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THE DEVELOPMENT OF MULTINATIONAL COMPANIES : ITS ADVANTAGES AND DISADVANTAGES ; ECONOMIC, SOCIAL AND POLITICAL MEASURES AND ADJUSTMENTS CALLED FOR

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THE DEVELOPMENT OF MULTINATIONAL ENTERPRISES

Paper read by

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THE DEVELOPMENT OF MULTINATIONAL ENTERPRISES

I. THE MULTINATIONAL ENTERPRISE AHEAD OF ITS TIME.

1. Stating the problem

We are living in a world where our thougths and actions will be determined to an ever increasing extent internationally. It therefore sound paradoxical to have to observe that it is precisely the multinational enterprise that is becoming the object of increasing criticism.

For a proper understanding of this paradoxical situation, a distinction needs to be made between two fields of tension. The first of them is located between enterprise and society. For the multinational enterprise there is a second field of tension stemming from the fact that the multinational enterprise has an international standpoint. Owing to its international position, the multinational enterprise is confronted with the interests of the national communities in which it is active. Before going further into this situation, a definition is given below of what we understand by the term multinational enterprise.

2. Definition of multinational enterprises.

The multinational enterprise is an enterprise which carries out business activities on a permanent basis in several countries and attunes these activities to each other.

This definition has deliberately been kept wide, so as to link up as well as possible with linguistic usage. Thousands of enterprises which are involved in the national economy in various countries through their more or less permanent local activities, come under the heading of multinational enterprises.

A characteristic of the multinational enterprise is the coordination of activities in the various countries. The activities belonging to the group are attuned to each other within the framework of common objectives and a common strategy.

Nothing is said in this definition about the degree of multinationality. Indeed, this may be highly divergent. At the foot of the ladder are the enterprises which are active in only a few countries and where the activities and business management are dominated by the country in which the head office is established. At the top of the ladder are the enterprises whose activities are open to influences from many countries and the management of which endeavours to give a direction, from a worldwide standpoint, to activities that are spread throughout the world.

The degree of multinationality will also be reflected in the financial structure of the enterprise. If assets and shareholders are spread over several countries, then the multinational character is reinforced.

The degree to which an enterprise unites several nationalities in the management is also determinant for the nature of the management structure. The enterprise in which the best man is appointed regardless of nationality has more right to be called multinational than the group in which national preferences prevail.

For the way in which a multinational enterprise adopts its standpoint, it is further of importance to make a distinction between multinational enterprises that have a centralised or a decentralised method of decision-making. In general, the principle of decentralisation is gaining ground. In a large international concern, flexibility can only be preserved by a great measure of independence and own responsability on the part of the local managers. The central control exists on the basis of plans covering several years, budgets and management information systems and criteria. These instruments offer the possibility of coordinating group activities in the fields of research, production and sales. The most important investment decisions, the financing and the appointment policy for top officials generally remain a central matter.

According as the multinational enterprise applies a decentralised policy, it will prove easier for it to adopt a pluriform standpoint in the different countries in which it is active. An efficient policy formation, however, depends to a large extent on the type and function of the individual enterprise.

3. Typology and functions of multinational enterprises

1) Extractive firms

Far back in history, enterprises already sought for sources of minerals and oils overseas in order to supply local requirements. In this case, the purpose of the foreign investments was to safeguard the supply of raw materials for processing and consumption by the firm itself. Obvious examples of this are mining companies, oil companies and food firms with plantations in tropical regions. The significance of this category of enterprises is of a twofold nature. First of all, in most cases long years of experience and know-how are present on the production side, which are further promoted by research. The strength of these enterprises also lies in an international distribution system that is built up. Moreover, the latter point does not hold true for natural products which are sold on the world market in that form.

2) The life-cycle enterprises

Many American enterprises started to give an international slant to their activities after a certain saturation point had been reached on the advanced national market. In developing new markets abroad, it was possible to benefit from the know-how and experience already acquired on their own market. We thus see that the major selling waves for washing machines, refrigerators and television sets in Europe followed, with some time lag, the initial sales peaks in the United States. In the last phase of the life-cycle of the product, the advance has disappeared, competition increases and the yield will decline. The group, which has meanwhile started operating internationally, will convert itself into the type mentioned under 3 and 4.

3) The synergic enterprises

A number of enterprises have opted from the very outset for a multinational standpoint. Especially in Europe, several enterprises were obliged, because of the limited nature of their own domestic market, to adjust their activities beforehand to sales on various markets. Firms which were willing or able to make this move were in general in a position to offer something specific. They had an advance over possible competitors, either of a technical or of a commercial nature. Many multinational enterprises now see their strength reside in a policy that is aimed at renewal, by means of research activity permanently geared to this. If it is desired to organise these research activities in an optimum way, then the cost must be spread over a maximum sales area. In many cases, this means a decent share on the most important world markets. Conversely, this international spread of activities is expected to lead to a synergy, a favourable mutual influence and support for these activities.

Various factors further play a role in the decisions as to whether exports will be made to foreign markets or whether goods will be produced locally, either in the firm's own establishments or under licence. Factors that may be mentioned here are customs barriers, continuity, service to customers, scope of the market, local establishment factors, etc.

4) The internally specialised group

A new category, which came to the fore especially in the 1960s, is the multinational enterprise which proceeds to increasing specialisation within the group. We see that the motor industry and the electro-technical industry already had establishments in many countries with local production for the local market. Gradually, shifts occur here, and this means that the different subsidiaries specialise in the manufacture of certain components, which are made for the world market. The assembly then occurs at a central point or, where this proves better, regionally or locally.

As appears from the foregoing, the multinational enterprises are in a position to make use of the relative cost advantages offered by each country. On the other hand, international specialisation and trade are promoted to an accelerated degree by this development.

5) The financially oriented enterprises (conglomerates)

Many entrepreneurs have seen the multinational enterprise as a means of risk-spreading. These risks may be of various types. Cyclical fluctuations do not occur simultaneously all over the world, so that an appropriate geographical spread of activities is to the benefit of a stable development of the multinational enterprise. The risk of nationalisation is also reduced by the multinational enterprise.

It is mainly the multinational enterprises coming under types 4, 3 and 2 in which there is the greatest need, from the point of view of business efficiency, for a coordination of the group activities. In the case of conglomerates,the policy can be carried out in a more decentralised way, except for the financial aspects.

In the concrete multinational enterprise, we find in most cases a combination of a number of typical features. The objectives of the multinational enterprise may however be highly divergent. Nevertheless, they all have one point in common : the constant seeking after an overall - in the sense of worldwide - optimum in production, research and distribution.

Within the framework of its own objectives, the multinational enterprise fulfils a nomber of social functions. Stated in general terms, the multinational enterprise plays a central role in the internationalisation of industrial developments and other business activities. In this way, it contributes to the geographical spread of welfare. In addition, a nomber of specific functions may be distinguished.

First of all, the multinational enterprise has at its disposal an international pool consisting of capital, management and technical experience, research, production capacities and access to the world markets. The multinational enterprise can always fall back on this pool and employ the best know-how and manpower. The pool available to the multinational enterprise is, more particularly, of great value for the developing countries. With respect to industrial countries, the multinational enterprise acts rather as a clearing-house in the transmission of knowledge and experience and the transfer of capital and experts.

A second function performed by the multinational enterprise is that of arbitrage. The multinational enterprise will take account of international differences in costs and prices in its policy considerations. Labour-intensive production will be started up in low-wage countries, if the total production and distribution costs prove to be lower. Sales will preferably be concentrated on the markets with the highest yields. In this way, the multinational enterprise contributes to a certain levelling-off, internationally speaking, in the remuneration of the production factors capital and labour, as well as in the price of the final product.

A third function that may be attributed to the multinational enterprise is that of catalyst of new international structures in trade and industry. In the case of the multinational enterprise, new ideas and techniques are rapidly passed on by means of the international radius of action. Penetration on new markets leads to keener competitive relationships and the break-up of existing patterns. It is not only through the enterprise's own growth that an endeavour is made to achieve the most favourable possible structure from the overall point of view. In the 1960s, especially, an extremely large number of mergers and take-overs occurred among the big concerns. Structural adjustments in businesses and branches of activity were carried out at an accelerated pace. In cases where multinational enterprises were lacking, or were insufficient in nomber, we see that these structural changes either failed to materialise in certain branches of activity, or else were carried out to an inadequate extent.

I am thinking, for instance, of the textile industry, where a European or international regrouping could have brought about a considerable strengthening and concentration of forces.

4. Scope and development of multinational enterprises

Statistical data about the scope and growth of multinational enterprises are scarce and incomplete. We do indeed find reliable data with respect to the investments of US enterprises abroad, which would make up about 60 % of all foreign investments.

Annex I gives a survey of 'US Direct Investments Abroad by Major Area'. The total direct investments of US enterprises abroad show an increase from $ 40.7 billion in 1963 to $ 78.1 billion in 1970, which means that they almost doubled in seven years' time. Investments in industrial countries show a definitely greater increase than those in developing countries. The most marked growth occurs in the EEC, where American investments rose in the period under review from $ 4.5 billion to $ 11.7 billion, i.e., by 160 %.

On an overall basis, the spread of US direct investments abroad is now : 1/3 in developing countries and 2/3 in industrial countries. About 1/3 is invested in Europe and slightly less than 1/3 in Canada. The small amount of investments in Japan is striking : $ 1.5 billion in 1970.

From Annex II 'US Direct Investments by Major Industries' it may be deduced that the investments in 'Manufacturing' and 'Other Industries' rose more quickly in 1963-1970 to a total of $ 50 billion than in the categories 'Mining and Smelting' and 'Petroleum'.

Annex III lists 'The Value of Foreign Direct Investments in the US by Major Industry and Country - End of 1970'. Of the total amount of $ 13.2 billion of investments in the US in 1970, $ 9.5 billion came from Europe. Investments from Europe have increased by about 50 % since 1967. Traditional investors in the US are Great Britain, the Netherlands and Switzerland, which account for 80 % of the investments originating from Europe.

As regards the total of direct foreign investments in the world, originating from free countries, only estimates are known. Jack Behrman in his book 'National Interests and the Multinational Enterprise' estimates the total at $ 140 billion in 1969. Mr. Judd Polk of the US Council of the International Chamber of Commerce comes to the conclusion, on the basis of rough calculations, that $ 1 of direct foreign investment yields about $ 2 turnover per annum. If we were to place the direct foreign investments at about $ 150 billion for 1970, then the turnover of foreign subsidiaries amounts to $ 300 billion, equal to the gross national product of France, Italy and the Benelux countries together, or 12 % of the gross national product of the free world.

It is a striking fact that the annual growth of the US direct foreign investments by approx. 10 % as well as of the European investments in the US by just over 14 %, exceeds the growth of the gross national product in the industrial countries. This indicates that the multinational enterprises are playing an important and growing role in the world economy.

The greatly increased industrialisation in the world is reflected in world trade, 2/3 of which now consists of industrial goods. In the period 1963-1970, world trade increased annually by just over 10 %. Trade among the developed countries rose more markedly, by over 12 % per annum.

Attention is drawn to a remarkable phenomenon : the economic relations among the industrial countries are becoming ever more intensive and this applies to trade as well as to direct foreign investments. Developments in both fields are almost parallel, although one is inclined to assume that foreign investments are increasing somewhat more rapidly than trade.

As an explanation of the quite spectacular growth of the international activities of enterprises, reference may be made to three factors.

In the first place, a great many initiatives were developed after the war for regulating monetary and commercial relations, in which connection special mention may be made of the arrangements made in the IMF and the GATT.

Furthermore, regional integration - more particularly, the EEC - has exerted a powerful impetus on the internationalisation of European firms and on the penetration of American enterprises in Europe.

Lastly, technical progress in traffic and communications has stimulated the expansion of international economic activities.

The post-war period has been characterised by an almost uninterrupted and steep rise in welfare. One cannot escape the impression that the multinational enterprise, as linchpin of an industrialisation at the international level, has obviously made a powerful contribution to this growth of welfare.

5. Enterprise and society

The upsurge and penetration of the multinational enterprise in economic life give rise to tensions, as indicated in the statement of the problem. In part, these tensions do not relate specifically to the multinational character, but to the large enterprise and in general to the system of corporate production in the Western countries. The enterprise has contributed to an unequalled extent to increasing the prosperity. The growth of production has however been accompanied by disquieting secondary phenomena with respect to the nature and quality of our existence. Certainly in the Western industrial countries, the growth of prosperity is no longer regarded as solely a blessing. The wellbeing of human society is obviously being given priority over the increase in prosperity.

The 'Rome Club' has pointed, not without reason, to the dangers of an exponential growth : exhaustion of the natural reserves and increasing contamination and destruction of nature. Many critics go so far in their calls for more wellbeing, better protection of the environment, and less work effort, that they tend to forget that their wishes can hardly be fulfilled without economic growth.

Indeed, few people will accept a decline in prosperity. Economic growth will, however need to be directed more towards the quality of existence. Waste products should be brought back into the economic circuit. The price and market mechanism and the financial yield calculations of enterprises, however, give inadequate expression to the sacrifices of a general and social nature which the community makes for the benefit of growth. The government will consider it as part of its task to take supplementary action here.

In the field of management and personal relations, too, new conceptions are called for as regards a say in matters, motivation, development possibilities and work relationships. The function of the enterprise is made subordinate in these days to the norms and ideas existing in the community; in other words, a process has got under way that may be described as an integration of the enterprise in society. If the enterprise comes to be open to social ideas, it will need to give its own form and content to them, adjusted to the function and method of the enterprise. Naturally, this process does not go ahead without a hitch. Conflict situations arise mainly from the fear that large enterprises might have the power to disregard social norms and responsabilities.

6. The multinational enterprise and the national community

Naturally, this fear applies to an even greater extent to the even more 'intangible'multinational enterprises, with head offices abroad where decisions are taken that affect the national interests. In this way, a second field of tension is created between the multinational character of the multinational enterprise and the national community.

The national community is unaccustomed to the multinational enterprise. The new element is equated with loss of identity and independence. The fear that the local subisidiary of a multinational enterprise may take insufficient account of the national objectives in the social, economic and political fields, results partly from ignorance of the purpose and method of the multinational enterprise

It is prompted partly by the assumed position of strength occupied by the multinational enterprise. Obviously, the behaviour of each multinational enterprise cannot always be defended, but the anxiety all too easily outstrips the benefits which the multinational enterprise confers on the local community, as explained in the foregoing.

Another cause of the field of tension resides in the changes in society which the multinational enterprise consciously or unconsciously brings about and the need for adjustment they entail. Penetration by the multinational enterprise is accompanied by the introduction of new ideas, techniques and methods of business management. In fact, the enterprise often bears the brunt of the demands made by science and technique. This technical progress has in fact constantly called in question the social and economic structure and the cultural pattern. The multinational enterprise here acts as an acclerator in the adjustment process. In contrast to the industrialised western countries, the arrival of the multinational enterprise in developing countries involves much more thorough changes which influence the entire pattern of life.

The tensions referred to above are triggered off mainly in the case of a dominant position of the multinational enterprise in the host country. This is practically never of a general nature, but is centred on a specific branch or market. In the case of multinational enterprises of American origin, for example, we may mention sectors such as computers, nuclear energy and space travel. There then exists in the host countries a fear of dependence and curtailment of their own development opportunities. The question remains, however, of how a better equilibrium can be achieved. A policy of aloofness may keep the foreign investors out, but it cuts off the country itself from advanced developments. More appropriate is an open-door policy, provided that national industry, by cooperation with foreign firms, gains access to the newly acquired knowledge and its applications. The restoration of equilibrium must then primarily be sought by acquiring a prominent position in other sectors as a point of departure for an international division of work.

Tensions are also the consequence of the internationalisation of trade and industry, with which international cooperation in the political field does not keep pace. Naturally, the multinational enterprise is subject to the legislation and the executive authority of the country in which it is active. Each country, however, has only partially jurisdiction over the multinational enterprise, insofar as the activities within that country are concerned. For the group as such, with its overall strategy and flexibility, no international legal framework exists. Likewise, the argument is often used that at the international level the countervailing powers for creating a de facto situation of equilibrium are lacking. This argument however assumes a merely relative significance if the national countervailing powers which limit the multinational enterprise in its international freedom of movement are taken into consideration.

A number of international agreements exert an influence on the activities of the multinational enterprises, more particularly the GATT and the IMF. The purpose of the GATT was to promote international trade by a gradual dismantling of tariffs and trade barriers based on the most-favoured nation principle. The IMF - to put matters in a highly simplified way - played a complementary role with respect to payments on the basis of fixed exchange rates.

The GATT is mainly attuned to trade among the industrial countries. International economic relations have however acquired new characteristics. It is no longer exclusively a question of the abolition of trade barriers in favour of a free entry on the export market. The conditions under which industrial and business activities can be engaged in on the spot are becoming of ever greater importance. The social, economic and political climate exerts an influence on such questions as where investments occur, where activities are undertaken and what kind of industrial and economic structure is developed. It is the national governments that are responsible for this climate and that decide which national interests prevail in this connection, although international repercussions also play a role in the decisions.

Furthermore, the problem of the developing countries is being given increasing attention. In GATT and UNCTAD, adequate forms of cooperation between industrial and developing countries are being sought. Up to the present, however, coordination and cooperation in the field of international economic relations are incomplete, and there are consequently obstacles and discrepancies in the competitive relationships in the world.

The multinational enterprise can perform a useful function if it enables the local advantages to come to fruition in the pattern of an international division of labour. The artificial differences resulting from the lack of international coordination in the political field will however exercice just as much influence on the behaviour of the enterprise. The multinational enterprise is then sometimes reproached for the fact that the intended effect of national policy, e.g., in the field of taxation, monetary movements or promotion of exports, is undermined. It cannot be denied that the national states are limited more than previously in their choice with respect to the instruments for the execution of a national policy, which means that the attainment of the national objectives in the social and economic field may also be impeded.

Conversely, the multinational enterprise will experience the lack of international cooperation and rules as a constant disregard for its multinational or global points of departure, as a national fragmentation and - all too often - a merely arbitrary limitation of its field of action and as discriminatory treatment in cases where preference is given to a country's own nationals.

In this way, there exists an opposition between the multinational enterprise, which aims at optimum relationships within the internationally active group, and the national state,which feels itself to be primarily responsible for the wellbeing of its citizens. The same holds true for the trade union organisation, which will feel obliged in the first instance to defend the interests of its members. The responsibility of the multinational enterprise, on the other hand, applies to all those concerned with its activities, - shareholders as well as workers from different countries. Its point of departure is thus essentially international.

To sum up, it may be stated that the multinational enterprise has to a marked degree outstripped the developments in the political, social and institutional field. This poses a dilemma : must the multinational enterprise adjust itself to the demands made by the national economy and society, or conversely, should - for example - governments and workers adopt an international approach ? We shall try to give an answer to this question, more especially in chapter II.

7. Interplay between government and industry

The national government is confronted with multinational enterprises with a turnover that is sometimes higher than the gross national product and which shows firmer growth than the national economy. The sentiments that are felt about the multinational enterprise are mixed. On the one hand, there is the fear that the nation's own policy will be threatened with the danger of being undermined by the strength and flexibility of the multinational enterprise. On the other hand, the utility of a multinational enterprise is recognised. It can bring employment and prosperity, reinforce the industrial pattern and ensure transmission of knowledge and experience. The attitude of a country will differ depending on whether it acts as country of origin or as host country. The position differs yet again if the headquarters of a relatively large number of multinational enterprises are established in one country, or else if a developing country is dependent on the readiness of foreign enterprises to invest.

Government and enterprise are, from many points of view, interdependent. The enterprise regards the government as a valuable partner, for example, for cooperation in the research field, government contracts, infrastructural arrangements for the benefit of investment projects, and protection in respect of trade policy. The government seeks to create an economic and industrial climate such that the entrepreneurs' activities will be harmonised with the objectives of government policy. The government needs the enterprise for the performance of its tasks with respect to full employment, monetary stability, balance of payments equilibrium, social justice, optimum growth and improved living conditions, but above all as primary source of income and prosperity.

An extensive range of means are available to the government, varying from general legal provisions to voluntary consultation and cooperation. The government may expect the multinational enterprise to conduct itself as a good citizen. In the case of observance of legal measures, the multinational enterprise will find this an obvious matter. An exception must be made for conflict situations in which the multinational enterprise is compelled by host country and country of origin to follow prescriptions that contradict each other for subsidiary and parent company respectively. In these cases, national laws have consequences reaching beyond the borders. Examples are the anti-trust legislation in the US and the restrictions still existing in that country on the supply of strategic goods to East European countries.

Not so much from the point of view of legal measures, but precisely at the level of voluntary contacts and interplay, the government will want to be ensured of the complete cooperation of the multinational enterprise. A careful harmonisation of tasks and activities may give rise to difficulties if the local establishment of a foreign enterprise is sensitive in the first place to the indications it receives from the parent company. Conversely, the multinational enterprise wonders whether the host country is prepared to involve the subsidiary company in the stimulation of development in certain branches of industry by research contracts, supplies or even subsidies. A great many questions arise here, such as : who profits from such activities and do they in fact prove entirely to the benefit of the host country ?

