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MULTINATIONAL ENTERPRISE AND GOVERNMENT CONTROLS ON
OUTWARD FOREIGN DIRECT INVESTMENT IN THE U.S. AND U.K. IN THE
1960s

“Companies outgrow countries: A new kind of economic animal –mastodons of the future? – is displacing growing weight throughout the world economy”, *The Economist*, 17th October 1964.¹

Like *The Economist*, many social scientists have presented the growth of multinational enterprise and related changes in the global economy since the Second World War as novel and transformative.² Business historians have rightly been highly critical of much of such work – be it on globalisation, the internationalisation of business or the consequences for national governments, for the lack of an historical perspective. They have been highly successful in highlighting the historical continuities associated with such “new” developments.³ It is now commonplace to accept the notion of waves of globalisation and the existence of large multinationals prior to the Second World War. This corrective has been important in contextualising these more recent developments and in illustrating continuities.

However, business historians are yet to have the same influence on our understanding of the post-war era itself, the period of the classic multinational enterprise. It was at this time that the roots of the new global economy, which came to fruition in the 1980s and 1990s, took hold.⁴ Geoffrey Jones has commented on our lack of knowledge about British multinationals after 1945.⁵ On the U.S. Mira Wilkins’ seminal work on *The Maturing of Multinational Enterprise* covers the period to 1970 but noted, “Only when corporate and Department of State archives are open

for the late 1950s and 1960s will we be able to evaluate the full impact of U.S. foreign policies on U.S. private enterprise abroad.”⁶ She continues, “In the late 1950s and 1960s (as in times past), U.S. government policies had both positive and negative effects on the operations of U.S. multinational business. On the surface – and the historian is stymied because the archival material is not yet available – the impact of U.S. governmental activities in recent years appears to have been greater than in the earlier periods of American history – reflecting the generally enlarged role of the U.S. government and U.S. business in both the international and domestic economies.”⁷ Over three and a half decades later, it now seems timely to re-examine the topic in the light of the archival material now available.

This seems appropriate not just because it is timely but also because of her conclusion that the impact of government on business appeared greater than in the past. This is striking because it is potentially at odds with the characterisation of the relationship between multinationals and nation-states which emerged in the light of the experience of the 1960s as one of nation-states’ “sovereignty at bay.”⁸ As Stephen Kobrin has argued recently, Raymond Vernon, in coining the phrase, was looking for dramatic effect (with success) but, nevertheless, believed that nation-states faced a loss of autonomy and control as a result of the internationalisation of production in the 1960s.⁹ Using archival material should allow us to draw out more precisely the nature of the tension between multinational enterprises and national governments in this period. It is shown here that in general there was a clear division in attitudes between business and government but that this did not represent a threat to national governments’ sovereignty. Moreover, the basis of the tension between business and government varied from case to case.

Equally, Wilkins reminds us that, whilst much of the literature (following Vernon's lead) on this tension has focussed on that between American multinationals and the host nation governments, much of the original debate instead concentrated on the relationship with the home American government.¹⁰ For in the 1960s the US economy experienced a balance of payments problem to which the Kennedy, Johnson and Nixon administrations all responded by restricting capital outflows, including measures to restrict foreign direct investment (FDI) by American multinationals. The impact of these measures was hotly disputed at the time and reflected different conceptions of how multinational business operated and its contribution to the American economy.¹¹

This was a debate about American multinationals and American government carried on by American scholars.¹² There was little attempt to examine experience elsewhere. Yet, just as business historians have shown that this experience was not new, so this article argues that this tension was not a uniquely American experience at this time, rather this was a wider phenomenon even in the 1960s. This is done by comparing the American experience with that in Britain, where many of the same issues were being played out contemporaneously. Just as in the US, controls over outward direct investment by British companies trying to internationalise their production were tightened by the British government to deal with a balance of payments problem and the similarities in experience and attitudes illustrated both by government and by business towards multinational enterprise in the two cases is striking.

The article begins by setting out the respective contexts in the two countries before summarizing the nature of the government policies introduced. It then draws out the similarities between the two cases, in terms of impact, government attitudes

and business attitudes. Finally, the conclusion not only considers the findings drawn out by the comparative approach but returns to Mira Wilkins' contention of the impact of national governments on multinational enterprise in this period and makes some comments about the ways in which archival material has added to our understanding of this subject.

US and UK in the 1960s

As already noted, the rise of multinational enterprise after the Second World War was an overwhelmingly American experience. At the time it was often seen as a peculiarly American experience.¹³ The resulting theories of multinational enterprise, developed largely by American scholars, were based on this American experience.¹⁴ In many respects, this was clearly justified: by the late 1960s over 50 per cent of the world's stock of FDI was American and, even more starkly, so was 85 per cent of all new FDI outflows since the end of the Second World War.¹⁵ Why then adopt a comparative perspective? The answer is that despite the many works which appeared at the time studying the relationship between American multinational enterprise and the American economy, when considering the impact of multinational enterprise on the home economy this U.S.-centric approach is not justified. Wilkins pointed out that there was a tendency to exaggerate the importance of U.S. FDI to the American economy. By 1970 the accumulated stock of FDI amounted to 8 per cent of GNP, whereas when Britain was the world's greatest foreign investor in 1914, its stock of foreign investments represented more than one-and-a-half times its national income in that year. Similarly, the outflow of U.S. FDI in 1970 was less than half of one per cent of that year's GNP whereas the annual outflow of capital from Britain averaged about 4 per cent of national income in each of the fifty years to 1914, rising to 7 per cent in

the period 1905-1913. Even if one limits the comparison to the 1960s and to direct investment flows on various measures, foreign direct investment was a larger part of the economies of some European nations than of the American economy. In 1971 the American stock of FDI per head of population was exceeded marginally by the United Kingdom and Sweden and was less than half that of Switzerland.¹⁶ As Table 1 shows, direct investment flows were a larger proportion of gross domestic fixed capital formation in the U.K. and the Netherlands than the U.S. Its share of GDP was also larger in the U.K. Also, as Chart 1 illustrates, the growth in FDI from Britain grew across the 1960s at about the same rate as that from the U.S. Add to this that the U.K. had the second largest stock of FDI in the world at this time (about 16 per cent with no other country above 6 per cent) and it seems the obvious comparator nation to the U.S. experience.

Table 1 Direct investment outflows as a percentage of gross domestic capital formation (average in each period) for various countries

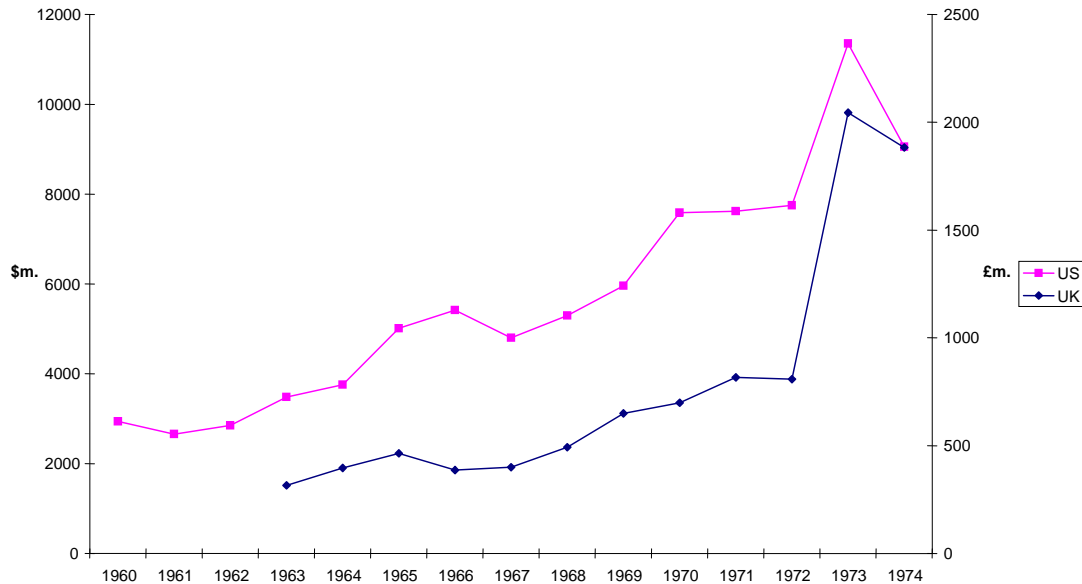
Source country	1960-62	1963-65	1966-68	1969-71	1972-74
United States	3.0	3.5	3.6	4.0	4.0
United Kingdom	5.0	4.6	4.2	6.2	9.0
West Germany	1.0	1.0	1.4	1.9	2.2
France	2.2 ^a	1.3	1.1	0.8	1.3
Italy	2.0 ^b	1.3	1.3	1.3	0.7
Netherlands	5.2	3.1	5.0	6.1	7.4
Sweden	1.1	1.8	1.5	2.9	3.0

Source: Stopford and Dunning, *Multinationals*, 11.

a 1961-62 only

b 1962 only

Chart 1 U.S. and U.K. FDI outflows 1960-74



The two countries stand out not only because they were responsible for the vast majority of FDI in the period but also because in the 1960s policy-makers in both countries were increasingly concerned about the balance of payments. Although both countries supported the principle of liberalizing international capital movement, both Britain and the United States adopted policies to alleviate these balance of payments concerns. Amongst the measures taken were ones designed to restrict the flow of funds used for overseas direct investment. In the US this took the form of a voluntary control from 1965, which was turned into a mandatory control in 1968 and which lasted until 1974. In Britain the tool used was exchange control, in place since the Second World War, but tightened in 1961 and again in 1965 and 1966 to ensure that funds were only released for foreign direct investments which would offer a rapid return to the balance of payments. Since exchange control only dealt with transactions outside the Sterling Area, this was supplemented in 1965 by a call for restraint on

direct investment in those Commonwealth countries which were the main recipients of UK private direct investment and by the introduction of corporation tax, one aim of which was to increase the incentives for domestic investment over foreign investment.

