographically and economically, they already know the problem exists, and are working towards a solution. The developing world is represented by way of the associated states. The commission is staffed to cope with the matter, and there is a virtual identity of economic interest among the nations which, though highly developed, are all out innovated to about the same degree by the United States. In taking charge of incoming international investment the EEC could also find ways of disciplining those international companies, which are based in western Europe, in their behaviour towards the developing countries.

Therefore, Stuart Holland and I are agreed that the best grouping to which Britain might look, as a means of restoring democratic control over production, distribution and exchange in the age of international capital, would be the enlarged European Economic Community. We also think that this is among the reasons why the Labour Party should hope that the immediate terms the government can obtain this summer will prove acceptable.

2. national labour and international management

Larry Whitty

Trades unions have two basic reasons for wishing to see more control over international companies. The first is political, in the wider sense, and concerns trade union interest in improving economic planning and the establishment of greater public accountability of economic power. The second concerns the trade union's own primary function of collective bargaining. Trades unions, and the TUC itself, have drawn attention to the need for a closer examination of the economic and social impact of international companies. This contribution, however, is limited to discussion of the industrial relations and political implications as seen from a trade union perspective. Stuart Holland's contribution deals with these economic implications in considerable detail.

the basic problem

The experience of both British and overseas unions, in their dealings with international companies, is instructive. In the UK there have been problems of new work patterns being imposed after consolidation. There have been recognition problems, for instance, at Kodak, International Business Machines (IBM) and Roberts Arundel. There has also been the problem of the rather cavalier attitude of some foreign companies towards redundancies. More generally, there have been problems about the decision making process in international companies; it is increasingly difficult for local shop stewards to know who really is responsible for taking decisions about industrial relations.

However, despite all these problems, as a general rule, industrial relations tend to be no worse in international companies than in British owned ones. Nevertheless, when industrial disputes reach flashpoint (as recently at Fords) the considerably enhanced power of international companies becomes clear. There are threats to switch production, to switch short term supplies in order to circumvent strike action, and to switch future investments. This has a serious long term effect on the day to day negotiation position and the tactics open to trades unions. The history of industrial relations has seen first one side and then the other attempting to expand the area of conflict to its own advantage. With the development of multi-national companies, management has moved one step ahead.

In many ways this is not a new phenomenon. Nevertheless, the rapid and accelerating domination of world industrial activity and world trade by giant international companies is beginning to present to both trades unions and governments a problem different in kind, as well as in degree, to that which they previously encountered in their relations with domestic companies. If the present trend continues, the major part of international trade could within a very few decades, be under the direct or indirect control of a few global corporations. Although many of these companies are American in origin, and nearly all are still dominated as far as ownership and management are concerned, by the nationals of a single country; their outlook is not based on loyalty to any one country. Their planning and their tactics are global. They operate in world markets, both as suppliers of goods and as accumulators of capital; but national governments and national trade union movements still operate within a national, or even local, framework. Governmental planning, and trade union tactics, are conducted within a much more limited perspective than are the management decisions of international companies. As a result, the relationship between one government and an international company, or between one group of workers and that company, may well be marginal to the management of the company, but vital to the interests of the national government or group of workers concerned. Consequently it is most vital that the trade union movement develops a countervailing power against the international company. It is also vital that trade unionists use what influence they have on national governments to urge them to take steps to redress the imbalance which is developing. This is not a plea for the preservation of the nation state, but a policy to ensure that ultimate power and responsibility are controlled by, or supervised by, repre-

sentative and accountable institutions of government.

action by trades unions

There are two ways in which a new countervailing power could be established. Firstly trades unions can try to instil a political will into governments and international agencies to react to this new accrual of private power. Secondly, they can seek to develop and co-ordinate action within the international trade union movement itself.

In October 1970 the Trade Union Congress (TUC) held a special one day conference on international companies. It discussed lines of action which have since been endorsed by the general council of the TUC. They fall into three main categories: action by British trades unions, action by the international trade union movement, and action to be urged on governments.

British trade union action. The special one day conference agreed that British trades union and the TUC should set out a systematic body of information on multinational companies. They should continue to put pressure on subsidiaries of companies such as Kodak and IBM to observe British industrial relations practice and recognise trade unions. Pressure should also be put on governments to ensure that this is achieved, and to extract more information from multi-national companies on the relation between their UK and global activities. Trades unions should also work towards the development of greater consultation on forward corporate planning of investment and manpower.

International trade union action. Within the international trade union movement there are three main approaches. (1) better co-ordination through the development of bi-lateral contacts between representatives of subsidiaries of the same firm operating in different countries, and between national unions and organised workers at shop floor level in those firms; this is occurring spontaneously, if slowly, in many countries, particularly in the motor industry; (2) action through the International Confederation of Free Trade Unions (ICFTU), to which national trade union centres are affiliated; (3) action through the international trade secretariats (ITS), to which national unions are affiliated. The international metal workers federation (IMF) and the international chemical workers have taken the lead in relation to multi-national companies, but other ITSs have also been active. At the TUC conference various different levels were distinguished at which international trade union co-operation could work. The first is the collection of information, which is a vital pre-requisite of any further co-ordination, and at present is woefully inadequate. Then there is the organisation of standing bodies such as the IMF auto workers' councils (for the major motor firms). There are also examples of aid to fellow ITS affiliates in severe dispute with multinational companies; either financial aid or resistance to switched production. A further stage is to establish multi-national consultations, such as those which occurred between the management of Philips and the national unions in the EEC.

In the longer term, the international trade secretariats could move towards a synchronisation of timing of claims, and common termination dates. Then there is the co-ordination of trade union action itself. The only successful example which has occurred so far was the famous St. Gobain affair, where the French, German, Italian and American affiliates successfully co-ordinated action in relation to the French owned chemical and glass giant. Beyond the co-ordination of tactics, there is the harmonisation of bargaining objectives. Inevitably this is a long way off, however. There are severe problems in the way of international trade union co-operation. To start with there are the ideological problems arising from the split in the world trade union movement. There are legal problems, especially concerning different legislation on sympathy strikes, and there are the basic constitutions of trade union authority and their reconciliation with

grass roots sovereignty. Nonetheless, the trades unions are slowly starting to move towards international co-ordination in order to match the increased strength and flexibility which the internationalisation of capital has given to the management side.

Action to be urged on national governments. Trade union efforts may well prove totally inadequate to prevent major economic and social decisions being taken solely in a context of global profit maximisation, by non accountable boards of directors of international corporations. The TUC conference thus agreed on desirable lines of action which governments should pursue. For example, they should seek guarantees from multi-national companies, subject to appropriate sanctions, covering industrial relations, manpower planning, intra-company trading practices, research policy and remittance policy. Governments should develop regular consultations to integrate corporate planning with national economic planning. Most important of all, is the need for inter-governmental action to lay down agreed guidelines on the relationship between national governments and international companies.

longer term issues

International trade union co-operation has so far been mainly limited to the exchange of information, and the development of mutual support measures. In most cases, support has only been moral and/or financial (as in the Ford case), in some it has extended into refusal to accept transferred production or to work additional overtime when the company is in dispute with a union in another country. Only in a few instances (for example the St. Gobain case) have unions co-ordinated their tactics on an international basis. Once unions begin to co-ordinate their actions towards international companies in a more sophisticated manner, they are immediately faced with a whole series of new problems concerning the sovereignty of national trades unions and their subordination to decisions of an international trade union body. This problem becomes more marked once the synchronisation of the timing of agreements and the timing of industrial action is planned.

With further development of international trade union co-ordination on the *substance* of claims, the trade union co-ordinating body is exercising an allocative function as between the various national trade union demands. The development of internationally based collective bargaining thus leads inevitably to trades unions becoming involved in issues far wider than collective bargaining itself. Already decisions of international companies (made to maximise global profits) in practice vitally affect the international specialisation of labour. The growth in the international power of the trade union movement and the internationalisation of collective bargaining will increasingly involve unions in these decisions.

Should this function be left, however, to collective bargaining between international managements and particular groups of unions? One danger is that a pattern could emerge whereby wages and working conditions in international corporations became severely out of line with those in the rest of a particular national economy. This indeed has already been the experience of many developing countries. Action needs to be taken by the trade union movement as a whole, and by national governments, to avoid this situation arising. This is a question of integrating national and corporate planning and national and international trade union tactics.