The community expects the government to be increasingly attentive to social objectives and to render them valid in the interplay with enterprises. The government will want to acquire certainty on this point, without in general going so far as to occupy the entrepreneur's seat itself. Nor is the government in a position to link the conduct of the entrepreneur in detail to legal provisions. There thus always remains a great measure of necessary scope for the entrepreneur, on which the government, if it might prove necessary, will wish to exert an influence. In the case of the enterprises, a notion of responsibility towards society is assumed, which weighs heavily in the balance when policy decisions are taken. Certain governments are afraid that a frank exchange of views with subsidiary firms of foreign enterprises will involve a greater risk.

Bringing the local subsidiaries under the national sphere of influence also has its limits. The advantages of a multinationally operating group of enterprises must be maintained optimally. The countries concerned also benefit here.

8. <u>What is the standpoint of the trade union movement</u> ?

In the same way as the national governments, the national trade union movements are also anxious about the multinational enterprise which has grown beyond the bounds of national relationships. By comparison with the local enterprise, the multinational enterprise has more freedom in its decisions about where know-how is to be applied, in which country investments are to be made or cheap labour to be recruited in developing countries. Activities and results in a given country are regarded as a component of the group interest. Once again, this freedom should not be overestimated. The multinational enterprise has so many local links that the policy is aimed at growth and continuity of existing establishments and in the interest of the workers concerned. The elimination or abolition of activities will, in the case of multinational enterprises, only occur in greatest emergencies or when there is a conviction that the development of certain sub-activities can obviously be better carried out in another group.

The greater flexibility of the multinational enterprise comes to expression mainly in the case of new activities. The trade unions nevertheless experience this situation as a weakening of their position. In addition, the trade unions do not always have a clear picture of the position and policy of the group. If the local entrepreneur is the negotiating partner of the trade unions, then the impression may be given that negotiations do not occur at the decision-making level in the enterprise. The reverse is generally the case. It is precisely the national management that is acquainted with the local situation and it will have a decisive voice in negotiations with the national trade union.

More particularly, the International Federation of Chemical and General Workers' Unions (ICF) and the International Metalworkers' Federation (IMF) want to create a counterpart to the multinational enterprise by developing an internationally interlocking trade union federation. Their activities are aimed at providing the local federations with better background information about the position of the multinational enterprise concerned and the branch of industry in wage negotiations, as well as at organising campaigns supporting each other internationally. The difficulty remains, however, that the international trade union federations are dependent on the approval of the national organisations, which consider themselves to be responsible for defending the interests of their members.

The national trade union organisations in general still show little interest for the work of the international trade union federations. Social opinions, relationships and working conditions are highly divergent from one country to another. International interests can hardly be brought to a common denominator. International solidarity among the workers also has its limits. Reality obliges one to recognise that it will certainly still be a long time before the international trade union federations can act as equivalent negotiating partners with the multinational enterprises. Within the limited framework of the EEC, however, there are more prospects of increasing cooperation beyond the borders in the trade union movement.

It should give no cause for surprise that the national trade unions primarily want to defend their interests within the limits of the national economy or the local firm. It may not be deduced from this automatically that the trade unions would be blind to the international consequences of their national approach. This is indeed the case when overhigh wage demands are made that may give rise to protectionist measures. These in turn affect the colleagues abroad and invite retaliatory measures. For the multinational enterprise, the question then arises of whether existing or planned activities can be maintained. In some cases, it may be possible to profit from a protected market position, although exports will come to be jeopardised. In any case, such a protection of the national economy means an impediment for the multinational enterprise precisely in the field where it can play an important role : the international division of labour and the intensification of economic relations.

The trade unions will want the multinational enterprise to identify itself with the local interests of the workers; the multinational enterprise will expect the trade unions to be aware of the international repercussions of their demands. Furthermore, the multinational enterprise will have to enable the interests of all the groups involved in the multinational enterprise to be safeguarded.
An understanding for this point is a condition for the development of close relations between the multinational enterprise and the trade union.

II. INTEGRATION OF ACTIVITIES OF MULTINATIONAL ENTERPRISES IN NATIONAL COMMUNITY

1. What solutions qualify

In what way can a contribution be made towards decreasing the tension between the multinational enterprise and society ? In the previous chapter, we explained that a hiatus has been created between the multinational enterprise which is a forerunner in the process of internationalisation and the political and social forces which have remained more national in their orientation. From which side must the bridging-over mainly come ?

In various quarters, a code of fair conduct is thought of as a solution to this problem. Opinions are highly divergent about what precisely should be the content of such a code. The whole question is whether it is possible to arrive at the formulation of standards which give some foothold and which do not lapse into vague generalities. Even apart from this, the significance of a code of fair conduct may be doubted, if it were to be drawn up from the employers' side. The code will remain unilateral and arbitrary in nature as long as the national governments, trade unions and other interested parties are not involved in it to an adequate extent.

Nor does a statute for the multinational enterprise that would, for example, be made to depend on the United Nations, offer a way out. It does not look as though the member countries are prepared to transfer their competence with respect to the conduct of the multinational enterprise to an international body. This would mean that the national interests would be subordinated to this global authority. Some day, perhaps, these hypotheses will become reality, but not immediately.

What steps can indeed be considered now that the tension between multinational enterprises and the national community is increasing ?

An improvement to be made to the present situation could be the creation of an international agreement among the countries with respect to the fiscal, monetary and establishment demands to be made on the multinational enterprises. This will, it is true, somewhat limit their freedom of movement. On the other hand, it will considerably diminish the tension between the multinational enterprises and the national community, especially in cases where this is based on the fear that the multinational enterprises will play off the national societies, with all their differences, against each other. It may also reduce the disadvantage of many kinds of national arrangements in the above-mentioned fields, which form a considerable obstacle to the attainment of a worldwide optimum within the multinational enterprise.

A first requirement for decreasing the tension between multinational enterprise and society is, however, that the enterprise should practise great frankness. It is also in the interest of the multinational enterprise that unfounded criticism and suspicion should be removed. More information which is relevant for the local community needs to be provided about the activities and long-term objectives of the group as well as about their significance for the country in question.

Furthermore, the multinational enterprise must be prepared to engage in discussions of this matter with local authorities and bodies. Both the multinational enterprise and the national community will benefit from a permanent dialogue with a view to bridging over the possible oppositions by means of cooperation. This presumes a positive attitude towards the integration of the enterprise in society and the ideas and aspirations existing therein.

The best solution is to link the interests of the subsidiary enterprise in a permanent way with the fate of the host country. This is attained by means of the multinational enterprise meeting as much as possible the national wishes for participation in the capital and management. Conversely, the national community obtains hereby a means of influencing policy in the enterprise.

2. The open subsidiary a bridge for industrial countries

For the formalisation of such a local cooperation between multinational enterprise and society, the most appropriate means is the open subsidiary. This term is to be understood in the sense that, in addition to the participation by the multinational enterprise, the share capital in the subsidiary is spread over a large number of shareholders and that this enterprise is listed locally on the stock exchange. Furthermore, the local element will be amply represented in the management. Such a set-up leads to an engagement of the local enterprise vis-à-vis the national community.

In this connection, we act on the assumption that the EEC may be regarded as a national community. The open subsidiary then qualifies primarily for the major industrial regions of the world : the US, the EEC and Japan. Many European firms have already used the form of the open subsidiary for their activities in the US. Our views amount to the fact that the multinational enterprise with headquarters outside Europe, but which is active in Europe, proceeds to the floating of shares of its European subsidiary. Until such time as there exists a European stock exchange, a parallel listing on several stock exchanges in Europe will promote the spread of the shareholding and accentuate the European character of the open subsidiary.

The engagement envisaged finds expression in :

a) internal organisation and decision-making

The national element represented by shareholders and workers involved in the open subsidiary must be concerned in the decision-making. A condition for this is a decentralisation in the decision-making to geographical units. Furthermore, the open subsidiary will have to be given a say at the central level when common interests are at stake with which local aspects are linked. The geographical element in the organisation of the group could find its reflection in, for example, an international advisory board. The international character of the group will be reinforced thereby.

How far may this geographical decentralisation go without jeopardising the unity of the group ? It is difficult to give a straightforward reply to this question. The independence of the subsidiary within the group is partly determined by the fact of whether there is a question of a majority or a minority participation. In the case of multinational enterprises where the emphasis of the central strategy and coordination is on the financial level, it may be expected that there will be more readiness to accept a modest participation than in the case of multinational enterprises with a more central coordination at the industrial, commercial and technical level. The majority of the types of multinational enterprises, however, derive their strength from the international harmonisation of sub-actitivies among each other. Consequently, they will regard a participation which also provides them with a possibility of control, as a condition for the carrying-out of an international management.

b) advertising

The open subsidiary will have to comply with stock exchange regulations and legal publication obligations. Not only will the open subsidiary have to provide justification by publication of the annual figures, but it will also have to supply an additional quantity of specific information about local activities. There are two sides to the question for the multinational enterprise here.

On the one hand, it will have to provide more information, split according to geographical sub-activities, belonging to the field of action of the open subsidiary.

On the other, the managers' feeling of responsibility increases now that they will have to give an account of themselves not only internally but also externally.

The latter factor may mean an extra incentive for achieving satisfactory results.

c) establishment of subsidiary's own result

An important advantage of the open subsidiary is that suspicion can to a large extent be allayed with respect to a supposed "passing-on" of profits, the evasion of tax payments and manipulation of settlement prices. The responsibility towards minority shareholders requires the result that can be ascribed to the local establishment to be fixed as clearly as possible.
In this connection, the settlement prices for mutual supplies in the group will need to be calculated on a commercial basis. It is obvious that this will not always be a simple matter. The mutual settlement of research costs, technical and other advice, exchange of know-how and experience, is also difficult to arrange. It must however be possible to arrive at the drawing-up of certain rules of conduct within the group. Furthermore, it is also advisable, in the internal field of legal and commercial arrangements, to be circumspect about an exaggerated geographical splitting-up of activities.

3. National influence may not nullify the advantages of the multinational enterprises

We are aware that the open subsidiary is not a panacea for eliminating all problems between the multinational enterprise and the national community.

In the first place, we may not forget that operating with several more or less independent subsidiaries imposes big restrictions on the freedom of movement of the multinational enterprise. It may indeed be asserted that this is the sacrifice that the multinational enterprises must make in order to meet halfway national feelings and wishes. But this sacrifice may in some cases be of such a nature that under certain circumstances the multinational enterprise will prefer to abstain from foreign investments. The loss of freedom of movement is mainly unattractive for the multinational enterprise which especially wishes to attain the advantages of working on a international group basis through internal specialisation and synergism.

The possibility of attuning sub-productions and research activities to an international market policy must prevail here. Geographical fragmentation must be avoided.

This applies in particular to Europe, where a flexible adjustment to changing circumstances must remain open for the multinational enterprise. The integration process as well as technical progress oblige the multinational enterprise to carry out further structural changes within Europe. Sometimes this means enlargement of scale or concentration of certain production processes. In other cases, the policy is directed towards specialisation and standardisation. It will not always be possible to allow all activities to grow of their own accord to optinum relationships. It may be expected that, via acquisitions and transfers, many other shifts of activities from one group to the other will prove necessary, mainly beyond the borders. Has not European integration precisely the goal of attuning industrial activities to the new dimensions of the common market ?

4. Developing countries and the joint venture

The multinational enterprise plays an irreplaceable role in the transfer of knowledge to developing countries, including industrial application and marketing. On the other hand, the developing country, with an economy that is not very far developed and of modest scope, is highly sensitive to the powerful position of certain multinational enterprises.

The integration of activities in the national economy, which was recommended in the foregoing for the industrial countries, applies to an even more marked extent to developing countries. Application of the principle of the open subsidiary is however a complex matter in developing countries. In the majority of the latter, the capital market is inadequately developed for the incorporation of an open subsidiary. Furthermore, big risks are incurred in the case of new establishments, so that interest for participation in capital may be slight. If nevertheless a multinational enterprise whishes to involve others in the financing, then recourse will be made to development banks and funds as well as to partners with substantial capital. In such circumstances, we speak of a joint venture, i.e., there is cooperation with a local partner who, apart from capital, will also contribute - if possible - local knowledge and experience to the management as well. If at the time of establishment in a developing country, the local partners and sources are not directly present for the formation of a joint venture, then the latter can only be set as target for a subsequent period.

The joint venture is in general for a developing country or, better still, a regional group of developing countries, one of the most suitable forms for promoting the integration of the activities of the subsidiaries in the host countries. A drawback may be the fact that the capital participation is limited to a few individuals. Two paths are open in order to augment the local involvement in the joint venture. Firstly, spreading of blocks of shares,initially taken up by development banks, among the public. Furthermore, it is of great importance for local integration that the personnel policy be aimed at inclusion of local manpower and training for higher management functions.

A serious obstacle to investments in developing countries resides in the frequently oversmall market of the developing country in question. Production solely for the domestic market is then not interesting. It cannot sufficiently be emphasised how important it is for developing countries to join together for the creation of regional markets and to coordinate the investment policy. In this way, the transfer of capital and technology will be greatly promoted.

Furthermore, the multinational enterprise is afforded the possibility of establishing the joint venture per region, with better development chances and more freedom of movement. If the multinational enterprise has to limit itself to local sources and possibilities, then local production is often only possible if it can be regarded as an integral component of the group activity. According as this situation occurs, the multinational enterprise will aim, for the benefit of an integral management, at having at its disposal a controlling interest in the joint venture.

The joint venture offers a good opportunity of combining the interests of the multinational enterprise and the host countries. If, despite this, internal oppositions were to arise between parent and subsidiary, then the joint venture offers the advantage that it obliges the parties concerned to take account of each other's standpoints so as to arrive at a joint approach to the problems. But definite rules will then need to be drawn up. The joint venture may not become the plaything of political forces and it needs to remain outside party politics. The partners must further be prepared to help finance expansion, to which the dividend policy must also be attuned.

The joint venture may be regarded as a preventive medium for the entire or partial expropriation or nationalisation of enterprises. Our attitude towards nationalisations or an obligation to divest oneself of interests in developing countries, such as is being introduced, for instance, in the Andes countries, is definitely one of rejection. Such a liquidation of interests is generally an operation involving a loss for the multinational enterprise, and certainly when this occurs quite unexpectedly. The continuity of the enterprise is also endangered, if the multinational enterprise withdraws from the management. The policy of expropriation overlooks the fact that a dynamic firm is subject to a process of continuous renewal. The amputation of the local activities of the multinational enterprise is a status quo solution, which leads to a stiffening of attitudes. The split is diametrically opposed to the increasing international interconnection of technique and industry, which naturally serves neither the purpose of the multinational enterprise nor of the developing countries themselves.

III. EUROPEAN UNITY A CONDITION FOR EXISTENCE OF MULTINATIONAL ENTERPRISES

1. Structure in course of creation

In the foregoing it is argued that within the EEC the national conception is giving way to a European approach to the question of the multinational enterprise. The adjustment to European conditions must come from the multinational enterprise but in particular from the national political and social groupings.

To regard the EEC as a unit similar to a national community is a fiction, at least for the time being. To reach this end, a great many psychological, political and economic hurdles will still have to be cleared. We therefore do not wish to overlook the specific problems which the European Community in course of creation raises with respect to the multinational enterprise.

While it is true that the customs union is attained and the monetary and economic union is planned for 1980, the fact remains that the economic and industrial policy and in particular the social policy is still almost entirely a national matter. This reality is in sharp contrast to the original aims of the EEC. The intention, as indicated in the Spaak report, was above all to create a framework for more optimal relations in industry and branches of activity, attuned to the greater dimensions of the common market.

A number of multinational enterprises have nevertheless seized this opportunity and have emerged as pace-makers for a European restructuration. This has occurred despite the still existing obstacles which arise in the case of mergers and acquisitions beyond the borders. The very necessary structural adjustments, however, have only partly come about.

The competition of large internationally operating enterprises, which have established their headquarters outside the EEC, mainly in the US, also provides an incentive for reinforcement of the industrial structure. In its memorandum on 'The Industrial Policy of the Community', submitted to the Council in 1970, the European Commission asserts that a higher degree of concentration is necessary for an optimum development. In addition, the Commission warns against the restrictions and onesidedness of national concentrations. The regrouping and adjustment of firms by mergers and other forms of industrial cooperation mainly occur in a national framework.

The formation of a free common market and the abolition of market distortions and discriminations have evidently not been adequate. Thresholds for the existence of what the Commission calls European transnational enterprises are therefore located at the psychological level, including linguistic problems, mainly in the field of

- taxes
- legislation
- capital and money market.

2. Thresholds for industrial cooperation and adjustment

A further fiscal harmonisation could considerably improve the cooperation among enterprises in the European context. Fiscal obstacles to mergers can be removed if the Council of Ministers adopts the draft directives of the European Commission with respect to mergers as well as to the taxation arrangements for parent and subsidiary companies.

In fact, we should go a step further in the EEC, i.e., by the adoption of a common regulation for the avoidance of double taxation in the case of international concerns. This presumes the establishment of a system of settlement prices and passing-on of costs which would be applied, for example, by a head office or research laboratory.

Consultation among the member states in case of differences of opinion about settlements applied within a concern connects up with this. An EEC arbitration board would promote a uniform interpretation of the regulations.

Although the standpoint is defended that a European limited company is not indispensable, it is at least of psychological importance when it is a question of mergers beyond the borders or establishment of joint subsidiaries. A European limited company presupposes, indeed, that European legal conceptions and standards will be set up. In contrast to a national limited company, which determines the decision-making and responsibilities in a national way, the European limited company requires consideration of European views and conceptions. At the same time, this points to the difficulties involved. Indeed, the European limited company can hardly come into existence if there is no common opinion on matters such as rights of shareholders, workers, directors and management.

For the time being, each country follows its own course. Thus, in the Netherlands a new corporate structure has been introduced, substantially opening the way to co-determination within the enterprise. In contrast to the system existing in the large German firms whereby a number of directors are designated directly by the workers, the Netherlands legislation grants a right of objection both to the shareholders and to the workers in the appointment of directors, a board which is self-electing. Furthermore, a holding company, whose employees are predominantly located abroad, is exempted from these provisions. The new regulations are aimed at ensuring that directors do not promote sectional interests and that the unity of management in the enterprise is not jeopardised. We shall have to wait and see how this system functions in practice, and one of the questions may certainly be whether a balanced composition of the board is obtained and whether the Board of Directors will fulfil its purpose. In view of the different national legal prescriptions and divergent conceptions, a European legal form only has a chance of success in the case of a regulation that is not too detailed, but flexible. The draft now submitted is not free from these objections. The gradual establishment of a European money and capital market will considerably benefit the financial capacity and flexibility of European firms.

For the enterprise operating in several European countries, it is of great importance to be able to change over to a European cash management system. This means that all the European subsidiaries belonging to the multinational enterprise are affiliated to a central bank account, whereby balances can be set off against each other and the total supply of liquidities is at the disposal of the group for investment or reserves. A necessary condition for this is that European banks or combinations of banks are prepared to intertwine their circuits. Such a system can only function properly with mutually fixed European exchange rates, freedom of transfer for cash and mutually harmonised levels of interest rates. It is obvious that a European cash management system cannot come about without a commencement of monetary union.

It may be wondered whether the creation of a European capital market is indeed such an urgent requirement, in view of the possibilities of the Eurodollar market. The multinational enterprise with a sound financial structure can in general turn to the Eurodollar market for borrowing purposes. The introduction of these funds into national circulation, however, is subject to all sorts of licences and restrictions. This arsenal is used to combat inflation, i.e.,by protecting the national economy against import of foreign capital. The monetary upheavals and the emergence of flight capital led in 1971 to a considerable sharpening of these measures and further compartmentalisation of the money and capital markets. With the restoration of balanced monetary relations in the world, the recent restrictions in capital movements will also need to be lifted. International discussions about liberalisation of capital movements will contribute to this.

The establishment of a European share market is an important matter. For the majority of the multinational enterprises, the domestic market is too small for the attraction of risk capital. The goal of many multinational enterprises is to find a reflection of their multinational character in a widening of the financial basis. International spreading of share ownership is becoming ever more important now that it has been found that in the 1960s the largest European firms made use to an increasing extent of borrowed assets for the financing of their expansion. In the case of the European firms appearing on the "Fortune" list of the 200 largest industrial enterprises outside the US, the own funds/outside funds ratio fell from an average of 0.81 in 1966 to 0.63 in 1970. A further deterioration of the own funds/outside funds ratio is in general regarded as unsound. Account must also be taken of a decrease in corporate earning capacity, certainly as regards the activity in a number of countries and sectors, which limits the self-financing possibilities.

It may be assumed therefore that the multinational enterprise stands to benefit even more than in the past from smoothly functioning European share markets. There is still much to be done in this respect. Until such time as it proves possible to arrive at European stock exchanges, the following measures are recommended :

a) uniform stock exchange and publication regulations for listed securities, as regards, inter alia, publications of annual documents and the valuation principles to be applied in this connection, as well as prospectuses.

b) abolition of fiscal discriminations. The European Commission has already made proposals along these lines for harmonisation of the tax levied on dividends and interest payments. In this connection, it must be pointed out that in any case the creation of new distortions must be avoided. The latter would arise if action were to be taken on the plans existing in Germany for deducting company tax from the income tax owed by the shareholder residing in Germany. Foreign shareholders cannot benefit from this arrangement, or only to an unequal extent. Furthermore, it is important that, in the framework of fiscal harmonisation, the distortions existing with respect to this point, for example in France, should be eliminated.

c) abolition of the restrictions, affecting mainly institutional investors, with regard to purchase of foreign securities.

