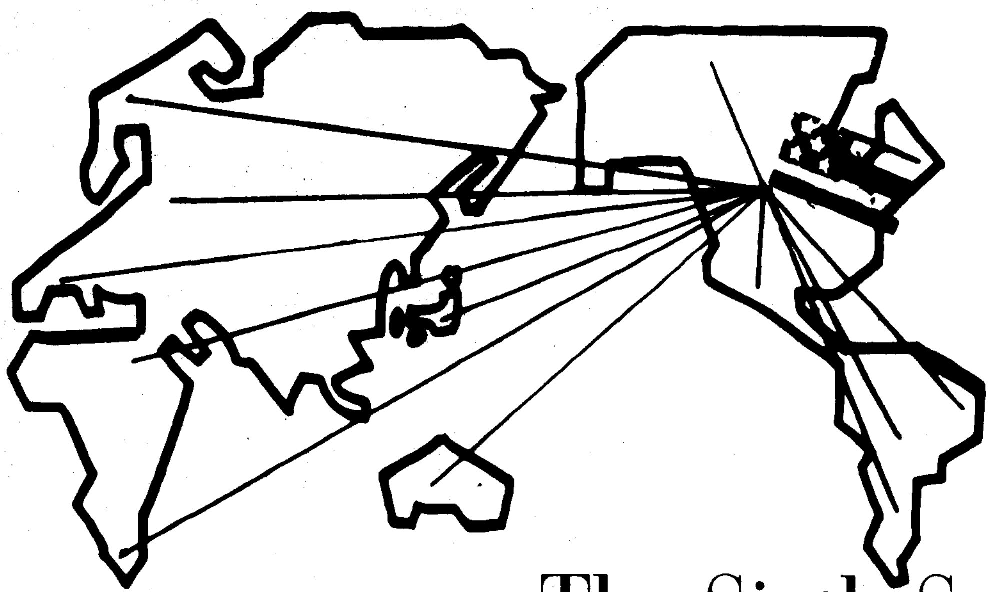

MNCs: The Sixth Superpower

Koji Taira and Guy Standing

The multinational corporation is an obviously important enterprise in the world today. But how important, and in what ways? The gross world product is estimated to be about $3 trillion, the United States accounting for one-third of it. Europe, Japan and Australia produce another third, and the remaining third is produced in the USSR, Eastern Europe, China and developing countries elsewhere in the world. About 15 per cent, or $450 billion, is accounted for by the multinational corporation (MNC), whose output has been increasing at 10 per cent per annum.

In view of the awesome implications of this development it is hardly surprising there has been a growing awareness, both here and abroad, of the activities and policies adopted by these giant MNCs, whose production operations straddle the globe and have come to dominate economies as diverse as Great Britain, Australia, Canada, Taiwan, Thailand, Liberia and Brazil. Already many companies—Proctor and Gamble, General Motors, Ford, ITT, IBM, Chrysler and Kodak, for example—employ more than a third of their work force outside the U.S. Some companies have plants in as many as twenty countries, and the scale and international scope of their activities show no signs of slackening—in fact, quite the reverse.

Of course the phenomenon is not entirely new. The internationalism of U.S. business has had a long history. Although the most dramatic expansion occurred in the 1960's, United States-based MNCs had their origin in the eighteenth century when entrepreneurs dispatched members of their family to represent their interests in England and the West Indies. After the American Revolution some set up offices in parts of the Pacific as well.

The first genuinely international company was Singer, although Colt tried to get a factory going in England some fourteen years earlier. Singer's first foreign manufacturing branch was established in Glasgow, Scotland, in 1867, and by 1879 it had twenty-six central offices in the United Kingdom and one each in France, Spain, Italy, Switzerland, Belgium, South Africa, India and New Zealand. Following the trail of Singer sewing machines, the list of products which American firms manufactured outside this country soon broadened, and by the 1890's it had come to include drugs, harvesters, electrical apparatus, typewriters, explosives, printing presses, elevators, guns and such services as insurance. And excepting insurance companies, all the firms involved in these undertakings established a tradition of financing much, if not most, of their foreign investment with foreign capital. Popular belief to the contrary, this is still largely true today. Another feature of this early period which has lasted was that investment was made predominantly in the wealthy regions of the world, mainly Canada and Western Europe.