The major existing institutional check preventing this global duality developing is the fact that the same trades unions organise workers in international companies as organise workers outside. Trades unions are responsible to *all* their members; but governments also have an important rôle to play both unilaterally and collectively. Unfortunately, most governments do not seem to have recognised the challenge to their interests and indeed to their sovereignty that the development of international companies

represents. There are already certain sectors of their economies that are beyond control and are not brought into their process of economic planning. The trades unions seem to be more aware of the problem than do governments. There is in general a tendency for governments to accept the benefits of the operations of international companies, and to side with them in their struggles with national organised labour. This is all too apparent in certain developing countries, such as South Korea and Hong Kong, but it is also implicit in the attitude of the British government during the recent Ford strike.

The Labour government had begun to take some of these problems seriously. The Ministry of Technology initiated a series of discussions with the managements of large companies on their future plans, including managements of some international companies, in order to try to bring national and corporate planning more closely together. The special problems of dealing with international managements, both British and foreign were recognised. In agreeing to foreign takeovers there were on occasion stipulations and guidelines on future behaviour sought from the managements of the new subsidiary. These covered location, employment, and balance of payment effects for example, and in the case of two of the biggest takeovers of the period (Chrysler's acquisition of Rootes in 1967 and Philips takeover of Pye in 1968) there was a stipulation on the retention of a minority UK shareholding (in the case of Rootes, including a government shareholding) and the retention of UK nationals on the board. The concept of "guidelines" for foreign inward investment was further being developed within Whitehall towards the end of Labour's period of office. In addition, in at least one case, government pressure was exerted to cause one major international company to change its subsidiary's balance of payments deficit into a surplus. The use of informal influence, and pressure at the point of intial entry was therefore being developed, but the government understandably did not wish to alienate foreign investment and drive companies elsewhere, in particular they were concerned about investment in the development areas. They had thus also begun to see the necessity for some form of international co-ordination, and had supported moves within the Organisation for Economic Co-operation and Development (OECD) to get discussion of the problem started at inter-governmental level. Discussion at the National Economic Development Council (NEDC), at the initiative of the TUC, showed that the administration was at least aware of some of the problems. This, however, took place only two months before the general election, and there is little sign that the present administration is prepared to regard its relations with international companies as requiring any exception from its disastrous overall policy of "disengagement" from industrial decision making.

Governments then need to develop their own direct countervailing power towards international companies. This may need to go beyond any guide lines approach. The whole question of *ownership* of international companies is involved. The Canadian government is attempting to move towards the partial "Canadianisation" of foreign owned subsidiaries through minority local shareholdings. The Japanese government has hitherto normally insisted that 50 per cent of any enterprise must be locally owned. Only IBM and Coca Cola have escaped this net.

The internationalisation of trade and production may in some sense be inevitable; but the emergence of a few monolithic global giants of international capital, entirely in private hands, is *not* inevitable. The possible rôle of public capital needs to be given far greater consideration than it has received in the past. There is firstly a case for governments to take a minority or 50 per cent share in the subsidiaries of foreign companies operating in their territories. Even this would probably require an international convention to avoid unilateral action in this direction boomeranging against the government concerned. Nevertheless, it would be one way to ensure that the needs of the community were taken more fully

into account in the international company's decision making. The rôle of outright nationalisation and social ownership also needs to be considered. Clearly the whole concept of nationalisation must change in the face of the internationalisation of private capital.In countries producing raw material, such as Chile, Mexico or Libya, straight expropriation or buying out of foreign owned assets may be a viable course, and a necessary one. Many of the foreign companies operating in the United Kingdom, however, are part of a globally integrated process. Therefore, in most cases the immediate effect of nationalisation would be counterproductive, for the assets are only viable as part of this global production and distribution network. This is not to say, however, that nationalisation is never the answer, nor that the long term effects of nationalisation might not, on balance, in some cases be beneficial. An overall policy towards public ownership of industries organised on a world scale cannot be derived from our traditional ideas of nationalisation. Yet social control of the "commanding heights" remains a basic objective of the Labour movement. So far no concept has emerged that can reconcile global organisation and social ownership. That is why the papers presented to the TUC conference were more concerned with the development of countervailing power.

The Labour Party also needs to give more thought to this problem, and the trade unions will not lose sight of the objective of social control whilst at the same time they develop their collective bargaining strength. Concentrations of privately owned capital in single countries led to the trades unions and socialist parties of Europe adopting the idea and later the practice of nationalisation. The whole enterprise concerned was there, lying under the hand of the government concerned; that was why it could be nationalised. The "whole enterprise concerned" does not, in the case of the international company, lie under the hand of any one single government. So we must look and see if there is any intergovernmental body which is capable of control. Certain inter-governmental agencies are already showing some concern. The International Labour Office (ILO) is now, after some vicissitudes, to consider the problem.

The Organisation for Economic Co-operation and Development (OECD), the rich nations' club, is itself initiating some work into the problems posed by international companies The EEC commission is very concerned at the ability of international companies to play one member off against another. It must be admitted, however, that concerted action from such bodies to curb the powers of international companies is unlikely.

In theory, of course, the United Nations could perform the task; but the UN, as we now have it, is hardly the right sort or organisation. It may be necessary to create a new UN agency or regional intergovernmental body which might do the job. Otherwise we will be forced to conclude that public ownership is no longer possible for advanced industry, and that we must stick to other means of control through the development of countervailing power? Or can "internationalisation" ever come to mean "nationalisation on an international scale".

conclusion

For the trades unions the immediate task is to create a co-ordinated response to the enhanced power of international companies. However, both wings of the Labour movement need to keep these longer term issues in mind.

3. economic impact and political response

Stuart Holland

It is a well established feature of the pattern of direct investment into and out of the British economy that British firms tend to invest abroad, and firms from the United States of America tend to invest here. This trend has been particularly marked since the end of the war, although the recent trend of US direct investment away from Britain and towards the EEC, is of considerable consequence in view of the issue of British entry to the community. The costs and benefits of such location patterns are complicated and virtually impossible to rank with precision. This is partly because some of the most important effects are qualitative rather than quantitative, and cannot strictly be measured at all. In addition, various different aspects of the effects of direct investment have to be taken into account which are not necessarily complementary, including the direct and indirect, the short and longer term, the private and public. Outlining the scale of the phenomenon, however, and the mechanisms involved is essential for assessing its impact on government policy.

British firms abroad

It has been estimated that in the later 'sixties nearly one third of the net fixed capital formation by British companies took place abroad, and that some 30 per cent of the total profits of British companies were derived from their overseas operations. It was also estimated that firms with substantial direct investment overseas grew faster than British firms restricted to the home market (Department of Trade and Industry, *A survey of mergers* 1958-68, HMSO 1970, and *Business Monitor,* miscellaneous series M.4, "Overseas transactions," HMSO 1970). In fact, however, the latter conclusion may reflect both the scale and type of British firm involved in foreign direct investment, since it is anyway the major British firms which dominate the field. Board of Trade figures show that the top 50 British firms account for 80 per cent of British foreign direct investment (*Board of Trade Journal,* 21.7.1967). This high degree of concentration is relevant when considering the administrative feasibility of insisting on good conduct codes of behaviour by British firms investing abroad. With so few firms accounting for so much of the foreign investment concerned, it should be practicable to ensure that each of them respected rules of behaviour stipulated by a national government. In fact, however, some of the most disadvantageous consequences for government policy arising from the operations of multi-national companies are very difficult to prove from examination of company accounts, so that additional forms of constraint on the freedom of multi-nationals to act in their own and against the government's interest should be devised. (For the long term effects of British direct investment abroad, see the Reddaway report, W. B. Reddaway in collaboration with S. J. Potter and C. T. Taylor, *Effects of UK direct investment overseas,* University of Cambridge, Department of Applied Economics.

foreign investment in the UK and the six

The principal country of origin of foreign investment in the UK is the US. Some leading US firms began operations in Britain before the end of the nineteenth century, and the upwards trend accelerated in the inter-war period. In contrast US firms relatively neglected continental western Europe until after the second world war. At the time little direct enquiry was undertaken into the reasons for the relatively greater attraction of Britain than the continent for incoming US direct investment, but from postwar evidence it is clear enough that the relatively greater degree of political stability of inter-war Britain, plus cultural ties and the language worked very much in Britain's favour as the first choice European location. There has been a dramatic increase since the war in the number of US firms coming to western Europe.

