SOCIAL PROBLEMS, Vol. 28, No. 4, April 1981

ECONOMIC POLICY AND MULTINATIONAL CORPORATIONS IN DEVELOPMENT: THE MEASURABLE IMPACTS IN CROSS-NATIONAL PERSEPECTIVE

VOLKER BORNSCHIER
JEAN-PIERRE HOBY
University of Zurich

In this article we report the main findings of a research project at the University of Zurich on Multinational Corporations, Economic Policy and National Development in the World System. For reasons of space the focus is on cross-national empirical findings rather than on theoretical discussion. Dimensions of economic policy against multinational corporations are established and operationalized. A combination of these dimensions is the basis of a typology of economic policy. The article presents the distribution of 73 countries according to different types of economic policy for the period 1960 to 1975. Analyses of the determinants and concomitants of economic policies are reported as well as their effect on foreign capital and development. Results are presented in the context of cross-national findings of how multinational corporations affect development. These findings relate to the impact of multinational corporations on subsequent economic growth and on social inequality.

The economic integration of the less developed countries into the core-periphery structure of the world economy can be traced back to the European discovery and conquest starting in the 15th century. These emerging peripheral areas used to export mainly spices, coffee, tea and tobacco to Europe. Later, they became important suppliers of agricultural and mineral raw materials; and the emerging upper classes in the colonial areas increasingly served as markets for industrial goods from Europe.

Part of the world division of labor across the states in the world economy is articulated by market exchange—that is, foreign trade. In the course of this century another framework for structuring the division of labor within the world economy has emerged as increasingly important: the institution of multinational corporations (MNCs). MNCs first emerged as organizers of extractive industries, but in this century they have become increasingly involved in the industrial sector as well as more recently in the tertiary sector. Moreover, today about half of total foreign trade is channeled within the organizational realm of MNCs, thus bypassing the market completely.

Less developed countries were hardly able to resist penetration by multinational corporations, especially after formal decolonialization. But as the world economy has been increasingly articulated by MNCs in recent times, MNCs have become the main targets of national economic policy. The first interventionist measures of independent governments in the periphery were primarily directed towards influencing foreign trade by means of foreign exchange controls and tariff barriers. Such measures have encouraged rather than prevented direct investment in the countries of the third world. Since the mid-1960s the growing amount of foreign capital and the economic, social, political and cultural consequences of the penetration by MNCs have resulted in increased attention by national governments and political groups to the roles of MNCs.

At that time most of the MNCs were already well-established in these countries and controlled an important part of capital in the industrial, agricultural and extraction sector. Moreover, they had strong positions as employers, buyers, and suppliers in the local product and factor markets. Furthermore, they had established in most cases a solid network of alliances with political and governmental groups. This was facililated by the fact that MNC expansion has taken place within patterns of external and internal dependence relations created by the prior history of the world economy. Therefore, MNCs had already become a very important factor in the less developed

TABLE 1
List of Countries for the Analysis of Economic Policy

Algeria	Honduras	Paraguay
Argentina	India	Peru
Australia	Indonesia	Philippines
Austria	Iran	Portugal
Belgium	Iraq	(Rhodesia)-Zimbabwe
Benin (Dahomey)	Ireland	Senegal
Bolivia	Italy	Sierra Leone
Brazil	Ivory Coast	South Africa
Burma	Jamaica	Spain
Canada	Japan	Sri Lanka
Chad	Kenya	Sudan
Chile	Korea, Rep. of	Sweden
China, Rep. of	Madagascar	Switzerland
Colombia	Malawi	Tanzania
Costa Rica	Mali	Thailand
Denmark	Mexico	Tunisia
Dominican Rep.	Morocco	Turkey
Ecuador	Netherlands	Uganda
El Salvador	New Zealand	United Kingdom
Finland	Niger	United States
France	Nigeria	Urugay
Germany, Fed. Rep.	Norway	Venezuela
Greece	Pakistan	Yugoslavia
Guatemala	Panama	Zaire
		Zambia

countries long before their governments began to realize the importance of this phenomenon for the national development.

The effectiveness of government economic intervention may therefore be considered doubtful. Even to determine empirically and unambiguously whether or not there have been interventions may be rather difficult in many instances because of lack of information and also because of the complexity of the MNCs. Nevertheless, one can try to approach the reaction of the developing countries (i.e., their economic policy against foreign capital) from two sides by asking: (1) to what extent the presence of MNCs affects the government policy; and (2) to what extent the economic policy is able to affect the behavior of the MNCs.