By the turn of the century European observers were already talking in terms of an "American invasion." As one Englishman put it, "The invasion goes on unceasingly and without noise or show in 500 industries at once. From shaving soap to electric mo-

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tors, and from shirtwaists to telephones the American is clearing the field." President Taft even had the State Department reorganized so as to "make it a thoroughly efficient instrument in the furtherance of foreign trade and of American interests abroad."

From the beginning international business has been a mixture of fierce competition and monopolistic practices. Today there is an even more urgent need to provide safeguards that regulate the behavior of those giant firms that have survived and now dominate the world economy in an unprecedented manner. No longer, perhaps, should we talk of five superpowers—the U.S., USSR, EEC, China and Japan—but of six—to include MNCs. The multinational firms (at least three-quarters of which are American-owned) may coexist on terms of rivalry, but they have a common desire for a world where restrictions on their activities are at a minimum. Without conscious design MNCs can ignite a major international crisis, as recent monetary turmoils in Europe and Japan will attest. The February, 1973, crisis made West Germany buy more than six billion of U.S. dollars in ten days, but this amount of money would have been only 2 or 3 per cent of liquid assets of all MNCs at the time.

As might have been predicted, the magnitude of the development of MNCs, coupled with the worsening U.S. balance of payments and the visible weakening of the dollar in foreign-exchange markets, has caused considerable disquiet in government, union and academic circles —not to mention the countries that are host to these giant corporations. The complaints of these groups merit serious consideration.

Leading the attack, the AFL-CIO has claimed that U.S.-owned MNCs have effectively "exported jobs" by setting up outside the U.S. branch firms for the purpose of manufacturing components and, indeed, the final product. Rejecting this view, the U.S. Department of Commerce and members of the Harvard Business School have claimed that, far from having caused the loss of hundreds of thousands of American jobs, multinationals have in fact helped expand domestic employment. According to this view, many firms extend their production overseas because that is the only way they could avoid being priced out of the foreign markets; it is necessary to take advantage of relatively cheap labor and raw materials in those countries. Furthermore, they say, these foreign operations have created additional demand for American exports and have thus helped stimulate employment at home.

Business International made the latest attempt to shed more light on this question. Corporate questionnaires were sent out, and Business International ranked the eighty-six returned to them according to their rates of foreign investments. The results indicated that the more a firm invests outside its home country (as a percentage of its worldwide investment) the greater are its exports. Therefore, Business International concludes, "foreign investment does not seem to export jobs from the home country; it seems to create them in the home country."

This debate over employment effects of MNCs is as yet unresolved, and it is hampered by the assumptions and logic employed by both sides. For example, the trade unions seem to entertain an untenable static view of the economy in which a dollar going out of the U.S. always means a dollar less for domestic capital formation. This kind of argument ultimately leads to a complete isolation of the U.S. economy from the rest of the world.

Many public commentators have also failed to distinguish two principal types of MNC. Though many companies combine both types in varying degrees, in order to assess the employment effects of MNCs it is useful to distinguish companies organized by vertical integration from those organized by horizontal integration. Vertical integration arises when parts of intermediate inputs for the final product are produced by subsidiaries at different locations. Some auto companies, for instance, set up plants in (say) Taiwan to manufacture car components that require a large amount of unskilled or semiskilled labor. Having taken advantage of the relatively low-wage labor, the firm then transports the parts to the U.S., where they are assembled, perhaps with other components made in the Caribbean. The crucial aspect of this process is that the MNC depends on each separate link in the chain. Some upheaval, like a lengthy strike in the Taiwan plant, endangers the whole productive operation.

For the headquarters planning department of a vertically integrated MNC the choice of investment sites will depend on relative costs of production and on the relative likelihood that the investment will yield uninterrupted production. On other occasions the investment decision may depend on the relative cost of labor, and it is here that the business-union controversy has its source. Because evidence is sketchy at present, most economists are inclined to regard with equal skepticism the AFL-CIO claim that MNCs cost American workers "400,000 jobs" and the estimate made by one business-oriented economist that MNCs have resulted in an American gain of "250,000 jobs." On balance, the available evidence seems to favor the view that the activities of vertically integrated firms have increased, rather than decreased, employment at home. However, no strong, sound conclusions are possible on this issue.