In 1950 over two thirds of US foreign direct investment went to Canada and Latin America, while Britain and the EEC together accounted for just more

than an eighth. However, while Canada had kept her share of the total, by 1966 that of Latin America had dropped to less than a fifth. The main switch had been to western Europe as a whole, which had increased its share of the total by nearly 30 per cent, with the bulk located in Britain and the six, which now accounted for a quarter of total US foreign direct investment. Whereas in 1950, however, Britain had nearly one and a half times as much of this total as the future six, by 1966 the situation had been reversed, with the EEC countries accounting for one and a half times as much as Britain. Moreover, this reversed trend occurred mainly after the establishment of the community itself, with the six decisively overtaking Britain in 1963. (See EEC Commission, *Les causes du développement récent des investissements en provenance des pays tiers en Europe,* December 1969.)

Inside the EEC the bulk of US firms chose to locate in the already most developed country, West Germany, which increased its share of the EEC total of US direct investment from under a third to more than two fifths between 1950 and 1966. The other main "gainer" country (starting lower and gaining less) was Italy, which rose from 10 per cent to 15 per cent. The Benelux countries lost ground slightly through the same period, from nearly a quarter of the total to just over a fifth. France lost very clearly, even though starting the period with the highest proportion of any country in the six, falling from over a third in 1950 to under a quarter (EEC commission, *ibid,* annex 1). Granted that West Germany in 1966 had less than a third of the total population of the six, her more than two fifths share of US direct investment in the same year clearly gave her more than her share of EEC population. By the same token Belgium and Luxembourg in fact stood even higher than West Germany in the same year, with a share of total US investment equal to double their share of total EEC population. The Netherlands also had a higher share of the US direct investment total (11 per cent) than her share of total EEC population (7 per cent). The losers on this ranking were France (23 per cent of the investment and 27 per cent of EEC population), and Italy (15 per cent of the investment and nearly 30 per cent of EEC population). (EEC *commission, ibid,* and *Statistical handbook* 1967 for 1966 population proportions.)

In fact the international distribution of US direct investment since 1950 has shown that the already most industrialised and highest income countries secured most of the investment concerned. The same "polarisation" or concentration occurred between British regions. In 1967 the South East region (including London) accounted for a third of total British population, but included more than half the US firms located in the UK. By contrast the lower income and employment regions scheduled by the last Labour government as development areas (Scotland, Northern Ireland, Wales, and the Northern and North Western regions of England) accounted for more than 33 per cent of national population, but included only 27 per cent of US firms located in this country. Among these regions, Scotland alone included a higher proportion of the total number of US firms than its share of national population (10.6 per cent as against 9.6 per cent), with the rest lagging very considerably behind, averaging a share of the total of US firms equal to only some two thirds of their share of total population. (See John H. Dunning, *The rôle of American investment in the British economy,* PEP broadsheet, February 1969, for the regional proportions of US firms in the UK.)

why do they come?

Without doubt one of the main reasons why US firms choose to *sell* products in western European markets, is the fact that by and large the higher level of development of the US economy means that they innovate new products and techniques earlier than western European countries. There are a variety of further reasons why they have also chosen to *locate* plant in western Europe, including the fact that they can save

transport costs, get behind UK tariffs and also utilise lower cost UK labour by actually producing in rather than just exporting to Britain.

Analysis undertaken in the US has argued that the same US companies will both sell products and locate production in foreign countries such as the UK, but over different time periods. When a new technological break through is made, US firms will first introduce the new product or technique at home, where the combination of a large and high domestic market and their own greater familiarity with home than foreign demand reduces the risks concerned. When the teething troubles of the innovation have been overcome, they will tend to mass produce the product at home and also export it abroad as a bonus to home sales; but once domestic demand has properly "caught on", they will increasingly locate plant abroad, and do so for a variety of reasons other than the transport and labour cost or "getting behind the tariff" reasons outlined above. These will include "proximity" advantages other than transport cost or time savings, in particular "getting the feel" of the local market (in the western European case either the national market or the wider western European market as a whole). This will enable them to introduce variations in the production or selling of the product which tailor it more closely to local purchasing patterns and customs, and thus increase sales over and above what would have been possible from exports alone. (For the original formulation of the "product cycle" model in this context, see Raymond Vernon, "International investment and international trade in the product cycle", *Quarterly journal of economics*, May 1966.)

These explanations are helpful in explaining why US firms become international in the sense of launching foreign operations rather than simply exporting. An extension two stage explanation of first exports and then foreign location also helps to explain why US firms since the war have increasingly located in western Europe as a whole at the expense of less developed areas, such as Latin America. Between the wars the main Latin American countries were expanding fast from a lower stage of development than that which most western European countries had already achieved, and their local demand for new products and technologies was greater than that of the already developed western European market. Since the war, however, the rate of growth of demand in western Europe has outstripped that of most Latin American countries, and also represented demand for products and techniques nearer the expanding US "technology frontier". This has particularly been the case for such modern and advanced technology products as computers, office machinery, motor vehicles, petroleum products and their derivatives, chemical products, pharmaceuticals, processed foods, advanced design and operation machine tools. (For the impressively high shares of US firms in these sectors see Dunning, *The rôle of American investment, op cit.*)

the "pull-effect" of EEC integration

What these factors do not explain is why there has been such a marked trend of US direct investment *within* western Europe, to the EEC rather than to Britain; rising from just over 5 per cent of the world total of US foreign direct investment to nearly 15 per cent, against a rise in the UK of from over 7 per cent to just over 10 per cent. Superficially the reason might appear simple enough, that the EEC countries as a whole have grown at an average annual rate (GNP) of more than 5 per cent since 1950, whereas the UK average rate of growth has been only just more than half as high; but a breakdown of the figures does not in fact support this. The share of total US overseas investment received by the member countries only increased from 5.4 per cent to 6.6 per cent in the years before the EEC came into operation, when their average growth rate was 5.4 per cent per annum. It was after the setting up of the community that US firms moved decisively towards the six rather than Britain, despite the fact that the com-

munity's growth rate slightly decelerated (to 5.2 per cent per annum from 1958 to 1969). Moreover, granted that the seven EFTA countries reduced their internal tariffs to zero virtually in line with the six, it is clear that the US firms concerned were not attracted to the EEC simply because it was abolishing its internal tariffs. They in fact preferred the EEC because of the higher degree of integration which was planned by the governments of the six rather than the seven. This is decisively shown by a study undertaken by the economics department of McGraw Hill on the firms concerned, of which 48 per cent gave EEC integration as their prime reason for locating in the six rather than elsewhere in western Europe. (McGraw Hill Department of Economics, *Foreign operations of* US *industrial companies,* 1963.) This has also been corroborated by other studies undertaken since, such as Bela Balassa's "American direct investment in the common market", *Banca Nazionale del Lavoro quarterly review,* June, 1966.) In addition, the McGraw Hill study showed that US firms were attaching much less attention to labour costs as a location criterion than had been found in an earlier study of the UK alone, with only 6 per cent placing it as their first reason for an EEC location.

IMPACT ON INDUSTRIAL STRUCTURE AND POLICY

The direct impact effects of US investment in the British economy have generally held to be positive. As one of the foremost specialists in this field, Professor John Dunning has pointed out, while US firms in Britain in the mid-'sixties accounted for 6 to 7 per cent of corporate capital formation in Britain and employed about 6 per cent of all corporate profits they in fact produced 10 per cent of all the goods in British factories and contributed not less than 17.5 per cent of Britain's visible exports. Granted the problems which Britain has faced in maintaining exports in line with imports, this clearly is an extremely valuable contribution. Dunning also maintains that the contribution of US firms to regional development in the UK has been positive, on the assumption that if these foreign firms had not located in the development areas the areas would have been that much worse off. In general he also claims that US firms have been responsible not only for introducing new products to Britain faster than they would have otherwise been available to the British consumer, but that they have brought with them a package of knowledge, labour training and management techniques which have raised the level of competitiveness of direct competing British industry. (John H. Dunning, *The rôle of American investment, op cit.*) The difficulty with such conclusions, as Dunning himself admits, is that there is no way of telling what the composition of British exports, regional location, or the rate of innovation would have been if US firms had not located plant in the UK. In direct impact terms the answers appear clear enough. Their export record is excellent, and although they have not performed markedly better than UK companies in locating plant in development areas rather than in the already congested South East, the case that "any investment is better than no investment" in these areas is persuasive enough. Moreover, under the low overall growth conditions which have beset the British economy since the war, it is arguable that British firms would not have been likely to achieve US levels of productivity and exports had the US companies stayed at home.