U.S. and U.K. controls over foreign direct investment

In both cases there were a complex range of factors causing the balance of payments concerns but attention increasingly focused on capital outflows and in particular rising foreign direct investment as a key factor in these deficits: George Brown, the U.K. Secretary of State for Economic Affairs talked of private overseas investment as being “responsible” for about half of the U.K. balance of payments deficit, while in the U.S., Grant Ackley, the Chairman of the Council of Economic Advisers, referred to FDI as “one of the largest and most steadily expanding drains on our balance of payments.”¹⁷ In both countries governments decided to take action to restrain capital outflows, including direct investment, to alleviate their balance of payments deficits.

In the U.S. the Kennedy administration considered the restriction of capital exports as part of the 1962 Revenue Act, but its first serious action was to enact the Interest Equalization Tax in 1963, with the more limited objective of reducing the perceived favourable tax treatment of portfolio overseas investment.¹⁸ Attention turned more directly in 1965 to FDI, After “extensive discussion” it was agreed that “under present circumstances and at the present time, a strong across-the-board campaign of moral suasion over all forms of direct investment and bank and non-bank lending will produce as favourable results as tax action and would avoid the very real dangers of attempting to secure legislation in this area.”¹⁹ As part of this program U.S. firms were asked to cooperate in improving the state of the balance of payments. This took the form of a direct appeal in February 1965 by the Secretary of Commerce,

Jack Connor, and from President Johnson to the chief executives of about 600 major U.S. corporations to accelerate repatriation of overseas earnings in developed countries, avoid or postpone direct investment in marginal projects, to increase exports and to make greater use of non-U.S. sources of funding.²⁰ As President Johnson told a group of business leaders in the White House – “If you guys don’t help, Doug Dillon’s [Secretary of State for the Treasury] going to have to make me do awful things. Save me and free enterprise from that.”²¹ It was left to individual firms to set their own targets at this stage but they were asked to draw up and submit a company balance of payments ledger of debits and credits for 1964 and then to set their own targets in the context of an overall goal of a 15-20 per cent improvement the impact on the balance of payments in 1965 on that in 1964. In addition, Connor established a Balance of Payments Advisory Committee of businessmen, the membership of which is set out in Table 2, to help ensure the success of the program. There was no legal framework underpinning the appeal or other penalties but it was believed that, in the first instance at least, a personal approach to CEOs was most likely to achieve the required goal.

Table 2 Membership of the U.S. Department of Commerce Balance of Payments Advisory Committee 1965

Name	Company and Position
Albert L. Nickerson (chair)	Chairman, Socony Mobil Oil Company
Carter L. Burgess	Chairman, American Machine & Foundry Company
Fred J. Borch	President, General Electric Company

Carl J. Gilbert	Chairman, The Gillette Company
Elisha Gray II	Chairman, Whirlpool Corporation
J. Ward Keener	President, B.F. Goodrich Company
George S. Moore	President, First National City Bank
Stuart T. Saunders	Chairman, Pennsylvania Railroad Company
Sidney J. Weinberg	General Partner, Goldman, Sachs & Company

Source: *FRUS 1964-68, Volume VIII*, memorandum 44, Editorial note.

By the autumn there were concerns that direct investment was still rising and the administration had “to walk a tight rope” between having to avoid arousing fears that mandatory controls were likely as this would herald anticipatory action by companies and showing that it was determined to have an effective voluntary program.²² Accordingly, it was agreed that the program for 1966 was widened to 900 corporations and more precise guidelines were provided for individual firms: they were to limit new FDI in the two-year period 1965-66 to 235 per cent of their annual average of direct capital outflows and retained earnings of overseas subsidiaries for 1962-64. A year later the 1967 program was tightened up once more in the light of the growing military expenditure in Vietnam but only after a lengthy consideration of whether the voluntary program would fall apart if pushed any further.²³ The companies participating in the program were asked to increase their contribution to remedying the balance of payments by at least \$2 billion above the 1966 level.²⁴ A few firms seen as recalcitrant in not meeting their targets were called into individual

meetings with the Secretary of Commerce. Table 3 sets out those companies highlighted in late 1967.

Table 3 U.S. companies written to in November 1967 to meet with the Secretary of Commerce to discuss their contribution to the Voluntary Program*

Sterling Drug Company	Xerox Corporation
The Singer Company	Hewlett-Packard Company
W. R. Grace and Company	Sunray DX Oil Company
Control Data Corporation	Occidental Petroleum Corporation
Amphenol Corporation	J. Ray McDermott
American Smelting and Refining Company	Polaroid
Owens-Corning Fiberglas Corporation	Ampex
Libbey-Owens-Ford Glass Company	Fairchild Camera and Instrument
Kellogg Company	Barton Distilling
Clevite Corporation	

* In addition, General Mills and IBM had asked for meetings

Source: *FRUS 1964-1968, Volume VIII*, memorandum 157, Memorandum from Secretary of Commerce Trowbridge to Secretary of the Treasury Fowler, 15 December 1967

On New Year's Day 1968 President Johnson announced that the program was to become mandatory, a sudden shift in policy agreed in the weeks following Britain's November 1967 devaluation – as late as 15th December the Secretary of Commerce was still providing an update on the ongoing progress of the voluntary program.²⁵ The

controls were imposed by Executive Order No. 11387, under authority of section 5(b) of the 1917 Trading with the Enemy Act, as amended, which gave the President the powers to regulate financial transactions in the best interests of the nation.²⁶ The resulting Department of Commerce's Foreign Direct Investment Regulations were policed by the newly created Office of Foreign Direct Investment (OFDI) in the Department of Commerce and violations were, in theory at least, a criminal offence. The OFDI also gathered data on over 3000 enterprises. Direct investors were allowed to choose among a range of ways of calculating their investment quotas and had to file annual (sometimes quarterly) returns such that capital outflows to finance direct investment would be reduced by \$1 billion below the 1967 level. Countries in receipt of U.S. direct investment were divided into three groups: schedule A – the less developed countries; Schedule B – those developed countries judged to be dependent on continuing inflows of U.S. capital (including Britain); and Schedule C – all other countries (including Western Europe). The implications were that control was least severe on schedule A countries and most severe on investment in schedule C countries. In 1969 the newly-appointed Nixon administration intended to remove the mandatory program but had to content itself with a gradual easing instead, until these controls were finally removed in 1974.

U.K. controls were rather different and more longstanding. Controls on the export of capital went back to the First World War but post-Second World War controls centred on exchange control, which had been introduced under emergency powers at the outset of the war and then was made permanent by the Exchange Control Act 1947.²⁷ This covered all overseas investments (portfolio or direct) outside the Sterling Area. In order to save reserves of foreign currency private direct investment in the non-sterling area had to show a positive gain to the economy, in

particular to the balance of payments. In contrast, direct investment within the Sterling Area was allowed freely - investment in the Commonwealth was “a vital economic and political interest of the U.K.” and no additional controls were deemed desirable.²⁸ Over the 1950s the restrictions imposed under the legislation were gradually eased such that “by 1956, practically no outward investment that was controlled from the United Kingdom and would show a reasonable economic advantage to this country was refused,” in which case foreign exchange was provided at the official exchange rate.²⁹

Then in the summer of 1961 a series of emergency measures were introduced to alleviate Britain’s balance of payments problems. As a result, exchange control was tightened, adopting two criteria for judging applications for direct investment in the non-sterling area: “clear and commensurate benefits in U.K. export earnings” within 18 months, or the development of a demand for British exports unrelated to the original investment.³⁰ In addition, the earnings of overseas subsidiaries had to be remitted back to the U.K. parent as far as possible. In practice the eighteen-month period was operated flexibly, soon raised to two years, and within a year the policy was being applied more liberally.³¹ From May 1962 those companies refused foreign exchange at the official rate were often allowed to buy investment currency on what had been known as the dollar switch market, but became the investment currency market.³² Also, any “reasonable” application for less than £25,000 of foreign exchange was also always approved. There was one group of companies excepted from these tighter regulations. U.K. oil companies – effectively Shell and B.P. – persuaded the Treasury that application of the regulations was impracticable for them. Instead, annual negotiations took place to decide an appropriate “ration” of official exchange to be used for overseas investment.³³

By 1964 the Treasury was already examining ways of imposing further exchange control restrictions, including consideration of imposing exchange control within the sterling area.³⁴ The April 1965 budget put in place measures which it was hoped would reduce FDI. First, corporation tax was introduced (see below), which it was hoped would reduce the incentive for firms to invest abroad. Secondly, restrictions on overseas investment were tightened so that in addition to being no burden on the balance of payments after the short term, there also had to be a good prospect of a continuing return on the balance of payments for the use of official exchange to be approved.³⁵ Then in July the restrictions were intensified: no direct investment could use official exchange. Even those applications that met the criteria set out, so-called “criterion” cases, had to obtain funds from either the investment currency market or foreign borrowing.³⁶ Yet further intensification followed in May 1966. Now “non-criterion” cases, those not meeting the government’s original criteria for use of official exchange, were refused access to the investment currency market and could only use foreign borrowing.