The other type of multinational, the horizontally integrated corporation, consists of a parent company and one or more foreign-based subsidiaries which, in their productive capacity, are independent units. In the main, overseas subsidiaries are set up to manufacture and sell the company's products to customers in the surrounding region, whether that region is a national economy or some semi-integrated group of countries like the European Economic Community. Sometimes the parent company sets up a branch firm abroad to make products for the American market. Usually, though, they set up subsidiaries overseas to sell to foreign customers, and, as we mentioned earlier, they have been encouraged to do this because of high tariffs designed to give locally produced goods a competitive edge over foreign imports.

Even where tariffs or labor costs do not offer incentives, there may be a practical reason why firms wish to establish plants close to their potential customers. Differing national traditions and tastes often make it necessary to provide special designs suitable for particular markets, and in such cases it is just not wise to concentrate production for a world market in one industrial location. One finds, therefore, that firms selling goods or services on the basis of design tend to become multinational. The largest of all, General Motors, employed about 700,000 workers in 1971 in a total of seventeen countries and had ales of $28 billion.

As for the actual investment decision, some companies devise an index or scale to determine where they should channel their resources. Depending on the nature of the operations, certain "weights," or values, are given to such factors as the rate of price and wage inflation in a particular country or region, the degree of political stability, availability of a skilled or reliable work force not prone to high rates of absenteeism and labor turnover, tariffs, per capita income, freight costs, market size, wage rates, distance from other markets and economies of scale.

This last factor has received considerable attention from those observing the MNC expansion. It has also been a prime cause of the current preeminence of American industry. There are many ways to achieve economies of scale, but a simple example will suffice here. Suppose a certain plant costs a million dollars to construct and can produce, when operated at maximum economic efficiency, 100,000 units of the firm's product per year at a unit cost lower than any alternative method of production. Now if the market for that item is small, the company might be able to sell only 50,000 units, at which rate of output the installation of the million-dollar plant would not be economic. In other words, only if the firm can generate a large-scale demand for its product will it install the expensive plant from which to make a substantial profit.

There are examples of economies of scale at all stages of production. For instance, there are often said to be managerial economies of scale, since the number of tasks does not grow in proportion to the increase in production. Yet, as firms expand, managers increasingly delegate certain of their responsibilities to other executives, and there develops a division of labor within the managerial hierarchy, with a number of important implications. It introduces most especially a problem of communications, for unless the various managerial and other executive functions are well coordinated, efficiency is seriously impaired. In other words, large, complex firms, particularly those with branches scattered over the globe, are potential vehicles for certain significant diseconomies of scale. Where there is little personal contact, misunderstandings easily arise. Petty bickering or career-oriented infighting can sour business relationships and hamper effective development of ideas, blocking the flow of information that would be useful in company planning.

But failure of communication, lack of coordination and trust are by no means the only causes of diseconomies of scale. A plant at a particular site expands, transport congestion develops and land prices rise as the demand for housing and factory space push up land values. The result: pushed-up costs within the firm. And these and related developments contribute to decline in worker moral, to greater absenteeism, and lead to demands for higher wages. In some cases diseconomies of this sort may have a decisive effect on an MNC's location strategy. Such diseconomies of scale mean that a firm simply cannot grow indefinitely. The tremendous advantages gained by many U.S.-based MNCs by their early start must sooner or later diminish while MNCs based in other countries expand rapidly as they exploit their youthful economies of scale. Indeed, as Professors Stephen Hymer and Robert Rowthorn have discovered through comparative statistical analyses, among American and foreign MNCs a firm's rate of expansion is negatively correlated with its size. Foreign MNCs are fast catching up with the American ones. Worries about the "American challenge" are perhaps overdrawn.