The empirical findings to be reported in this article will be arranged around 4 major questions. 1) What is the effect of the MNC presence on economic growth and inequality, and how can such effects be explained empirically? 2) What kind of economic-policy measures have governments taken in order to regulate multinational capital and its effects on the national economy? 3) What are the conditions that determine the choice of certain economic policies rather than of others? 4) What are the effects of government intervention for the penetration process by multinational capital and for the process of development in general?

The findings in this article are derived from the research project on Multinational Corporations, Economic Policy and National Development at the University of Zurich.[1] Comparisons

1. Directed by Volker Bornschier and Peter Heintz at the Sociological Institute of the University of Zurich. The collaborators were Thanh-Huyen Ballmer-Cao, Gottfried Berweger, Jean-Pierre Hoby, Alexandros Kyrtsis, Peter Meyer-Fehr and Jürg Scheidegger. Laurence R. Alschuler is working on six single case studies of countries in the framework of the project. The funding from the Deutsche Gesellschaft für Friedens-und Konfliktforschung (DGFK), Bonn-Bad Godesberg, is gratefully acknowledged. Part of the present paper was published earlier: Volker Bornschier, "Multinational corporations, economic policy and national development in the world system." International Social Science Journal XXXII: 159-172, 1980.

with other findings will be limited (for a more systematic review of the literature see Bornschier *et al.*, 1978, 1980). The project employed cross-national analysis of a world sample of countries. The analysis of economic policies is based on 73 countries which are listed in Table 1 (for sampling criteria see Bornschier *et al.*, 1980). The sample excludes centrally planned economies, and countries in war areas. Thus, unfortunately, Egypt is not in the sample. The data on economic policy are compiled for the years 1959, 1965, 1970 and 1975. For listings of the data see Berweger and Hoby (1978) and Bornschier and Heintz (1979).

Theoretical Background

For reasons of space, it is not possible to comment on the theoretical propositions underlying the research. The theoretical framework which organizes the various propositions is conceived as world system analysis which may be called a "social science world conception." One must note that this theoretical framework has not yet achieved the status of a theory in the strict sense. Many theoretical statements are scattered through the references, but for a more systematic presentation the reader may refer to Bornschier (1976); Bornschier *et al.* (1980); Bornschier and Chase-Dunn (n.d.).

Further, a note of caution: the findings are often presented in causal language although they are based on correlation; this is also the case if multiple regression with time lags or path analysis is used. While causality can never be observed empirically the modern techniques of social science can, if properly used, avoid false causal inferences. Though many appropriate tests have been performed to achieve this, not all the theoretically and logically possible controls were exhausted. Thus, the causal language relates to the underlying theoretical propositions which must not be changed unless solid contradictory empirical evidence is found.

THE EFFECTS OF MNC PRESENCE

Economic Growth

One must distinguish between the short- and long-term consequences for economic growth of the presence of MNCs. This is taken into account through two measures of MNC presence: MNC-investment[2] (for the short-term effect) and MNC-penetration[3] (for the long-term effect). On the basis of cross-national comparisons over the period 1960-75 with samples of up to ninety-one countries[4] the following results have been suggested by multiple regression, path analysis and analysis of covariance:

> MNC investment has the short-term effect of increasing the economic growth rate. The same holds true for the growth rate of the stock of capital controlled by MNCs.
>
> The higher the cumulated investment of MNCs in relation to the total stock of capital and population (that is, the greater MNC penetration as a structural feature of the host countries) the lower the subsequent

---

2. This is a flow concept. The indicator is: change in the total stock of foreign direct investment over a period in relation to total domestic product. Beside the change in stocks, another indicator has been used, namely foreign direct investment inflows. The results are similar (Bornschier, 1980).
3. This is a stock concept. It theoretically represents the degree to which MNCs control the economy of a host country. The indicator is: total stock of foreign direct investment in relation to total capital stock and total population. Partial penetration indicators have been used for different sectorial location of MNC capital, too (Bornschier and Ballmer-Cao, 1978). The results have been checked with an alternative indicator based on completely independent data, namely the number of subsidiaries of the largest 400 industrial MNCs weighted by their average size (capital invested) in the given host country. The results are similar (Ballmer-Cao, 1979; Bornschier, 1980).
4. A more recent version of the review of findings in the literature considers 103 countries in a reanalysis from 1965 to 1977 (Bornschier *et al.*, 1980).

growth rate of *per capita* income as well as total income. MNC penetration thus has long-term negative consequences (a period of up to twenty years has been considered) and fresh investment by MNCs has short-term positive consequences (during the period in which it occurs). Although MNC investment has been found to make short-term positive contributions to growth, one must note that such investment increases MNC penetration and therefore contributes in the long run to the negative effect associated therewith.