In addition, measures were taken to deal with the increasing discrimination between the non-Sterling Area, with its ever tighter exchange control, and the Sterling Area where there remained no restriction on capital outflows. Drawing on American experience, a “Voluntary Programme” was introduced to control direct investment in four developed sterling area countries, namely Australia, South Africa, New Zealand and Eire. Its announcement was followed up by letters from the Chancellor of the Exchequer to the chairmen of around 300 individual firms asking for their personal co-operation in ensuring that only those projects which were funded by overseas borrowing or retained profits, or offered the prospect of “early, substantial and continuing” benefit to the balance of payments, were undertaken.³⁷ The Voluntary

Programme remained in place until 1972 when, with the floating of sterling, exchange control was extended to the Sterling Area. Exchange control was eased in 1968 with the creation of a new “supercriterion”: FDI could be financed by official exchange up to £50,000 or 50 per cent of the investment, whichever was greater, if it was aimed at promoting exports, would pay for itself in terms of the balance of payments in eighteen months and continue to benefit the balance of payments thereafter.³⁸ Further relaxation occurred in 1971 as the balance of payments position improved and the prospect of entry into the European Economic Community neared: access to the investment currency market being restored for “non-criterion” cases and the maximum amount of official exchange for “supercriterion” cases was increased to £250,000.³⁹ Exchange control was eventually removed in 1979.⁴⁰

Similarities

a) Impact: macro-level

There is general agreement that both the U.S. and U.K. controls impacted upon FDI. However, this was less in terms of the actual level of FDI undertaken by firms than in respect of the form of funding. Looking at U.S. controls first, there was a belief at the time that the mandatory control, in particular, had a significant short-term downward impact on capital transfers from the U.S. and thus from a narrow perspective was successful in alleviating the size of the balance of payments deficit.⁴¹ Table 4 shows how U.S. direct investment funded from the U.S. fell in the second half of the sixties. There was a gradual decrease in the period of voluntary restraint and a sharp reduction in 1968, well beyond the target of \$1 bn. below the 1967 level.

Table 4 U.S. direct investment transactions, excluding Canada, 1965-69 (\$ bn)

	Data for 3300 Office of Foreign Direct Investment reporting firms				Projections From 469 major companies
Total of all schedules, excluding Canada	1965	1966	1967	1968	1969
Reinvested earnings	1.02	1.08	0.92	1.21	1.67
Capital transfers, including use of foreign borrowing	3.10	3.44	3.35	2.47	3.42
Direct investment, including use of foreign borrowing	4.12	4.52	4.27	3.68	5.09
Use by direct investor of long-term foreign borrowings	(0.11)	(0.65)	(0.56)	(2.22)	(2.30)
Direct investment, excluding use of foreign borrowings	4.01	3.87	3.71	1.46	2.79

Source: Willey, "Direct Investment Controls," 99.

What the table also shows is how, despite the reduction in transfers, the decline in the level of direct investment was nothing like as substantial because of the increased use of foreign borrowing and, to a lesser extent, reinvested earnings. Indeed, Don Cadle, the acting director of the OFDI was confident enough to assert in 1969 that "after

talking to many hundreds of business, we have no reason to believe that the U.S. companies, using either foreign capital or U.S. capital under their quotas, did not invest pretty much what they wanted to invest last year.”⁴² This was contested by some at the time, for example Peter Lindert, but the contemporary official view seems to have become the conventional wisdom.⁴³

Much the same story has been told for the U.K. and the impact of exchange control. The U.K. Treasury certainly believed that exchange control was reducing the outflow of capital used for foreign direct investment.⁴⁴ Yet the impact on U.K. FDI was more limited. The trend in U.K. FDI in the non-sterling area remained clearly upward and Cairncross saw no marked divergence between sterling and non-sterling investment.⁴⁵ His first impression from the figures was “one of astonishment at the very large increase, particularly in the non-sterling area, over a period when the controls were being steadily tightened. Direct investment cannot have been greatly restricted over the period as a whole.”⁴⁶ As shown in Table 5, in 1963 less than five per cent of applications were refused, amounting to only 1.6 per cent of the applications’ total value and Table 6 again shows a relatively small level of refusals, both suggesting that exchange control was not much of a deterrent to overseas investment. Even when the criteria were at their severest it was believed that most firms envisaging applying under exchange control were able to meet the criteria of a rapid return in terms of export growth.⁴⁷ There were few cases found of companies being unable to finance FDI even by bodies looking for such evidence.⁴⁸ Indeed, the Treasury paid increasing attention to the level of commitments outstanding where authorisations had been granted but companies were yet to implement them, a further indication of limited hardship.⁴⁹

Table 5 U.K. Exchange control in 1963

	Number of applications	Total sum involved (£m.)
Full approval at the official rate of exchange	959	85
Full approval for financing via borrowing abroad	9	30
Given access to the 'switch' dollar market	484	99
Refused	75	3.5
TOTAL	1527	217.5

Source: MRC MSS200/F/3/E3/32/10, "Note of a Meeting Held at the Treasury on Friday, June 26th, 1964."

Table 6 Exchange control authorizations and refusals 1963-September 1968 (£ m.)

	1963*	1964	1965	1966	1967	First 3 quarters 1968 (exc. June)**
Official exchange						
Remittances	64.4	42.2	29.4	0	0	4.3
Guarantees		6	21.3	0	0	0.0
Exports f.o.p.	5.8	8	3.4	6	2.6	4.2

Investment currency						
Remittances	69.2	78	80.3	46.4	34.6	4.7
Euro Dollar						
borrowing	0	5.5	4	12	10.9	36.8
Short term						
borrowing	0.2	1.2	3.3	2.5	27.8	3.8
Guarantees	29.9	74.7	149.6	98.8	108	95.1
Long-term						
borrowing	30.7	19.6	14.5	31.7	48.5	78.9
Total						
authorisations	200.2	235.2	305.8	197.4	232.4	227.9
Refusals	2.9	3.2	17	1	1	4.8

Source: TNA T295/397-8, various papers.

* The figures differ from Table 3 because of revisions.

**Figures for June 1968 missing.

As in the U.S. case, and as also shown in Table 6, the tightening of exchange control forced a change in methods of financing FDI with increased reliance on unremitted profits, direct borrowing abroad by parent companies (and guarantees) and Eurodollar borrowing as all, apart from oil companies, were prevented from using official exchange. Again, like the U.S. case, this interpretation of the impact of exchange control – reducing capital transfers but not FDI because of the use of alternative sources of funding – has become the conventional wisdom.⁵⁰

What was less clear was the impact of FDI on the balance of payments. It was commonly accepted that in the long term FDI had a positive impact through remittances back from subsidiaries but one area of contention was the average period

before the initial FDI outflow was matched by these returning remittances. If the recoupment period was long then there was greater justification for imposing restrictions on FDI as a short-term measure to alleviate a balance of payments deficit. Related to this was the more general issue of the extent to which FDI and exports were substitutes or complementary. Academics were sharply divided on the issue, as well as on the period required for direct investment to induce a positive contribution to the balance of payments, the recoupment period.⁵¹ Two famous studies embarked on addressing these crucial and contentious issues in the mid-1960s, one in the U.S. and the other in the U.K. In the U.S. Hufbauer and Adler produced *Overseas Manufacturing Investment and the Balance of Payments* while Brian Reddaway led a team at Cambridge which produced an interim and final report on the *Effects of U.K. Direct Investment Overseas*.⁵² Hufbauer and Adler considered a wider set of hypotheses but when they used the same methodology as Reddaway they found a smaller immediate balance of payments adverse impact, a quicker return and higher long-term benefits to the balance of payments.⁵³

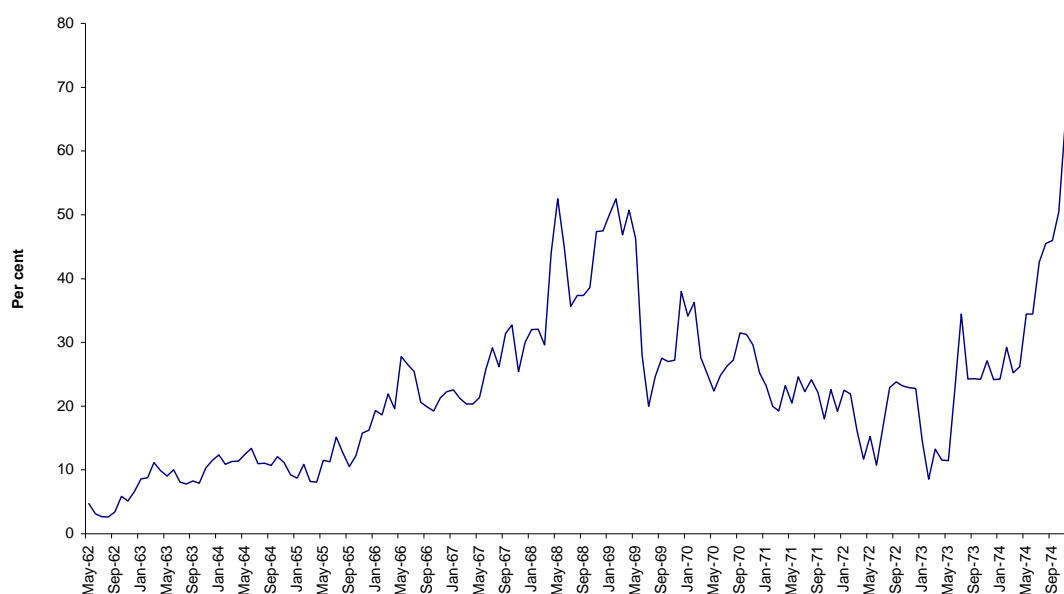
However, neither study resolved the underlying issue mainly because it was incapable of being resolved. Reddaway showed that while the average value of the FDI which took the form of exports of plant and machinery was 11 per cent over the period 1955-64, this varied between sectors markedly: only 1 per cent for the paper industry to 21 per cent for motor vehicles.⁵⁴ Also both studies showed that a key assumption was what would happen in the absence of the FDI: would the investment still be undertaken by some other party not from the home country or would it be possible to maintain exports? There was no general answer to this question; it was dependent on the circumstances in each individual case given the complex and heterogeneous factors involved in each investment decision. In this respect the