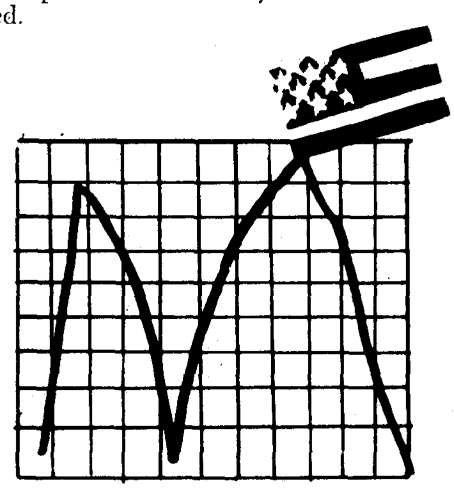
For a company to be successful, its management must recognize and overcome diseconomies of scale just as it must make the most of potential economies of scale. To do this multinationals have relied heavily on the fruits of their internal research and development (R & D), which they have tended to concentrate in one or several locations. And therein lies the source of much bitterness, because this policy has meant in effect that many if not most technological improvements and new products have originated in the U.S. or wherever the MNC parent company has been situated. The international business community argues that because scientific and inventive skills are demonstrably scarce and because modern advanced research demands heavy outlays on equipment and related facilities, there are considerable economies of scale to be gained by concentrating the firm's research resources in one or at most several focal points. Furthermore, they argue, if the research technicians share a common environment of mutual exchange and development of ideas, technological advance will be more likely than if the company spreads its R & D resources over the geographically separated branches of the firm.

Probably for most companies this policy has paid dividends and in the process has helped ensure that the American reputation for technological progress has been maintained and enhanced. But some foreign observers have complained that the result has been the development of technologies and products geared to American tastes or to the availability of capital and work skills in the U.S. economy. Then, they maintain, the results of these R & D expenditures are too often exported to where they are inappropriate. As far as products are concerned international companies are under pressure to take local conditions into account. Otherwise they lose sales. One marketing manager pointed out the difficulties: "As an example, automative test equipment as produced in the United States is in most cases unsuitable for the smaller, lower horsepower vehicles built in Europe and Japan. U. S. firms have lost out almost completely on equipment sales to these areas simply because original designs did not take local requirements into consideration." In that sort of situation it is the company whose policy is forced to change, but often the firm will invest in sophisticated salesmanship and marketing in order to create the local demand for their product.

As for the tendency to export methods of production Paul Strassmann concluded from his extensive field studies: "Out of thirty subsidiaries in Mexico and Puerto Rico, I found only one that could choose its own equipment." Professor Hans Singer recently pointed out that 98 per cent of the world's R & D expenditure occurs in industrialized countries (not, of course, all in MNC's) with the result that the new technologies developed have tended to be overwhelmingly capital-intensive—employing relatively little labor—whereas Third World countries desperately need labor-intensive technologies. By importing the fruits of their R & D efforts, MNC subsidiaries in less developed countries can therefore add to the chronic problems of unemployment in those countries.

While the centralization of R & D has been taking place, the international application of the results of that research has been greatly facilitated by the internationalization of capital markets. Although the foundations were laid much earlier, since 1962 an essentially new form of finance has developed on a vast scale, partially in response to the needs of its multinational clients. This has come to be called the Eurodollar market, through which have flowed huge quantities of dollars as well as, increasingly, other major world currencies. Considering its global significance, surprisingly few economists, let alone politicians and journalists, know much about the workings or even the size of this financial whirlpool. It would be conservative to suggest that about $80 billion circulate in the Eurodollar market.

In bare outline, what has been happening is this: Because interest rates are often higher abroad than in this country, dollars have flowed out to be deposited in banks outside the U.S. (often in London, where there are now over two hundred American banks), from which they have been lent to borrowers including major MNCs. However, deposits by U.S. citizens have only represented one supply route for money-seeking profitable outlets in the Eurodollar market; many foreign holders of dollars, including MNCs themselves, choose to invest in Eurocurrency transactions rather than repatriate the funds to the U.S. or convert the dollars into other currencies for other forms of expenditures. MNCs have therefore been both borrowers and lenders in the Eurodollar market, but without this major source of funds—along with the less publicized and currently much smaller Eurobond market, through which companies can borrow long-term capital—much of the MNC expansion in recent years would have been slowed.



The availability of adequate funds and the flow of new ideas coming from intensive and expensive research make the task of successful management in expanding MNCs somewhat lighter than it would otherwise be. But they necessarily bring with them problems concerning decisions as to how and where to concentrate the thrust of that expansion. We have already mentioned the criteria which help determine the distribution of investment, but it is crucial to appreciate the important role played by generations of astute businessmen, for without the flair they have brought to their chosen task the position of strength attained by American firms would have been markedly different. Throughout the world quality of management is recognized as vital in the success of modern large-scale business, and it is generally conceded that American managerial skills have been particularly well tuned to the need to maximize efficiency and profitability, to meet and overcome competition from other companies, and to serve and develop a market demand for their products. Indeed, the drive and competitiveness of the businessmen who pioneered and guided the worldwide expansion of American companies have rarely been questioned.