3. From national to European industrial policy

The restructuration of European trade and industry will be promoted by the removal of obstacles in the fiscal, juridical and financial field. The question is whether this is sufficient. The Commission has presented its views on this subject in detail in the Memorandum on European Industrial Policy, already referred to above. It would take us too far to go here into the many points that affect the multinational enterprise. The question always arises, however, of whether the government must proceed to an active structural policy and if so, to what extent. Opinions on this point are rather divergent.

For facility's sake, we should like to take the actual situation as point of departure. It is observed that in all European countries the government deals actively with an industrial structure policy. This in itself is already sufficient reason for the European Commission to take coordinating action in this respect in the light of common objectives. This coordination is indispensable because the national framework is too small to enable optimum conditions in production, sales and research to be reached. Furthermore, major technological projects will need to be tackled collectively. Lastly, a disjointed national policy may have upsetting and discriminatory effects.

Sectorial and regional policies are good examples of a European approach which had been lacking so far. The conditions under which sectors in difficulties are given support by their national authorities are highly divergent in Europe. Usually, demands are made with respect to reorganisation and improvement of the survival chances of the enterprise. Solutions are then sought or prescribed within the national framework. Good examples are shipbuilding and the textile industry. It is obvious that in stagnating branches of activity, the government may, by granting support to firms in difficulty, easily encourage surplus capacity to the detriment of foreign competitors. A better coordination with a view to limiting the sectorial aid is urgently needed, if we ever wish to arrive at an overhaul of a number of branches of activity at the European level. The sectorial aid will in general need to have a degressive character and may only benefit the viable firms.

In certain EEC countries, an active policy is applied in order to prevent difficulties in branches of activity. This occurs in general through planning and structural surveys by region or by sector. The follow-up is either aimed at through an overall policy or else through a more direct intervention via, for instance, investment banks and government participations and enterprises. Here too, there is no mention, or hardly any mention of a European approach and the search for European solutions. The danger of distortion of competition is far from imaginary. Preferential treatment of government enterprises occurs without there being any opening-up of businesses. In this way, artificial structures are again maintained, which not only operate in a discriminating way but also impede the adjustment to sounder relationships.

The European Commission is already active in the field of forecasts and sector studies. Further expansion and intensification may proceed in the direction of technological forecasting and subdivision of the overall medium-term projections into a number of sectors.

It is certainly to be recommended that European trade and industry should be more closely involved in these studies.

A difficulty that remains, however, is the inability of the Commission to apply in practice the opinions obtained and the results stemming from the studies. The Commission is almost entirely dependent, for the execution thereof, on its power of conviction with the member states and with trade and industry. This makes a close interaction among the parties concerned even more desirable. It is certainly also in the interest of the multinational enterprise, which is precisely in favour of a European approach to the problems, to show in this connection the same frankness as is usual in relations with the national government.

The European Commission would in any case need to arrive at a better coordination of the sectorial policy. It is perhaps worth considering whether the European Investment Bank, in a somewhat modified role, should be afforded the opportunity of participation in national investment banks. This need not lead to supervision, but indeed to a better interaction in the case of financial support for structural adjustments and mergers.

Another example of coordination that is still inadequate is regional policy. This has even degenerated into a competitive struggle among regional authorities, who quarrel with each other about the establishment of new firms by means of attractive subsidies and facilities. The Commission has rightly proposed that these subsidies should be limited to a maximum of 20 % and that the policy should be harmonised, which has been accepted by the Council in principle. Rendering subsidies transparent is now an initial requirement in order to avoid distortion of competition, inter alia, through a combination of regional and sectorial aid. For the multinational enterprise, it is also of great importance that the long-term objectives of regional policy and regional planning should be established at European level, so that account can be taken thereof in its own policy.

There is unfortunately little trace of a European approach in the stimulation of branches of activity in the field of technological progress. Each European country of any importance supports its own computer industry by subsidies and mainly by reserving government contracts for the national industry. The experience acquired with Euratom is perhaps not greatly encouraging for new initiatives in the field of a large-scale technical cooperation in highly promising sectors. Fortunately, however, there have been some initiatives. Although of a modest nature, progress has been made in sectors such as the aircraft industry and the production of enriched uranium by the ultra-centrifugal process. The difficulties are concentrated mainly on the question of how each country obtains in return a reasonable share in the fruits of the common approach, preferably in proportion to its own contribution.

This difficulty is more or less overcomein the suggestion by the European Commission that technological development should be promoted by granting subsidies and loans via a relatively large number of community development contracts relating to a comparatively large number of minor projects. The condition is rightly made here that there must be a direct orientation towards the industrial and commercial application of the invention. The community development contracts deserve a rapid application in practice. It must be doubled whether these contracts are an adequate means of pressure for the formation of European combinations of firms. It is quite possible that these contracts could be allotted to the multinational enterprise which makes possible a European approach.

The promotion of technical progress at the European level, which is of great importance for the Community, presupposes further that a start will be made with liberalisation and combination of government purchases at the European level, mainly in the sectors of modern technology. The joint creation by the government of a market for advanced products, to which research and production can be oriented by means of long-term contracts, is even more important than merely financial and fiscal support in the development of products.

One of the fields in which, in contrast to the national approach to industrial problems referred to above, a common policy has indeed already been established, is that of competition policy. On the basis of Arts. 85, 86 et seqq., the Commission directs its policy to the implementation of an effective competition, i.e., in particular a close watch is kept on the market behaviour of the competitors. This is a sub-aspect of the whole group of industrial problems, comprising much more, which - owing to the absence of a European approach in other fields - becomes isolated rather than integrated. Thus one may wonder what is the significance of effective competition in a situation in which enterprises have to carry out structural changes, the equilibrium between supply and demand on the market is lacking and the industrial climate is determined nationally. Ultimately, it is nevertheless a question of an efficient production and provision of services aimed at increasing the well-being and prosperity.

4. Social programme

European integration in the social field may certainly not be regarded as a mere appendix to a European industrial policy. On the contrary, countless workers are already experiencing at the present time the consequences of industrial changes at the European level. The social and economic aspects of industrial policy will need to be borne in mind at the same time. In the 'blueprint for a common social programme', the European Commission derives the value of the establishment of an economic and monetary union from the contribution that it can make to the implementation of the principal goals of society

- full and optimum employment
- more social justice

- better living conditions.

In the blueprint, a number of problems are indeed analysed and priorities are indicated for a programme of action, but the study has in general failed to go beyond that point. Few concrete policy proposals are to be found in the blueprint.

The multinational enterprise will certainly, in principle, not be inclined to reject the timely approach to a number of concrete problems of social policy in the Community. The multinational enterprise, for example, has an interest in ensuring that the mobility of labour is increased, especially as regards senior executive staff, experts and specialists. To an increasing extent, within a European group of firms, integration is occurring of certain activities and services, such as sales and research set-up, administrative and staff departments and internationally composed project teams. This integration encounters difficulties stemming not only from differences in income tax,but also as a consequence of the divergent secondary labour conditions, social benefits, rights and obligations. A further harmonisation of social insurance and labour law as well as better housing facilities for foreign workers will contribute to a considerable extent to the desirable mobility. Naturally, other important considerations of a social policy nature and additional burdens also play a role in the determination of the direction in which and the gradualness with which the harmonisation can be achieved.

Another social aspect of the action of the multinational enterprise in the Community is the relationship to the worker. The latter will, as regards his work, experience an increasing feeling of dependence on decisions that are taken from European standpoints on investments, mergers or closures of firms. The corporate management has an interest, especially in the case of decisions about closures of firms and dismissals, in getting the workers affected to understand the situation.

Furtunately, consultation almost always takes place in such circumstances. This consultation will mainly be limited to offsetting the consequences of the outflow of workers, whereby moreover the multinational enterprise with diversified interests is rather more in a position to offer alternative employment than a firm specialising solely in one branch. In many cases, where this is not possible, the solutions for new employment, retraining, redeployment, etc., will have to be sought externally.

As already pointed out, the European firms are involved in a process of necessary adjustment to European conditions, which may still be expected to result in a flow of reorganisations and overhauls which, without an accelerated establishment of a common labour market policy, will lead to unnecessary social tensions. It is obvious that the European Social Fund as well as the recently established Committee for labour Market Problems will play an active role here.

Attention is also being paid to an improved living climate, in which the need for protection of the environment is felt especially. The national framework is not sufficient to solve the problems of air and water pollution arising in this connection. For social reasons, but equally well for competition considerations, it is desirable that common objectives and standards should be drawn up in the EEC and national measures coordinated. The harmonisation of regulations would need to include taxation inceptives in order to promote an effective approach to environmental problems.

5. Economic and monetary union

After a transitional period, in which a customs union was established, a period is now dawning in which industrial integration will have to be achieved. By the creation of a suitable European industrial climate, the multinational enterprise must be enabled to make an optimum contribution to the increase of prosperity in the EEC. The objectives of social and economic policy will have to be clearly formulated in the EEC, so that the multinational enterprise can attune its policy to them. The establishment of an economic and monetary union makes it urgently necessary to develop a clear vision of the future of Europe. It also offers the prospect for a common policy, indispensable for a smoothly functioning common market, a more uniform industrial climate and stable relationships based,inter alia, on a European monetary unit.

Already partly outstripping this development, the policy of the Commission will have to be directed towards the promotion of transnational mergers by the removal of thresholds and an active coordination of the industrial policy in the EEC countries. A number of concrete measures benefit the operation of the multinational enterprise, as indicated in the foregoing. The application or the full effect of these measures is in most cases, however, dependent on the creation of the monetary and economic union. For the multinational enterprise, therefore, this economic and monetary union has a significance that is not to be underestimated.

Our ideas about accommodating the European interests of a multinational enterprise in a European subsidiary are even to a marked degree dependent on the creation of an economic and monetary union. Solely for this reason, the chance exists that a society will be developed in the economic and social field with a sufficient degree of integration to justify a European view of and a European approach to the problems. The interests of the multinational enterprise are perhaps directly involved, more than the political and social groupings, in the further integration of Europe. The larger firms could act as promoter to a certain extent. Furthermore, it is necessary to realise that the success of an economic and monetary union depends on the readiness of the government and the social partners to aim at European solutions, in the relevant consultative bodies, in the interest of our European society.

IV. THE MULTINATIONAL ENTERPRISES IN THE WORLD PICTURE

1. Interests are parallel

In the foregoing parts of this report proposals are made with a view to adjusting the conduct of the multinational enterprise better to the national circumstances, policy and aspirations of the community in which it is active. In addition, it was pointed out that the adjustment capacity of the multinational enterprise has its limits. If disproportionately high demands are made, the activities of the multinational enterprise are fragmented regionally and it is precisely the advantages of the enterprise in the multinational context that are lost. It also means that the multinational enterprise may feel obliged to withdrew from certain activities or to renounce new projects.

Fortunately, the interests of the multinational enterprise and the national economy to a large extent run parallel, insofar as the multinational enterprise is the backbone of economic development. It has already been observed that the growth of the multinational enterprise was greatly promoted after the war by abolition of the obstacles to international trade, as well as by regional integration. It was also a period in which the practically uninterrupted growth of welfare was able to reach an extremely high level. This indicates that the multinational enterprise and the national economy derive benefit from a further intensification of international relations. It is therefore precisely in the interest of the industrial countries to give the multinational enterprise, or to allow it to keep the necessary elbow-room, which is indispensable for the exercise of its various functions, as described in an earlier passage of this report.

Conversaly, the multinational enterprise is sensitive to stable international relations to which it can attune the longer-term policy. But the same holds true for the national economy. Here too it will be desired to avoid the risk that certain countries, in the absence of proper agreements, will attempt to intervene in international relations in their own favour and as they think fit.

The conclusion is obvious that in particular the Western industrial countries would need to aim at a world system in which at least a number of basic principles would have to be generally accepted. These principles should not be confined to the field of international trade, concerning which several international agreements have already been concluded. They would also need to extend to foreign investments. The development of these principles in the subsequent part of the report is limited to the industrial countries, on the assumption that the problems of the developing countries will be dealt with by other rapporteurs.

2. International trade relations

We may take as point of departure the fact that the free trade in goods contributes to the attainment of as high a level of welfare as possible in the world. This applies in particular to the trade in industrial products, which - in contrast to agricultural products - is based in principle on a free price-formation and free market relations. It is therefore of great importance that the principles and rules of the GATT, which underlie free trade, should also be respected in future. Indeed, this is the principle for abolishing obstacles to trade by negociations on the basis of most-favoured nation treatment.

The EEC has reacted in a sensible way to the measures taken by President Nixon in August 1971, by not taking any countermeasures which would have made an escalation in the direction of protectionism inevitable. The Community has stood firmly by its policy, which it had already applied in the past, of openness to the outside world as regards industry.

This liberal attitude of the Community presupposes reciprocity, because it cannot be maintained unilaterally in the long run. The future of international trade depends to a large extent on the readiness shown by the major industrial blocks, the US, Europe and Japan, to intensify their relations.

For the time being, a big difference in protection is observable, which is unjustifiable internationally. In the Memorandum on the Industrial Policy of the Community it is stated that the tariff level for industrial products in the US is 80 % higher than that of the Community, while that of Japan is 40 % higher. The competitive distortions resulting from such a tariff disparity are sometimes made worse by substantial quantitative restrictions, particularly in the case of Japan. On the other hand, the US, more especially, when imports increase, urges exporters to that country to exercise self-restraint. The goal of regulating the market must however be carefully weighed up against the drawbacks such as an exaggerated limitation of the growth of international trade and a shift of trade flows towards more liberal countries.

Another inequality occurs in the case of preferential tariffs for imports from developing countries, which have already been applied by the EEC countries. All industrial countries will need to make a proportional contribution to the creation of sales possibilities for products originating from developing countries.

Furthermore, a great variety of non-tariff obstacles to international trade are encountered, resulting from national legislations and administrative provisions. The GATT has made an inventory of them, and thus prepared the way for international negotiations.

Meanwhile, negotiations have started between the US and the EEC, inter alia about the changes demanded by the US in the system of regional preferences in favour of countries on the shores of the Mediterranean and about concessions in the agricultural field. In view of the unequal protection, it must be considered of great importance for the Community to arrive at further negotiations about the adjustment of the unequal protection and hence the unequal competitive relations. The Community still by no means acts in accordance with its position as the world's largest trading partner. There is still a lack of unity in foreign economic policy observable among the member states, as also appeared in the case of the arduous negotiations on the monetary and trade policy crisis in the second half of 1971. More initiative and leadership might be expected from the Community in the development of balanced relations in the world.

With respect to a further liberalisation of international trade, it could be objected that this is in opposition to the concern shown by national governments for industry. The two need not be mutually exclusive. For the government, protectionist measures at the border are not an indispensable instrument; they may be replaced by internal measures to promote industrialisation. The latter are even preferable. Indeed, the support character will emerge not only in the implementation of the measures, but also in each case at the time of the budget discussions. The critical examination of whether the government policy is indeed efficient remains a constant concern in the case of internal regulations rather than in the case of trade policy measures.

If distortions of competition occur in international trade as a consequence of government policy, it is possible to invoke the GATT escape clauses with respect to market distortion, anti-dumping, etc. Whereas in the past these provisions were applied more particularly in respect of imports from state-trading countries or low-wage countries, they will perhaps in future be used more in trade among the industrial countries as well. More consultation among the industrial countries, reinforced by a form of arbitration, is desirable.

3. Foreign investments

The responsibility for industrial and establishment policy is primarily regarded as a national matter. It must also be left to each country to choose the instruments which are best suited to its own circumstances and requirements.

In the EEC it can be seen how difficult it is, even in a limited number of industrial countries, to coordinate the industrial and establishment policy. This coordination may be described as a prerequisite for cooperation in the wider international context.

The time does not therefore yet seem to be ripe for the coordination of the industrial and establishment policy, in the more general sense. This does not exclude the desirability that a number of principles should be recognised internationally which are respected in the national or European policy.

These principles are :

1) Free access to industrial countries for direct investments, including own establishments and participations.
2) Non-discrimination according to nationality.

The interests of all parties are served by the application of these principles by the industrial countries. The application may possibly be made to depend on reciprocity.

re 1. High priority must be given in negotiations between the EEC, US and Japan to the abolition of the obstacles to which are subject exclusively the foreign direct investments in industrial countries.

No common policy has yet been established in the Community. Except where questions of national security are involved, an open policy needs to be applied, which is already put into practice by the majority of the member states.

In the US there exist various regulations hindering or restricting foreign investments in certain sectors or states. The anti-trust legislation may also form an obstacle in the case of take-overs of American firms. The criticism does not relate to a general application of the Clayton Act aimed at preventing domination of the market. It is only the lasting uncertainty about the attitude of the American authorities that is open to question. It may thus be wondered whether foreign enterprises may be required to refrain from take-overs, if they can, by means of penetration of their own accord, increase the competition on the American market.

In Japan, foreign establishments are allowed on only a very limited scale, i.e., generally linked to a maximum participation of 25 % in existing firms and of 50 % in the case of new establishments. There is no reason for further postponing a more thorough liberalisation on the basis of what we have proposed with respect to the open subsidiary. If foreign enterprises, in the case of investments in Japan, choose the form of the open subsidiary, then the required cooperation between government and industry will also continue to develop.

re 2. The principle of non-discrimination based on nationality would in fact need to be developed in greater detail for a number of components of the industrial and establishment policy, e.g., the government's purchase policy, research contracts, aid to enterprises.

The problem of double taxation and of the right to indemnification in the case of expropriation also experiences the aspect of discrimination, if the multinational enterprise were to be taxed more heavily or were to be subordinated to national firms.

It would take us too far to go into all these problems separately here. In general, it may be stated that several bilateral and international agreements have already been concluded and further consultation is in progress on certain sub-sectors. There is not yet any question, however, of general respect for the principle of non-discrimination.

With respect to non-discrimination as well, there is also a task for the Community, so as to ensure that this principle penetrates more generally in international relations in the industrial field.

4. The multinational enterprise as nucleus for international cooperation

Although the chances for statisfactory international arrangements are not great for the time being, there is nevertheless no cause for pessimism. Despite the present upsurge in nationalistic tendencies, the factors are still at work which ensured, in the 1950s and 1960s, that there was an increase in the economic and political interaction among the national economies. The flow of international communication is still increasing exponentially.

The multinational enterprises must play a conscious and active role here. More attention will need to be paid to external relations. This applies to

a) the national governments, which must be encouraged to strive towards common solutions for their conflicting interests.

b) other links in society; this notion will have to be contributed for an efficient operation of the multinational enterprise, which is precisely of importance for this society and naturally for the multinational enterprise.

In the first chapter, the multinational enterprise was described as a new form of international cooperation on a group basis. Borne aloft on the wings of a world-conquering technique, the multinational enterprise is perhaps ahead of its time. At the social and cultural level, new patterns for an international society will still have to be created, in which the multinational enterprise must have an appropriate place. The multinational enterprise is a challenge in this respect. It brings together workers and production sources from different countries, acts as a clearing-house for knowledge and experience and contributes to an international dissemination of prosperity. The most important phenomenon, however, is the international confrontation of ideas, the concern for internationally spread interests and the adoption of a global approach to activities as a point of departure. May we expect that a worldwide philosophy and solidarity will come to exist ? This prospect is doubtless present, although a large measure of - necessary - diversity and separate identity will continue to exist.

A pluriform policy, finding expression in open subsidiaries and joint ventures, is therefore an appropriate means of going halfway to meet national aspirations.

Annex I

U.S. Direct Investments Abroad by Major Area

in billions of dollars

	1963	1970	% p.y.
All areas	40.7	78.1	9.7
Developed countries	25.6	53.1	11.0
Europe	10.4	24.5	13.0
U.K.	4.2	8.0	9.0
E.E.C.	4.5	11.7	16.0
Other Western Europe	1.7	4.8	16.0
Canada	13.0	22.8	8.4
Japan	0.5	1.5	17.0
Australia New Zealand South Africa	1.7	4.3	14.1
Developing countries		21.4	-
Latin America + Western Hemisphere	9.9	14.7	5.8

Source : Survey of Current Business, October 1971

U.S. Direct Investments by Major Industries
in billions of dollars

	1963	1970	% p.y.
Total	40.7	78.1	9.7
Mining and Smelting	3.4	6.1	8.7
Petroleum	13.7	21.8	6.9
Manufacturing	14.9	32.2	11.6
Other Industries	8.7	17.9	10.9

Source : Survey of Current Business, October 1971

Value of Foreign Direct Investments in the United States by Major Industry and Country - End of 1970

(millions of dollars)

	Total	Manufacturing	Finance and insurance	Petroleum	Other
All areas	13,209	6,105	2,250	2,981	1,873
Canada	3,112	1,831	324	189	768
Europe	9,515	4,061	1,800	2,766	888
United Kingdom	4,110	1,391	1,135	1,209	375
Netherlands	2,121	652	58	1,311	100
Switzerland	1,550	1,152	351	-	47
Other	1,734	866	256	246	366
Other areas	582	213	126	26	217

Source : Survey of Current Business, October 1971

STUDY AND REFORM SERVICE OF THE U.I.L.