relationship between foreign investment and exports was “haphazard” and whether to support or restrict it involved “an intuitive leap.”⁵⁵ Economists could not provide a definitive answer to this issue.⁵⁶

b) Impact: micro-level

This diversity of experience means that it is important to consider the impact of the controls on firms in a more detailed way and to see if the similarity of experience for U.S. and U.K. multinationals was still present. In this respect, the impact of the shift in the sources of financing FDI becomes relevant. This was not a costless exercise for both American and British firms looking to invest abroad. First, while the U.S. government encouraged firms to borrow overseas from the outset of the Voluntary Co-operation Program from 1965, the same was not the case in Britain.⁵⁷ There was little confidence or expectation in the U.K. Treasury that foreign borrowing would replace the use of official exchange when exchange control was tightened: the expectation was that FDI would be reduced. It was only in 1967, partly because of previous deficiencies in U.K. FDI statistics, that it became clear that U.K. companies were making increasing use of the Eurodollar market and the scale of this foreign borrowing only became firmly established in May 1968. As one official put it, almost by accident, the Treasury had “struck a winner.”⁵⁸

Chart 2 U.K. Investment Currency Premium 1962-1974



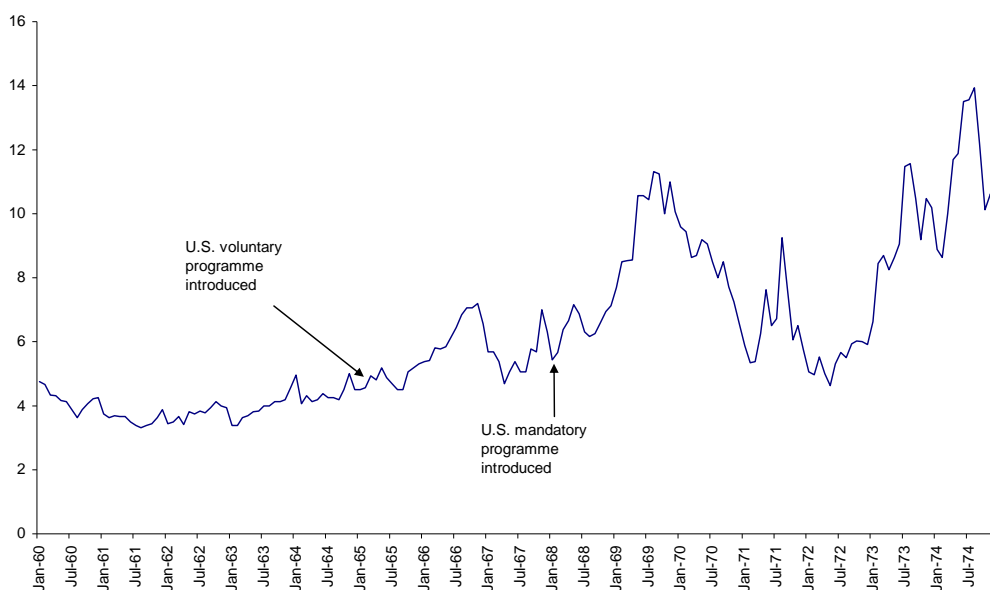
Source: *Bank of England Quarterly Bulletin* (various issues)

In any case, for some companies at least foreign borrowing was more expensive. This was true for some American companies using the Eurodollar market but is clearest for British companies using the investment currency market. There was a premium that had to be paid for investment currency over the price for official exchange. The size of the premium reflected the size of the pool of currency available and the demand for the currency. Chart 2 sets out the movements of the premium from 1962 when companies could access the pool for direct investments. Having been less than 3 per cent in part of 1962 the premium rose steadily over the decade, to around 10 per cent in 1965 and to over 50 per cent at times in 1968 and 1969 before falling back and then rising sharply again from 1973.⁵⁹

Cairncross thought that the investment currency premium was deterring FDI as early as 1963-65 when the premium was still relatively low and *ceteris paribus* one would expect the higher price would deter some companies at the margin.⁶⁰ However, it was believed that rather than deterring FDI the premium was affecting the timing of

investment with companies delaying investment in line with fluctuations in the investment currency premium rather than reacting to the long-term upward trend in the 1960s.⁶¹ The same is true of the impact of the U.S. controls on the Eurodollar rate, as shown in Chart 3.⁶² After the introduction of the Voluntary Co-operation Program and even more after the introduction of the Mandatory Program, the Eurodollar rate appreciated noticeably. The U.S. government viewed this as a sign of the success of their policy.⁶³ The other side of the coin was that it was expected that it would become harder for some companies, American and British, to access the Eurodollar market.⁶⁴ Other particular aspects of the controls in the U.S. and the U.K. affected the strategies of individual companies. In the U.S. Eastman Kodak Co. departed from its traditional stance of avoiding long-term debt to float a long-term debt issue on the Eurobond market.⁶⁵ ITT and others complained that the forced repatriation of subsidiary earnings according to a fixed formula caused problems for the development of their subsidiaries.⁶⁶

Chart 3 End of Month Interest Rates on 3-Month London Euro-Dollar Deposits 1960-74



Source: Kane, *Eurodollar Market*, 157

There was also an issue of bureaucracy. In the U.S. the Balance of Payments Advisory Committee made clear the importance of avoiding red tape, to which Jack Connor responded by watering down the original proposals for the Voluntary Program, but then faced criticism from his colleagues that the program was too weak and vague.⁶⁷ In the U.K. some companies were concerned at the delay in getting a decision over whether exchange control approval would be gained. For example, in 1961 Joseph Lucas (Industries) Ltd. wished to start a joint venture with a local firm in Argentina as they had found it impossible to export their electrical products there. The company was concerned that the Argentinian market was competitive and it was “imperative” to move quickly: “Bosch and other competitors are active there and will extend their grip on the local industry if we do not move quickly and forestall them.”⁶⁸ However, there was a delay in making the decision because it raised a general principle on which ministerial approval was required and the company became agitated at the delay not just because of the desire to move forward with the developments in Argentina but more pressingly because they were in a queue for the loan and were worried that they would lose their place if a decision was not forthcoming.⁶⁹ Even allowing for exaggeration of its case by the company, such uncertainties and delays must have been commonplace.

Equally, there is evidence of companies trying to avoid the controls affecting their direct investment strategies. Under the Voluntary Co-operation Program companies could meet the called for improving their individual balance of payments by increasing exports and much of the improvement was predicted in companies’ returns to come from this aspect rather than cutting FDI directly.⁷⁰ Similarly, in the U.K., it appeared that companies were “actively seeking methods of maximising there

incidental returns in order to secure the most favourable terms of approval for their investment.”⁷¹ Others, like Raytheon (with British Petroleum), ITT and the Scottish shipbuilding company Lithgows, attempted to evade the U.S. regulations by trying to organise parallel loans with their U.S. or U.K. counterparts.⁷²

In this respect it is important to remember the extent to which both U.S. and U.K. FDI was dominated by a few companies. Thus, in the American case, although Connor wrote to 3000 companies as part of the Voluntary Co-operation Program, in 1965 80 per cent of the FDI involved was carried out by 100 companies.⁷³ In the U.K. FDI was even more concentrated: 70 firms were responsible for over 80 per cent of FDI and just thirteen for over 45 per cent.⁷⁴ Given that U.K. oil companies like Shell and B.P., both major direct investors abroad, were not subject to exchange control but negotiated a ration of official exchange with the Treasury is, therefore, highly significant. It also reminds us that while the overall macro-level picture is important, individual actions by particular companies matter too. *The Economist* article quoted at the start of the article was prompted by the impact of individual corporate transactions – outward by Shell and inward by Ford – on the U.K. balance of payments.⁷⁵ Indeed, the case of Shell is illuminating. In 1963 the U.K. Treasury asked Shell to find 30 per cent of its foreign exchange requirements, or £30 m., from the investment currency market. Shell’s response was to request a renegotiation of Shell/Treasury agreement which would have been highly disadvantageous to the Treasury and the proposal was dropped. Four years later the Chancellor of the Exchequer asked Shell again to consider raising a proportion of its needs on the investment currency market in 1968.⁷⁶ Once more the company argued against this and Treasury officials were reluctant to take the matter any further because of the threat to tear up the agreement being repeated.