On the other hand, the indirect effects of incoming US firms on UK firms and industry can be negative as well as positive. For instance, EEC evidence shows that 40 per cent of US investment in western Europe since 1950 has been through the *takeover* of European companies. (EEC commission report, *op cit.*) If the companies concerned either faced bankruptcy or showed few signs of making a further major contribution to production, employment and innovation in their respective economies, such a takeover could only be judged beneficial. Despite some noted "salvage" operations such as the Chrysler takeover of Rootes, however, most of the companies concerned appear to have been taken over

not because their future prospects were bad but precisely because they were good. An overall indication of this is given by the fact that US companies have tended to take over companies with an already high share of their national markets, that is the already large sized firms with the capacity to grow further through sound private or public management.

When US companies do succeed in such takeover bids for already successful companies they normally increase its competitive performance through the injection of capital, new products and know how. In the first place, however, such takeovers would be more beneficial to the economies concerned if they had been smaller and less successful companies faced with greater growth and performance problems. In the second place, the improvement of the competitive performance of the already more competitive firms tends to aggravate the problems of precisely those smaller and less competitive firms within the sector, which most need assistance. This is of major importance for a government wishing to rationalise production in the sector as a whole for the benefit of the whole economy, since it is generally left not only with the companies with the greatest adaptation problems, but also with companies whose problems are frequently aggravated by the US takeover of the leading companies within the sector.

There are various mechanisms through which leading firms *destabilise* and undermine lagging firms within sectors, and one of the major difficulties for governments trying to cope with such problems is that they rarely amount to a formal abuse of competition. For instance, a large firm benefiting from scale economies in production and distribution can afford to pay higher wages than a smaller firm not enjoying such economies. If this were simply a matter of paying more for higher labour productivity it might well be considered the end of the matter, with some workers better off while others are no worse off.

In practice, however, large US companies not only benefit from major scale economies but also from other advantages not open to the largest and most efficient non-US firms. One of the most important relates to the previous introduction of a new product on to the US market, which is then introduced abroad. The US company can pay for the research and development costs of the new product entirely from its profits at home, and then innovate abroad without having to set a price which a non-US firm would have to set to cover the research and development costs of an identical product. In this way the US company can afford wage agreements which an equally efficient non-US company simply could not afford. The result tends to be a reduction of re-investible profits in the non-US firms forced to pay the same or comparable wage rates, and a reduction of their actual rate of growth in relation to that growth which they would have achieved in the absence of US companies. The process may well continue to the point at which the non-US companies are either forced into mergers, taken over by US companies, or put out of business.

the advantages of a technology lead

What this means at the national level is that US firms take over or penetrate modern and advanced technology sectors, not simply because they are more efficient than non-US firms but because they have a technological head start on such firms. Their direct short term effects therefore appear very positive, but in many cases entail indirect costs for non-US firms over the longer run, since their double advantage of earlier innovation and the previous paying off of innovation costs at home, enables them to pre-empt modern and advanced technology markets which non-US firms could have expected to be able to develop. Market structure must also be taken into account, moreover, in considering the high export ratios of US firms. The only remaining major motor vehicle producer in Britain is British Leyland, which tops the export record of all UK companies (including US subsidiaries) in terms of exports as a proportion of output. The basic reasons include

not only the entrepreneurship of the British firm but also the export potential of a sector such as motor vehicles. In other words, the positive direct and short run contribution of US companies to the British economy should be "deflated" not only by the fact that they are frequently pre-empting otherwise viable British firms from making a similar contribution, but also by the fact that their high export achievement tends to reflect the comparative advantage which modern and advanced technology industry represents in total world trade. If British firms in such sectors had not been taken over, or had been allowed to develop, they could show export levels comparable with those of US companies.

syphoning off research and development

The direct benefits of US companies stimulating a *faster* rate of innovation in foreign markets than otherwise might have been achieved, is also qualified by the pattern of research and development undertaken in foreign countries. A Stanford Research Institute report shows that only half of a sample of 200 US firms in western Europe undertook any research and development work in Europe, and that most of those spent 4 per cent or less of their world wide research and development budget this side of the Atlantic. The report stated quite plainly that many of the companies concerned viewed their European laboratories simply as a means for monitoring indigenous European research and development effort. (EEC commission report, *op cit.*) An EEC commission report of 1969 also stressed this "monitoring" rôle of US international companies in Europe, and in addition underlined that these companies not only first innovated the products which they "monitored" in the United States (with first round export benefits going to the US rather than Europe), but then charged their European subsidiaries patent and licence fees for their re-introduction to European markets. While this process may only amount to a book-keeping process for the US companies, its total effect on the European balance of payments (including products developed originally in the US) is very considerable. Patents and licence fees from EEC countries as a whole to the US rose five fold from 1958 to 1966, from $200 million to $1,000 million. And this was in addition to a loss of skilled technicians and engineers to the US totalling some 2,000 a year, many of whom had been recruited through US companies' R and D establishments in western Europe.

Dunning's rather optimistic picture of the regional impact of US companies also needs some qualification if the longer run behaviour of US companies is taken into account. It appears probable that US companies in the UK have been partly attracted to development areas by the higher level of investment grants which formerly obtained there. These have now been scrapped by the Tory government. The abuse of such grants by Ford's was raised recently in the Commons (this case involved the export to a Ford plant on the continent of machinery which had originally been installed at their plant at Halewood, near Liverpool, with millions of pounds worth of government investment grants). It has also been pointed out that although US firms have a generally high reputation for their contribution to industrial development in the development areas in the UK, they in fact concentrate their investment in the South East and do not have an appreciably better record in this respect than UK companies.

4. effects on national demand management and the balance of payments

The growth of multi-national companies has limited the effectiveness of the principal Keynesian demand management policies, and with them the extent to which a government can use such policies to mobilise national economic resources to the economic and social ends for which it has been elected. These include monetary policy, fiscal policy, exchange controls, and exchange rate policy.

monetary policy

It is increasingly evident that multi-national firms have a privileged access to finance of a kind which is not directly influenced by the domestic monetary policy of nation states. This finance is of two basic kinds: internally generated funds, and international capital issues.

In a study which covered 115 foreign subsidiaries in the UK, Brooke and Remmers recently showed that American companies provided three quarters of their total financial requirements from cash flow (net profits after tax and depreciation) over the period 1960 to 1967. (M. Z. Brooke and H. L. Remmers, *The strategy of multi-national enterprise*, 1970. I am indebted for this and other source material in this section to Robin Murray of the Institute of Development Studies at Sussex University. Robin Murray's more extensive and penetrative analysis of the effects of multi-national companies on British demand management and the balance of payments will shortly be published by the Acton Society.) This was against a figure of slightly more than two thirds for British quoted manufacturing companies in the same period. They pointed out that supplementary finance from abroad could enable local subsidiaries to avoid the incidence of a domestic credit squeeze, and thus frustrate government credit policy. (See also the Department of Trade and Industry, *Business Monitor*, miscellaneous series M.4, 'Overseas transactions", HMSO, 1970.) The problem which this self financing from *internally generated funds* poses for national governments is therefore not so much its marginally higher level, but the fact that it is internal to the multi-national operations of these companies rather than internal to the operations of a company which is limited to the domestic market. In this way, a multi-national company whose integrated production and distribution is spread over several countries can by pass the efforts of a national government to restrain inflation by switching funds from either the parent company or subsidiaries in other countries which are not subject to credit restraint policies. Put differently, there is a conflict between the micro-economic interest of the multi-national company and the macro-economic interest of the government.

The second main source of capital for multi-national companies, and particularly American multi-nationals, is the Eurodollar and Eurobond market. The remarkable rise (and recent check) of the Eurodollar market is well known. It is estimated to have increased seven fold from 1963 to 1969, and to have amounted in the latter year to a total of 35 billion US dollars. This is a market which has grown independently of the monetary markets of the principal western European nation states, and largely outside their control. Its scale and effectiveness have prompted the comment that the proposals for European monetary integration at present voiced in the EEC are following rather than anticipating events.

Monetary integration already exists in western Europe, but it is the integration of the capital markets of multi-national companies and the largest national firms, serviced in large part by US banks operating in western Europe, and in many cases by banks which multi-national companies themselves have established or expanded to serve their own needs. (See C. Palloix, *Firmes multi-nationales et analyse du capitalisme contemporain*, Université des sciences sociales de Grenoble, February 1971.)