THE MULTINATIONAL ENTERPRISE

AND

ECONOMIC INTERNATIONALISATION

28th February, 1972

<u>MULTINATIONAL ENTERPRISES AND ECONOMIC POLICY OF PUBLIC AUTHORITIES</u>

Internationalisation of Western economies has developed in two simultaneous periods: the expansion of international exchanges of trade, services and capital and the progress of large multinational enterprises. Expansion in international trade in recent years has been favoured by the limitation of quantitative restrictions on exchanges, by the lowering of protection tariffs and by the development of monetary relations based on a larger liquidity in the means of international payments.

Multinational enterprises, which consolidated after the Fifties, had already set up branches abroad during the first twenty years of this century: Unilever, Nestlé, Singer, General Electric. Technological development and oligopolistic structures had given a remarkable impulse to the internationalisation of enterprises, on the other hand, speed in communication facilitated the widening of spheres of action of enterprises and a decentralisation of activities and the control of management of independent economic units through a single centre of directives was made possible.

At this stage, it can even happen that cost of expansion in the home market is relevant and that an enterprise finds it more advantageous to build a new market outside the national boundaries, particularly if the rate of increase in the demand is higher elsewhere, thus making for a more flexible market structure.

Multinational enterprises in particular constitute the most advanced phase and a strong instrument in the expansion of American capitalism; the impact of American enterprises in Europe is a case in point, for instance, the outlay of fixed investments made in Italy in 1966 represented 6.4% of the gross make up of fixed capital in the processing sector, 9% in France, 9.7% in the German Federal Republic, 13.7% in the Netherlands and 20.3% in Belgium-Luxembourg.

An investigation on effects of foreign investments in the Italian economy allows a comparison to be made between the total social capital of firms with a foreign majority participation and that of joint-stock companies in each sector. On this basis, there is an incidence of foreign capital equivalent to 14%; in processing industries, it reaches 22.5% and levels higher than 70% in certain chemical sectors, in electronics, pharmaceuticals and precision tools.

The existence of multinational enterprises clearly requires a new outlook in programme, i.e. the adaptation of economic policy decision centres integrated in the present productive structures of Europe.

This, above all, through a want of alternative solutions to industrial structures development of multinational type.

Firms with a State participation, conditioned by bonds of national economic policy, run the risk of being excluded from the multinational strategic process. Because of their public nature, it is difficult for them to integrate in European oligopolistic structures, they can, however, be strengthened through a Community programme.

Not few are the preoccupations concerning the phenomena of economic colonization consequent upon the union of productive sectors with enterprises making their decision abroad. Examples of multinational enterprises with share holders and management represented by several countries are supplied by the banking sector, the main ones are:

1) Banque Europeenne de Credit a Moyen Terme - the following participate in the capital: Banca Commerciale Italiana, Amsterdam-Rotterdam Bank N.V., Creditanstalt-Bankverein, Crédit Lyonnais, Deutsche Bank A.G., Midland Bank Ltd., Samuel Montagu & Co. Ltd., Société Générale de Banque;

2) European Banks International Co. - the following participate in the capital: Amsterdam-Rotterdam Bank N.V., Creditanstalt-Bankverein, Deutsche Bank A.G., Midland Bank Ltd., Société Générale de Banque, Société Générale;

3) Société Financiere Europeenne - the following participate in the capital: Banca Nazionale del Lavoro, Algemene Bank Nederland N.V., Bank of America N.T. & S.A., Banque de Bruxelles, Banque Nationale de Paris, Barclays Bank Ltd., Dresner Bank A.G.;

4) British and Continental Banking Co. Ltd., - the following participate in the capital: Credito Italiano, Hambros Bank Ltd., Union Financière et Minière;

5) International Commercial Bank Ltd., - the following participate in the capital: Commerzbank A.G., First National Bank of Chicago, Hongkong & Shanghai Banking Corp., Irving Trust Co., National Westminster Bank Ltd.;

6) London Multinational Bank Ltd., - the following participate in the capital: Baring Bros. & Co., Chemical Bank, Crédit Suisse, Northern Trust Co. of Chicago;

7) Manufactures Hanover Ltd., - the following participate in the capital: Riunione Adriatica di Sicurtà, Manufactures Hanover Trust Co., N.M. Rothschild & Sons;

8) Midland and International Bank Ltd., - the following participate in the capital: Commercial Bank of Australia Ltd., Midland Bank Ltd., Standard Bank Ltd., Toronto Dominion Bank;

9) Orion Bank - the following participate in the capital: Chase Manhattan Bank N.A., National Westminster Bank Ltd., Royal Bank of Canada, Westdeutsche Landesbank Girozentrale, Credito Italiano;

10) Orion Termbank with the same participation as the last one.

11) Western American Bank (Europe) Ltd., - the following participate in the capital: Hambros Bank Ltd., National Bank of Detroit, Security Pacific National Bank, Wells Fargo Bank;

12) European American Bank & Trust Co. - the following participate in the capital: Amsterdam-Rotterdam Bank N.V., Creditanstalt-Bankverein, Deutsche Bank A.G., Midland Bank Ltd., Société Générale, Société Générale de Banque.

Other than the previous instances, a few examples of dual-national firms can be mentioned: "Royal Dutch-Shell" formed in 1907, the "Unilever" Group, established in 1930 following the amalgamation between "Lever Brothers Ltd.," and the Dutch "Margarine Unie N.V."; "Agfa Gevaert", established in 1964 through the amalgamation on a joint basis between "Agfa A.G." of Leverkusen and "Photoproduct Gevaert S.A." of Mortesel.

Multinational companies represent a kind of enterprise of transnational dimensions, with a flexible structure linked to associated companies and with productive units established in several countries but which in terms of shareholding composition and decision making or in so far that they have several decentralised structures miss a plurinational qualification. This kind of enterprise is a phenomenon peculiar to the dynamism of the American system. At the beginning of 1970 the book value of U.S.A. investments abroad exceeded 70 thousand million dollars, whilst twenty years earlier, it was inferior to 12 thousand million dollars. In the European Economic Community alone, investments supervised from the U.S.A. have increased since 1960 more than 12 times. The share in investment expenditure of American enterprises in the make-up of fixed capital of the processing industry has exceeded 20% in Belgium, around 9% in France, over 16% in the Netherlands and it is equal to 6.5% in Italy. It is estimated that in 1975 investments from the U.S.A. will reach 25% of the gross make-up of fixed capital in the European processing industry. Furthermore, American enterprises in Europe succeed in drawing on the spot the major portion of the financial resources necessary for their expansion on the continent. In 1967, approximately 84% of such resources were obtained through loans in the European markets or derived from amortisations and re-invested profits. It can, therefore, be said that the U.S.A. have transferred to Europe not so much capital as management. On the other hand, the huge North-American companies tend to spread their investments geographically so as to pursue an expansion which otherwise would be prevented by anti-trust laws.

The high cost of U.S.A. labour is an opportunity for decentralisation of production to take advantage where cheap labour is available. High cost of production compels a company to implement a more intensive process of plant and structure renewal, it can also lead to the use of obsolete plant and less advanced techniques in factories abroad where the necessity for a maximum technological development is less pressing.

The concentration process tends to become more pronounced and to reach the firm's optimal size. Beyond a set limit, which is different for each sector, economies in production are not possible; on the other hand economies of the enterprise may increase later at the level of funds for research and development of advanced management techniques. It is sometimes opportune, due to different sets of circumstances, to keep the size of the national plant below the theoretical optimum, moreover, the opportunity may present itself to move abroad whole blocks of production, that is to say, to export an enterprise.

As we have said the relationship between market and firm are altered and this in particular changes the methods of joint-stock companies.

The ambit within which the joint-stock company operates is much wider than that of the small competing firm and must take into account various elements. It follows, therefore, that the methods and the perspectives of the joint-stock company are changed. Thanks to the means of which they dispose, they aim to obtain the maximum profit over a longer period than the small firm of the old competitive market. This leads principally to two attitudes:

(1) One tending to limit the assumption of risks,

(2) the other of mutual respect.

As regards the assumption of risks, large concerns do not indeed seek rapid and casual advantages but aim at the maximum possible profit realiseable over a set period of time and they dispose of ample resources.

Concerning the second point, few large joint-stock companies tend to develop group ethics calling for reciprocal solidarity and aid. As a consequence, the behaviour of the joint-stock company has been defined as that of "mutual respect". This has a considerable repercussion over price decisions in an oligopoly. Indeed, according to Sweezy and Baran, the most important aspect of the tacit collusion is known as "Price leadership".

This exists when the market equilibrium price is determined not by the market itself but is imposed by one industry to others (in general this imposition comes from the economically strongest enterprise). Other enterprises accept it, not only because it suits them also, but above all, because if they do not adjust to it, this would unleash a battle of prices which would certainly have an unfavourable outcome for all. On the other hand, the case may occur where the price is fixed at a lower level, other companies do not respond and leave their prices unchanged. In this case, which generally occurs only when the companies are of similar size and when they have a reciprocal fear, the pilot company which established the new price level returns to the point of departure.

In consequence, Sweezy and Baran maintain that it is easier for a company to raise prices, a simple operation with no risks involved, rather than lowering them, since this latter course may cause an imbalance in the market with price war as a result and which would be harmful to all. All this tends towards an increase in price and, therefore, in rate of profit.

Yet Sweezy and Baran's thesis is not based on a complete analysis of the price make-up under an oligopolistic regime. The assumption of "mutual respect" does not seem sufficient to determine at what level the price is fixed nor its fluctuations.

There is no doubt that market concentration carries with it a certain degree of collusion between different enterprises but this does not prevent each of these seeking the highest possible profit by exploiting the market situation in the most convenient way.

It is necessary, therefore, to examine more closely what determines the price in an oligopolistic regime and to ascertain if Sweezy and Baran's thesis on the tendency to increase rate of profit caused through industrial concentration, has solid bases.

The determination of price in an oligopolistic regime

There are three types of oligopolies: differentiated, concentrated and mixed.

The differentiated oligopoly is characterized by a sub-division of markets, not a particular single market, but small groups of markets inside which competition is imperfect in that the products offered appear to the consumer to be different from each other.

There is a concentrated oligopoly when there are in the market enterprises which produce uniform goods with such a heavy concentration that a limited number of enterprises are able to control all the production or a major part of it, leaving the rest divided to many small firms. This situation is typical of industries producing implements. On the other hand, industries producing durable consumer goods find themselves in a situation of mixed oligopoly. In this, the main characteristics of the previous markets are to be found: a differentiation of products on the one hand and a concentration of the productive units on the other.

In discussing the make-up of prices, we must bear in mind technological discontinuities caused by the process of concentration itself. Technological progress results in decreasing costs of production provided each enterprise increases output since technological advancement frequently requires ever larger, costlier and more productive installations. Alongside large industries with efficient plant, can also exist, however, small or medium industries with less efficient plant. Taking into account a particular type of enterprise, with a technology which does not allow a production higher than a set limit, and putting marginal costs as constant and corresponding to direct cost, we can deduce that the average unit cost diminishes up to that limit since the fixed cost is divided in an increasing number of units produced. Therefore, if $\underline{c}$ represents the unit cost, $\underline{v}$ the variable cost, $\underline{k}$ the annual fixed cost and $\underline{x}$ the quantity produced, we have:

$$c = v + \frac{k}{x}$$

Moreover, by increasing production, the unit cost gets lower and the direct unit cost remains constant.

We can thus conclude that the larger the enterprise, the more efficient it is since it succeeds in producing at a lower total unit cost. Depending on its size there will be different influences on price decisions. If in the end it is the large enterprises which determine price, even small ones can bring their influence to bear since their number and, therefore, their total production varies according to the level of prices. It is obvious that if they are very small, none can make the price fluctuate to such an extent as to affect the large company but if their number varies, the price will alter despite the small quantity of product offered by each one.

Moreover, the large enterprise succeeds in controlling any eventual attempts by others to enter the market, attracted as they are by earnings of those who are already inside an oligopolistic market. They succeed in controlling such attempts by influencing prices. Whenever it wishes to impede entry by newcomers, the large enterprise avails itself in fact of the lower cost at which it succeeds in producing (for a larger production compared to that of small concerns), it will fix prices so low as to deny the newcomer the minimum rate of profit and it has, therefore, no interest whatever in coming in. This price which prevents entry of new companies is called the "exclusion price".

It should be noted that in order to calculate the benefits of entering a market, the newcomer should take as a basis not the prevailing price (exclusion) but the price which will apply after entry.

Moreover, when they wish to do so, companies already operating succeed in eliminating others in the same market sector by fixing an exclusion price lower than the variable cost to which the company to be eliminated must submit. Thus, the weaker companies not being able to cover even out-of-pocket expenses, are forced to abandon the market.

The determining factors of a price are:

(1) market expansion

(2) demand flexibility

(3) technology

(4) costs of variable factors.

Given a certain market structure and a corresponding price equilibrium if, over a short period, the aim is to maintain the same structure and to change the variable costs of a small number of units, the full cost principle is adopted:

$$v + qv = p \qquad\qquad q = \frac{k'}{x} + \frac{k''}{x} + g$$

If we consider the American economy, and if we accept that wages increase, the margin q remains constant as do also the profits.

Over a long period, thanks to new techniques the average unit cost tends to decrease, faster in large enterprises, more slowly in the medium and small ones.

It follows that if all other elements which determine price are considered as constant, the price will tend to find an equilibrium level which allows large enterprises increasing rates of profits, thanks to the larger technological discontinuity which, in our case, is certainly matched by a higher market concentration. If we consider the surplus as being equal to the mass of profits, we have the corroboration of Sweezy and Baran's thesis that the surplus tends to increase.

THE "AMERICAN CHALLENGE".

The "American challenge" to Western Europe is enforced mainly through the installation of American firms in strategic sectors of the economy and in those with an advanced technology. At present direct American investments have no important meaning in the European countries if they are considered in relation to their whole economy but will be able to assume a key position in coming years to the extent to which American enterprises find financial sources outside the U.S.A.; otherwise the deficit in the American balance of payments will limit direct investments in Western Europe. At the moment, there is a certain paradox in the relation between such investments and the American balance of payments; during the period 1960-66, the reflux of dollars from the U.S.A. for direct investments in Western Europe was 8,150 million dollars, against a revenue from such investments of 4,068 million, resulting in a net outgoing of 4,082 million; during the same period in the case of the under-developed countries there was a reflux of 4,465 million and an entry of 15,051 resulting in a net credit balance of 10,586 million dollars. In a broad sense it could be said that direct American investment in Western Europe is financed by developing countries!

Electronics and aero-space engineering are the sectors in which Western Europe runs the risk of being excluded with rather serious consequences for its prospects of economic development. Servan-Schreiber says "a country acquiring abroad the essential of its electronics equipment will find itself in a condition of inferiority similar to that of nations which a century ago found themselves unable to guide and control mechanisation. Even though they may have had a glorious past, these countries remained a long time on the fringes of civilisation. If Europe's failure in the electronics sector should become established, it would run the risk, through this alone and in the space of a single generation, of no longer being an advanced civilisation area". A large American company has become conscious of the connection between electronics development and economic independence. "In the U.S.A. General Motors has refused IBM Computers, as it considers unsafe to reveal their inside information to a company which, as in the case of IBM is on the way to becoming a monopoly."

The thesis on American superiority by Servan-Schreiber which follows seems over-simplified: "numerical strength, raw materials or capital are no longer the signs and instruments of power. Factories are but an exterior relic. Modern power is the ability to invent, i.e. research; it is the ability to make use of inventions in products, that is to say, technology". Mandel refutes this thesis: "The undoubted advantage of large American companies is that, given the larger capital and profits, they could bear the greater risks of the latest technologies . . . this enabled them to buy patents, inventions and technicians when their laboratories were lagging behind. State guarantees of profit to large enterprises engaged in production for rearmament did the rest. Therefore, it is the laws of competition, of accumulation and concentration of capital which explain the supremacy of the large American enterprises and not the "mysterious spiritual strengths". Yet, it is not wrong to talk in terms of the "new gap" as does Klaus-Heinrich Standke but only in the sense that West European capitalism has the technical and intellectual abilities whilst frequently not having the financial means necessary for an accelerated "renewal".

We must point out, however, that in absolute one cannot speak of a real absence of capital in Western Europe; for instance, in Italy during the two year period 1966-67 when there was an insufficiency of investment, private capital to the tune of 1,400 milliard lire was exported. The delay is probably due to an insufficient division of work in Western Europe, this is noticeable even in the Common Market and is the reason why the size of European companies in technologically advanced sectors is still so far behind that of their American counterpart. Yet, the process of division of work in the EEC has already started and is developing along the guide-lines which large West German companies have given to the market for goods which are technologically more advanced; not of little account is a large enterprise of the RFT group SIEMENS which opposes the predominance of IBM at least in the German Federal Republic; in three years only, from 1964 till 1967, the share of Siemens in the computer sector has increased from 5 to 30%.

Servan-Schreiber, true to his theory of "inventive" U.S.A. superiority proposes to overcome the disparity between them and Western Europe by altering the American methods "once defined as the leaders of action, once the large operations are chosen, and the connections are established between industrial effort and State aid; it will still be necessary to establish new relations adapted to technological progress, in the complex Industry-University-State . . ., in the first place and a systematic development of client-supplier relationship; it must be accepted that ministries and universities work for laboratories under contract with industrialists and in the sense which they have indicated". This last proposal is really surprising on the part of a man such as Servan-Schreiber who describes himself as being of the Left and who, in order to bring the matter to a close concludes by suggesting a revenue policy chargeable to wages: "Will wage-earners accept the industrial changes? Will they make savings proportionate to the investment needs of our era? Will they agree that their increased earnings come within the bounds of a planning of values? Which rights and authorities will have to be granted to them, which objectives will have to be given to expansion so that they participate in the game and in the interests of production? These are the terms of a debate which would advance economic efficiency and, simultaneously, social justice. These are the elements of an extensive negotiation which a Left, true to its programmes, must endeavour to bring to a successful close".

In truth, it is possible to demonstrate the hollowness of the parallel between economic expansion and social justice in the capitalistic system by using the instance of the U.S.A.:

PERCENTAGE VARIATIONS

Breakdown of GNP in real terms.	1967/1961	Compound Annual Rate	1961/1955	Compound Annual Rate
Gross National Product	34,6	5,1	13,5	2,1
Wages	11,8	1,9	8,3	1,3
Companies' Profits	46,0	6,5	16,2	2,5

Already during the period 1956-61, the rate of wage increases was not keeping pace with the expansion of national revenue; during the boom period 1962-67 when national revenue increased by 5% per annum, the rate in wage increases was very restrained whilst companies' profits almost trebled. Another statistical comparison will help to refute Servan-Schreiber's thesis: between 1957 and 1967 wages in the processing industry registered in real terms an increase of only 16.3% in the U.S.A. against 59.4% in the United Kingdom, a country considered barely efficient in its economy.

The strategy proposed to the Left by the French journalist of limiting West European industrial concentration and to channel workers claims by means of revenue policy so as to confront from more favourable positions competition with large American companies was refuted; but the strategy of the fight against concentration was also refuted and as Mandel rightly underlines: "from the considerations previously developed, the conclusion should not be drawn that the workers movement of

Western Europe has interest in slowing down the process of international capital penetration, because it gradually reduces prospects of conquest through political power at national level, modifying the relations of strength, at least temporarily, to the disadvantage of workers. It would, in any case, be utopian to try to prevent economic changes in line with the development of productive forces even considering that workers movement has never aimed at keeping alive artificially the small capitalistic firm nor to obstruct capital concentration". Against the temptations by the Left to embark in an unprecedented fight against monopolies Joseph Schumpeter in "Capitalism, Socialism and Democracy" (Harper and Brothers, 1947, New York) wrote: "According to the profile of economic development, perfect competition is not only impossible but is theoretically inferior and has no claim whatever to be mentioned as an example of ideal efficiency. It is, therefore, a mistake to base the theory of State control of industry on the principle that the large company must be put to work in the same way as the one in which the corresponding industry would operate under a system of perfect competition. In their criticisms, Socialists should lean on the virtues of a socialist economy rather than on those of the competition system".

AMALGAMATION TREND

We shall examine now activities in amalgamation by sector: real-estate companies represent the most important sector with a somewhat weak capital structure given the instrumental and speculative character taken by such companies in Italy. Numerous amalgamations have occurred in the mechanical industry group; as regards the total number of companies selected for amalgamation we find in first place the metallurgical enterprises followed by electrical industries and chemical companies which represent a relative majority in terms of value. Mechanical industries assume a lesser importance relative to the total nominal capital involved.

A first group of sectors - mechanical, chemical, electric power - has exercised a definite influence on the general progress of amalgamations, both through the number of operations and the importance of the share capital involved. For the mechanical and chemical sectors concentration was particularly heavy from 1962 onwards with a more intensive amalgamation movement during the recession period, later stimulated by law 170.

A second group - agricultural firms, cement plant, extraction, paper, building construction - show evolution tendencies linked with the economic movement, where concentration and rationalisation remained about constant during the whole period but with more activity in recent years.

In a third group, the amalgamation movement occurred after some delay. The number of operations is somewhat reduced and dispersed over the whole period of time considered without any particular concentration. In these sectors it is only in more recent years that a movement of concentration and rationalisation can be seen: from 1961 for metallurgy, from 1964 for paper and its technique, from 1965 for food firms, cotton firms, graphic arts, from 1966 for wood and furniture.