It is only once one examines cases like this at this more detailed level that the range of factors related to the controls which impacted upon business becomes evident. Thus there were a range of costs that existed. The particular costs varied in each individual case, which when added to the diverse relationship found between FDI and exports in different sectors made the position highly complex and contingent. Nevertheless, the existence of such costs was common in the U.S. and the U.K. and helps to explain the unity and vehemence with which business attacked the controls. In addition, that the issue was so dependent on the underlying assumptions adopted and academia was unable to provide a definitive resolution in part explains the strident division of opinion between governments and business in both the U.S. and the U.K. It is now possible to turn to consider these attitudes, first of government and then of business.

c) Government attitudes

The degree of similarity in the views held by the British and American governments is striking. First, governments on both sides of the Atlantic tended to view FDI as a substitute for exports rather than a complement and thus restrictions on capital outflows provided an opportunity for increased exports. A U.S. Treasury study found that every U.S. \$ of FDI in manufacturing only yielded 19 cents in annual net exports to that subsidiary and for FDI to Western Europe it was only 4 cents.⁷⁷ The equivalent study in the U.K. came up with a 9 per cent initial return in exports on FDI.⁷⁸

Secondly, there was a tendency to view the recoupment period on any FDI as long. Hufbauer and Adler found an average recoupment period of 9 years in the U.S. and Reddaway one of 14 years in the U.K., that is the length of time for an initial investment to pay itself off in terms of inflows favourable to the balance of

payments.⁷⁹ However, the U.S. Secretary of the Treasury announced that based on a study of U.S. FDI to Western Europe and Canada 1957-60 the recoupment period was 17 years.⁸⁰ All this evidence was seen as ample justification for controlling FDI outflows from the U.S. and from the U.K. as part of a package of measures to deal with the balance of payments deficits.⁸¹

Equally, both governments were willing to tighten restrictions on FDI further when the balance of payments deficits proved obdurate. In particular, in the U.S. many in the Johnson administration felt let down by what was perceived as a disappointing response from the business community and Connor repeatedly had to justify the path chosen.⁸² Secretary of Defense McNamara was the most critical, commenting in late 1965 that the President believed the program had failed and that he (McNamara) did not understand what the program was really about.⁸³ The following year with the rising cost of the Vietnam War putting further pressure on the balance of payments, Connor defended the Voluntary Co-operation Program against demands for further tightening at the Cabinet Committee on the Balance of Payments by “clarifying certain misconceptions.”⁸⁴ While he resolutely refused to back down he seems to have had little success in persuading his colleagues that their support for tightening the program was misconceived; the committee failed to reach agreement on the issue after three hours of discussion.⁸⁵ Indeed McNamara commented pointedly, “We are being asked to cut back in our basic foreign policy objectives in order that U.S. corporations may continue their investing overseas.”⁸⁶ In a nutshell, he had set out how most in the U.S. administration felt about corporate efforts to respond to the nation’s needs.

In both the U.S. and the U.K. there were efforts to encourage business to export more instead of using FDI but in the U.K. this went much further and had a

different dimension to those in the U.S. In the U.S. there were concerns about the balance of payments deficit and U.S. competitiveness and about the implications of multinational enterprise for U.S. competitiveness.⁸⁷ The same concerns existed in Britain but they were underpinned by fears about British economic decline: in the late 1950s and 1960s “declinism” became an increasingly dominant paradigm and attention centred not only on Britain’s low growth rate but also on Britain’s declining share of world trade in manufactures.⁸⁸ In particular, it became increasingly common to associate Britain’s low growth rate with a low level of domestic investment, an argument made by Andrew Shonfield amongst others.⁸⁹

Concerns about overseas investment crowding out domestic investment had been a recurring theme in Britain since the late nineteenth century. John Maynard Keynes had criticized a preference for foreign investment (in this case portfolio investment) over domestic investment in the 1920s.⁹⁰ He distinguished between the social return to investment and the private return, arguing that the social return was higher for domestic investment than for foreign investment because at a minimum the assets would be retained in the home economy.⁹¹ Exchange control could help to change the balance between foreign and domestic investment but was seen as a temporary crisis measure (although it had been in place for many years). The strongest exponents of this view were the Labour government’s economic advisers Tommy Balogh and Nicholas Kaldor.⁹² Papers by each of them were discussed in Whitehall in January 1965.⁹³ Balogh argued that the ‘habitual tendency’ to overinvest abroad since 1914 had ‘severely restricted’ home investment potential and led to growing illiquidity which resulted in the constant threat of a balance of payments crisis.⁹⁴ He continued:

There tends to be a divergence between the interests of individual firms and the interests of the nation as a whole. There are cases where it is more profitable for a firm to invest abroad than at home, but undesirable in the national interest that it should be allowed to do so.

What is needed then is a set of measures designed to discourage investment overseas, and encourage it at home. To some extent this can be done by a tightening of the existing exchange control machinery.... But it also seems advisable to make use of the tax system to affect the relative attractiveness of domestic and foreign investment.

Kaldor too was concerned by the need to restrain overseas investment and to encourage domestic investment, ideas which he went on to elaborate in his inaugural lecture in Cambridge, *Causes of the slow rate of economic growth of the U.K.* and became the notion of export-led growth, to become so influential in development economics.⁹⁵ Kaldor's solution to Britain's problems lay with the tax system too.⁹⁶ While their detailed proposals differed both emphasized the role of corporation tax, to which the Labour government was already committed and was introduced later in 1965, as a way of changing the balance between home and overseas investment. Government officials believed both Balogh and Kaldor oversimplified and overstated their cases but they commonly accepted that Britain invested excessively abroad and that the return to the individual firm on FDI was not a good indicator of the return to the nation.⁹⁷ Indeed, corporation tax was seen as "the corner-stone of the government's long-term strategy to produce a shift of emphasis away from investment abroad towards that at home."⁹⁸ With more incentive to invest at home it was hoped

that not only would this lead to increasing exports, solving the balance of payments problem, but also improve Britain's long-term growth performance.

Governments in both countries saw the nation's interests best served by correcting the balance of payments via increased exports and that increasing FDI was an obstacle to those increased exports. Accordingly, both governments were willing to restrict FDI with the aim of improving the balance of payments deficit. In both the U.S. and the U.K., therefore, governments were explicit in their awareness of the divergence of interests between firms' interests and those of the nation. However, it was in the British case that these tensions were more explicit, were given a long-term perspective and related more explicitly to national competitiveness and economic growth. There was, therefore, a stronger critique in Britain in the mid-1960s of outward FDI given the context of "declinism". In this respect the gap between business and government over the contribution of FDI and multinational enterprise to the national economy was greater in Britain than in the U.S.

d) Business attitudes

Just as U.S. and U.K. governments held comparable views on the general issue of outward FDI in the 1960s so the same can be said of U.S. and U.K. business and these views were at odds with those of their governments. First, business communities on both sides of the Atlantic were outspoken in their opposition to the imposition and maintenance of these controls.⁹⁹ In their meetings with their respective governments business representatives made clear that this distaste for such controls could be tempered in the short term in recognition of the crisis nature of the balance of payments problem but this conditional support evaporated when the controls

continued to stay in place. As the President of the Federation of British Industries (FBI) told Jim Callaghan, the Chancellor of the Exchequer, in 1965:

If overseas investment on its recent scale could be shown to be a net burden on the balance of payments, we should support its reduction until the economy was strong enough to sustain it. If the problem were that of balancing short-term loss against long-term gain, we would understand that in a precarious situation policy might have to be determined by short-term needs however great the long-term sacrifice might be. What we find difficult to understand is the decision to reduce overseas investment both in the long and in the short-term on the footing that it is imperative for the short-term needs of the balance of payments - and this in the face of evidence that it may even aggravate our short-term imbalance.¹⁰⁰

To some extent such criticism of government policy was simply business rhetoric but there was a common sense of exasperation and frustration that government did not understand modern international business. Mirroring the feelings of business in Britain, in 1967 the Balance of Payments Advisory Committee told the Johnson administration that it could not count on business support for the voluntary program much longer and if the advisory committee believed the government's target for FDI for 1968 was below what the committee felt business could deliver, then the committee would prefer the use of mandatory controls.¹⁰¹ The President of G.E.C. and wrote to Jack Connor's successor as Secretary of Commerce, Sandy Trowbridge, in his frustration and clearly at odds with the government view of FDI:

To put it mildly, I was quite discouraged by the trend of events at the Balance of Payments Advisory Committee last week to the point of asking myself whether it is any longer meaningful for such a group of businessmen to attempt to meaningfully advise the Administration on this very important subject.

There seems to be some in the Administration who profess to believe that if business would stop exporting dollars into direct foreign investments the balance-of-payments problem would be solved. This attitude reflects itself in a constant hammering to reduce this relatively minor element of the balance-of-payments deficit. It further overlooks what all the businessmen on the Advisory Committee keep repeating; namely, that direct investments are a very significant element in maintaining or improving the U.S. trade balance....