On the supply side multi-national companies have used this market for short term investment of transaction funds and excess cash balances, and for short term investment of money raised on the

European security market in advance of need. As against this mainly short term function of the Euro-dollar market, the Eurobond market has served principally as a capital market for long term finance. It has also grown dramatically since the early 'sixties with a total of 8.6 billion US dollars issued between 1963 and 1968, three quarters of which were international bond issues; and whereas the predominant issuing bodies in its early years were national governments or bodies acting on their behalf, they have now been superceded by multinational corporations, and in particular US companies, which were forced to turn to the market because of the interest equalisation tax of 1963 and the Johnson measures of 1965 and 1968.

Multi-national companies in general, and American companies in particular, have a clear advantage over national companies in the Eurodollar and Eurobond markets. In the Eurodollar market this partly reflects the short term nature of the market itself and the high degree of fluctuation in the interest rates involved.

Only large scale companies of multinational scale tend to be credit worthy enough to fit this bill automatically, and in many cases even they are obliged to provide a parent company guarantee for issues raised by subsidiaries. In the Eurobond market this privileged position of multi-national companies is even more clear. The average range of an issue is 10-25 million US dollars, with some 20 banks and investment houses in the underwriting group, and up to 80 other financial institutions in the selling group.

A relatively small national company equivalent in size and competitiveness with the subsidiary of a multi-national company cannot compete with the multinational's subsidiary in these capital markets. As a result it is penalised in relation to the subsidiary of a multinational company, despite the fact that in all other respects it may be its equal or better in growth potential. It is not only size, however, but the international spread of multi-nationals which gives them an advantage in this market, granted that the geographical spread of operations gives multi-nationals a lower risk factor than even a very large company limited to a single national market.

effects on government monetary policy

The increasing internationalisation of the European capital market through these basically non-government channels seriously undermines the effectiveness of government monetary policy as an instrument of restricting the availability of credit. Since these markets are telephone or telex markets and involve only invisibles rather than direct investment and plant, they can operate very much like the perfectly mobile capital markets of classical theory. This means that a medium sized country cannot restrict the credit market of those large scale multinational operators who have access to such markets. (See R. E. Caves and G. L. Reuber, *Canadian economic policy and the impact of international capital flows,* 1969.) In principle, controls of such issues by governments are possible. For instance, in January 1971 the British government removed the authority previously delegated to banks to sanction foreign currency loans, and required applications to be made directly to the Bank of England, which would normally give permission to borrow only when the loan was for a period of at least five years, and therefore could be expected to be employed for direct investment rather than for further short term lending or speculation

On the other hand, this restriction has been introduced during a period of strength in the British balance of payments. In periods of balance of payments strain the Bank of England has encouraged short term capital inflows despite their counter productive effects in increasing domestic liquidity, at a time when government policy normally is concerned to restrain it in order to prevent a further deterioration in the balance of payments. Moreover, there are limits to the extent to which formal controls can prove effective, particularly because of the switching of funds between subsidi-

aries of multi-national companies (or between the parent company and a subsidiary), with the funds being raised outside the domestic economy in which they are to be employed.

fiscal policy

In fiscal as well as in monetary policy, it is increasingly evident that multi-national companies are able to bypass and frustrate the intentions of national governments. There are various reasons for this, which arise from the international nature of the operations of the companies concerned. For instance, the major multi-national companies operate in a far wider total market than a single national economy. In itself this may well be good for national exports; US subsidiaries in particular tend to have a substantially higher export to total output ratio than corresponding British firms. (See previous reference to John Dunning, *The rôle of American investment, op cit.*) Much of this is accounted for by the integration of the production process between different plants in various countries, and therefore by transactions between different subsidiaries of a single multi-national concern. The result, however, is to weaken the effectiveness of fiscal policy as a mechanism for the restraint of the rate of growth of domestic demand in the event of a serious overall balance of payments deficit. Since the international market for the firms concerned is not limited by the domestic market there tends to be a differential effect between the incidence of fiscal policy on national and multi-national companies. This itself tends to increase the strength and long run position of the multi-national in relation to national companies.

In addition, multi-national companies are frequently able to secure *tax concessions* over national companies, as a condition of their locating in the national economy concerned. In the 'sixties this was most evident in the case of certain EEC countries rather than in the UK, with Belgian and Dutch companies competing with successively higher tax concessions in an attempt to secure incoming US direct investment. The range of location options open to most modern manufacturing industry makes the threat of such location in one rather than another country highly credible. However, it is particularly credible in the case of US multi-national firms in Europe, which have no particular "country ties" in the first place, and which are selling to the European rather than to a single domestic market. Such concessions again have a differential impact on multi-national and national companies for the simple reason that a multi-national concern, which already has the advantage of an innovatitonal lead and amortised R and D costs, from first introducing a product on the domestic market of the USA, will thereby secure a further advantage over an actual or potential national competitor through paying lower taxes. This gain can be transmitted through to lower prices, thereby facilitating increased market share in relation to the national competitor. Alternatively, it can be distributed in higher profits, increasing the market rating and market finance of the company concerned, or retained within the company in order to increase self financing, thereby both increasing the extent to which it escapes the effects of national monetary policy, and at the same time increasing the longer run growth potential of the company in relation to national firms. In practice all three options are likely to be employed in varying degrees, depending on the particular strategy of the company concerned; but the result represents a triple disadvantage to national companies, as well as a tax loss to the national exchequer.

This is in addition to the much more publicised claim that multi-national companies are able to *avoid tax* through the technique of "transfer pricing", which is the practice of setting prices in internal transactions between subsidiaries of the same multi-national company in such a way that few or no profits are declared in high tax countries, and most or all in low tax countries. Board of Trade figures published in 1969 indicate that about a fifth of British exports are

accounted for by internal transactions between multi-national companies, with a proportion as high as 56 per cent for US owned subsidiaries operating in the UK. (*Board of Trade journal,* August 1969.) In other words the scope for such transfer pricing techniques is very wide for the subsidiaries of US multi-nationals. In principle, it should not be very difficult for national government's to distinguish such practices by examining the company's books, but in practice this is almost impossible. One difficulty for government scrutiny is the scale of operation of the companies, and the multitude of factors involved in the pricing of components and parts exchanged between different plant by an individual company. The other, and more important, is the difficulty of identifying any "norm" on which prices should be based in the first place. Academic theory has largely recognised that pricing on the marginal cost of additional units of output is a textbook simplification which does not correspond with reality. In fact, however, the "cost plus" pricing formula, which has widely superceded marginal cost pricing assumptions in academic theory, is only part of the basis on which most firms base their pricing policy, and anyway depends on the assumption that the production and distribution costs concerned can be clearly identified in the first place, before the "normal" profit rate is added to them to determine price.

In practice this is extremely difficult for the firms themselves, granted the joint utilisation of plant and overhead capital in the production of different products, and the dependence of the "cost" of this capital itself on a variety of assumptions determining the rate at which it is "paid off" or amortised. Besides, firms can plausibly claim that the particular prices set in their transactions reflect the wider price tactics which they have to employ to remain competitive with other international or multi-national firms. In addition, leading multi-national companies delegate the setting of prices in transactions between subsidiaries to local management, and do not hold that management responsible for the particular prices set, rather than for the overall competitive performance of the subsidiary itself. A government investigator drawing a blank from a head office would therefore be confronting normal company practice, rather than a determination to conceal an illegitimate tax avoidance policy. (In one of a series of articles on multi-national companies in western Europe, William Powlett cited company president Fritz Philips as drawing attention to the fact that prices within the Philips group are not fixed on a "cost plus" basis in intra-firm transactions between subsidiaries themselves. As Powlett commented, "how this works out in practice it is impossible to say, and virtually impossible for the tax and customs authorities to check when such a wide range of end products and components are being traded". See *The Times business news,* 7 January 1970.)

In effect, the transfer pricing issue represents another important example of the extent to which there is a conflict between the micro-interests of the firm and the macro-interests of a government. It has no easy direct solution through government surveillance both because the practice itself is not easily detectable, and because even where intra-firm pricing can give rise to suspicion, the firms can justify particular prices on a variety of other grounds. It is partly for these reasons that few non-government studies have been attempted to determine the precise scale on which it may be practised by multi-national companies. Yet the evidence that it does occur is impressive enough in important cases. For instance, the principal oil companies declare a high transfer price on their crude oil imports, with the double effect of their not only raising the national import bill, but also declaring low profits or actual losses for operations in the highly lucrative British market. The Sainsbury commission indicated transfer pricing in the pharmaceutical industry, and there is evidence that multi-national consumer durable firms transfer price on a substantial scale. Piccione has recently given an impressive account of the extent to which multi-national corporations employ Switzerland as a tax haven, including such companies as

La Roche

Chrysler, Dow Chemical, Du Pont, US Rubber, Singer and Sunbeam. (See U. Piccione, *Stratégie operationelle des investissements américains à l'étranger,* annex 7, EEC commission report, *op cit.*)

exchange controls

Britain has an extensive range of formal exchange controls. As far as incoming capital is concerned, exchange control policy is directed mainly to ensuring that the foreign company will be largely self financing. British firms investing abroad have to persuade the treasury foreign exchange committee that the purchase price for new investments through takeover is fair, and that the investment concerned makes an appropriate contribution to reserves in terms of foreign capital inflow. The exercise of these controls has undoubtedly had some effect, mainly over the means of finance, rather than the amount which has been invested. In practice the Bank of England and the treasury have interpreted the application of the controls in such a way that virtually no company with an economically viable overseas venture is restrained from investing abroad either by buying foreign companies, investing in them, or setting up new plant. (See the contribution of John Cooper to *The price of Europe*: *a re-assessment*; report of a conference on the implications of British membership of the European Community, compiled by Stuart Holland and published in May 1971.)