MNC activity resulting in technological dependence for host countries (as measured by foreign control over patents) also has clearly negative long-term effects on economic growth (Bornschier and colleagues, various years; Meyer-Fehr, 1978, 1979).

Various dependencies created or maintained mainly by MNCs in the world economy, with regard to technology, trade, capital and organizational networks, are generally positively correlated, and their negative consequences for economic growth in the longer run are similar. With regard to the relationship between different forms of economic dependence, further research is necessary because the operationalization of trade dependency and technological dependence in the literature, if applied to explain growth and inequality within countries, suffers from theoretical shortcomings.[5]

The headquarter status represents the importance of an MNC's business abroad for the home country. Headquarter status and MNC penetration do not have symmetrical effects on economic growth: advantage for the headquarter country spells disadvantage for the penetrated country—but they are both related to a lower economic growth rate (Bornschier and Ballmer-Cao, 1978).

A logically possible alternative explanation of the finding that MNC penetration is inversely related to long-term economic growth could be that "there is a tendency for countries with poor growth prospects to devote greater efforts to building up a stock of foreign investment in intended compensation" (Stoneman, 1975:18). This hypothesis, however, can be ruled out empirically since it implies a positive correlation between poor growth performance and MNC investment. This is clearly not substantiated by the findings: MNC investment is high where income growth is also high. This, as well as the fact that the relationship holds after controlling for several factors that might be of relevance to economic growth—i.e., level of income at the beginning of the growth period, income distribution, capital formation, investment growth, population growth, level and growth of urbanization, and relative weight in the world market position with regard to natural resources—suggests support for the causal interpretation of the finding that penetration by MNC's retards long-term economic growth.

The lowering of the economic growth rate throught high MNC penetration is more pronounced for less developed countries (LDCs) than for a world sample of countries. For the rich countries analyzed separately no significant relationship exists (Bornschier and Ballmer-Cao, 1978; Bornschier, 1980; Bornschier *et al.*, 1980).

We investigated whether variations in the sectoral locations of MNC capital have a different impact on the aggregate growth of income *per capita*. Four of the ten sectors in which MNC penetration was studied for eighty-eight LDCs account for slightly more than three-quarters of the total penetration: manufacturing, agrobusiness, mining and smelting, and the integrated petroleum business. MNC penetration in manufacturing has a clearly significant negative impact on subsequent growth of aggregate income *per capita*. The same holds for MNC penetration in mining and smelting. Both effects are of about equal strength. The effect of MNC penetration in

5. The indicators used to date are not weighted according to the size of the country. It is rather problematic to relate, for example, a trade structure indicator to economic growth without considering whether foreign trade as a percentage of total product is, let us say, 10 or 50. The same problem does not apply to MNC-penetration indicators. For a review and reanalysis of trade dependency studies see Volker Bornschier and Otto Hartlieb, "Weltmarktabhängigkeit und Entwicklung. Ueberblick über Studien und Reanalysen." Bulletin of the Sociological Institute of the University of Zurich, forthcoming.