The record will show that the voluntary program has done an outstanding job by any measurement, and in my opinion this is because it was initially properly focused on the overall contribution that a business could make. This originally was the prime target, and properly so. In the last two years, emphasis has turned from the overall contribution to the matter of direct investments – in other words, from the “dog to the tail,” as someone expressed it.¹⁰²

Behind this frustration lay a common view, held by the business communities on both sides of the Atlantic, very different from that common in both U.S. and U.K. administrations at this time. First, business argued that there would be a long-term cost to the balance of payments in terms of lost future remittances, remittances which were far greater than the original FDI.¹⁰³ More than this, the return on FDI, it was

argued, was quicker than the Hufbauer and Adler and Reddaway studies had indicated. One study for the U.S. National Foreign Trade Council suggested a two-year recoupment period.¹⁰⁴ Thirdly, a key factor was a concern about foreign competition. Failure to undertake FDI could not simply be replaced by U.S. or U.K. exports. Multinationals from other countries would fill the void by undertaking the FDI themselves instead: “if we don’t build the new plants, the Germans will.”¹⁰⁵ A Harvard Business School study, funded by the Department of Commerce, corroborated this point in finding that most U.S. investment was “defensive” in that the companies concerned would have lost out to foreign competition if they had not embarked on FDI and only exported.¹⁰⁶

Business in both countries argued that it was wrong to focus on the directly attributable exports and remittances associated with a particular investment. Instead, there were many indirect consequences of FDI which meant that exports and FDI were better seen as complementary rather than direct substitutes.¹⁰⁷ As an influential U.S. National Industrial Conference Board-sponsored report suggested at the time, company investment behaviour was “organic” rather than “incremental” or, as Raymond Vernon put it, dynamic rather than static. To isolate a particular investment and associate particular returns with that investment was misleading. Rather each decision to undertake FDI was part of a wider story for the firm of developing in a variety of ways in response to market opportunities.¹⁰⁸ FDI was not simply about the relative yield on capital but related to the dynamics of the growth of the individual firm in which FDI was only one aspect of the subject.¹⁰⁹ This indeed was the argument put forward by the U.K. business community and over the course of the 1960s the FBI increasingly emphasized the internationalisation of business as part of

its critique of exchange control and corporation tax. As early as 1964 an internal report on interviews with sixteen major U.K. exporters noted:

They [companies] regard direct exports and other ways of earning money overseas in the same light. Their approach is to look at all areas of the world and examine the methods by which they can get the best return - whether by export, licensing and know-how agreements, local assembly or manufacture, or any combination of these. In this there is a dichotomy of thinking between industry and government which is in part a result of the divergence of interests between company and country in the short and medium term and in part, as it seems to industry, of a lack of understanding by government of the realities of overseas business.¹¹⁰

U.K. business representatives made a similar complaint in 1969:

Critics sometimes imply that British companies should have sought to build up their overseas sales by means of direct exporting alone, and that investing overseas is an alternative, or addition to, exporting.

Such a view is based on a complete misunderstanding of the nature of international competition. Investments abroad are undertaken by manufacturing companies for many diverse reasons. Essentially, however, industry invests overseas because, in a particular commercial situation, foreign investment is the only appropriate competitive weapon.... All [reasons for overseas investment] are related to the requirements of establishing and maintaining an effective competitive position in world markets when failure to

invest will strengthen foreign competitors. Hence, the consequences for the competitive stance of a particular company, and ultimately of the whole British economy, if overseas investment is discouraged can be extremely serious.¹¹¹

There was a perception in business that “a new world economy” was taking shape and that the controls imposed by national governments on FDI frustrated business engagement with this process of globalization.¹¹² However, although the spectre of “corporate migrants” was raised at the time, there was little sense that nation-states were threatened or a desire to threaten them.¹¹³ Instead, the business communities on both sides of the Atlantic were voicing their frustration that in creating obstacles to their involvement in this process, the respective national economies would suffer. “Killing the goose that lays golden eggs” became a common complaint in American business circles about their governments’ failure to take this new global economy on board.¹¹⁴ Yet the phrase is also extremely revealing: business was complaining that government action was harming something of special value to the nation’s economic well-being, reflecting a different approach to national competitiveness.

Conclusion

It is clear that the growth of foreign direct investment in the 1960s caused increased tension between multinational enterprises (and the business community more generally) and national governments. This is evident in the different attitudes shown towards the contribution of increasing FDI to the state of the balance of payments in the U.S. and the U.K. To governments it was a significant cause of the problems by replacing exports while, to business, it was the means to continued economic success

– the goose that laid the golden eggs. In addition, government viewed FDI as a discrete decision whereas business saw it as part of the organic growth of the company. Both parties also accepted that there was a divergence of firm and national interests in the short term at least. Thus there was a clear difference of opinion about the contribution of multinational enterprise to the national economy. U.S. and U.K. national governments' view of multinational enterprise's contribution to the home economy remained location-based while business in the U.S. and U.K. tended to adopt an ownership-based perspective.¹¹⁵ Nevertheless, that business framed its arguments on the basis of the contribution of multinational enterprise to the U.S. and U.K. national economies downplays the idea that national sovereignty was at bay in any fundamental way. There was the case of Shell being powerful enough to call the bluff of the U.K. government over its ration of official exchange by threatening to end the Treasury-Shell Agreement but this was an exception and was due largely to the unique structure of the company with a Dutch as well as a U.K. board. The article therefore supports the work of other business historians who have emphasized the importance of the home economy to multinational enterprise in general and Mira Wilkins argument that in this period, "The U.S.-controlled multinational corporation has overcome obstacles to become both giant and formidable, but, as in the past, it still must bow to the power of national sovereignties."¹¹⁶ Having to bow to this power was the cause of the sense of frustration that it was misunderstood.

However, this article adds to this picture in a number of significant ways. First, it compares American experience with that in Britain. That comparative dimension shows that the focus of existing accounts on the American experience can be misleading. In terms of the relationship with the home government the American experience was matched by that in the U.K. The British government took a similar

position to that of the American administrations which was at odds with the views of business on both sides of the Atlantic. This is not then a story of American particularism. Rather it is a more general story of the relationship between multinational enterprise and national governments. What remains unclear is whether this is an Anglo-American story or a more general one but this may prove impossible to answer as other home governments did not impose similar restrictions on FDI at this time.

As noted in the introduction, Wilkins has also suggested that on the surface it would appear that the impact of U.S. government policies was greater than previously and this reflected the enlarged role of both government and business. This at odds with the consensus that has emerged since that the impact of the U.S. and U.K. controls on FDI was limited: it changed the source of funding rather than the level of FDI. This article helps to bring these two accounts together. One of the problems with the consensus view has been to explain why business and government were so outspoken in their criticism of each other, even allowing for rhetorical licence. This suggested that Wilkins was right to suggest some impact, though she clearly sides with the business side of the argument in viewing FDI as part of a process with an “evolutionary, cumulative nature.”¹¹⁷ This impact becomes clearer when one moves from a macro-level approach to a micro-level one by considering the impact of the controls on individual companies. While there may have been few cases where the controls made the funding of FDI impossible the controls did create a number of obstacles, such as bureaucracy and time lags in getting funding, the cost of access to the investment currency market and to overseas borrowing and the difficulty of accessing overseas borrowing for some companies new to FDI. These obstacles increased the costs of FDI but in different ways for different firms. Since the majority

of FDI in both countries was undertaken by a relatively small number of companies, these individual experiences matter. This highlights a more general issue about the complex effects of government policy on business: macroeconomic policy goals often had microeconomic effects which were often overlooked or downplayed at the time. Equally, there were unintended consequences (both good and bad). For example, as shown here, the British government had not encouraged or expected British multinationals to use foreign borrowing so extensively but were ultimately pleased with the development, though it negated the desired effect of reducing FDI in favour of investment at home.

The subject also shows the importance of a business history approach, without which these firm-level differences of experience would be pasteurised away in accounts of the overall picture. It also shows the value of access to archival material. Use of these sources not only adds depth and richness to our understanding but allows the historian to tease out the significance of these different experiences. However, this is no easy task and in many ways this article highlights the difficulty of such work. It might be expected that more companies' records would be available for the postwar period but this does not appear to be the case. Some businesses seem reluctant to make their archival materials available for fear of anti-trust action, others for cost reasons. The ongoing merger and acquisition wave also complicates the situation with ownership and managements changing and with that policy on archival materials. This can lead to material becoming available but often leads to closure of access to archival materials. If nothing else, in particular with the international nature of many of these acquisitions, it adds to the uncertainty of access for business historians trying to build up a picture of the experiences of a number of firms.¹¹⁸

To some extent these difficulties are eased by use of national archives. Here there is a wealth of material to be consulted, much of which throws light on the experience of businesses. Valuable though this is, again there are problems. Only a small proportion of government records are retained which means that the relevant material may no longer exist. National archives have selection policies that make this likely. Those files preserved tend to be policy files rather than case study files, unless the case studies raise general principles or precedents. Mira Wilkins, as a historian, may have been stymied in the early 1970s by lack of access to the archival materials relevant to this subject. Nearly forty years on much of that archival material is now available but equally much remains unavailable, either destroyed, closed or still awaiting cataloguing. Use of the archival material available does alter our understanding of the subject in important ways – the comparative aspect, the need to move beyond macro-level generalisations of the experience of the controls, for example – but this will no doubt be added to as other archival materials become available. As set out in the introduction, Mira Wilkins suggested that it was only when corporate and government archives were open that an evaluation of the full impact of these government policies would be possible. However, there will never be complete and open access to all the relevant archives, historians will never know the full impact of these policies. Nevertheless, consideration of the archival material that is available does help us to understand the impact of the policies better.

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¹ *The Economist*, 17th October 1964, 271.

² For a recent review see Buckley, “Business History.”

³ Wilkins, “Multinational enterprise to 1930,” in *Leviathans*, eds. Chandler and Mazlich, 45-79; and Jones, “Globalization,” in *Oxford Handbook of Business History*, eds. Jones and Zeitlin, 141-68.

⁴ Jones, “Multinationals from the 1930s to the 1980s,” in *Leviathans*, eds. Chandler and Mazlich, 81-103.

⁵ Jones, “Multinationals,” 359.