In other words the regulations have been interpreted liberally in order to safeguard both the interests of the foreign operations of British companies and the remitted profits which enter into export earnings on the invisibles account. Yet it is not so much this application of the exchange control regulations which circumvents the ends of government policy, as the variety of alternative ways in which multi-national companies can frustrate the exchange control regulations themselves, including transfer pricing, the international allocation of overheads, the scheduling of intra-company debt, and the payment of fees and royalties at various rates, all of which constitute important and largely uncontrolled aspects of multi-national companies' international capital transactions.

exchange rate policy

The effects of the operations of multinational companies on a national government's exchange rate policy are considerable. It has traditionally been assumed that exchange rate changes will have their most significant effect in the short run. For instance, in the case of a devaluation of the pound it is assumed that since the price elasticity of demand for British exports is greater than unity, and that British export prices fall, export receipts will rise. In the longer run, however, such a competitive gain to a country which devalues will be offset by domestic inflation following higher import prices and wage demands.

The very large proportion of British visible exports accounted for by multi-national companies (US multi-nationals alone accounted for nearly a fifth of the total in the later 'sixties) tends to blunt the short term competitive gain from a devaluation for two main reasons. Firstly, multi-national companies tend to operate in oligopolistic markets in which a few companies influence the prices on a world or regional scale. For various reasons such companies tend to earn "supernormal" profits of a kind which allows them considerable room for manoeuvre if either their costs rise or their prices fall in relation to other currencies, following a devaluation. In general, they make considerable efforts to avoid a price war with their principal regional or world competitors which may leave them all worse off in the longer run, and therefore tend not to reduce export prices by the full extent of a devaluation. Secondly, international firms in important export sectors tend to divide up their international markets between different subsidiaries and to avoid large scale direct competition between subsidiaries in different foreign markets. For this reason the increased export competitiveness, which

would be possible for a national firm decreasing its prices in line with a national devaluation, may be ruled out by a multi-national company for those markets in which it has other subsidiaries with which the increased exports would compete.

Both these factors may be in addition to outright collusion on market sharing between multi-nationals with agreement, for instance, for one company to take European markets A and B while another concerns itself exclusively with markets C, D and E. This has been claimed to be the case for some US companies operating in the six, and would mean that the effect of devaluation by the host country would be nullified for the products concerned in the markets with which the multi-national had an agreement with another company. Not surprisingly such agreements do not figure in the published reports of the companies themselves, and would not be likely to be submitted to government scrutineers for their approval. A possible constraint on such nullification of exchange rate changes is the insistence by a national government that a multi-national company taking over a national concern should maintain as high a percentage of exports as other companies in the national industry. This was insisted upon by the British government in the Chrysler takeover of Rootes. However, since multi-nationals in general tend to be higher exporters than firms limited to the domestic market, this still leaves them in most cases with a considerable edge over British companies, on which they can rely in the event of not wishing to increase exports by reducing prices in some direct proportion to the devaluation concerned. In this way the net effect of devaluation as a policy designed to increase the total export performance of a national economy, can still be blunted through multi-nationals' operations.

These factors are independent of the impact which either *hedging* or pure *speculation* by multi-national companies may have on the exchange rate change itself. Hedging itself is a form of speculation whereby a company seeks to avoid losses in the event of an exchange rate change, while pure speculation amounts to an attempt to maximise gains in the same eventuality. A firm expecting that a currency will be devalued can follow a variety of policies to secure either loss minimisation or profit maximisation, including increasing its stock of imports, holding up exports, speeding up import payments and slowing down export payments, and following comparable leading or lagging on other transactions such as debt payments, trade credits, and the remittance of dividends or royalty fees.

The effect of such policies is to aggravate the underlying reasons which gave rise to suspicion that devaluation might be decided upon by a national government, and in marginal cases could be sufficient to force it to devalue when it otherwise might not do so. As Louis Turner has pointed out, "the amount of trade which (multi-national companies) are now carrying out across national boundaries has risen so much that they have enough resources practically to bring about a currency devaluation once they have made up their minds that this is about to happen". (See Louis Turner, *Politics and the multi-national company,* Fabian Research Series 279.) There is considerable evidence to indicate that the leading and lagging payments played a considerable rôle in the pre-devaluation instability which the Labour government had to face in 1966 and 1967. This shows up in swings in the balancing item in periods characterised by uncertainties about exchange rates. (See G. A. Renton and M. Duffy, *An analysis of the* UK *balancing item,* London Business School econometric forecasting unit discussion paper no 6, October 1968). *Fortune* magazine has been more explicit, claiming that most US firms with European subsidiaries asked them to defer payments for goods from the UK for some six months before the 1967 devaluation itself took place. (*Fortune,* 15 September 1968). Other evidence is available on particular multinational companies operating in this way, including statements in annual reports that assets were covered by "borrowing and hedging operations". (The Singer company's annual report for 1967 an-

nounced that "assets were fully protected by borrowing and hedging operations".)

Again there is a stark problem of conflict between the macro interests of governments and the electorates whom they represent, and the micro interests of multi-national companies and the shareholders whom they represent; and once more the activities of the companies themselves cannot easily be restricted by good behaviour codes. Detailed examination of a company's books could reveal the slowing up of some payments and the speeding up of some others, but no manager in the company concerned would be worth his salary if he could not give a plausible explanation of some other reason for such lags and leads.

RELATIVE COSTS AND BENEFITS

The costs rather than benefits to a national government from de-stabilisation of its short to medium term demand management policy appear quite clear. The analysis of the long term effects of increasing US direct investment in the British economy also gives cause for concern to any government prepared to use its powers of economic management to mobilise the resources of private enterprise in general towards given economic, social and regional ends. On the other hand no government concerned about the longer term impact of an increase in incoming foreign direct investment can afford to overlook the fact that US firms at present account for a very substantial proportion of manufacting investment and exports. To deter or block incoming US investment by across the board restrictions, could well lead to a net fall in the short term in the rate of investment, and eventually in export growth as well. Therefore many governments tend to postpone the day of reckoning and hesitate to take strong arm measures with US international firms, but this does not mean to say that the government has *wholly benefited,* even in the short term by the behaviour of such firms. For instance, the long term wage increases which they can afford to grant because of their previous technical lead, their generally greater scale and financial resources, may suit the firms and (in the short run) the workers; but it may lead to a rapid rate of wage inflation over productivity levels in other companies in the same or other sectors, which are influenced by the levels set by the subsidiaries of US firms. This will in turn tend to have very marked effects on the short term balance of payments. Again, the indirect effects of US companies to a substantial extent offset their direct contribution to the economy.

A government can also find itself restricted in fulfilling national policies for which it has a political mandate through the relative lack of control which it can exercise over the activities of multi-national companies. The fact that many of the de-stabilising effects of US takeovers on otherwise viable companies cannot be counted as a formal abuse of competition within the meaning of competition policies, has already been mentioned. This destabilisation together with the fact that US companies frequently take over the more viable companies in given sectors, also aggravates the difficulties faced by a government which is attempting to increase the scale and competitiveness of national companies through the type of restructuring policy for which the IRC was responsible, since US companies frequently have taken over those very companies most suited to efficient rationalisation through IRC type of capital injection.