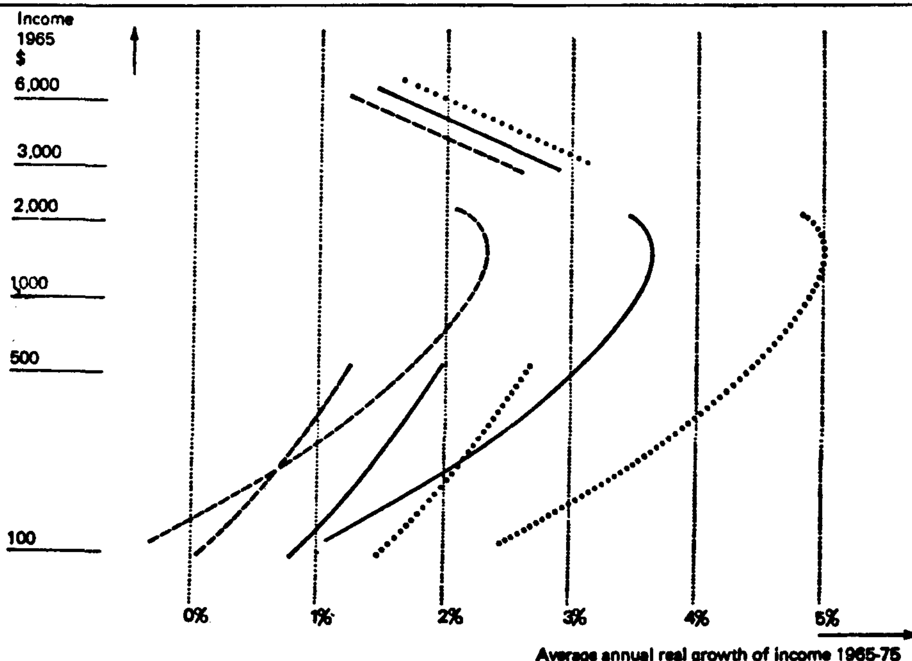
agrobusiness is smaller and statistically insignificant, whereas there is no effect at all for integrated petroleum. One can add that the measures of MNC penetration in these four major sectors are statistically rather independent when all LDCs are studied.

The short-term growth-promoting effect of MNC investment is of similar strength in various subsamples of LDCs. The same is true for the long-term growth-retarding effect of MNC penetration. Earlier results have suggested stronger negative effects for wealthier LDCs (Bornschier *et al.*, 1978). More detailed research has shown, however, that this was a spurious finding. It could be demonstrated that the negative effect is of about equal importance for all subsamples of LDCs, except for those with an extremely circumscribed monetized market segment (Bornschier *et al.*, 1980). For this comparatively small group of very small countries, which are among the poorest in the world, no statistically significant relationship exists; the association, however is positive. Including a larger number of such very small countries in the analysis of subsamples explains smaller negative effects. Furthermore, detailed analyses have revealed that the effects on growth hold independently of the geographical location of LDCs (Bornschier *et al.*, 1978, 1980).

That the growth-reducing consequence of MNC penetration has to date aroused rather mild scholarly and public concern is especially due to two factors. First, as long as overall MNC investment remains high, the negative effect of penetration is partly neutralized. Second, the most important negative effect concerns those countries for which the growth potential is above average. Thus, the slowing down of economic growth, in the long run, in general does not imply economic stagnation but a markedly lower growth rate than one would expect against the background of the growth potential. This important finding is illustrated in Figure 1 by the use of a regression model with a curvilinear function of the level of economic development (Bornschier, 1980).

FIGURE 1

Income per capita growth regressed on level of income per capita, MNC penetration and MNC investment (Bornschier, 1980). Results for subsamples: 15 rich countries, 34 larger LDCs and 41 small LDCs (according to the size of the modernized sector of the economy). Curves for the actual range within subsamples.



The solid line in Figure 1 is a prediction of the income *per capita* growth rate 1965-75 with the multiple regression on the logged initial income *per capita* 1965, for average MNC penetration and average MNC investment. The broken line refers to high MNC penetration (one standard deviation above the mean) and average MNC investment, while the dotted line refers to low MNC penetration (one standard deviation below the mean) and average MNC investment. The variation of MNC penetration graphically presented does not exhaust the empirical one. For example, in the case of larger LDCs, one-fifth of countries score higher on MNC penetration than one standard deviation above the mean, and one-tenth of countries are below one standard deviation below the mean.

The regression results are graphically presented for three subsamples. The MNC penetration effect differs among the subsamples. For small LDCs (according to the size of the modernized sector of the economy) which are centered more on low levels of income, the effect is smaller (−0.7 percent for one standard deviation) than for larger LDCs (−1.35 percent for one standard deviation). Both effects are statistically significant (the same applies to the opposite effect of MNC investment: +0.7 percent and +0.9 percent for one standard deviation). For rich countries the MNC penetration effect is small and insignificant. (One can add that the correlation between MNC penetration and MNC investment differs across subsamples. It is 0.5 for the small LDCs, 0.18 for larger LDCs and 0.62 for rich countries.)