⁶ Wilkins, *Maturing*, 338.

⁷ *Ibid*, 341.

⁸ Vernon, *Sovereignty*, 3. On Vernon’s legacy see the special issue of *Journal of International Management* 6 (2000). For a recent historical consideration of these issues see Jones, “End of Nationality?”

⁹ Kindleberger, *American Business*, 207. On this point see Kobrin, “Sovereignty@Bay,” in *Oxford Handbook of International Business*, ed. Rugman.

¹⁰ For example Vernon, “Problems,” in *Changing Patterns*, ed. Balassa, 159.

Vernon’s other key works in this field are *Storm and Hurricane’s Eye*. See also

Strange, *Retreat*. For a recent review of this field see Rugman and Verbeke, “Multinational enterprises,” in *Oxford Handbook of International Business*, eds. Rugman and Brewer.

¹¹ Bergsten et al., *American Multinationals*, 4; and Vernon, *Storm*, 115-16.

¹² Safarian, *Multinational Enterprise*, 362; and Dunning, “Future,” in *Changing patterns*, ed. Balassa, 213. See also Froot, “Introduction,” in *Foreign*, ed. Froot, 1 and 7; and Jones, *Multinationals*, 289. For a contemporary bibliography see U.S. Dept. of Commerce, *Financial Structure*, 89-94.

¹³ Vernon, “Where,” in *Foreign*, ed. Froot, 57.

¹⁴ Froot, “Introduction,” in *Foreign*, ed. Froot, 1 and 7; and Jones, *Multinationals*, 289.

¹⁵ Lipsey, “Foreign,” in *Foreign*, ed. Froot, 115; and Jones, “Globalization,” in *Oxford Handbook of Business History*, eds. Jones and Zeitlin, 148. For a history of multinationals see Jones, *Multinationals*. Statistical definitions of FDI (as opposed to portfolio investment) have changed over time and varied between countries. In the U.S. until the 1970s there were various criteria but the main one was an equity holding of 25 per cent. From the 1970s it has been a 10 per cent equity holding, which is the internationally recognized definition today. During the 1960s, although the 25 per cent definition was still used, data was also collected on equity holdings of 10-25 per cent, called “majority-holding foreign affiliates.” In the U.K. the definition remained constant at 20 per cent until 1997. In practice this issue is relatively unimportant as most equity holdings in this period (certainly by U.S. multinationals) was well over 25 per cent.

¹⁶ Bergsten et al., *American Multinationals*, 15.

¹⁷ U.K. National Archives, Kew, London (hereinafter TNA) T326/328, George Brown, Secretary of State for Economic Affairs, to James Callaghan, Chancellor of the Exchequer, "U.K. Private Investment Overseas," 23 December 1964; and *FRUS 1964-68, Volume VIII*, memorandum 27, Grant Ackley, Chairman of the Council of Economic Advisers), 'Balance-of-Payments Program', 11 Jan 1965.

¹⁸ Hawley, *Dollars and Borders*, 20-44.

¹⁹ *FRUS 1964-68, Volume VIII*, memorandum 33, Report from the Cabinet Committee on the Balance of Payments to President Johnson, undated.

²⁰ *Ibid*, memorandum 52, Letter from Jack Connor (Secretary of Commerce) to certain U.S. business leaders, undated. For summaries of the U.S. controls see Hood and Young, *Economics*, 300-2; and Safarian, *Multinational Enterprise*, 366-70. For more detailed accounts see Conybeare, *United States Foreign Economic Policy*; Hawley, *Gold and Dollars*; Anderson and Hazleton, *Managing*; Ellicott, "United States Controls"; Willey, "Direct Investment Controls," in *International Corporation*, ed. Kindleberger, 95-119; Holbik, "United States Experience,"; Herring and Willett, "Capital Controls Program"; and Cairncross, *Control*, 39-50. The U.S. controls have received some recent attention from finance historians explaining the development of the Eurodollar market, see Major, "Fall and Rise."

²¹ Anderson and Hazleton, *Managing Macroeconomic Policy*, 191.

²² *FRUS 1964-1968, Volume VIII*, memorandum 76, Memorandum from Fowler (Secretary of the Treasury) to President Johnson, 22 October 1965.

²³ *Ibid*, memorandum 106, Minutes of the Meeting of the Cabinet Committee on the Balance of Payments, 5 December 1966.

²⁴ *Ibid*, memorandum 110, Editorial note.

²⁵ Ibid, memorandum 157, Memorandum from Secretary of Commerce Trowbridge, who had replace Jack Connor, to Secretary of the Treasury Fowler, 15 December 1967.

²⁶ Hawley, *Gold and Dollars*, 90; Ellicott, "United States Controls," 47. In 1973 it was ruled that the Executive Order had wrongly invoked the 1917 Act and was without legal authority.

²⁷ "U.K. Exchange Control." See also the TNA T267/34, "Exchange Control 1959/1972; U.K. Attitudes and Actions," Treasury Historical Memoranda 23, April 1975. Apart from Cairncross, *Control* the author is unaware of any published detailed studies of the impact of controls on U.K. FDI in this period.

²⁸ TNA T318/916, "Overseas Investment Policy," undated, para 38, attached to "Review of External Investment," Denis Ricketts to Leslie Rowan, 5 July 1956.

²⁹ Bank of England, "U.K. exchange control," 256. On issues raised by exchange control for U.S. oil companies in the 1950s see Schenk, "Exchange controls".

³⁰ Modern Records Centre, Warwick, U.K. (hereinafter MRC) MSS200/F/3/E3/32/4, E.252.C.61, "The Present Attitude of the Treasury Towards New Investment in the Non-Sterling Area."

³¹ MRC MSS200/F/3/E3/32/4, Meetings of the Federation of British Industries Overseas Investment Committee, 14 December 1961 (E.263.61) and 4 June 1962 (E.96.62); and MRC MSS200/F/3/E3/32/9, "Note of a Meeting at the Treasury on Wednesday October 30th 1963," November 1963.

³² Investment currency was foreign currency which originated mainly from the sale of foreign currency securities owned by U.K. residents and could be used to acquire foreign assets by residents of what were called "the Scheduled Territories", at this time the Sterling Area. Until 1962 it could only be used for portfolio investments but,

thereafter access to this currency market could also be approved for direct investment.

On the investment currency market see Bank of England, "Investment Currency Market"; and Woolley, "U.K. Investment Currency Market."

³³ TNA T267/34, "Exchange Control," 15.

³⁴ See TNA T326/289 for the discussion of these proposals.

³⁵ TNA T267/34, "Exchange Control," 28.

³⁶ *Ibid.*, 29-30.

³⁷ TNA T295/155, "The Voluntary Programme," unsigned, 4 October 1966; and TNA T267/34, "Exchange Control," 37.

³⁸ TNA T267/34, "Exchange Control," 35.

³⁹ *Ibid.*, 47.

⁴⁰ *Ibid.*, 52-5; and COI, *Britain's International Investment Position*, 16-36.

⁴¹ Cairncross, *Control*, 50-1; and Willey, "Direct Investment Controls," 99-102.

⁴² Quoted in Cairncross, *Control*, 44-5.

⁴³ Lindert, "Payments Impact." For a more recent restatement of the Cadle view see Brewer and Young, *Multilateral Investment System*, 102.

⁴⁴ MRC MSS200/F/3/E3/32/10, E.219.64, "Note of a Meeting at the Treasury," 26 June 1964.

⁴⁵ Cairncross, *Control*, 66-7.

⁴⁶ *Ibid.*, 68.

⁴⁷ TNA T295/163, "Overseas Investment and Exports," by A.K. Rawlinson, 8 June 1965.

⁴⁸ Industrial Policy Group, *Case*.

⁴⁹ TNA 295/397, D.A. Walker to A.K. Rawlinson, 28 May 1968.

⁵⁰ Hood and Young, *Economics*, 310; and Bailey et al., *Transnationals*, 150-6.

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- ⁵¹ Conybeare, *United States Foreign Economic Policy*, 136-9. For a review of attempts to measure the impact of the U.S. program see Scaperlanda, "Direct Investment Controls."
- ⁵² Hufbauer and Adler, *Overseas*; Reddaway, *Interim Report*, and idem, *Final Report*.
- ⁵³ Hood and Young, *Economics*, 313. For a comparison of the two studies see Dunning, *Studies*, 107-17; and Hufbauer and Adler, *Overseas*, 90-2.
- ⁵⁴ Reddaway, *Final report*, 374. For more on this aspect see Robertson, "Multinational Enterprise," 191-2.
- ⁵⁵ Bergsten et al., *American Multinationals*, 97; and Raymond Vernon, quoted in Conybeare, *United States Foreign Economic Policy*, 56. See also TNA T267/34, "Exchange Control," 25.
- ⁵⁶ Conybeare, *United States Foreign Economic Policy*, 56.
- ⁵⁷ *FRUS 1964-1968, Volume VIII*, memorandum 61, "Report from the Cabinet Committee on Balance of Payments to President Johnson," 7 June 1965.
- ⁵⁸ TNA T267/34, "Exchange Control," 33. On the development of the Eurodollar market see Schenk, "Origins ;" and Battilossi and Cassis (eds), *European Banks*.
- ⁵⁹ Hood and Young, *Economics*, 306. See also Woolley, "Britain's Investment Currency Premium," 33-46.
- ⁶⁰ Cairncross, *Control*, 64-5.
- ⁶¹ TNA T326/512, "Exchange Control: Direct Investments Outside the Sterling Area," Treasury F(H1) Division, 20 October 1965.
- ⁶² For the U.S. see *FRUS 1964-1968, Volume VIII*, memorandum 61; and Stanley and Stanley, "Impact," 58-9.
- ⁶³ *FRUS 1964-1968, Volume VIII*, memorandum 56, Secretary of the Treasury Dillon to President Johnson, 27 March 1965.