THE MECHANICAL SECTOR

In a first overall appraisal it is opportune to note that the mechanical sector is characterized by a low rate of activity by the enterprises; those which have amalgamated in general are of medium and small size in comparison to the importance of the sector (even if they are included amongst the largest companies of the two hundred). Moreover, in practically all cases they have absorbed only one company during the period.

In the electromechanical sector on the other hand, rather high activity in amalgamation is to be seen, those involved were medium to large firms. It seems moreover that two operations were purely of rationalisation: those of Marelli and Ignis.

In the sector of construction of means of transport are seen operations, probably of "internal" rationalisation, by FIAT during 1967 and only relatively large enterprises have incorporated other companies.

In the metallurgical sector one is struck by operations of the largest enterprise in the sector, i.e. Italsider which extends over the whole period under examination.

Medium size companies were more active and operations were carried out essentially during more recent years, this influence was due partly to the decision to nationalise the electrical sector, given the connections existing between energy producers and the electro-mechanical companies.

In the shipyard sector amalgamations were few in technical and economical terms and were carried out by relatively small enterprises.

METALLURGY - In the sector of the metallurgic industry are 19 of the 200 largest companies selected on the basis of their sale' value during 1963. This sector seems characterized by a high number of operations during the period 1957-1968 in that 23 were recorded in all.

Amongst the enterprises mainly involved in increasing their own size through external expansion, i.e. by absorbing other companies, are in first places:

Italsider (2nd, 1st in the sector), concluded 12 operations incorporating in 1961 Cornigliano, nominal capital 70 thousand million; in 1964 Generale Pugliese di Elettricità, nominal capital 9.3 thousand million; Elettricità della Campania, nominal capital 1.7 thousand million; Unione Esercizi Elettrici, nominal capital 33.8 thousand million; in 1966, Acquedotti della Versilia, nominal capital 20 million; Immobiliare Borgo, nominal capital 1 million; Ferrovie Marchigiane, nominal capital 1 million; Siderurgica dell'Ossola, nominal capital 842 million; Sigim Italiana Gestioni Immobiliari, nominal capital 50 million; in 1967, Meridionale Azoto, nominal capital 7.7 million.

Sava Soc. Alluminio Veneto (138th, 18th in the Sector) concluded 4 amalgamations, incorporating in 1965, Idroelettrica Cismon, nominal capital 1 thousand million; in 1965 Ftalital, nominal capital 1.5 million; Laminal, nominal capital 1 million; in 1965, Smirrel Serbatoi Montani Irrigazioni Elettricità, nominal capital 500 million.

Acciaierie e Ferriere Lombarde Falck (15th, 4th in the sector) concluded 2 operations incorporating in 1963 Nazionale Elettrometallurgica Sondel di Roma, nominal capital 600 million; in 1966, Nazionale Elettrometallurgica, nominal capital 400 million.

Metallurgica Italiana (60th, 7th in the sector) concluded 2 operations incorporating in 1958 Metallurgica Bresciana, formerly Tempini, nominal capital 1.5 thousand million; in 1964 Forze Idrauliche Appennino Centrale, nominal capital 3 thousand million.

Redaelli Giuseppe & Fratello (108th, 12th in the sector) concluded 2 operations in 1967 Trafilerie Corderie Italiana, nominal capital 700 million, Materferri, nominal capital 100 million.

Fabbrica Italiana Tubi (124th, 16th in the sector) concluded 1 operation incorporating in 1967 Ferrotubi, nominal capital 1.1 million.

In this sector, a total of 23 amalgamations took place; 23 companies were absorbed.

MECHANICAL INDUSTRY - In this sector are 19 of the 200 largest companies selected on the basis of their sale value during 1963. This sector seems characterized for the period 1957-1968 by 11 amalgamations. Amongst the enterprises more actively engaged in increasing their size through external expansion, i.e. by absorbing other concerns, are in first places:

RIV-SKF Officine di Villar Perosa (25th, 2nd in the sector) which concluded 3 operations, incorporating in 1966 Macchi Cuscinetti, nominal capital 250 million; Costruzioni Druento, nominal capital 400 million; in 1967, Immobiliare Sitor, nominal capital 1.5 million.

ASPERA FRIGO (88th, 10th in the sector) which concluded 2 operations, in 1959 Aspera Frigo of Turin, nominal capital 140 million; in 1968 Fonderia Aspera, nominal capital 1 million.

Singer Compagnia Macchine per Cucire (49th, 5th in the sector) which concluded 1 operation incorporating in 1967 FIAR, nominal capital 0.5 million.

Nebiolo (132nd, 12th in this sector) which concluded 1 operation incorporating in 1962 Colture Razionali, nominal capital 25 million.

Tosi Franco (82nd, 9th in the sector) which concluded 1 operation incorporating in 1966 Immobiliare Boccaccio, nominal capital 100 million

Ideal Standard (79th, 8th in the sector) which concluded 1 operation incorporating in 1966 Ideal Standard Industrial, nominal capital 50 million.

F.lli Borletti (109th, 11th in the sector) which concluded 1 operation incorporating in 1966 Filatura S. Giorgio, nominal capital 30.4 million.

Morteo (19th, 18th in the sector) which concluded 1 operation incorporating in 1967 Prefabbricati Finsider, nominal capital 300 million.

In this sector a total of 11 amalgamations were concluded; in total, 11 companies were absorbed.

ELECTRO MECHANICAL INDUSTRY - In this sector are 16 of the 200 largest companies selected on the basis of their sale value during 1963. This sector is characterized by a number of amalgamations during the period 1957-1968 with a total of 24 amalgamations recorded and with the take-over of 31 companies. Amongst the firms more active in increasing their own size through external expansion, i.e. by absorbing others, are in first places:

IGNIS (64th, 8th in the sector) which concluded 7 operations incorporating in 1966 EL.VA, nominal capital 450 million; Metallurgica Terni, nominal capital 450 million; FIL, nominal capital 50 million; ISOVER, nominal capital 100 million, CONIS, nominal capital 150 million; in 1967, in one single operation, IMBALL, nominal capital 60 million and ORLEANDRO, nominal capital 9 million; in 1968, FONTER, nominal capital 150 million.

CGE (45th, 4th in the sector) which concluded 7 operations, incorporating in 1957 Antonio Biffi of Milan, nominal capital 29.9 million; in 1962, Compagnia Generale Componenti, nominal capital 1 million; in 1966, Unda Radio, nominal capital 6 million; Zancangeloni, nominal capital 3 million; Compagnia Italiana Apparecchi Elettrici CONE, nominal capital 228 million; SIRE, nominal capital 150 million;

Scotti Brioschi & Co., nominal capital 240 million.

Officine GALILEO (134th, 13th of the sector) concluded 3 operations, in 1962, Applicazioni Industriali di Firenze, nominal capital 1 million; in 1963, Officine Galileo di Milano, nominal capital 20 million; in 1967, Costruzioni Ottiche e Meccaniche, with a capital of 50 million.

SIEMENS (51st, 6th of the sector) concluded 2 operations incorporating in 1963, Immobiliare Agricola Castelletto, nominal capital 10 million; in 1964, Aziende Tecniche Elettroniche Sud, nominal capital 1.5 thousand million.

Ansaldo S. Giorgio (54th, 7th of the sector) concluded 1 operation incorporating in 1966 Officine Elettromeccaniche Triestine, nominal capital 1 thousand million.

Fabbrica Italiana Magneti Marelli (40th, 3rd of the sector) concluded 1 operation incorporating in 1968 in a single operation, Francesco Rabotti, nominal capital 700 million; Rabbotti Sud, nominal capital 200 million; IMCARARIO, nominal capital 150 million; Fabbrica Italiana Valvole Radio Elettriche (FIVRE), nominal capital 2 thousand million; MABO, nominal capital 7 million; Radio Marelli, nominal capital 1.2 million; INIEX, nominal capital 20 million; Magneti Marelli took over a total of 7 companies.

MAGRINI (148th, 14th of the sector) concluded 1 operation incorporating in 1965 Officine Elettriche Scarpa & Magnano, nominal capital 1 thousand million.

GELOSO (196th, 18th of the sector) concluded 1 operation incorporating in 1962 Immobiliare Calzaturificio Brenta, nominal capital 1 million.

PHILIPS (23rd, 1st of the sector) concluded 1 operation incorporating in 1966 Isonzo, nominal capital 100 million.

CONSTRUCTION OF MEANS OF TRANSPORT - In this sector are 11 of the largest companies selected on the basis of their sale value during 1963. During the period 1957-1968, four amalgamations took place in this sector. Amongst the firms more active in increasing their own size through external expansion, i.e. by absorbing others, is, in first place:

FIAT (1st, 1st of the sector) which concluded 2 operations incorporating in 1967 in a single operation, Gomma Ebanite Similari, nominal capital 150 million; NAC Italiana, nominal capital 100 million; Officine Costruzioni Industriali, nominal capital 3 million; Costruzioni Aeronautiche Novaresi, nominal capital 100 million; OM, nominal capital 20 million; and Auto Bianchi, nominal capital 6.5 million, in a single operation FIAT has absorbed a total of 6 companies.

POLICY OF FIAT

Due to a narrower internal market, Fiat seeks constant outlets abroad; the largest share in motor vehicles exported compared to total production was reached during the period between the two World Wars and has never been exceeded since; in 1927, to be exact, when the 30,000 motor vehicles exported represented 2/3 of production. It is during the inter war years that FIAT developed its commercial network and created its branches abroad (sales, servicing, assembly). After the War - thanks to the introduction of new models, to the government's policy which facilitated expansion, to the need of covering an increasing internal market - exports, whilst continuously on the increase, represented up to a few years ago a not negligible but neither high share of production. Yet in 1970 FIAT, OM and AUTOBIANCHI vehicles reached an export of 617,720 units, equal to about 39% of Italian production. In total, exports by FIAT represent about 10% of the world export of motor vehicles.

Some markets are of particular importance for the FIAT group. 53% of exports go to countries of the EEC and 18% to those of the EFTA. As for Socialist countries whose importance is limited but increasing, about 80% of exports go to European markets. About 9% is taken by the U.S.A. and Canada, whilst the rest is distributed in other countries. The importance of the European market is such (and it is obviously greater when considering also the Italian one) that in the recent publicity campaign in the U.S.A., FIAT shows itself as the company with the largest share of the European market.

1962		1968		
Vehicles (thousands)	Market Share	Vehicles (thousands)	Market Share	Company
595	19,4 %	1.100	24,7 %	Fiat + Autobianchi
499	16,4 %	538	12,1 %	Volkswagen + Auto Union
337	11,1 %	491	11,- %	Renault
267	8,8 %	437	9,8 %	General Motors
281	9,2 %	324	7,3 %	Ford
276	9,- %	317	7,1 %	Citroen
58	1,8 %	82	1,7 %	Alfa Romeo

During the sixties, in effect, FIAT group is the one which has increased the most its sales in Europe (as shown ty Table 1 prepared by Soris on data of companies' balance sheets) and its share is even higher when considering also Citroën.

THE INTERNATIONAL MARKET OF FIAT - Exports of finished vehicles, i.e completely assembled, is but a part of the role which the international market offers to Fiat. Like the other large makers of cars, FIAT on its own and in conjunction with other companies has for some time created enterprises either for the assembly or for complete production of motor vehicles and tractors. According to the latest report to shareholders, production 'by establishments operating abroad . . . has . . . totalled about 450,000 cars and industrial vehicles also about 30,000 tractors; these totals do not include production by Citroën nor by Volga, nor units assembled abroad with parts supplied by us".

"Official" investments abroad represent about 33% of FIAT's shares portfolio, with a slight decrease in absolute value compared with 1969 and with a percentage reduction more pronounced. Over 98% of such investments are held by Holding FIAT with an office in Lugano. It should be added that IFI has an international holding in Luxembourg and numerous participations are almost certainly lead by IFI or companies under its control. According to certain sources, establishments abroad which produce or assemble Fiat motor vehicles, tractors, rolling stock, large engines, etc. exceed thirty. An exact list of the countries where FIAT is present is extremely difficult; the sources, even agencies, give different and uncertain information, above all where assembly plant is concerned. In any case, that the international development of FIAT has been intensified during the post-War era and above all in more recent years is clear. Should we suggest a period when a turning point was reached, we would choose 1965, not only because the agreement with the Soviet Union (which will have considerable importance for the multinational future of FIAT) was settled that year, but also because activities abroad managed, controlled and financed directly by FIAT acquired a greater importance in the group's policy.

THE LOGIC OF INTERNATIONAL DEVELOPMENT followed by FIAT is due to customs' barriers which preclude the export of complete vehicles or because a prominent share of the market has been secured and it becomes convenient to produce or assemble locally.

As a rule assembly precedes complete production even after many years - even when the establishment is capable of producing complete vehicles - numerous establishments help in production itself with alongside an assembly chain which receives parts from Turin or from other establishments. On the other hand, to start with assembly invariably shows itself more convenient for several reasons. It is not possible to be present in markets which are barely developed, to benefit from low labour costs whilst transport costs (thanks to the development of containers) are in constant regression. Alongside the production or assembly plants which are dependant on FIAT's finance programme there is a spread of production under licence. Examples of these are the plant of Togliattigrad, FSO in Poland, NASR in Egypt, etc.

In view of the importance which the European market offers to Fiat, it is obvious that the company should be directly present in almost all these countries. In France, the activities of Fiat depend on FIAT FRANCE with a share capital in excess of 140 million French Francs controlled as to 48.5% by Fiat and 9.5% by the Luxembourg holding of IFI and in whom CHRYSLER has a participation of 24%. FIAT FRANCE which employs about 8,500 workers relies on sales, servicing of motor vehicles and the production of UNIC coaches and SOMECA tractors.

In 1969, 6,827 lorries and 14,000 tractors were produced; in 1970, there was an increase in production of industrial motor vehicles (over 8,000) whilst production of tractors showed a small reduction.

In West Germany, DEUTSCHE FIAT has been established since 1922 (35 million marks), it has a 100% control over seven companies. The most important are NECKAR which assembles a number of FIAT cars, FIAT TRAKTOREN which produces and assembles tractors and earth-moving equipment and FIAT LEASING. Commercial and servicing activities are of course also entrusted to DEUTSCHE FIAT.

The country in which FIAT's presence is most important is Spain where SEAT is controlled as to 51% by the Spanish fascist State through the National Institute for Industry and where FIAT's participation is 36%. But to this share must be added another 12% recently acquired by IFI. SEAT which in 1970 produced about 285,000 motor vehicles (28% higher than the previous year) is the largest Spanish motor car company and its production represents about 60% of national production. It employs 25,000 workers and has represented for FIAT a useful instrument to obviate the production strangulation in Italian plants. For a considerable time, in fact, SEAT presses have worked for Turin. On the other hand, SEAT does not limit itself to the production of complete cars, it also assembles FIAT cars with parts produced in Turin. In 1969, apart from the normal SEAT production, 120,000 motor vehicles were assembled using parts from the Italian FIAT works.

In Yugoslavia FIAT is present through CRVENA ZASTAVA where it holds a 49% participation. 19,000 workers are employed by ZASTAVA and production in 1969 was 71,000 motor vehicles. Forecasts indicate an important increase in production (183,000 by 1973); this plant also assembles parts of FIAT cars from Turin alongside its own production; it can even be said that up to the present, assembly has been prevalent. Production of ZASTAVA, including assembly, is 50% of the Yugoslav total. Joint FIAT and ZASTAVA activities are foreseen in Colombia and in India (the latter should produce utility vehicles to the tune of 50,000 units per annum). Technically and from every point of view, control by FIAT is practically complete.

Other assembly plantsexist in Portugal (7,000 vehicles in 1969), in Austria, in Ireland, in Belgium and in the Netherlands. Bulgaria and Rumania assemble tractor parts under licence and with FIAT parts. The plant of Togliattigrad, on the other hand is self-supporting.

The presence of FIAT in South America is huge. In Argentina, there is FIAT CONCORD, MATERFER and GRANDI MOTORI. FIAT CONCORD which is the largest Argentinian private company employs 13,000 workers and has produced in 1970, 50,000 motor vehicles, 5,600 tractors and about 3,000 lorries. Its sales value has been of 143 thousand million lire. Other assembly plants are located in Chile, Mexico, Peru, Venezuela, Paraguay and Costa Rica. In Uruguay, the AUTOMOTORA BASSO plant assembles FIAT components. It is estimated that no less than 70,000 motor vehicles were assembled in 1969 in the Latin American plants (apart from the independent production by FIAT CONCORD). A project is nearing completion for the manufacture of tractors in Brazil.

In Africa, there are works which assemble FIAT motor vehicles in Egypt, in Morocco (SOMACA where FIAT FRANCE has a participation of 25% and the public concern BEPI of 50%), in Kenya and in Tunisia. As can be seen, apart from companies where FIAT's capital is present, there are others which are financially independent of FIAT but assembled under FIAT licence and with parts from Italy (ex. Egypt, Tunisia).

Apart from the companies already spoken of, mention must be made of MAROCAINE DE CONSTRUCTION AUTOMOBILES (100% FIAT), FIAT ZAMBIA (car assembly, 100% FIAT), FIAT SOUTH AFRICA (assembly of about 10,000 in 1969), all controlled by INTERNATIONAL HOLDING FIAT of Lugano. Other assembly plants are foreseen in Ethiopia, The Congo and the Sudan.

In Asia, countries where there are plants which produce and assemble FIAT motor vehicles are many. In Turkey, the presence of FIAT is very strong: TOFAS (2,000 employed) in which FIAT's participation is of 41.5% and TURK TRAKTOR controlled by FIAT. There are other plants in Iran, Korea, Malaysia, Pakistan, Thailand and in India where "PREMIER AUTOMOBILES with a capital of 74.8 million Rupees operates and employs 10,000 workers". There are other assembly plants in Australia and New Zealand. In Japan, KUBOTA produces tractors under FIAT licence.

As can be seen, the establishments which produce or assemble FIAT vehicles are extremely numerous. FIAT is strengthening further its foreign set-up. For example, SEAT should reach a production of 480,000 motor vehicles in 1972, TOFAS should produce 20,000 also in 1972, PREMIER 25,000, etc. Within a few years, therefore, production of 700,000 motor vehicles (excluding those assembled) should be reached. It can also be presumed that the volume of motor vehicles assembled will increase sharply and our estimate (over 300,000) should be exceeded quite soon.

Lastly, foreign activities by FIAT do not appear in their true importance if the field of construction is left out: ahead of the FIAT group is IMPRESIT, the largest Italian civil engineering company. It is to IMPRESIT that was entrusted the construction of the Kariba Dam and, more recently, in association with companies from other countries, the work on the Tarbela Dam. In collaboration with others or alone, IMPRESIT (created in 1929 by a group of financial institutions and taken over later by FIAT) has worked in Africa, in Latin America, in Asia, etc. The value of contracts for 1970 was about 450 thousand million lire and apart from the 2,500 Italian technicians and workers there are tens of thousands of local workers on the sites. IMPRESIT and other companies or groups with which it operates is an example of the kind of expansion seen in Italy during the early post-War years; a functional expansion which requires more promising investments than those of FIAT in its assembly or construction plants.

FIAT'S POSITION IN THE INTERNATIONAL MARKET

FIAT participates in the international division of work not only passively by accepting a set scheme but also actively by promoting and participating in agreements which on the one hand exclude our country from a given activity and, on the other, strengthen FIAT's position in the international market for the motor vehicle sector.

The recent agreement with J. DEERE confirms that FIAT tends to specialise in the motor vehicle and utility vehicle sector whilst keeping a controlling position in its other activities.

The FIAT-CITROEN agreement shows that this Italian company with increasing interests and participation abroad has become a real and true multinational company but may reveal characteristics which are different from those of multinational companies existing hitherto.

In December 1970, after lengthy negotiations and after FIAT had already secured a participation in CITROEN, PAREDI (Société de participation et de développement) was established; it owns 53% of the share capital of CITROEN. In its turn, the capital of PAREDI is divided between FIAT and MICHELIN, in the proportion of 49 and 51% respectively. CITROEN, on the other hand, controls BERLIET (the French manufacturers who cover 45.6% of French production of industrial vehicles of over six tons). In 1969, CITROEN-BERLIET's production was worth 868 thousand million lire. 505,997 motor vehicles were produced and 20,085 coaches. In 1970, production increased sharply (by over 25%). Even without precise information, all agree that FIAT-CITROEN have overtaken CHRYSLER, taking third place after GENERAL MOTORS and FORD. FIAT is able to be present in the European market even in those engine capacities from which it had been excluded since the French firm occupies an important position in capacities exceeding 1,700 cc.

The agreement will not consist of a simple overlapping of various establishments and products. The mutual integration will also cover the commercial network, moreover, projects are being considered for standardising parts of FIAT, CITROEN and LANCIA vehicles to obtain a greater importance and economies and at the same time to dispose of different plants which at the opportune moment can produce irrespectively for one make or the other.

The FIAT-CITROEN group has thus become the most important European motor vehicle manufacturer and has better prospects than the German VOLKSWAGEN-NSU-AUTOUNION group for developing and introducing new models in the market; this commercial policy of diversification of products also opens the prospects of reaching different income groups.

A possible agreement between FIAT-CITROEN and VOLKSWAGEN has been mentioned; this would confirm the forecast that the COMMON MARKET, after a period of sharp competition, may have led to a higher degree of monopoly, to a larger concentration and to more agreements.