The empirical findings with regard to the growth effects of MNCs based on samples of up to 103 countries have been checked carefully and compared with the results of all available cross-national studies (Bornschier *et al.*, 1978, 1980). However, the relationship of MNC capital penetration with other forms of economic dependence, whether or not they are mainly the result of the actual behavior of MNCs as institutions, needs further research. It is recommended to construct an indicator for MNC penetration which is not only based on one aspect (namely capital) but on all aspects of dependence resulting from the MNCs as institutions.

One may conclude that the results reported here seem to attain the status of social facts in the world system after the Second World War. We suggest, therefore, that any empirically relevant theory of development, whatever its perspective, must be able to explain these findings.

Social Inequality

The analyses also revealed relationships between the level of MNC penetration and indicators of social inequality. Personal income inequality has been used as the most important indicator.

The level of MNC penetration as a structural feature of host countries was associated in the 1960s with a more unequal distribution of income among households or income recipients. This relationship holds for a world sample and is stronger for LDCs. By contrast, MNC penetration is accompanied by less income inequality in rich countries (Bornschier and Ballmer-Cao, 1978; Bornschier *et al.*, 1980). The headquarter status of countries is related to greater equality in income distribution which, however, is not significant once the level of income *per capita* is taken into account (Bornschier and Ballmer-Cao, 1979).

Inequality among economic sectors with regard to labor productivity (sectoral income inequality), associated with corresponding differences in capital intensity, is more pronounced if MNC penetration is high. This holds only for LDCs.

The established relationship between MNC penetration and personal income inequality is fairly consolidated, rests on large samples (up to seventy-two cases), and is consistent with other findings in the literature using different indicators for MNC penetration (Bornschier *et al.*, 1978, 1980).

Since time series for income distribution measures are lacking, the causality remains open. The possibilities for testing the theoretically assumed two-way causation between MNCs and inequality in LDCs are limited. In general, what has been tested is whether, and through which variables,

MNC penetration affects income distribution (Bornschier, 1978; Bornschier and Ballmer-Cao, 1978; Ballmer-Cao, 1979). Existing income inequality in LDCs is, however, one theoretical prerequisite for opportunities for MNCs oriented towards domestic LDC markets. Preliminary findings suggest that both directions of influence seem to be empirically relevant.

EMPIRICAL EXPLANATIONS OF THE EFFECTS OF MNC PRESENCE

Economic Growth

Important findings with regard to variables linking MNC penetration and economic growth are presented here, which together can explain a large part of the observed negative effect.

Since MNC penetration goes together with higher income inequality, and since the latter is significantly related to lower capital formation and lower economic growth in larger LDCs (where the domestic market is of importance), part of the negative effect of MNCs on economic growth can be explained through personal income inequality. This finding also helps to explain why the negative effect is present only for LDCs, since MNC penetration is associated with more income inequality only in LDCs.

The decapitalization thesis maintains that host countries lose more capital in the long run through outflows due to MNC activities than has ever flowed into the country through investment inflows of MNCs. Thus, it is argued that the funds available for investment in the host country are, on balance, reduced. Empirical findings suggest cross-national support for this thesis. MNC penetration determining subsequent MNC investment is significantly related to lower investment growth in the host country. Since investment growth is an important determinant of income growth, the lowering of subsequent investment growth due to high MNC penetration helps to explain another component of the negative effect on income growth. Again, one can add that the effect is not significant for rich countries.

Empirical results suggest that MNC penetration is frequently associated with a substitution of labor by machines to an extent not dictated, in cross-national comparison, by labor supply shortages (Bornschier and Ballmer-Cao, 1979). Thus the presumed intensification of structural unemployment, to which MNCs add, may also have negative implications for economic growth.

Unequal labour productivity and capital intensities both between and within economic sectors (as indicated by sectoral income inequality) are accentuated if MNC penetration is high. Such disparities imply a low level of integration and linkage effects, and thus are likely to contribute to a lower level of overall productivity so that a given capital input results in comparatively lower economic growth. This may also explain part of the negative effect on growth in LDCs because only there does MNC penetration accompany and presumably intensify the disparities.

Findings further suggest that MNC penetration is compatible with a host country's orientation towards a more pronounced "elite" model of education rather than orientation towards vocational training. Since an educational orientation towards the expansion of vocational training is favorable to fast economic growth (especially in LDCs), one can hypothesize that MNCs also exert an influence by lowering the possible positive contribution of special types of education for economic growth. These conclusions are posed in the yet unpublished work of Ballmer-Cao.