⁶⁴ TNA T295/416, Foreign Exchange Control Committee meeting, 3 January 1968; *FRUS 1964-1968, Volume VIII*, memorandum 61; and Conybeare, *United States Foreign Economic Policy*, 235-6.

⁶⁵ Stanley and Stanley, "Impact," 56.

⁶⁶ Conybeare, *United States Foreign Economic Policy*, 232.

⁶⁷ *FRUS 1964-1968, Volume VIII*, memorandum 46 and memorandum 47, Deputy Assistant Secretary of State for Economic Affairs (Trezise) to Under Secretary of State (Ball), undated.

⁶⁸ TNA T326/1134, FECC 1653, 10 August 1961 and "Fresh Investment in France and Argentina by Joseph Lucas (industries) Ltd." by the Secretary of the Foreign Exchange Control Committee, 9 October 1961.

⁶⁹ *Ibid*, T.J. Joyce (Joseph Lucas Ltd. Liaison Office, Buenos Aires) to R.E.C.F. Parsons (First Commercial Secretary, British Embassy, Buenos Aires), 25 September 1961; and D.A.V. Allen to Frank Lee (Permanent Secretary to the Treasury), "Overseas Investment," 18 October 1961.

⁷⁰ *FRUS 1964-1968, Volume VIII*, memorandum 59, Jack Connor to President Johnson, 28 April 1965, and memorandum 61.

⁷¹ TNA T295/750, J.G. Littler to Rawlinson, 16 November 1970, attached memorandum "United Kingdom Direct Investment Overseas."

⁷² On ITT and Raytheon and British Petroleum see Conybeare, *United States Foreign Economic Policy*, 235. On Lithgows see TNA T295/416, FECC meeting, 7 February 1968.

⁷³ *FRUS 1964-1968, Volume VIII*, memorandum 77, memorandum of a conversation, Cabinet Committee on the International Balance of Payments (Principal Members only), 27 October 1965.

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- ⁷⁴ TNA T295/398, A.J. Gower Isaac to H. Copeman, "U.K. Direct Investment," 9 August 1968.
- ⁷⁵ "Companies Outgrow Countries," *The Economist*, 271.
- ⁷⁶ TNA T295/397, J.G. Owen to Sir Denis Rickett, "Shell and the Investment Currency Market," 1 November 1967 and Rickett to Sir William Armstrong, "Shell and Investment Currency Market," 8 November 1967. See also TNA T317/2400.
- ⁷⁷ Conybeare, *United States Foreign Economic Policy*, 163.
- ⁷⁸ TNA T295/166, D.A. Walker to Rawlinson, "Reddaway: NEDC meeting," 31 March 1967.
- ⁷⁹ Adler and Hufbauer, "Foreign Investment Controls," 32.
- ⁸⁰ Mikesell, "Some Conclusions," 548.
- ⁸¹ For the U.K. see TNA T295/164, Walker to Rawlinson, "The Reddaway Report and the Bank's Exchange Control Figures," February 1967.
- ⁸² For example, *FRUS 1964-1968, Volume VIII*, memorandum 71, Minutes of Meeting of the Cabinet Committee on Balance of Payments, 30 September 1965.
- ⁸³ *Ibid*, memorandum 77, Cabinet Committee on the International Balance of Payments (Principals Only) Meeting, 27 October 1965.
- ⁸⁴ *Ibid*, memorandum 106, Minutes of the Meeting of the Cabinet Committee on the Balance of Payments, 5 December 1966.
- ⁸⁵ *Ibid*, memorandum 107, Memorandum from Secretary of the Treasury Fowler to President Johnson, 6 December 1966.
- ⁸⁶ *Ibid*, memorandum 106, Minutes of the Meeting of the Cabinet Committee on the Balance of Payments, 5 December 1966.
- ⁸⁷ For example Lary, *Problems*, 1-4 and 69.
- ⁸⁸ Tomlinson, *Politics*.

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- ⁸⁹ Shonfield, *British Economic Policy*. See also Tomlinson, *Labour Governments 1964-70*, 32-4 and 95-6.
- ⁹⁰ See Hood and Young, *Economics*, 284-8.
- ⁹¹ Keynes, "Foreign Investment."
- ⁹² Balogh and Streeten, "Domestic Versus Foreign Investment"; and Thirlwall, *Nicholas Kaldor*, 228-57.
- ⁹³ TNA T326/328, "Overseas Investment," minutes of a meeting held on 7 January 1965. There was also a paper by the Department of Economic Affairs.
- ⁹⁴ Ibid, "Foreign Investment Policy," by Balogh, 22 December 1964.
- ⁹⁵ Kaldor, *Causes*. See also Kaldor, "Conflicts," in *Conflicts*, ed. Kaldor, 15.
- ⁹⁶ TNA T326/328, "Possibilities for Using the Tax System to Discourage Overseas Investment," by Kaldor, 6 January 1965.
- ⁹⁷ For example TNA T326/289, OI(WP)(64)24(Final), "Report of a Working Party on Overseas Investment," June 1964, 31; and TNA T318/229, "Reddaway", Walker to Rawlinson, 7 March 1967. See also Shone, *Investment*, 18. On overstating their case see TNA T267/34, "Exchange Control," 36; TNA T 295/163, DF Hubback to Rawlinson, "Return on Overseas Investment," 21 November 1966; and TNA T326/328, "Proposals by D.E.A., Mr. Kaldor and Dr. Balogh: Note by the Treasury," undated but January 1965.
- ⁹⁸ TNA T295/167, "Chancellor's Meeting with the President of the CBI," unsigned, 4 July 1967.
- ⁹⁹ On the U.S. see Behrman, *National Interests*, 91-2; Cairncross, *Control*, 44; Safarian, *Multinational Enterprise*, 369; and Vernon, *U.S. Controls*. On the U.K. see Industrial Policy Group, *Case*.
- ¹⁰⁰ TNA T295/163, H.53.65, the FBI President to James Callaghan, 21 May 1965.

¹⁰¹ *FRUS 1964-1968, Volume VIII*, memorandum 143, Memorandum from the Secretary of Commerce's Assistant (Simpich) to Secretary of Commerce Trowbridge, 8 September 1967.

¹⁰² *Ibid*, memorandum 144, Borsch to Trowbridge, 14 September 1967.

¹⁰³ For example "Controls over Capital," *New York Times*, 13 April 1965; "Business Leaders Back Johnson on Voluntary Program to Curb Dollar Drain", *New York Times*, 12 April 1965; and Richard Fenton, President of Pfizer International, Inc. in "U.S. to continue plan on payments," *New York Times*, 23 November 1966. U.K. examples include TNA T295/40, "Federation of British Industries: Note of A Meeting Held in the Chancellor of the Exchequer's Room, H.M. Treasury," 25 May 1965.

¹⁰⁴ Behrman, "Assessing", 84.

¹⁰⁵ Robert Frost, "Executive mood shifting," *New York Times*, 12 February 1965; and Gerd Wilcke, "U.S. Concerns Cite Foreign Worries," *New York Times*, 3 September 1968.

¹⁰⁶ Stobaugh, *Nine Investments*. See also Stobaugh et al., "U.S. Multinationals," in *Multinational Corporation*, ed. U.S. Dept. of Commerce. For the U.K. see Wells, *British Export Performance*, 45-6.

¹⁰⁷ Gerd Wilcke, "Job export charge denied," *New York Times*, 14 November 1971.

¹⁰⁸ Polk et al., *U.S. Production Abroad*, 132-6; and Vernon, *U.S. Controls*, 25.

¹⁰⁹ Cairncross, *Control*, 24; Shepherd et al., *British Manufacturing Investment Overseas*.

¹¹⁰ MRC MSS200/F/3/E3/32/10, E.382.64.

¹¹¹ TNA T295/639, Davies, "Overseas Investment: Two C.B.I. Occasional Papers," September 1969, 15-16.

¹¹² Industrial Policy Group, *Case*, 3.

¹¹³ U.S. Secretary of Commerce Maurice Stans referred to U.S. multinational corporations as potentially “multinational corporate migrants”, 25 June 1971, quoted in U.S. Dept. of Commerce, “Policy Aspects”, *Multinational Corporation*, ed. U.S. Dept. of Commerce, preface.

¹¹⁴ Hawley, *Dollars and Borders*, 32 (refers to its use in the 1961 Congressional hearings on the taxation of foreign earnings); *FRUS 1964-68, Volume VIII*, memorandum 137, U.S. Secretary of the Treasury Fowler to President Johnson, 8 August 1967. The same metaphor is referred to in dismissive terms by Willey, “Direct Investment Controls,” 118.

¹¹⁵ Nachum, Jones and Dunning, “International Competitiveness of the UK,” in *Multinational Firms*, eds. Dunning and Muchielli, 35.

¹¹⁶ Wilkins, *Maturing*, 439.

¹¹⁷ Wilkins, *Maturing*, 414.

¹¹⁸ However, a number of companies continue to open up their records to historians to write company histories, such as Jones, *Renewing*, Bamberg, *British Petroleum*, and Howarth et al., *History*.