The agreements FIAT-CITROEN, AGFA-GEVAERT, PIRELLI-DUNLOP are the signs of the beginning of a new phase: the truly multinational companies, European companies will be able to build, in conjunction with other factors such as monetary and economic policies, not only a common market but also a common economic system.

At the summit of FIAT's international policy there is a twofold requirement: build a multinational company able to contain competition which will become increasingly sharper through a slackening in the rate of increase in sales of cars in Europe and dispose of plants so sited geographically as to benefit from the differences in syndical revendication and their lack of cohesion. The Chairman of FIAT, Gianni Agnelli has said that the multinational company is "the most effective instrument to operate in tomorrow's world", his strategy cannot be understood if this reality is omitted.

The ability of self-financing, the possibility of drawing capital and to make it flow from one country to another according to the need of new activities, etc. show how FIAT can succeed, at least on a medium term. The risk is that this will be a FIAT success and not a success of the Italian economic system which runs the danger of being temporarily more integrated in the traditional system (with the rules of division of work) and placed more on the fringe because its own major company will become always less Italian and more international.

RIV-SKF

This multinational group faces the challenge of world wide pressure with 65 establishments, 28 plants, 52 sales organizations in all continents. In over 60 years of operation, the group has produced up to now about 6 thousand million bearings. SKF was founded in Goteborg by Dr. Sven Wingquist in 1907, already in 1909 and 1910, it opened branches the other side of the Atlantic and in Great Britain; in 1914, the first German factory was built and in 1917, the first French one. Meantime, it bought two important Swedish steel-works. In 1947, there were 45 SKF plants in operation. The amalgamation with RIV came in 1965. Today, the SKF group employs 64,000 and its annual sales are around 450 thousand million lire.

RIV was founded only one year before SKF; it was established in Turin in 1906 by Sen. Giovanni Agnelli with a first pilot plant of 23 operatives. A few months later, the Villar Perosa plant was built, with 180 operatives, 300 machines and its own hydro-electric plant, its production capacity was 20,000 bearings per annum. In 1911, it reached a target of 220,000 bearings per annum. At the end of the First World War, RIV employed 1,000 and it covered an area of 28,000 m^2. A new plant was built in Turin in 1924. In 1932, there were 4,400 workers and the area had reached 70,000 m^2, new works were opened at Massa in 1939; workers had increased to 8,600 whilst the area extended over 155,000 m^2 and annual production exceeded 20 million bearings.

The expansion process of RIV went on: in 1956, the Cassino plant was built, the first activity of its kind in the Italian Mezzogiorno, three years later a new plant was built at Pinerolo. The nucleus of the AIRASCA establishment was inaugurated in 1963. In 1965, the company joined the SKF multinational group under the name RIV-SKF Officine di Villar Perosa S.p.A., it employs at present about 10,000; over 100 million bearings per annum are produced in 8 plants and it has 16 branches in Italy apart from about one thousand distributors. The production programme of RIV-SKF includes every type of bearing which means several thousand different types of shapes and sizes.

Apart from having a leading position amongst the world specialists for supplies to the motor industry, RIV-SKF make bearings for advanced technologies as for instance aero engines and machine-tools which require parts with a very high precision. RIV-SKF as a company in the SKF international group is in a position to satisfy any demand for bearings, from those with a 1 mm. diameter and weighing less than one-tenth of a gram, to those with an outside diameter of several meters; from bearings which can turn at 400,000 r.p.m. to others which can carry loads heavier than 2,000 tons. The heaviest bearing produced till now by the SKF group weighs 6,100 kilo, the lightest 0.036 gram.

Special steel for bearings, one of the bases of success of the SKF group arrives at the RIV-SKF works as a tube or a bar for small and medium sized rings, billets for large rings and drawn wire for the revolving pieces. Every year, some 80,000 tons of steel are processed. With its own production, integrated in that of the group, RIV-SKF guarantees original bearings wherever there are machines and equipment built in Italy; stocks of spare bearings are also assured for any machine built in any other country of the world. Usually a bearing goes through several basic stages of manufacture: twining or stamping of the rings, heat treatment, grinding to give rings the size and finish required, mounting of the revolving parts and cages in the rings. Balls and rollers go through similar stages. Cages are mostly stamped or turned. The raw material mainly used is the tube from which the rings are made on automatic six spindle lathes. From the lathes, the rings are tested. In some cases, during the first operation of rough-shaping on an automatic lathe, there follows a finishing process on special single-spindled lathes. For rings of larger sizes, the first operation consists of forging with a hammer or of stamping or rolling; having passed the test after turning, rings go through a heat treatment. This involves several stages and its purpose is to impart to the various pieces which make up the bearing the prescribed hardness; special appliances measure this at the end of the process. Laboratory checks examine the steel's internal structure. Hardened rings are then ground and the surplus metal left during turning is removed from their surface. They thus reach their final shape and size. The race in particular, i.e. the groove in which the balls or rollers are made to run are specially finished; from this delicate operation depends largely the silence of the bearing in action.

Two million balls and three million rollers are produced daily at the RIV-SKF plant of Pinerolo. The ball is made by stamping a steel drawn wire. The rougher uneveness is removed by a filing machine after which the ball is hardened through a complicated heat treatment. It finally passes through several stages of grinding and "shining". After each operation, strict tests are carried out on every single ball to ensure the highest level of quality.

The task of the cage is to keep moving parts at their proper distance; they can be turned, pressed or stamped, in one or sometimes in two pieces called "semi-cage". They are produced in a special shop of the Airasca plant for all the other RIV-SKF plants at the daily rate of about one million pieces.

Bearings are assembled automatically; the machine, working on ring size, selects suitable balls and places the cage in the required position. A medium sized revolving bearing goes through a total of at least 40 different processing and checking operations.

RIV-SKF use electronic computers for solving problems of actual projects. To users of its products it offers programmes of calculations of physical dimensions for their planning, making, with the extreme rapidity typical of electronic systems, calculations which through their complexity would have represented an obstacle not easily surmountable through traditional methods of industrial practice.

RIV-SKF doesnot manufacture only bearings. Quite apart from present studies about the numerous items which can represent a promising diversification, RIV-SKF have for some time been specialising in the production of shock-absorbers of different types, also tappets for car engines. Research is very intensive, not only in order to maintain the pre-eminence which the SKF group holds in the world and which RIV-SKF has in Italy, but also in the study, development and implementation of the most advanced technology. This takes a practical form in the research laboratory which is the pride of the company and works in co-ordination with the laboratories of other firms in the group, at the SKF European Research Centre.

HONEYWELL INCORPORATED AND HONEYWELL INFORMATION SYSTEMS

One of the first steps taken by GENERAL ELECTRIC, the world's largest electric and electronic group, when it held 66% of the French MACHINE BULL's shares, was the dismissal of 500 workers. At a later stage, dismissals reached 3,000 with a further 2,000 being asked to accept "voluntary dismissal".

This resulted in the closing down of five factories whilst various research and development groups were abolished.

In May 1970, G.E. announced that it was ceding to HONEYWELL its control of BULL. Workers of the two companies learnt this through the Press. This lateral change of control, i.e. from one foreign company to another foreign one, was decided thousands of kilometers apart. The French Government "consulted" in the matter, gave its consent in July. HONEYWELL undertook to maintain the same employment levels at BULL's.

In August 1970, the world President of HONEYWELL, James H. Binger, declared that the agreements with the Computers Division of G.E. would have meant an expansion in production and employment. A telegramme and a Press communiqué from the U.S.A. announced the dismissal of 260 out of 360 workers of the Amsterdam branch. Once again, the decision had been taken thousands of kilometers away.

The Dutch syndicate for metal workers had obtained during the negotiations of January-February 1971 a project of active assistance for the workers concerned.

Meantime, transfers of other workers of this plant to others in the Netherlands, France and Germany were spoken of. Simultaneously, it was siad that several hundred other workers were to lose their jobs: 500 in Great Britain (400 in Lanarkshire and 100 in the new plant of Hemel Hempstead), also 3,000 in the U.S.A. (not all from the computers division). The factory councils in Germany protested so loudly that the firm was compelled to reduce the 100 dismissals anticipated but it did not renew the contracts of 50 foreign workers (frequently subjected to this kind of treatment) and losses through death or retirement were not made up.

GENERAL DESCRIPTION - HONEYWELL was founded in 1927 through the amalgamation of "HONEYWELL HEATING SPECIALISTS" and "MINNEAPOLIS HEAT REGULATOR". It adopted its present style in 1964 after having been known as "MINNEAPOLIS HONEYWELL REGULATOR".

HONEYWELL is the largest group producing industrial instruments ıd electric, electronic and pneumatic control systems specialised in the thermal sector; fans and air conditioning plant, and, in the industry of space exploration.

It is equally active in production of war material with fragmentation bombs. This has caused demonstrations in large sectors of public opinion where it is known as "HONEYWELL PROJECT". :n 1970, a demonstration compelled the Chairman to bring to a close a meeting of shareholders in Minneapolis after a session which lasted 10 minutes - a record! There were other protests in the American plants, in those of Great Britain and in Germany.

The company also specialises in the manufacture of electronic equipment and the various instruments connected with it, in 1969 it took over COMPUTER CONTROL COMPANY. HONEYWELL is made up of six divisions of which the COMPUTER AND COMMUNICATIONS division was established in conjunction with that of G.E. to make the present HONEYWELL INFORMATION SYSTEMS (receipts in 1969 represented 24% for the whole group). The other divisions are: Controls (23% of receipts), Space research (34%), Industrial products (17%), Research Centre and production of optical instruments (2%).

G.E. - HONEYWELL - The outstanding feature of 1970 in the computer sector was the amalgamation of G.E. and HONEYWELL. The new company took the style of HONEYWELL INFORMATION SYSTEMS (HIS). HONEYWELL INC. holds 81.5% of the shares, G.E. 18.5%.

G.E. transferred to the new company two plants in the U.S.A. for the production of computers, the control of BULL-G.E. in France and of G.E. INFORMATION SYSTEMS (previously Olivetti G.E. in Italy). G.E. contributed almost 10% in total to HONEYWELL, over and above a total value of $110 million in bonds. HONEYWELL transferred to the new HIS group six plants in the U.S.A. and others in Scotland, England, Canada, Germany and Japan.

It is superfluous to mention that in the competition race in the computers sector, it has to face up to IBM which holds about two-thirds of the world market. HONEYWELL and G.E. are now in second place, having overtaken SPERRY RAND

(UNIVAC) which holds 5.6%. But much remains to be done.

HONEYWELL EMPLOYEES - Early in 1970, G.E. employed about 400,000 and Honeywell Inc. 81,500 of which 23,900 were working outside the U.S.A. In September, 1970, the new company, HONEYWELL INFORMATION SYSTEMS, absorbed about 23,000 of G.E. employees and about 28,000 from HONEYWELL INC., making a total of about 51,000 (including 16,400 from HONEYWELL - BULL). The dismissals early in 1971 reduced these figures to about 48,000 employees.

The activities and employees of HONEYWELL INFORMATION SYSTEMS (based on figures for the end of 1970) were:

U.S.A.	11,000 (plants only)
FRANCE	10,000 (about 5,000 in Paris, 2,400 in Angers and 2,350 in Belfort)
GREAT BRITAIN	3,900 (including commercial outlets in Australia and South Africa)
CANADA	900
GERMANY	400 (plant of Heppenheim only)
NETHERLANDS	600 (360 in the Amsterdam plant)
ITALY	3,300 (1,230 in the Caluso plant).

The other 20,000 work in administration and commercial centres and in the departments of HONEYWELL INFORMATION SYSTEMS in the U.S.A. and in:

EUROPE (Austria, Belgium, Denmark, Finland, Greece, Norway, Portugal, Spain, Sweden and Switzerland)

LATIN AMERICA (Argentina, Brazil, Mexico - including a small plant in Mexico City - Uruguay and Venezuela).

ASIA (Japan and The Lebanon),

AFRICA (Algeria, Ivory Coast, Madagascar, Morocco, Reunion).

In many countries the activities of HONEYWELL INC. are, of course, considerably more important than the figures of HIS; for instance, in Great Britain, the plants making industrial instruments, heat control equipment and other items for comuters has a total of around 9,000 employees. Similarly, in Germany, the total of the personnel employed by HONEYWELL INC. and HONEYWELL INFORMATION SYSTEMS (HIS) was brought into focus when the Chairman of HIS, Clarence W. Spangle, was also elected Executive Vice-President of HONEYWELL INC. early in 1971.

THE FUTURE FOR HONEYWELL EMPLOYEES - HONEYWELL's future - and particularly that of HIS and of its European key company, HONEYWELL - BULL - causes a great deal of concern to its employees and their syndicate. Rumours of participations, amalgamations or take-overs (on the part of the British ICL, the French CII and even, incredibly, of GENERAL ELECTRIC) show the need of employment guarantees at all levels of the multinational activities. HONEYWELL's continuation in its present shape in no way reduces the necessity for securing such guarantees.

FINANCIAL OUTLOOK

Spangle, the spokesman of HIS, stated in February 1971 that income for 1970 amounted to 861 thousand million dollars, an increase of 13% compared with 1969 for the Computers Division of HONEYWELL and G.E. HONEYWELL INC. succeeded only in maintaining the same level of income as the previous year, keeping to the figures published (this, despite the fact that income during the first six months of 1970, 29 million dollars, exceeded by 11% the 26 million recorded during the same period of 1969).

	1970	1969
Income	1.921 million dollars	1.838 million dollars
Profits	62 million dollars	62 million dollars

N.B.:

(1) Figures for 1969 were amended (as concerns income of 1,426 million dollars) to include results of G.E. computers and to bring them into line with the data for 1970.

(2) These consolidated figures include for the first time in 1969 and 1970, those of YAMATAKE HONEYWELL with a share participation of 50% in Japan, which in both years had an income of 1.2 million dollars.

The Chairman of HONEYWELL INC., James H. Binger, whilst releasing this information declared on 19th February, as reported in the Press, that the outlook for 1971 was "rather complex".

It is interesting to note that after a long period of sickness BULL-GENERAL ELECTRIC, shortly before announcing the transfer to HONEYWELL, published the first financial report which showed it as being for years a solid and prosperous industry. After accumulating total liabilities of about 500 million French Francs (equal to about 55 thousand million lire) in connection with previous years, BULL-G.E. wrote for 1969, 139 million Francs to financial reserve and depreciation, 3.56 million Francs to net profits and an increase of 40% in the order book.

Announcing the development of HIS (which is faster than that of HONEYWELL INC.), Clarence Spangle sees better prospects for the future, a development rate of 14-15% in the U.S.A. and 20% in the other countries during the next five years as regards the computer industry.

Which changes in the meantime are mapped out for the structure of the company? Above all, what will be the fate of the employees? And what will they have to say about the present and future situations?

PIRELLI GROUP

The tyre industry employs about 54 thousand workers in Italy. Of these about 77% come under the direct control of Pirelli; about 24,000 depend on Pirelli S.p.A. and the other groups of associated companies. Production is centred mainly in the provinces of Milan and Turin.

Sales by PIRELLI S.p.A. in 1969 exceeded 215 thousand million lire; they rose to 353 thousand million if sales by the associated companies are taken into account and reach 690 thousand million lire if the whole group is considered. In the selection of Italian groups by importance, PIRELLI takes sixth place for its sales.

The tyre industry in Italy is rather concentrated. Only 16% of the firms have more than 250 workers and they account for almost 80% of the labour force. In this sector, the absence of labour is noticeable, with a few exceptions - such as special caves for fluid oil - a very advanced stage in technology and automation has been reached.

In 1902, PIRELLI were in Spain, in 1914 in Great Britain, in 1917 in Argentina, in 1929 in Brazil, in 1936 in Belgium. In Basle, Société Internationale PIRELLI became the holding company of the group and controls directly the companies of the group outside the EEC. In the Community countries, companies of the group are controlled directly by PIRELLI S.p.A.: the Belgian PIRELLI SACIC, the German VEITH PIRELLI and PIRELLI FRANCE. Other foreign companies are controlled by PIRELLI SVENSKA A.B. in Sweden and by the Swiss PIRELLI PRODUKTE. The multinational character of PIRELLI has considerably increased following the integration between DUNLOP and PIRELLI.

Let us now examine the progress of sales of the company from 1962 to 1969. In 1962, PIRELLI International had sales amounting to 146 thousand million lire equal to 41.2% of the group whilst by 1969, it had risen to 335 thousand million and 48.7%.

PIRELLI S.p.A. in 1962 represented, always in terms of sales, 39%, in 1969 it had dropped to 31.2%. Percentages for associated companies in the group remain constant, even if in absolute figures they increased from 70 to 138 thousand million lire.

COMPARISON BETWEEN THE DUNLOP AND PIRELLI GROUPS (from "FORTUNE")

		1964	1965	1966	1967	1968	1969
POSITION	D	31	31	36	35	42	
	P	49	52	53	54	54	
SALES	D	885	952	974	1070	1080	1184
(Million $)	P	680	739	848	894	950	1070
ASSETS	D	667	723	763	755	871	
(Million $)	P	769	863	911	961	993	
NET PROFITS	D	23083	25766	25010	26672	27907	
(Million $)	P	8130	11646	23571	24.970	25020	
EMPLOYED	D	103700	106100	104100	99000	102500	108000
	P	64690	65900	67009	67739	69289	76000

OVERALL OBSERVATIONS

The trend to concentration in industrialized economies goes now beyond every national border and takes the aspect of a centralisation of capital which goes much further than the traditional agreements or alliances or divisions of markets. All these aspects follow the same reasoning even though they appear in varieties which go from simple associations to amalgamations, to take-overs, to structures of ultranational types.

In Europe, the large size and dynamic prospects of the Common Market, even prior to stimulating the internal drive for accumulation on the part of companies, had promoted a gradual but massive expansion of American presence.

Like a magnet, the Common Market attracts American capital in the shape of direct investment. This penetration of European industry by large American business interests is without precedent. Something similar occurred in 1920 when, in the wake of the Dawes and Young Plans, American private capital was channelled into the electrical concerns and the motor industry in Germany. At the time, the Germans created an uproar about this kind of offer to conduct their business which they called "ueberfremdung". However, all this is irrelevant in the face of the present capital offensive from the U.S.A. in Western Europe. "Patronat Français" the French industrial magazine in its issue of August-September 1964, estimated the size of the American offensive and stated that if it was measured in terms of sales volume, the largest German company would occupy the 27th place in the grading of American companies; the largest

Italian company 23rd place and the French, 57th.

GENERAL MOTORS which heads the list of the largest American companies with a volume of sales of 16.5 thousand million dollars in 1963 is amongst the seventeen largest companies in Western Germany; DUPONT, the 11th American company has a volume of sales of 2.6 thousand million dollars, six times larger than that of MONTECATINI; GENERAL ELECTRIC, 4th in the list with a volume of sales of 4.9 thousand million dollars is now six times larger than the German AEG.

Today's overall competitive and expansionist strength of American capital is opposed by a considerable limit which ex-President Eisenhower once described as "military-industrial complex". The New York Times expert on foreign policy, James Reston, wrote from London: "American pressure on Great Britain and on Europe, emanates to a large extent from American industry which in turn draws advantages from the vast demands made by the Pentagon . . . i.e. that the Governments and industries in this part of the world consider but find that they cannot effectively compete . . . unless they combine into much larger units, capable of undertaking very advanced and costly development and research projects" (New York Times, 15th April, 1965).

The amount spent on research and development programmes in 1963 was 18 thousand million dollars, compared with 2 thousand million in 1950. In 1963, it represented 3% of the Gross National Product of the U.S.A. But this amount (of which 7 thousand million dollars were entirely for military purposes) represented 23% of Great Britain's total production, 27% of France's, 29% of the German Federal Republic's, 14% of the total production of the Netherlands and Belgium; 49% of that of Italy.

This picture shows the considerable superiority of the large American business firms supported by the enormous demand and the policy of over-bill by Washington.

This leads to an attitude which is above all defensive, as shown in alarming terms by the Chairman of FIAT, Gianni Agnelli, who at a Press Conference in Paris in March 1965, asked European industry for a greater unity to face the American companies' onslaught. He said: "the prodigious development of American economy imposes imperatively the joining of forces of our old world" ("Le Monde", 4th March, 1965).

The change in these developments can better be seen if considered against the background of capital internationalisation in modern times.

International centralisation of capital is unlike national centralisation in several important respects. Firstly; centralisation occurs almost exclusively in the oligopolistic system.

The motive power and expansion potential of international monopolistic strength appear to be driven by nuclear energy if compared with the competitiveness of mechanical industry in the sudden fall in world competition in the 19th century. The international giant of our days tends not only to sell in the market but to dominate it and the main instrument for this domination is direct foreign investment which will also secure the supremacy in foreign markets - a phenomenon unknown at one time but well-known during the period between the two World Wars and typical of economic relations between countries industrially advanced on the one hand, and colonies or semi-colonies, on the other. Yet, the attempt to conquer the national market from rivals equipped with highly developed means is a new post-War occurrence.

Decisions to invest and the credit transactions of these giants have often such importance that they have a direct influence on the balance of payments of all countries and can cause the economic policy decided upon by the govenments of these countries. Concerning the agreement reached between Shell and Montecatini and the acquisitions by Ford outside the minority of British interests and their effect on the Italian, British and American balance of payments, "The Economist" of London wrote: "they have such massive funds available, moveable at will and independent, that they can alter the shade of every wish national governments may have to control movements of capital" (The Economist, October 1964).