Governments might well reckon to be able to exercise at least a "passive" control policy. In other words, they could at least act when international companies clearly step out of line and act in a manner which is likely to conflict with the major objectives for which the government has a mandate, such as the promotion of higher levels of regional employment. However, when the Remington-Rand company closed a plant in France employing 1,000 workers, without any prior notification to the government, the Minister for Industry could not even extract an explanation from them as to the reasons for the closure, which was

alleged to have taken place as a result of a direct telex from the US parent company, without any elaboration of the reasons concerned. The fact that the plant had been set up with state financial aid from the *Caisse des Dépôts et Consignations* was particularly embarrassing to the government, but did not enable it to stop either the Remington closure or the simultaneous closure by General Motors of a refrigerator plant in Paris. (See Christopher Layton, *Transatlantic investments,* 1968.) The recent statements of Henry Ford concerning his company's intention to avoid, where possible, further reliance upon Ford Britain in his company's world wide operations, underlines the extent to which no government can count upon their normal constraints influencing the location and production decisions of multi-national companies. This is particularly crucial to any government intending to further the use of national economic planning in order to mobilise a higher rate of investment and growth in the economy as a whole. The overnight decisions of a handful of multi-national companies can drive a coach and horses through the production targets not only of the firms and sectors which they represent, but also of those firms and sectors dependent on them for their sales.

While some of these problems deriving from US direct investment at present only occur as isolated incidents, there is good reason to believe that they will accelerate over time with the increasing penetration of western European countries by US international firms. In several cases their effects will prove cumulative and self reinforcing. For instance, as US firms increasingly takeover or constitute the leading companies in the leading modern and advanced technology sectors, they could give rise to a two tier or "dual" industrial structure in western European economies. In this way the rate of investment, employment, innovation and growth of the pace setting manufacturing sectors (as well as the location of the firms within them) would be set by US firms taking world wide company criteria into primary account in their decision making. Nationally owned and controlled firms (save in the limited cases where these are already international by US standards) would be increasingly dependent upon the demand and input patterns determined by these mainly US companies operating in the areas of advanced technology. The "commanding heights" of the economy would move farther and faster with the acceleration of technical progress and innovation, but away from that section of manufacturing left in national private control, and even farther away from that sector of basic industry which most western European governments have so far nationalised. These qualitative factors concerning the kind of firm and the kind of sector, mean that the impact of US multi-national companies will prove greater than their simple quantitative representation in the western European economies. Yet these quantitative proportions on present trends are already enormous. Dunning estimated in 1969 that if present trends continue between 20 and 25 per cent of British industry "will be owned by the Americans in 1981". (Dunning, *The rôle of American investment, op cit.*) Professor Bertin reported to the EEC commission that, even assuming a net decline in the rate of location of US firms over the next five years, they would account for not less than a sixth of all firms in the EEC by 1975. (See EEC commission report, *op cit.*) In other words, especially taking qualitative impact into account, Jean-Jacques Servan-Schreiber would not appear to be so wide of the mark in maintaining that in the early 'eighties "the world's third greatest industrial power, just after the United States and Russia will be not Europe but American industry in Europe. (Jean-Jacques Servan-Schreiber, *The American challenge,* 1968.)

5. what to do?

There are two major dimensions to any effective European response to the challenge posed by US international companies; national and international. The national response in isolation would be less effective than the international, but at the same time could prove essential to the success of anything achieved at the international level.

At either the national or the international level, one of the main problems is the development of European firms capable of competing on equal terms with US international competitors; that is, capable of competing successfully with US companies, despite the fact that the latter have a head start from earlier innovation in the more advanced US market, and have a financial advantage not only from generally greater scale, but also from the earlier writing off of R and D costs, which have already been amortised by production in the US domestic market. One of the main policy instruments employed by the last Labour government (capital injection through the Industrial Reorganisation Corporation) will in fact be handicapped in many cases both because US firms already dominate the sector concerned and because their investment, price and wage behaviour tends to reduce the capacity to respond of those firms which remain. In addition, a policy of blocking US investment location on the lines pursued by the French government in the mid-'sixties, after the Remington Rand and General Motors closures, could simply result in a further reduction of the rate at which US firms are established in the UK, and an exageration of their already marked preference for setting up in the community.

Competitive bidding for US firms to maintain domestic rates of investment and national manufacturing exports by offering higher investment grants than those obtaining in the EEC, might in part offset the continued pull of the EEC as a more integrated area than EFTA, but could not be relied upon to do so in the longer run, especially if the six succeed in their current proposals for monetary integration by the end of the 'seventies. This would reduce exchange risks for US firms setting up in the community, and facilitate capital transfers between subsidiaries.

national and multi-national state intervention

An important example of what can be done by a national government determined to act is the state takeover of companies under pressure from US (or other) international companies such as the Motta and Alemagna cases in Italy since 1967.

The model provided by the action of the state holding company concerned, the *Istituto per la Ricostruzione Industriale* (IRI), is of particular relevance to any future Labour government, granted that the Labour Party recommended the establishment of just such a state holding company in *Into the 'seventies, Labour's economic strategy,* 1970.

In itself, nationalisation of the whole of a sector can be economically and politically costly in the short run, the very short run in which it is necessary to maintain both macro and micro economic growth and efficiency. However the "IRI formula" (by accident or now perhaps design) is much more flexible than outright nationalisation. The IRI has traditionally bought its way into companies without necessarily securing total formal control by securing 51 per cent of their shares. In important recent cases it has found that buying as few as 15 per cent of their total shareholding can give it effective control. It does so not simply for the normal reasons, such as that the ownership of the remaining shares is highly dispersed, but basically because the state by definition is no ordinary shareholder. If it declares an interest in the future of a company by buying even a limited proportion of its shares, and if it also makes its continuing interest known through public policy statements, it would be only an obtuse private company which attempted to resist the direction in which the state indicated that it wished company policy to move.

In other words the state is in a position to protect leading private companies against US or other multi-national takeover, if it purposefully uses even small financial resources in selective nationalisation of shares in the company concerned. To the extent that the company concerned also needs the injection of capital to assist it in overcoming its competitive disadvantage with US internationals, the state could further increase its shareholding rather than simply lend the money concerned. In both ways it should be able to increase the competitiveness of the companies in which it participates and enable them to withstand the short and longer term competitive challenge from international companies. Moreover, just as the private management of the company concerned would prove unwise in opposing state influence on the company's policy, so an international company would prove unwise in pushing its own bid for the company, if the state unequivocally declared that it would not hesitate to nationalise 51 per cent of the total ownership if necessary. In fact, however, IRI has so far not found it necessary to undertake such a direct confrontation with US companies. In the two cases cited the US companies withdrew their challenge, leaving IRI with the necessity of purchasing only a nominal share holding in the companies concerned. Moreover, the IRI does not normally leave management entirely in private hands, but appoints one of its own managers as a director of the board, and frequently secures the appointment of one of its own men as general manager. This enables it to monitor the further activity of the company more directly and to ensure that any steps necessary to secure its long run competitiveness through further capital injection, can be undertaken without the firm first running into a crisis or allowing good money to be thrown away after bad.

One of the great benefits of the IRI formula is its selectivity. It can be employed flexibly to a greater or lesser extent as demanded by the circumstances concerned, and it need not necessarily give rise to sweeping fears that the country is no longer safe for any foreign capital. In this way it can offset some of the more patent abuses of the bargaining power of international companies and act as a reserve power of deterrence to such abuse. Part of the conviction which it carries in Italy arises principally from the *managerial* quality of the IRI holding company itself. Its personnel up to president level are not government civil servants, but essentially managers on the state's behalf. While the state lays down strategic objectives for the group, such as the prevention of a particular takeover, it leaves the group itself largely free as to the means and tactics which it employs to fulfil such a strategy. Another important feature of the IRI from which other national governments might well learn is the advantages which it secures as a "multi-sectoral" group. The fact that it has a reserve of managers with practical experience in a variety of sectors throughout the economy, means that it can draw on personnel capable of running the financial, production, distribution and other aspects of any company which it takes over, on the basis either of direct previous experience of the activity concerned, or of experience in a related activity. These factors give credibility to the success of companies in which it participates, even if all it can take over is an existing plant and facilities without even short term funds.