Of course, some firms have caused or run into difficulties, especially on those occasions when American managers have gone to foreign countries with preconceived notions of how the firm should be run. The successful companies, however, have found that their foreign representatives needed to possess a special set of flexible managerial skills, and predictably they have had to pay high salaries and supplementary benefits to attract the right men.

The range of qualities required for foreign assignments was aptly described by the vice-president of a metals company in answer to a question in a recent survey carried out for the Conference Board. He said: "We are all looking for 'self-starters' who can *think*, who are *simpatico*, willing to work hard, and undergo extended trips—some with much discomfort; who have a knowledge of another language or languages, or the facility and willingness to study; and who also have the ability to acquire product knowledge. Above all, diplomacy and a sense of timing are all important." As can be appreciated, it takes a rare type of person to fill all those specifications, and, not surprisingly, as the number needed for overseas assignments grows, many of the people actually sent overseas do not possess them all.

Understandably there has often been pressure from nationals for greater local representation in management and on the boards of directors in affiliate firms of multinationals. Possibly in response to this pressure and partly in reaction to cost considerations the ratio of Americans to host-country nationals has declined in recent years, although in most cases the running of foreign subsidiaries is still in the control of Americans. To check the foreign domination of their countries some governments have forced the pace of change by requiring that a certain percentage of the firm's employees should be nationals, while in other cases they have demanded that ownership of the firm should be partially in local hands, or become so over a number of years. Notwithstanding those special situations, it is still widely believed that U.S. enterprises like to have 100 per cent ownership of their foreign subsidiaries; they have left themselves open to nationalistic resentment.

The centralization of control has caused unionists most concern and prompted many of them to clamor for countervailing joint action against individual MNCs. In particular, union leaders have felt that their bargaining position was weakened by the employer's implicit or explicit threat that, unless the union cooperated with management and unless the workers did likewise, the firm could always move elsewhere or channel any additional investments to another of its plants situated in another country. Even if unionists believe that the threat is merely a bargaining ploy, they cannot be completely confident and have thus felt compelled to consider strategies involving internationally coordinated union action against the multinational.

The need for such action has, according to unionists, been demonstrated many times, and it is true the strategy they fear has been adopted by MNCs on occasion in the past. For instance, in March, 1971, Henry Ford visited the British Prime Minister during a confrontation between the company and its British work force. At that time he threatened to stop production in the U.K. of component parts for the company's assembly plants in Asia unless the unions tuned down their demands and their members started to act "responsibly." If such threats are taken at their face value they tend to seriously undermine the bargaining strength of unions; in order to deal with such contingencies unionists have come to talk of the need for multinational unionism. One organization in the forefront of this debate has been the United Automobile Workers of America (UAW), a leading participant in the World Automobile Council, which has been considering the possibility of a concerned collective bargaining strategy on a global basis. Such a policy would be designed to offset the international power of the big American auto companies, as well as their smaller European-owned competitors.

To date, however, perhaps the most celebrated example of international bargaining and union cooperation was not in the auto industry but involved a French-owned glass manufacturing multinational, St. Gobain. The campaign against the company was directed by the International Federation of Chemical and General Workers' Union, which coordinated the activities of unions in four European countries, and demonstrated that successful pressure bargaining against multinationals was more than a wishful dream. But, in addition to the promising St. Gobain case, appeals from a union in one country to one in the United States requesting the latter to apply pressure on the parent company have also marked up some successes. When Belgian auto workers appealed to Detroit for some assistance against an American multinational, the UAW threatened to take supportive action and thus effectively forced the company to rescind certain changes in work conditions which the Belgian workers had opposed.

Yet despite these and several other instances of successful union cooperation, even its most enthusiastic advocates would readily admit that many snags, suspicions and practical problems will have to be overcome before international collective bargaining can be realized. The difficulties are especially severe in industries where one or more U.S.-owned multinationals have continued to refuse adamantly union recognition of any sort.