The integration of Western Europe and the creation of the Common Market in particular, have, therefore, attracted large American investments, assured of strong support, from which followed an important internal force of concentration even of a multinational character. From an automatic and unchecked process of concentration can also arise, however, against every appearance, a situation of such instability and imbalance as to slow down West European economic life. Locked in a fight for competition which is always severe and the outcome of which for the large productive complex and large capital is a success, the concentration of European capital increases in rapid leaps and within the various forms of amalgamation and take-over. It seems that joint-stock companies gaining ground in the centralisation process. A study on the ubject shows that amongst the 100 largest industrial companies in Europe, there is also clear share capital; this is the case for all the oil companies and also of other companies such as NESTLE, NILEVER, RHEINISCHE

STAHLWERKE etc. "In short, it seems that most of the large industrial companies gradually become joint-stock companies if they have not already acquired this form" (Research by LOUVAIN, September 1963).

From this picture emerges straight away another important aspect; the upsurge of European giants through integration reacts on the economic policy, its main instruments and institutions. The power incorporated in these enormous concentrations of European capital is a law within a law and this power has its own laws determining and directing the integrated trends. Decisions on investment of international capital are quite independent of governments economic policies. An EEC study group has come to the enlightening conclusion that: "large international companies escape to a great extent the restrictions and financial incentives introduced by Western governments, the example of oil companies has shown in the past that it is illusory to submit such companies to national plans . . . Amalgamations and agreements, the importance of which we have already seen, gradually deprive governments of their means of action in an increasing number of economic sectors" (Conférence Europeénne, Progrès Technique et Marché Commun, Bruxelles 1960, Vol. 1, p. 245). If such considerations are valid for individual nations, they are even more valid today for the supra-national institutions of West European integration. All the more reason why investment decisions and credit transactions of international giants have disturbing and imbalancing effects which cannot be checked through the normal stabilising mechanisms. Monopoly is a national as well as an international factor of instability and justifies more than ever Keynes' verdict that "it is dangerous to leave in private hands decisions concerning investments".

A minimum of international co-operation is sufficient to ensure a smooth working of the world market only under conditions of a large volume of business negotiated by numerous competing firms unable to determine or to influence price through the weight of supply and which react automatically to every price change in the world market with a change in the volume of production and supply. In other words, a minimum of international co-operation through institutions is sufficient only the moment automatic stabilisation mechanisms can work at national and international levels. It is clear, however, that an increased minimum value of private capital necessary to compete with a possibility of success requires a higher degree of minimum co-operation; at the same time, however, the main difficulty is to maintain that minimum of co-operation. The appearance of international companies with a dominant position creates an entirely new situation in this respect.

It is impossible to have a valid theory of economic integration in the capitalistic world without taking into account the new developments in monopolies and the correlation between monopoly and integration. Some neo-classical theories on integration are nothing but a brought up to date version of the classical concept of economic harmony. This is an unrealistic picture, if not the classical dogma on harmony of interests.

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The advent of multinational companies coincides with the largest phenomena of industrial concentration and responds to the same way of thinking. This represents, therefore, an increasing reality born from real needs, which cannot be ignored or opposed by fanciful restrictions. But nor can one accept the utopian vision of a network of companies of a "geocentric" kind, of international mould and having an international pursuit which, according to some futurists could be the foundation of peace and prosperity. Neither the realities of the American challenge nor the Japanese one can justify certain community tendencies of granting incentives or privileged systems; in any case, these companies do not require these nor the childish illusion - if not the outright deliberate evasion - that the core of a concentrated process of industrial restructurisation is the key to the solution of structural problems of the economy and of society.

These companies are born from the high spheres of the international economic system, from each national system and, more specifically, from situations and relations of oligopolistic character; for this very reason, questions and problems arise on general structural development and stability of the economy and of society.

Against every appearance, they do not in themselves necessarily lead to the best solutions in terms of prices, nor in certain cases, of technological development. On the other hand - we have only to look at the experience of General Electric - they have caused serious setbacks in employment.

Above all, the presence and policies of multinational companies have forceful and relatively autonomous effects in the mother-country as well as in places of production and marketing, on processes of accumulation, the distribution of resources, type of investments and of consumption, on employment, conditions of work and on international trade and balance of payments, therefore, on development policy and finally on the political outline under a multi-party regime and in conditioning its attitude to evolve towards a more advanced, enlightened and articulated democratic reality. They may even degenerate into instruments of economic neo-colonialism to the advantage of the country of origin, or conversely, to look entirely to business reasons and a kind of international division of work completely divorced from national interest.

It is clear that the search for an overall alternative to these risks and the roots which produce them would arise from an ideological angle which would go beyond the bounds of this talk and of the role of the syndicate. It is also clear that an alteration involving absolute power is unthinkable and would be irrational from an economical-social aspect, not realisable in practice and incompatible with the engagements and realities of international relations.

In the ambit of the present system, I think, therefore, that we can consider two parallel courses which coincide with reality even if they involve considerable difficulty and some unknown element and require a strong sense of purpose and a good deal of application, a programmed economic guide-line and control of the public authorities at national and supra-national level - hence the necessity of setting up authentic powers and instruments in this sense - and syndical action at levels corresponding to the removal and nature of multinational companies.

These are particularly difficult tasks. Yet, the true alternative to these aims is an increasing reality in which the new giants not only follow independent thinking and policies of national and supra-national choices of development and of economic policy, but cause instability and imbalance which cannot be checked through the normal methods of harmonization and stabilisation and are even less able to be reabsorbed through an adventurous automatism.

The difficulty both for public authorities and syndicates is increased by the fact that the zones of influence of these companies are many, moveable and not identifiable with old or new institutional complexes; whilst in these better-defined dimensions, the will, capacity and means of intervention are inadequate to the extent that the EEC itself resembles increasingly a customs union - and, therefore, a development of internal contradictions - more than of a real community.

The task, therefore, is anything but easy but it does not permit alternatives today which are fanciful or subordinate.

THE DEVELOPMENT OF MULTINATIONAL COMPANIES

L. DUQUESNE de la VINELLE

The Development of Multinational Companies

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The existence of multinational companies, that is to say companies with production units in a number of countries, is not a totally new phenomenon; there were already a few in existence in the petroleum industry before the second world war.

What is new, on the other hand, is the extraordinary expansion of such companies in the last two decades. In the geographical zone formed by the six EEC countries, the growth rate of direct American investment has regularly been double the already high one of the GNP. The performance has been no less remarkable in Great Britain, where the value of direct American investments almost quadrupled between 1950 and 1960 and doubled again between 1960 and 1968. In Japan a twelve-fold increase was recorded between 1950 and 1960 (rising from a very low level, it is true) and a four-fold increase between 1960 and 1968.

Another remarkable fact is that only a very small proportion of these investments are in the mining industry; they are chiefly in the petroleum industry, the technologically most advanced branches of the manufacturing industry and the services sector.

The explanation accordingly does not lie in the need to seek raw materials outside the United States.

The trend in direct European investment in the United States has been less regular and spectacular. Between 1965 and 1968 their book value nevertheless multiplied by 2.9 as compared with the United States GNP at market prices, which multiplied by 2.2 only.

How can the outstanding success of multinational companies be explained ?

It is easy to answer that they have concentrated their efforts on rapidly expanding sectors, either because the demand was highly elastic or because it was possible in such sectors to take advantage of major technical advances.

However, such an answer only moves the problem on to different ground. It remains to be seen why rapidly expanding branches of production have been taken over to such an extent by multinational companies. To say that they want to derive profit from their innovations on as large a market as possible is certainly correct in many cases. But there again the problem is moved to different ground rather than solved. There are indeed other means of deriving profit from an innovation : exporting from the parent company is one of them.

Why then has it been relatively little used when customs duties and other trade barriers have been substantially reduced over the past twenty years? Where the cost of transport and/or customs duty seemed to constitute an obstacle to export, why was recourse not had to selling licences and know-how rather than to direct investment which, at first sight, presents many more risks (some of which seem impossible to assess) and in any case enormous complications by the very fact of the parent company having to transform itself into a multinational group?

At the heart of the problem is the following question : Why has company strategy so often led to the choice of direct investment rather than other means of expansion and why has this choice so often been crowned with success?

Several suggestions may be advanced to explain this phenomenon. We shall look at some of them in the following pages.

. One might ask in the first place whether transport costs have not played a predominant part, at least in some cases. The most probable example of this would be the petroleum industry. It is known that if, since the last world war, most of the refineries have been set up in the consumer countries rather than in the crude-oil producing countries it is because it is much cheaper to transport the crude oil than the refined products.

This certainly explains the siting of the refineries but it does not explain the vertical integration of the major oil companies from the extraction of the oil, its shipping and refining to the sale of petrol. Why, after all, are the big oil companies not content to sell crude oil at profitable prices and leave the trouble and risks of refining and distribution to others? The question is the more pertinent since it is well known that the extraction of crude oil is more profitable (except in the United States) than transport, processing and distribution.

The most likely explication is doubtless that vertical integration, although not specially profitable in itself, at least ensures direct access to the final consumers. It is easy to imagine the perilous situation of a company producing crude oil only as compared with companies integrated vertically in a period of relatively abundant supply. The integrated companies would obviously give preference to their own crude oil. Conversely, companies restricted to refining and distribution would find themselves dangerously exposed in a period of relative scarcity of crude oil - unless they can take advantage of long-term purchase contracts.

If this assumption is valid, that is to say if vertical integration is an elementary precaution in the strategy of competition, one can understand why the big oil companies have been forced as it were to become multinational.

. A second possible explanation can be found in the changed nature of the political risks. The years 1900 to 1945 saw two outbreaks of war between the powers of Western Europe and in peace-time their diplomatic relations were almost always bad. This situation was certainly of a nature to discourage foreign investments, whether between countries in Europe or between America and Europe. To the risk of destruction by war were added those of confiscation as enemy property or because of financial dealings with enemy companies. The danger of war has certainly not disappeared in Europe but it no longer takes the form of a risk of armed conflict between Western powers. The only remaining risk is that of war with the USSR, which would be highly likely to degenerate into a generalized nuclear conflict, but in that case the siting of investments would make little difference to the risk they run.

It is not easy to weigh up the probability of this suggested explanation. The volume of loans to Germany from Anglo-saxon banks between 1920 and 1930 suggests that it may be less valid than would at first appear. It is true that these were short-term operations, both technically and legally. The monetary crises of 1931 had not been foreseen by anybody, so that the lenders imagined perhaps that if need be they could call their credits in at very short notice (which was not in fact the case). However that may be, this hypothesis can at best explain why multinational companies did not spring up earlier. It does not at all explain why they have sprung up in the last two decades.

. A third suggested explanation is that multinational companies have been successful thanks to the considerable aid they have received from European States, either with the aim of encouraging the creation of employment in underprivileged or depressed areas or out of rivalry among themselves, that is to say in the hopeof "hooking" a valuable investment that might otherwise go to a neighbouring country. It is indeed well known that the member States of the EEC having, in a large measure at least, evaded the obligation to co-ordinate aid, which is nevertheless laid down in the Treaty of Rome, many multinational companies have in fact been able to set up the "sovereign" public authorities in competition with one another. The authorities have so to speak "tendered" the amount of aid and the aid arrangements they were prepared to offer. There is no doubt that this situation has been of very great benefit to multinational companies and companies about to becomes multinational and had speeded up their development. But while it has certainly accentuated the movement it is very unlikely to have caused it. Indeed, if so many States have taken to giving such substantial aid to investment it is because national enterprise is relatively lacking.

Where it existed it has enjoyed the same aid as multinational companies. Furthermore, multinational companies have developed in a spectacular fashion in Japan, where they have certainly not received any such aid.

. A fourth suggestion is that the direct investments from abroad which characterize multinational companies are the consequence of customs tariffs and a proof of their protectionist nature. However, this explanation does not fit in with the fact that direct American investments in the EEC have grown at an exponential rate which the successive lowering of the common external tariff has not at all slowed down. Nor does it fit in with the fact that the sales of American subsidiaries in Europe far exceed, in most branches of industry, the value of the corresponding American exports; apparently direct investment is not a "substitute" for exports. Lastly this hypothesis by no means explains why direct investment has been preferred to the sale of licences and know-how.

. It can be advanced, as a fifth hypothesis, that because of wage differences production costs are higher in the United States than in Europe. Consequently capital has been transferred from a high-cost area to lower-cost areas according to a well-known classical pattern.

In fact the rare comparisons available seem to indicate that this is often the case.(1) However, it may be wondered whether so many decisions to invest, mortgaging the future for so long and even changing the structure of firms, could have been taken on the strength of an advantage in respect of cost which might disappear rapidly with a differential trend in wages and/or changes in rates of exchange. This hypothesis does not explain either why American investments fell off in Great Britain and investors gave relative preference to the Community countries as soon as the Community was set up.2) Lastly, can it explain why direct investment has been preferred to the sale of licences? Could not the amounts charged have covered a large part of the advantage in respect of costs in many cases? There are accordingly many reasons to doubt that the relative levels of production costs offer a significant explanation of the success of multinational companies. Surveys carried out show that the heads of the firms concerned mention it very rarely among the major reasons for their decision. But they usually mention it nevertheless, among their secondary reasons. All told, it seems reasonable to agree that the advantage of lower costs has encouraged direct investment

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(1) The advantage of lower wages is partly cancelled out, however, by the higher cost of other factors (energy, for example), intermediate products or auxiliary services.

(2) For although the Treaty of Rome gave prospects of a larger market, it changed nothing in the short term in regard to the relative levels of costs.

outside the United States by numerous American companies and has thereby promoted the development of most of the firms that can be regarded today as multinational. Nothing, however, justifies regarding this factor as the decisive one.

. There is a sixth hypothesis, to the effect that efficient marketing is essential to the success of most of the innovations in industry. Marketing must be understood here in a broad sense covering all the producer-consumer interactions : market surveying, keeping watch on competitors, advertizing, price adjusting, adapting the product, its presentation, its packaging, etc. It is well known that the management of American firms attach great importance to the marketing side when it has been decided to penetrate a new market and put it on a level with production management and financial management (whether rightly or wrongly matters little at this stage of the argument). From this standpoint, it is logical not to leave the marketing side to others when one has decided to launch a product on a new market. To forgo control of marketing, one would need to have the twofold conviction that the proposed partner would be more efficient and that there would never be any problems with him of opposing interests. Common sense tells us that such a conviction would be very rare, particularly in the minds of American managers with a long experience of marketing.

But if one decides to keep control of marketing, many good reasons incite to keeping control of production also. It is difficult to see what advantage there would be in a structure where a parent firm, which had developed the product and remained in charge of any improvements to it and had handed over to one of its subsidiaries the task of promoting it on the external market, left its production for that external market to another firm manufacturing it under licence. Such a situation would not be satisfactory for the hypothetical outside firm unless it enjoyed guaranteed prices for quite a long time, which would be a very costly concession on the part of the parent firm. The parent firm, moreover, would be forgoing all the advantages of integrated management. In particular, any question of modifying the product or perfecting the production processes could give rise to litigation between the parent company or its sales subsidiary and the company manufacturing the product under licence, which latter company would be embarrassing rather than helpful as an intermediary.

Although concisely stated, the foregoing probably suffices to show that if the best company strategy consists in keeping control of marketing on an external market, it implies at the same time keeping control of production for that market. It remains to be seen in that case whether it is preferable to export the product from firms situated in the country of the parent firm or whether it is better to set up production units abroad.

It is at this point that the factors of relative cost of transport of raw materials and the finished product, relative costs of production in different places, customs duties, State aid, etc. come into play.

It is known that as a general rule, for an equal distance, the transport of finished products costs more than the transport of the raw materials required for their manufacture. There are indeed some exceptions to this rule but they are becoming less and less numerous as technical progress (size of ships, mass goods-handling machinery, for example) lowers the relative cost of transporting raw materials. This fact is worth stressing because, being technological in character, it has a permanence that the relative levels of wages, customs duties and State aid do not have to the same degree. It should be noted, however, that in the last decades these latter factors have all acted in the same direction as the relative cost of transport, except in the United States where wage levels must usually have acted in the opposite direction.

The argument in regard to the last hypothesis may be summed up as follows :

- Efficient marketing can be a strategic factor in the decision to derive profit from an industrial innovation on a new market.
- If that is the case, the firm possessing the innovation will generally have advantage in keeping control of

that decisive factor and its management will be strongly inclined not to give it up.

- But the decision to keep control of marketing usually entails the need to keep control of production also, because of the manifold advantages of integrated management.
- Moreover, the relative costs of transport and the effects of customs duties and of State aid will almost always incite firms to bring production close to the consumer.
- The relative costs of production seem to have been influential in the same direction in the majority of cases, except as regards firms set up in the United States.
- There exists, therefore, a whole battery of reasons for thinking that direct investment is usually the best means of deriving profit from an innovation on an external market (provided that it be large enough and far enough away from the parent company).
- But recourse to the strategy of direct investment calls for the "multinationalisation" of the parent company.

Can one be absolutely sure, however, that the basic assumption is correct ? It is difficult to be absolutely certain in such cases. But nobody can doubt that efficient marketing is essential to success. The only arguable point is whether it is essential enough to provide the key to the expansion strategy that has led so many firms, especially American firms, to become multinational. There is one indication that seems very significant; heads of American firms questioned about the reasons for their direct investments in Europe have almost invariably mentioned first the size of the market and its prospects of expansion. If this is the answer that regularly comes to their mind, it is natural that they should have attached primary importance to marketing and have made it the pivot of their company strategy.

This is a hypothetical explanation but a very plausible one, considering that the strategy of direct investment has so often been adopted. It cannot be said, however, to explain at one stroke the frequency and the success of the phenomenon. Indeed, to set up numerous integrated firms in many countries and manage them efficiently in all respects is a very attractive scheme.... on paper. It still remains to master the enormous complexity which inevitably stems from such a geographical dispersion of activities and the additional complications arising from different languages and customs.

Here we need not hesitate. The chief explanation lies in the quality of the management which has been able to perform this feat. The fact that the gigantic machines that multinational companies come to be succeed in functioning, making a profit and, so far at least, expanding much faster than the GNP of the countries where they have their works, is a truly praiseworthy achievement. An exploit is an exploit, even though one may sometimes find some of the methods used open to criticism.

However, the men who achieved this feat had at their disposal means that their predecessors did not have. The first of them is the aeroplane. From New York to Paris by sea takes at least six days. By air it scarcely takes more than six hours. The cost of manager travel, that is to say the "entrepreneur" factor in classical economic terminology, is thus reduced by at least 90 %. Without air travel, which enables the manager jet-set to be ubiquitous in a way that would have been undreamed-of in 1930, it is not at all sure that the strategy of direct investment would have been adopted so often nor that its success rate would have been so high.

The second tool is the computer. It is well known that the difficulty of absorbing and processing information is one of the principle factors that restricts the size and complexity of organizations if they are to be efficient. The computer is an extraordinarily powerful instrument for the storing and processing of information. Logically its use should have the effect of greatly extending the optimum dimension of organizations in general and of firms in particular. It is accordingly a plausible hypothesis that it should partially explain the emergence and success of multinational firms.

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The foregoing is an attempt to explain the rise of multinational companies. As that rise is a fact of history and there is no means of going back in history to check the accuracy of the explanations put forward, they will remain for ever suppositions. The only other thing that one can do to prepare better for the discussion of the problems raised by the existence and expansion of multinational companies is to situate them in the contemporary socio-cultural context. For this purpose we must be bold enough to interpret the moment of history in which we live and of which we are the eye-witnesses. Again, if it is a matter of history it is not possible to do more than advance plausible hypotheses. Such an exercise cannot be vain, however, since it is always easier to understand a phenomenon if we situate it in the overall context of which it forms a part : we see the trees better if we look also at the forest.

To speak of the speeding up of history, of change, of revolutions, has become a common-place. The newspapers are full of such expressions applied haphazard to the news of the day. But behind these common-places can be discerned a question of the greatest interest for any mind which seeks to understand the world in which it lives. Is there a link between the changes we believe we see in the most diverse fields?

Lastly, if such a link exists, does it allow us to discover the epicentre of this world-wide upheaval, this historical earthquake of which we seem to be the privileged witnesses?

To endeavour to answer these questions, it might first be useful to ask ourselves whether the phenomenon we are witnessing has any precedent which we could grasp better thanks to the perspective afforded by time. The example of the Renaissance leaps to the mind. The history textbooks we read in our childood or youth define it as a time of particularly radical and rapid change in all the spheres of social life : science, technology, culture, economic affairs, political structures....
If we seek to work out more precise parallels we can easily produce the following table :

RENAISSANCE	XXTH CENTURY
Science	Science
- The earth is not flat but spherical.	- There is an equivalence between matter and light.
- It is not the centre of the universe but only one of the sun's planets.	- There is no absolute measurement of time.
- This planet revolves in empty space.	- No distinct break between the human and the infra-human. Human nature is not rigorously constant.
- Although empty, this space is capable of transmitting the force of gravity.	- Man dates back at least 500,000 years.
- Rediscovery of the civilization and scientific knowledge of antiquity.	- Man's conscious mind is accompanied by a subconscious mind.
Religion	Religion
- Reformation and Counter-Reformation.	- Oecumenism, Vatican II and its consequences.