Technological dependence due to control of MNCs over patents can explain a further part of the consequences of MNC penetration on economic growth (Meyer-Fehr, 1979). MNC control over patents can be regarded, in addition, as part of a comprehensive pattern of restrictive business practice and monopolistic behavior which is reported to be frequent, especially in LDCs, and which contribute to a noncompetitive and therefore less efficient industrial structure.

The negative effect of MNC penetration may also find an explanation in that it is associated with a particular foreign trade structure (partner concentration, commodity concentration, low

position within the vertical structure of foreign trade) which is unfavorable for economic growth (Meyer-Fahr, 1978).

Last, MNC penetration is associated with a higher level of internal social conflict and lower executive stability (Ballmer-Cao, 1979). This contributes to lowering the possible economic growth rate. It is also likely to affect negatively the ability of the state to pursue a policy of growth independently of the class interests created by foreign capital.

Personal Income Inequality

Our empirical explanation of the influence of MNC penetration on personal income inequality considered the extent to which the links to the world economy through the MNCs affect the power distribution within host countries. Apart from the land-tenure structure in agriculture, the power distribution within the aggregate organizational system outside agriculture (occupational structure variables), the power distribution in the labor market, and the steering power of the state have been considered. It must be noted that the results are not based on time series; the causal ordering is therefore preliminary and has to be substantiated by further tests with time series.

Since, on the one hand, concentration of land tenure in agriculture is related to rural and total income distribution and, on the other hand, MNC penetration is accompanied by higher land concentration, part of the relationship between MNCs and personal income inequality thus finds an explanation.

Empirical evidence further suggests that, in accordance with hypotheses relating to the organizational structure and division of labor of MNCs on a world scale, MNC penetration affects the organizational structure variables of society at large. It lowers the degree of power sharing with expertise in society and reduces in the aggregate the shift of the labor force towards bureaucratic jobs (Bornschier, 1978; Bornschier and Ballmer-Cao, 1979). At the same time, the superimposed organizational stratification of MNCs contributes to an intensification of the hierarchy of authority. Thus, MNCs contribute to a disparate development of organizational parameters, resulting in a more unequal distribution of organizational power and hence of personal incomes. This also contributes to disparities among (and within) economic sectors, as reflected in wider sectoral income inequality. Since this represents a major source of personal income inequalities, the impact of MNCs on income inequality in LDCs is further corroborated.

Concerning hypotheses relating to the steering power of the state (for example, impact via secondary income distribution), what has been analyzed is the extent to which MNC penetration affects government revenue and the pattern of public expenditures relevant to income distribution. Governments' share in total income has not been found to be significantly affected through MNC penetration; the association is mildly negative (Bornschier and Ballmer-Cao, 1979). Empirical support is, however, suggested for the hypothesis that MNCs do have an impact on income distribution by their connection with internal conflict and executive instability (Ballmer-Cao, 1979) and their relations to specific dominant political power constellations which seem to be created or supported by high MNC penetration. According to the available evidence such political power constellations seem not only to oppose income redistribution to the poor, but favor an even more unequal distribution of income (Bornschier and Ballmer-Cao, 1979). This is seen as due to policies and priorities in public expenditure that favor the dominant power constellation, including MNCs, but is restricted to situations of general resource scarcity or to those of LDCs. It is only in LDCs that the statistical interaction between high MNC penetration and the government share of total income results in higher income inequality; whereas in general, a higher government share is associated with lower inequality. This finding contributes to an explanation why MNCs *ceteris paribus* exacerbate income inequality only in LDCs.

Economic Policies and Their Effects

Our analyses which compare countries between 1960 and 1975 are based on a typology of economic policies designed to include the fundamental dimensions of the degree and the character of government intervention. The major theoretical factors to establish a typology were: 1) an intervention dimension (with the two poles, liberalism–interventionism) as a representation of the quantitative extent of state intervention in the economy and in the sphere of corporate property; and 2) a restriction dimension (with the two poles, promotion–restriction) which examines the qualitative aspect of the extent to which policies are directed against MNCs or are favourable to them (Berweger and Hoby, 1978, 1980). On the base of these two dimensions, a first typology can be constructed (see Table 2).

In order to make this typology suitable for empirical analysis it was necessary to find variables corresponding to the above mentioned dimensions. Therefore a factor analysis was employed which included such variables as: general interventions, nationalizations, capital transfer restrictions, import restrictions, investment incentives, and various other variables. For the whole variable list, see Berweger and Hoby (1978) and Bornschier (1980).