Union activities are only one source of difficulty that the American executive has to face when taking an overseas assignment in a multinational firm. Often the basic problem area lies outside the company, a fact which explains why about 4 per cent of all Americans sent overseas by their companies are employed for the sole purpose of improving and handling "community relations." It is no secret that American firms have met various degrees of opposition from national governments, as well as from other political and economic groups in the host countries of their subsidiary firms. Usually the opposition has been most vociferous in the economically deprived regions of the world, but even on our doorstep, in Canada, fears have increasingly been expressed that U.S. domination of national industry has become so widespread that national autonomy has been seriously undermined. Such sentiments are more readily appreciated when it is realized that by 1965 over 50 per cent of Canadian industry was in U.S. ownership. One can imagine the reaction of politicians and others if they woke up one morning to find that over one-half of all American industry was in the control of Germans or Englishmen operating from headquarters in Europe.

The fears and resentment tend to run deepest in the improverished countries of the Third World, where American and other foreign firms often account for most or all of the paid employment in advanced sectors of the economy. In such circumstances, rightly or wrongly, the foreign company is liable to be made a scapegoat for the chronic shortage of jobs or for the fact that a small section of the country is seen to be living in affluence while the vast majority of the population are eking out an existence on an annual income of about $200.

The reasons for the widespread hostility to American firms are as many as they are varied, some genuine and some not. In part, the basic cause is an understandable envy, but one reason sometimes put forward is the existence of anti-American propaganda designed to give a totally false image of the practices and beliefs of American businessmen–one justification for the large public relations staff many multinationals employ in their overseas subsidiaries. Such employees can do much to overcome the nationalistic fear of the unknown alien employer, who is widely regarded as bringing with him new and restrictive standards of work.

For many people who know little or nothing of life outside their neighborhood, let alone in the United States or Europe, the large-scale presence of foreign employers poses a fundamental threat to their cultural heritage, their national or local pride, and it removes the control of their economic well-being to some unknown place thousands of miles away. Such dramatic breaks with traditional life, unless handled sensitively so that genuine fears are set at rest, may well add that vital ingredient needed to spark a revolution. One learned American observer, Chalmers Johnson, recognizing this possibility, has put it nicely: "So long as a society's values and the realities with which it must deal in order to exist are in harmony with each other, the society is immune from revolution." But often the foreign firm effectively destroys that harmony, for which reason those "community relations" personnel have indeed a vital role to play. Without exaggeration it can be said that the ultimate long-run success of the company will often depend on the tact and patience displayed in employee and public relations.

Within academic, business and political circles opposition to multinationals is often ascribed to the fact that contrary to popular belief, more money flows out of the less developed countries into the United States than the other way round. Indeed many American academics have pointed to the ironic fact that when remitted profits are compared with investments made abroad multinationals have regularly made a net positive transfer of capital to the U.S. from those countries. Even then this understates the magnitude of the flow, because much of the finance capital used for overseas investments is obtained in foreign money markets. In fact about 80 per cent of the total amount invested is raised abroad. It is one of the great myths that a vast amount of U.S. capital has flowed to direct investments in the Third World. But it is also perhaps a remarkable achievement that in the light of these patterns nationalistic resentment directed against MNCs has been so muted. The reasons for this are probably not hard to find.

In part the lack of controversy is due to the widespread recognition that MNC operations have facilitated an international transfer of technology and new products. When the foreigners bring with them dishwashers, electronic computers and other scientific wonders of the twentieth century, people unaccustomed to such phenomena tend to feel somewhat uneasy at the prospect of rejecting the producers of those items, even though the likelihood of their benefiting directly from such goods is minimal.

In many poor economies a second factor explaining the acceptance of MNC subsidiaries is the grudging concession that as employers they are no different, and sometimes much better, than local employers. In part this reflects a willingness of American firms to adopt local customs and make compromises in the interests of local sentiments by such moves as changing product names to give them local appeal and by raising nationals to the board of directors or to executive positions. More often it reflects the hard fact that not only do MNCs pay above-average wages and fringe benefits, but they provide the type of training that workers would be unable to secure elsewhere. In Liberia, for example, the vast majority of people working off the farms will at some time be employed in an American firm, probably either

Firestone or Goodrich; many workers use their employment in such companies as a stepping stone in their careers and as a means of acquiring the necessary skills to set up their own small firm or workshop. In effect they benefit at the expense of the American employer, who meanwhile experiences chronically high labor turnover rates. So through the frustrations of American managers many local workers have cause to be grateful to them—while in a sense the employers' frustrations can be seen as an investment in good will and an insurance against opposition to their continued presence in the country.