RENAISSANCE	XXTH CENTURY
Technology	**Technology**
- Compass, sextant, stern-post rudder : make voyages of circumnavigation possible.	- Computer, radio radar; make interplanetary travel possible.
- Gunpowder : revolutionizes the art of war.	- A and H bombs, revolutionize the art of war.
- Printing : dissemination of knowledge and primacy of written expression of thoughts and emotions.	- Cinema and television : dissemination of knowledge and primacy of audiovisual expression of thoughts and emotions.
Painting	**Painting**
- Replacement of mystic and symbolic painting by scientific, humanistic and generally realistic art.	- Birth of a new kind of painting, for the most part anti-realist : impressionist, abstract, non-figurative, surrealist.
Architecture	**Architecture**
- End of Gothic art and flowering of the Renaissance style.	- Radically new designs seeking to use new materials and new techniques.
Education	**Education**
- Unrest in the Universities, foundation of the Collège de France and the Jesuit colleges.	- Unrest in the Universities, crisis in education.
Economic affairs	**Economic affairs**
- Intercontinental sea trade, the first large banks, the first manufactures, intensification of trade, growth of towns, slow disruption of the closed mediaeval economies, first indications of national economic policy (Bodin- de Malestroit controversy).	- Intensification of international trade (except during the wars and the crisis of the thirties), growth of towns, first indications of an international economic policy (IMF, aid to under-developed countries), the first multinational companies.
Politics	**Politics**
- Formation and hegemony of the first national States.	- Rise and hegemony of continental States.

This table makes no claim to be exhaustive nor to take account of subtle distinctions. Its sole purpose is to bring out the main lines of similarity (not of identity) between two historical contexts, we might almost say two historical junctures. Needless to say we do not seek to deny or underestimate the changes that took place in other periods but simply to recognize, as common sense and all historians direct us, that there are times when changes are more rapid, more radical and more widespread than at others.

It remains to be shown how these changes interlock to form a historical context or, better, a historical juncture.

In certain cases the connections are obvious. For example, the painting of Leonardo da Vinci is inconceivable without the rediscovery of Euclidean geometry and Greek humanism; impressionist painting depends on the discovery of the decomposition of light; surrealist painting is explained by the discovery of the subconscious; the invention of gun-powder helps to explain the rise of the national States, since a mediaeval principality could not keep up an efficient artillery; similarly, nuclear weapons help to explain the hegemony of continental States; the difficulties of the Church at the Renaissance period were bound up, as everyone knows, with the rediscovery of the civilization of antiquity but also with astronomical discoveries, as the trial of Galileo amply demonstrates; nowadays the religious crisis is certainly not unconnected with the discoveries regarding the subconscious and the origins of mankind; as for multinational companies, it is suggested above that their success is due probably in part to the development of aviation and the invention of the computer.

These examples show that there are special connections between a certain number of the components of each of the historical situations compared. It is thus right to speak of a historic "juncture". Can we go further and identify the chief component, the epicentre to which all the changes noted are attached directly or indirectly?

The most attractive hypothesis here is that which situates the epicentre in the sphere of scientific knowledge, whether it concern nature, man or his past. Indeed, discoveries like those referred to above are of fundamental importance for man because they change the way he sees himself and his relations with the world. The oldest-established truths in this field suddenly seem outmoded; they must be replaced by others or at least interpreted differently. A cultural traumatism is the normal corollary of such a situation. It leads people to challenge everything in all the spheres of culture and morals and even in social and political affairs. This would explain that excitement of the human genius(1) that we have come to know as "the" Renaissance because so far it was the only one we knew.

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(1) Of the noosphere, Teilhard de Chardin would have said.

Naturally, in such a context the passion to innovate is just as strong as that to challenge everything : that is why "renaissance" periods present such flagrant contrasts between phenomena of creativity and phenomena of disorder.

The excitement lasts until civilization has found a way of adjusting to the new fundamental truths and a social and political order has come into being that is more or less in harmony with the cultural changes that have occurred.

The interest of such considerations from the point of view of this report is that they show how wrong it would be to think that the problems facing multinational companies and those facing the social and political order can be detached from their context when they are an integral part of a world-wide challenge that the historical juncture is throwing down at the feet of our civilization.

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In spite of their success, multinational companies have many internal problems, stemming on the one hand from the co-existence within them of staff, and especially higher-grade staff, of different nationalities and languages and on the other hand from the fact that, being of national origin, their general management is, with few exceptions, exclusively national.

To keep staff severely segregated by language or nationality in order to avoid misunderstandings and conflicts or the formation of cliques is certainly not the ideal solution. It affects the mobility of staff and consequently leads to poor use being made of individual talents. To impose an insignificant common denominator in the shape of a knowledge of the language of the parent company is not a satisfactory solution either. The right solution necessarily involves, so it would seem, the possibility of cultural exchanges resulting in mutual enrichment and esteem. Given this, multinational companies would take on quite a different appearance : they would be revealed not only as remarkably successful technical and economic enterprises but also as major instruments for the progress of civilization. By achieving this they would help to direct the human energy manifested in the socio-cultural upheaval of our times into constructive channels. To work out concrete means of pursuing such a policy would be a splendid task for industrial sociologists.

The other aspect of the problem facing multinational companies is that of the uninational character of their general management. It will readily be understood that no solution has yet been found. How can groups which obtain their new blood chiefly by co-opting be persuaded to take of their own accord the step of becoming international? How can we answer the objection that this would imperil the homogeneity of the management team, which is manifestly essential? It has sometimes been suggested that multinational companies might adopt a polycentric structure. But how then could a coherent company strategy be preserved? In reality, it would seem that the solution of this second aspect of the problem depends on the solution of the first : the education of a managerial elite whose members would be appreciative of each other's cultures. From this standpoint we can guess at the great advantage of a new humanism, founded less on a knowledge of the Greek and Latin languages and civilizations than on a knowledge of several contemporary languages and cultures - Western ones to begin with. Perhaps our schools and universities are already making their first steps in the direction of a new humanism. Would it not be natural, after all, that a new humanism should come out of a new renaissance?[1]

If that could come about, nothing more would stand in the way of the internationalization of the general management of multinational firms. The problem would be solved definitively and at the root. In the meantime it should be possible to find at least partial solutions. The author's personal experience in the European Communities encourages him to think that Europeans, those of the Continent at least, are astonishingly ready - provided that certain favourable conditions are present - to recognize a common interest and take it to heart as a cause to serve. The minimum conditions are that the lead should come from above, that it should be recognized by the people concerned and that these latter should be treated with impartiality whatever the intrigues fomented from the outside.

1) Cultural internationalization is not equivalent to a denationalization of individuals. Greeko-latin learning has never denationalized persons. Anglo-franco-germanic culture, for example, would not do it either.

Even when these conditions are present, we are still some distance from the ideal because the reciprocity of language knowledge is very imperfect and because the cultural exchanges are insignificant and do not extend outside the professional sphere. Nevertheless a certain degree of mutual understanding and esteem may be achieved, its value may be appreciated and it may promote efficiency.

What can be done in a civil service has even more chance of being achieved in the business world, subject to the same minimum conditions. Let me here say a word in favour of the "European company" scheme. In addition to all the economic, legal and fiscal arguments that can be put forward, there is one important psychological argument : a "European company" would not fly the flag of any one country. This fact alone would help greatly to ease tensions in the multinational companies which adopted this status. Symbols are often more important than might appear at first sight.

But the possibility of setting up "European companies" would not solve all the internal problems that multinational companies have to face precisely by reason of their multi-national character.

In addition to the problems mentioned above, which it can be agreed are unlikely to be fully solved in the near future, there are many others that it is urgent to solve somehow or other, for better or for worse.

One of these problems is the fair treatment of the different subsidiaries. The control exercized by the parent company enables it to share the group's profits as it wishes among the subsidiaries and between them and itself. Various techniques may be used for this purpose and in particular the fixing of arbitrary prices for the goods and services supplied by one company of the group to others. Such practices, although they may benefit the group as a whole, may adversely affect minority shareholders if any, as well as the staff of a given subsidiary where there is a profit-sharing scheme. As things are, the management of a multinational company has sole authority to settle this delicate matter of professional ethics and is accountable for its actions to itself alone.

The situation is similar when it comes to the siting of extensions of the company. The parent company is perfectly entitled to transfer the group's available funds from one region or country to another. It can be assumed that in such a case, as in the preceding one, the management will act in the interests of the group as a whole. The hard realities of competition doubtless make it difficult to depart very greatly from this line of conduct. There are nonetheless problems of equity which arise in specific cases. For example, the chances of promotion for the staff - particularly the higher-grade staff - of extension subsidiaries are greater.

Is it a matter of indifference whether the reserve profits with which the extension was financed were made by the subsidiary in question or by another? True, people are paid for the work they do but they also attach importance (and rightly) to their career prospects. Now, here again, the management of the parent company is accountable for its decision to itself alone. The reason for this is that they have no valid challengers. True, they can be challenged by governments or trade unions, but as both of these are purely national, their respective attitudes are very likely to be contradictory. In the face of divided and even rival challengers, multinational firms are the sole arbiters of the interests at stake. This situation will continue as long as they are not faced with a partner as multinational as themselves.

Common sense suggests that to give subsidiaries a certain measure of independence vis-à-vis the parent company would be an acceptable middle course between the complete decentralization of multinational companies and the centralization of their decision-making at the level of the parent company. Certain multinational companies have this arrangement and are well satisfied with it, since a measure of decentralization has many advantages.

Others, however, have a different policy. It can happen, for example, that the European manager of an American subsidiary receives a telegram from the United States stating individually - by their number - the members of his staff to be dismissed. It is clear that such practices are quite inadmissible, both for the staff and for the manager, who is reduced to being a simple post office. But when one looks around for effective means of putting a stop to such dictatorial practices one comes back once again to the absence of any valid challenger.

A problem bound up with that of the independance of subsidiaries is the question of the nationality of the members of the Administrative Board and the management, not of the parent company but of the subsidiary itself. Some multinational companies evict systematically from the management any person who is not of the nationality of the parent company. It can be allowed that this is not done chauvinistically but for reasons of convenience, at least in the short term. The situation is nevertheless an unfortunate one, both harmful and humiliating for the country where the subsidiary is set up. Once again effective counteraction would require the existence of a valid sparring partner. Perhaps the States of the European Community will manage one day to present a united front in the face of such a problem as that, but how long will it be before they do so?

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The internal problems of multinational societies are chiefly of a social order; they concern many Europeans and hence also their governments. But the existence of these companies raises in addition, or accentuates, certain problems of economic policy or of general policy some of the most important of which it is worthwhile describing.

An initial problem is one which concerns the capital market, or rather the capital markets. The clauses of the Rome Treaty relating to the free movement of capital have been more or less respected but no single European capital market has emerged. Indeed, not only have national currencies remained distinct but they are also capable of changing their value in relation to one another. Furthermore the regulations regarding share and loan issues have not been standardized. The Treaty of Rome made no provision for this in any case. That is quite irrational, since one of the aims of the Treaty was to promote a change in the size of firms called upon henceforth to supply a continental market instead of a national one. Logically the financial needs of such firms would increase proportionately, so that it could be foreseen that national capital markets would one day be found too small to meet firms' requirements. That day has come sooner than anticipated because the subsidiaries of multinational firms, particularly American firms, assumed continental proportions, economically speaking, right from the start.

The absence of a European capital market has since been palliated to some extent by the constitution of a Euro-currency market, principally in Euro-dollars. It is well known that the development of this market was facilitated by the existence of the gold standard and the recurrent deficits in the American balance of payments.

The manifest disadvantage of the system is that interest rates on the Euro-dollar market are directly influenced by the decisions of the Federal Reserve Board, which acts with an eye to the situation in America and not in Europe. True, central banks in Europe can influence it by buying or selling Euro-dollars but they cannot do so effectively unless they concert their action, especially if the Federal Reserve Board is taking the opposite course. The paradox is accordingly that the central banks of Europe are faced with an American capital market which, moreover, they can only influence by countering if necessary the action of the Federal Reserve Board. Who would regard as normal a situation in which several central banks are interested in regularizing the same capital market?

Doubtless we should not dramatize the situation. In a world in which transactions enjoy a certain measure of freedom, the financial markets do not operate in a closed circuit and national monetary policies influence one another. This inter-dependence is nothing new and it was not brought about by multinational companies. They have simply contributed a new aspect to it, namely the passage through a third currency to finance investments that are European (by their location) with capital that very often belongs to Europeans. In addition they are not at all at fault; in seeking the least costly means of financing a firm is simply acting strictly within its rights. Nor can one blame them either for moving their liquid assets in such a way as to preserve them from fluctuations in exchange rates. "National" firms do the same when they can.

At most it might be claimed (and it still remains to be proved) that multinational firms' financial and cash transactions are likely to reach such proportions that national monetary authorities might no longer be capable of performing their function of regulating the money markets. Supposing that this is true, it would only prove that national monetary authorities have no adequate arrangements among themselves or else that monetary union is the corollary of the pooling of goods and services. If monetary union is thought to be premature, and there are perhaps good arguments in support of this view, then we must be resigned to rely for the time being on expedients.

Another problem frequently mentioned in connection with multinational companies is that of tax evasion. It is true that it is a fairly easy matter for such companies to arrange for profits to appear in the accounts of one subsidiary rather than another and thus to exploit the tax disparities between the various countries. This problem has already been touched on earlier in its social aspect. As regards the taxation aspect, two remarks are called for. In the first place, multinational companies are not the only ones to indulge in this kind of game. Tangiers was a tax-payer's paradise long before there was any mention of multinational companies in this connection. Such companies merely have easier access to paradises of this kind because of their widely scattered subsidiaries. The second remark is that it is not very logical to complain of tax evasion in the case of companies to which States do not hesitate to grant enormous tax concessions, which are only a legalized form of tax evasion, when it is a question of attracting their investments.

This being said, it remains true that tax evasion, legalized or not, is an unhealthy thing that should be remedied. What can be done in this direction, however, except to confront multinational companies with a power able to make itself respected. Here we have again the problem of the valid partner. The setting up of European companies would probably help towards a solution, since they would be subject to a Community fiscal authority whose geographical ubiquity would give it a bargaining power and an efficiency which cannot be achieved by national taxation authorities today. But the problem would remain unsolved in the case of firms that did not adopt European company status. How could they be confronted with a valid bargaining partner? Can we envisage the possibility of greater vigilance on the part of national taxation authorities? Perhaps. But there would need to be an international judicial authority to settle cases in which national taxation authorities made conflicting decisions. Let us imagine, for example, a transaction between two subsidiaries of the same group, subsidiary A in country X supplying goods to subsidiary B in country Y. It may well be that the taxation authorities in country X consider that the price p of the goods supplied has been under-valued while the taxation authorities in country Y consider that it has been over-valued. Naturally both cannot be right. It can be seen from this example that a single judicial authority is needed to settle, at least in the last instance, all disputes relating to the "artificial" transfer of profits from one Community country to another. Logically, the same authority should have jurisdiction in the matter of transfers to third countries, otherwise triangular arrangements would allow this kind of tax evasion to go on undisturbed.

Yet other problems arise, not by reason of the existence of multinational companies as such but because most of them, being of American origin, have a large, if not the largest part of their interests in the United States and because their management is composed of United States citizens. For this twofold reason they may have to bow down to decisions of the United States Government even if the consequences of doing so are deplored in Europe. It was thus that Washington was able, by a unilateral decision, not only to prohibit parent companies from transferring capital to their subsidiaries but also to compel them to repatriate the profits of the subsidiaries to the United States. This is also why the European subsidiaries of American multinational companies are in fact bound by American policy in the matter of exports to the countries of Eastern Europe.

That Europeans should be concerned at such a state of affairs is only natural. It represents an encroachment on their territory by American sovereignty. But supposing they wished to change the situation, how could they do so?

At the extreme limit one might imagine a European policy of blocking or rejecting all American investments. But the price to be paid in terms of the slowing down of the growth rate, deterioration in the balance of payment and unemployment would be considerable - probably out of proportion to the result hoped for. Most sensible people would no doubt think that it is better to "have" firms exposed to political pressure from the American Government than not to "have" them at all. In addition, for the blocking or rejection of American capital to work, all the States of the Community would have to act in concert or the policy would collapse before very long.

But if a <u>permanently</u> concerted policy were possible, a solution less radical and less disastrous from the economic standpoint might be envisaged. United in a common decision-making centre, the European States might have a chance of bringing the American Government to accept the principle of the independence of the European subsidiaries of American companies. They might back up this demand with threats of reprisals in the form of fines, which would have to be taken seriously.

The same principle could be applied to all the possible cases of interference by the American authorities in the operation of European subsidiaries of American companies, such as priority to supplying firms in the United States as against firms in Europe in the event of a political crisis entailing a partial cessation of deliveries of crude oil, or priority of employment in the event of recession, or again decisions by the American Department of Justice in the matter of anti-trust legislation having consequences in Europe. In such cases, as in others that can be imagined, what is important is that Europeans should recognize that the American establishments in Europe are not mere branches but subsidiaries enjoying real, if limited, independence and subject, in European territory, to European sovereignty.

There is no need to bring about the total decentralization of multinational companies to achieve this. Generally speaking, it is enough to secure that the subsidiaries should be responsible for their own day-to-day management decisions in regard to employment, production and prices, leaving decisions concerning company strategy, such as the orientation of research, major investments and the launching of new products, to the parent company. Many large companies are already organized roughly on this pattern; the various establishments that depend on them are treated like so many autonomous "profit centres".

Vis-à-vis the American Government, it is important to have it recognized that American sovereignty cannot be exercized in European territory even indirectly by means of pressures exerted on firms which have subsidiaries in Europe.

Lastly, multinational companies must be rendered incapable of playing off European sovereignties against one another and, for a start, they must not be encouraged by the escalation of offers of aid which must sometimes place them in an embarrassing position, while it is unworthy of Europeans and humiliating for them.

These demands are legitimate but there is no other means of securing them except to confront multinational companies and the American Government with an efficacious countervailing power able to obtain a hearing by putting forward convincing arguments. And to achieve this there is no other way but union in some form or other.

Perhaps too, since all is of a piece, Europeans should decide to do something serious about their common expenditure. It is difficult to argue on a really equal footing with somebody who is an indispensable protector. But that is another story.

CONCLUSIONS

At the conclusion of this effort of reflection, it would seem possible to draw some relatively reliable conclusions.

In the first place, multinational companies are incomparable efficient instruments from the point of view of innovation and economic expansion. Without any possible doubt, they are one of the great "inventions" of the century. Their extraordinary development in the past twenty years is partly explained, moreover, by the fact that their management has known how to use to advantage the new means of transport, telecommunications and information processing that technical progress has made available. From this angle, the development of multinational companies fits into the contemporary technico-cultural scene, from which it appears inseparable. On the basis of these new techniques, the managers of multinational companies have succeeded, wherever they have been allowed to do so, in overcoming the obstacle of the complexity inherent in the efficient management of production, marketing and even scientific research units scattered throughout the world and in bringing together men of all races, languages and cultures. This is a remarkable feat even if the realisation is imperfect in many respects.

The multinational company is also, in all probability, one of the constituents of the economic, social, cultural and political change we are witnessing in our time. It is doubtful whether it would be possible to reject the multinational company without rejecting all change whatsoever. This is possible, it is true, since there is no historical determinism, but to miss a rendez-vous with history is a decision whose consequences may be grave. The example of the Renaissance is worth thinking about seriously in this respect. At that time Germany and Italy were unable to achieve national unity. Both countries suffered from it greatly from the point of view of their political influence, their economic prosperity and their cultural conquests.

If Europe wishes to avoid a very similar fate in the coming decades it must have the courage to face the problems which arise in regard to multinational companies as in other fields. Let Europe beware of falling victim to the illusion that is still passed on by most history textbooks, namely that history ended with the rise of the national States. History will not end until man has ceased to search and to discover. As contemporary man is searching and discovering more than ever, there is no reason to think that the national States mark the end of his political evolution. They only mark a phase of it, like the Greek miracle, the Roman peace or the "Christian Republic" in the Middle Ages.

Another lesson of history, and particularly of the Renaissance, is that scientific, technical, social, religious, economic, cultural and political changes are not independent of each other but influence one another mutually. There are doubtless various ways of approaching them, but it is dangerous and, at the extreme limit, impossible, to accept some and refuse others.

The analysis of these concrete problems raised by the existence of multinational companies brings us back to the question of the valid bargaining partner, whether it be in the social or the political sphere. With the birth of multinational companies, economic structures have moved on to a new "wave-length" to which Europe's social and political structures no longer correspond. In the light of history, it is always the structures that refuse to evolve which go to the wall in the long run.

It remains to be seen how Europe's social and political structures can be made to evolve so that they remain equal to their responsibilities. That question is outside the scope of this report and the author's competence. It is indeed far from depending solely on the multinational company phenomenon. To put it properly one would need to ask : How can Europe still keep its rank and remain faithful to the best that its traditions hold for itself and for mankind at the hour of the hegemony of continental States?

It is clear that such an adjustment requires time and patience. As the proverb says, we must "hasten slowly" and, as another adage has it, patience and time do more than force and rage. But just the same, let us take care not to arrive too late.

January 1972