However, another aspect of the IRI state holding formula relevant to the response to international companies, lies in the fact that in a number of cases involving modern and advanced technology industry, these companies have been prepared to enter joint ventures with IRI. In this way the group is able to harness its own and the international company's skills, technology and market power to the service of the government's main economic strategy. This has included joint ventures not only in production but also research. It has also meant in several cases that the ventures concerned have been located in the main problem regions of the country (the south and certain depressed areas of the centre north), in which the group with other Italian state enterprise is obliged to locate 60 per cent of its total investment and 100 per cent of its invest-

ment in entirely new plant. The attraction of the IRI formula to national governments has already been seen in practice in its imitation in Sweden in the later 'sixties, and in the proposals made last year by the German finance minister for the creation of a German IRI from the rump of the VIAG holding company, remaining from the Christian Democrats' denationalisation programme of the 'fifties. It apparently played a major rôle in the Labour government's decision to establish the Industrial Reorganisation Corporation, and in the French government's recent introduction of an Institute for Industrial Development (IDI), one of whose main aims was stated at the time of its foundation to be the support and development of French companies threatened by US takeover. The difference between the IRC and the IRI is important, however, and might well be studied in further detail by the Labour Party before its return to power, in order to ensure that the full potential of the instrument is maximised after that return. (For further details on the new Swedish state holding corporation see *International management* (editorial) "Sweden eyes big business", March 1969. For the new French IDI see Jean Valeurs, "Ce qui devrait être un institut de développement industriel", *Le Monde*, 9 September 1969. The French IDI has owed its parentage both to IRI and to IRC (modelled in part on IRI). Similar state agencies with the specific aim of restraining the rate of further US penetration of their economies have recently been introduced by the Canadian and Australian governments (the Canada development corporation and the Australian industries' development corporation). See further Stuart Holland, "Can everyone else be wrong about industrial planning?" *The Guardian*, 23 October 1970.)

One obvious implication of the rising number of European variants on IRI is their potential for European international joint ventures capable of responding to the challenge of US international companies without giving rise to a new and stronger breed of uncontrollable European multi-national companies. It is possible that the EEC itself could create its own community IRI, although this would prove subject to various constraints, including the loss of national control by member governments of the six. It also might prove a less flexible and dynamic instrument than national state holding companies operating bi-laterally or trilatterally under government supervision. Probably the main and most useful implication of the operation of the formula at both a national (and to a greater extent at the international) level is the degree of credibility which it would bring to government insistence on "good behaviour" codes for US or European international companies. The possibility that a national state holding company could take over a major motor vehicle plant if the owner decided to move to Asia might act as a considerable deterrent to such a move. At a lesser level, the same possibility might well restrain the extent to which multi-national companies used their unequal bargaining power in capital or labour markets to strong arm either other companies or unions. To the same extent, it could act to ensure not only that multi-national companies kept the written rules on competition, but avoided breaking those rules which are difficult to enforce in purely legal terms. For just as a multinational company need not fully describe all it is doing and remain within the law, so a government need not give all its reasons for legally nationalising all or some of the shares of a subsidiary of an international company and transferring them to a state holding company. In this way international companies would have a self interest, not only in keeping to the rules, but *showing* that they kept to them.

Internationally, the greater the extent to which governments can see that the joint utilisation of IRI type state holdings can operate as deterrents to the abuse of a nation's national, regional or social interests by a multi-national company, the less the extent to which such a company would be able to play off one country against another. Purposefully used, it could provide an effective multi-national government response to the multi-national companies' challenge. In this way

it should provide reinforcement for the multi-national co-operation of trades unions of the type outlined by Larry Whitty (page 5).

benefits from EEC membership

In general most discussion within the Labour Party has concentrated so far on the difficulties which British membership of the EEC would pose for Commonwealth countries, and the cost of adopting the community's common agricultural policy. The reasons for this are self evident enough, and thoroughly justifiable inasmuch as some of the Commonwealth countries concerned are highly dependent on access to British markets, and inasmuch as the Labour Party would not be fulfilling its responsibility if it did not squarely face the implications for the British people of rising food prices.

However, without diminishing the importance of these factors or suggesting that the party should not maintain its determination to decide in favour of or against entry on the basis of the terms proposed by the six, it would be less than far sighted to neglect the implications which EEC entry represents in terms of coping with the multi-national company's challenge to a Labour government's freedom of economic management. When the Rome treaty was first published its emphasis on the four freedoms of the market (freedom of movement of capital, persons, services and goods) struck many commentators, both within the party and in socialist parties abroad, as the most classic statement of *laissez faire* philosophy since the classical economists. (Ex-premier Pierre Mendés-France foreshadowed opinion on the British left by making precisely this point in opposing French membership of the EEC in the debate on entry in the National Assembly. See Miriam Camps, *Britain and the European community* 1955-1693, 1964.) Yet as Harold Wilson made plain in his speech to the House of Commons in May 1967, the Labour government decided to open negotiations for EEC entry on the basis of the working of the community in practice, rather than on mere speculation about the meaning of the Rome treaty. (See *Hansard*, 8 May 1967.) That practice has increasingly evolved towards an economic policy recognisably closer to that of the last Labour government and the present Labour Party than to either 19th century liberalism or the neo-liberalism of the present government. [Apart from any other sources, this is plainly evident from the establishment of the medium term economic policy committee in 1964, set up by the ex-secretary general of the Organisation for European Economic Co-operation (OEEC) and then vice-president of the EEC commission, Robert Marjolin. This not only introduced a five year Keynesian forecasting framework for the member states of the six, but also immediately emphasised the importance of effective regional policies and policies of assistance for both declining and advanced technology sectors in the six. The committee had to overcome West German official resistance to forecasting and programming within the six, which was held incompatible by Chancellor Erhard with the formal neo-liberalism of Federal policy; a formality which found its own mark in the text of the Rome treaty but which has, in practice, since been eroded precisely through community "education" of the extreme neo-liberals on the medium term economic policy committee. Granted the almost total neglect with which the British press has treated this committee and its significance within the integration process in the six during the 'sixties, it is worth pointing out both that it is entirely composed of national, rather than community officials, with no majority voting procedure of the kind specified in the treaty itself, and that its continuing and consciously interventionist rôle is an integral part of the proposals for monetary integration embodied in the Barre and Werner reports.]

In considering the implications of British membership of the community it is particularly important to recognise how extensively its own policies have been evolved as a response to the penetration of markets and takeover of companies within the six by American multi-na-

tional companies. The Servan-Schreiber "challenge" thesis not only met with a warm response in Brussels, but was partly shaped by an official of the communities. The reasons are clear enough. Until the community came into being, US direct investment in the six was negligible. Yet within five years of its establishment the EEC's share of US foreign direct investment overtook that of the UK, and in the later 'sixties was one and a half times as large. It was not an influx of other EEC firms which disconcerted first the French and then the Italian governments after the setting up of the community, since virtually none came; EEC producers preferred to stay at home and export to the new tariff free market, as text book theory indicated that they would. It was American firms which challenged the independent future of leading French and Italian companies with good growth prospects.

In other words, the six have only recently experienced (at a faster rate and over a shorter time) what the UK has been experiencing since the end of the 19th century. It may be partly because of this that their reaction has been more pronounced than that of successive British governments, faced with a mounting but more gradual inflow; but the result has been a far more conscious attempt to orientate national and community policy towards an effective response to the American challenge than has hitherto been attempted in the UK. This is reflected in the major report into the effects of foreign direct investment in the six, which the community recently published, which said that US direct investment in the community not only limited national sovereignty in key sectors such as computers or nuclear power, but undermined at least seven major aspects of government economic policy to varying degrees, including monetary and financial policy, industrial policy including aids to industry, regional policy, policy for advanced technological industry, economic planning and balance of payments policy. It stressed that the economic union, towards which the community was working, was the only way in which to ensure that the countries of the six could "control their own destiny" in these fields. The applicability of this conclusion to Britain as well is something which the Labour Party should consider with care.

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the authors

Wayland Kennet was Parliamentary Secretary in the Ministry of Housing and Local Government during the last Labour government. He is a writer by profession (earlier in the name of Wayland Young) and the author of several earlier Fabian publications: *Bombs and votes,* 1964; *Controlling our environment,* 1970; and with his wife Elizabeth Young, *The Socialist imagination,* 1960; *Disarmament: Finnegan's choice,* 1961.

Larry Whitty is 28, a Londoner, married with one child. He worked for five years in the Ministry of Technology, mainly on the electronics and aircraft industries, with a spell in the minister's office. He joined the TUC economic department in 1970, and is now responsible for industrial policy matters, and economic briefing. Larry Whitty's contribution is based on considerably more extensive material produced for the TUC conference on international companies in October 1970. However, the views expressed in his article are his own, and are not necessarily those of the TUC.

Stuart Holland is a fellow of the Centre for Contemporary European Studies at Sussex University. In 1966-67 he worked as an economic assistant to Thomas Balogh, and in 1967-68 as a personal assistant to Harold Wilson in the Prime Minister's political office. He is an executive committee member of the Brighton and Hove Fabian Society.

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