Of course, where American management has not been sensitive and flexible, trouble has tended to follow, both in developed and underdeveloped countries. In this regard they have been sorely tested by the frictions caused by the major social and economic problems confronting many economically backward countries—the scarcity of jobs, a scarcity which has shown ominous signs of becoming even more acute. The rate of unemployment in Latin America, for example, doubled between 1950 and 1965 to 11 per cent; it is predicted to grow to about 18 per cent in 1980 unless drastic action is taken to reverse the trend. In the face of such developments the introduction of modern production techniques designed to economize on labor by raising productivity only serves to increase the shortage of jobs. Yet this is precisely what many multinationals have done. They have adopted the motto, "Menos obreros menos problemas" (fewer workers, fewer problems). In the course of fifteen years the multinational oil companies in Venezuela cut their labor forces by a third while their output was doubled.

This highlights an important dilemma and area of potential conflict between the host-country government and the multinational firm, for while it may be profitable for the firm to install automated or other technologically advanced equipment that cuts the firm's labor requirements, the interests of the government and national economy may dictate that the optimum production process should consist of less sophisticated equipment and rather more labor. Put bluntly, in this increasingly common situation the issue becomes: Who is the Boss? Of all the areas of conflict this issue seems destined to be the major source of tension in the coming decade.

Other dissatisfactions flow from the refusal by some MNCs to recognize unions; to attempt to impose alien work styles in their subsidiaries in opposition to local or national traditions; to adhere to the official U.S. policy banning companies from trading with Communist countries. Not surprisingly, workers and politicians alike have tended to react angrily when American firms have declined orders that would have created employment and income for local workers. Finally, and perhaps most unsettling of all, it has been an occasional practice for the MNC parent company to order a cutback of employment in a foreign subsidiary without prior consultation with interested parties in that country, a well-known case in point being Remington Rand's closure of its French plant. This type of sudden policy change, which might be perfectly justified in the interests of the firm, is capable of seriously dislocating the local economy, and is often a primary consideration given by those who advocate the imposition of controls on MNC activities in their countries.

For their part, the main fear of MNCs is the possibility that their investments may be expropriated by national governments, a fear which is especially real in less developed countries, where governments tend to be relatively unstable and where ruling groups often come to power pledged to take drastic action of some kind to remedy the endemic economic problems plaguing their countries. However, despite the regularity of sudden coups, the evidence does not suggest that many of them lead to subsequent confiscation of American and other foreign property. Edward Luttwak pointed out that of the eighty-eight coups d'état he was able to record between 1945 and 1967 only six led to widespread state takeovers of private firms. Of course, to these must be added the instances in which elected governments have taken similar action, such as the "Chileanization" of the copper industry in Chile. But the fact remains that the risk of incurring heavy losses as a result of nationalization is not high. Of the major setbacks suffered by the international business community the revolution in Cuba was probably the most serious, as huge foreign investments had been ploughed into that small country. In addition, Ceylon nationalized American petroleum companies, as did Indonesia and Peru. In Brazil ITT has lost facilities, and in Chile in the mid-1960's U.S. copper companies were faced with steep tax increases which had the effect of threatening their existence there.

In each case the companies concerned looked to the State Department for assistance (primarily in the hope of recovering lost assets, as the American business community does operate an insurance system for such calamities). But, with the exception of the ITT case, attempts to obtain compensation have not been impressive. In an effort to give the American government additional powers of retaliation Congress passed the Hickenlooper amendment to the foreign aid bill of 1962. This amendment has sanctioned the suspension of aid to a country whose government permitted expropriation of U.S. property. It was used against the tiny island of Ceylon and has been employed as a threat in other cases, yet it is generally conceded to have been of little help in assisting U.S. firms. Moreover, observers have warned that the State Department could overcommit itself in support of companies operating abroad, thus allowing them to act irresponsibly in the knowledge that their government has an open commitment to come to their aid when they are threatened.

Nevertheless, official efforts—albeit haltingly developed—have been made to assist and stimulate foreign investment by U.S. multinationals; it was symptomatic of an emerging synthesis of international business and government that President Nixon recently described ESSO's Peruvian affiliate as "our petroleum company." Although this convergence of interests has had a long history, the government has been pursuing an increasingly active role ever since 1945. Thus the U.S. AID agency, designed to channel aid to the Third World, set up an Office of Private Enterprise, which employed investment analysts to seek out foreign investment opportunities for American companies. Later the government helped establish such organizations as the Association of American Chambers of Commerce in Latin America for the purpose of providing an environment conducive to private enterprise. Within the United States, agencies with interest in this endeavor have proliferated, usually taking the form of a committee such as the Trade Information Committee.

Perhaps one of the most significant government initiatives taken to assist overseas private investment was contained in President Kennedy's Alliance for Progress and in particular the Committee for the Alliance for Progress (COMAP). This consisted of thirty businessmen from companies operating in Latin America who were concerned with expanding private U.S. investment in that region. Unfortunately, lack of coordination between government and business hindered COMAP's effectiveness. In 1963 it was supplemented by the Advisory Committee on Private Enterprise in Foreign Aid, whose report was completed in 1965 and quietly shelved. Three years later the business community suggested the creation of an Overseas Private Investment Corporation, the organization which President Nixon succeeded in getting established in 1970. This joined other bodies that have developed in recent years, organizations such as the Atlantic Community Development Bank for Latin America, initiated by Senator Jacob Javits and designed to seek out investment opportunities, then assist firms to obtain financial backing. At the same time other means have evolved to improve communications between business and government, notably the Business Advisory Council, which later re-formed to become the Business Council, whose International Committee provides business advice to government officials.

Despite this patchwork of organizations, relations between the international business community and government have not been entirely smooth or free from dissatisfaction. However, though there is still undoubtedly room for improvement, much has been done to create an atmosphere of mutual trust and cooperation. In particular, the Business Council for International Understanding and the Council for Latin America were developed some years ago in response to the need to coordinate business and government policies abroad. Slowly but surely business and government have been moving toward a state of affairs in which foreign policy is the outcome of joint consultation and mutually acceptable decisions.

Thus the growing involvement of business and government has been a reciprocal one, for besides the role played by government in stimulating and aiding foreign private enterprise, businessmen and corporations have had an expanding role in the conduct of foreign policy. For instance, the Council on Foreign Relations is largely financed by business corporations, and businessmen and lawyers constitute the bulk of the membership of the many Committees on Foreign Relations throughout the country. Richard Barnet examined the background of major foreign policy makers between 1940 and 1967 and found that three-quarters had come from giant MNCs and investment houses. The proportion in top positions, such as Secretary of Defense, was even higher. It would therefore be naive to argue that the MNCs' interests have not figured prominently in the actions of the country's foreign policy makers.

Behind this tendency to look after the concerns of the international business community lies the assumption that MNC expansion will not only benefit the companies involved but will help to reduce international tensions. As Neil Jacoby put it, "The multinational corporation is fundamentally an instrument of peace." The reasoning behind this view is that it would be absurd for one country to bomb another if some of the factories likely to be damaged were owned by its own citizens or businesses. But others have noted that this assumption neglects the fact that most firms are controlled by the United States, while the remainder are largely owned by British, Japanese, Canadian and West European companies—the "haves" of this world as opposed to the "have nots." Moreover, important investment and related decisions are usually made in the U.S. or in some other center of control. Therefore, regardless of the correctness of any major decision, it tends to be seen as neglecting the interests of the country in which MNCs are operating. For this reason as much as any other the clash between the so-called internationalism of giant firms and the nationalism of the host-country may continue to threaten peace both within countries and between them. So all that can be said on this crucial issue is that many of the most enthusiastic MNC supporters have conceded that views such as Jacoby's are built on optimism and very little else. As Robert Cox put it, "As the historical thrust of the multinational corporation becomes more apparent and more publicized, the reaction against it may be expected to follow with growing force." The reaction need not be explosive, but preventing it from being so will be a formidable and delicate task demanding diplomacy of the highest order.