The results show that "general interventions" is the best indicator for the interventionism-dimension while "investment incentives" best indicates the promotion-dimension. The distinction between high and low scores on these variables thus allows the following typology:

"general interventions" (low values)
and = advantageous liberalism
"investment incentives" (high values)

"general interventions" (low values)
and = *laissez-faire* liberalism
"investment incentives" (low values)

"general interventions" (high values)
and = advantageous interventionism
"investment incentives" (high values)

"general interventions" (high values)
and = unspecific interventionism
"investment incentives" (low values)

The distribution of the 73 countries according to this typology is given in Table 3.

Table 3 shows that in general there is a net tendency towards more interventionism in the period between 1960 and 1975: in 1960 there were 43 countries coded as having a liberal economic policy against 30 coded as having an interventionist policy; in 1975 the situation was reversed, with only 29 countries coded as liberal but 44 coded as having an interventionist policy.

This first typology was further differentiated by including another variable extremely relevant for MNCs, namely, "transfer restrictions." The result is then a typology of 8 types, analyzed sep-

TABLE 2
A Four-Step Typology of Economic Policies

Dimensions	Liberalism	Interventionism
Promotion of MNCs	Advantageous liberalism (very positive for MNCs)	Advantageous interventionism (positive for MNCs)
Restriction of MNCs	Disadvantageous liberalism (negative for MNCs)	Disadvantageous interventionism (very negative for MNCs)

TABLE 3
Distribution of Countries Examined according to Four-Step Typology of Economic Policies

	Liberalism			Interventionism		
	advantageous	laissez-faire	total	advantageous	unspecific	total
1960	21	22	43	7	23	30
1965	27	16	43	15	15	30
1970	28	11	39	20	14	34
1975	25	4	29	40	4	44

arately as well as in combination, in the form of a rank-scaled variable expressing an intensification of policy directed against MNCs—which implies increasing restrictions and an unfavourable milieu for them (see Table 4).

Table 5 presents the distribution of the countries under study over the expanded, eight-step typology of economic policy between 1960 and 1975.

An analysis of the distribution of seventy-three countries among the different types of economic policy leads to the following findings for the period between 1960 and 1975 (Berweger and Hoby, 1978, 1980).

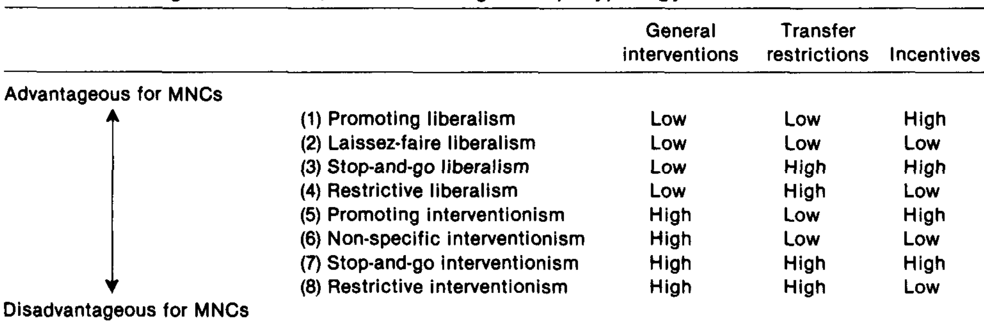
All eight types of policy towards MNCs are empirically relevant for the period considered. In the earlier years, however, basically liberal economic policies prevailed, while more recently interventionist policies have become prevalent.

In the period up to 1975, a clear polarization has developed: one large group of countries concentrates on "promoting liberalism" and another larger group on "stop-and-go interventionism." Up to 1970 restrictive interventionism played an important role, too. The reason for the shifts over time is that both disadvantageously liberal and interventionist countries (with imposed transfer restrictions) have increasingly incorporated investment incentives for MNCs in their economic policy package. In 1960, only 38 per cent of the countries ranked high on the variable investment incentives, but by 1975 this figure was 89 per cent.

"Stop-and-go interventionism" has become markedly more frequent over time. In 1960 no country represented this type; but by 1975, 30 out of 73 did so. "Stop-and-go interventionism" consists of a contradictory combination of restrictive measures against MNCs (including interventions with regard to corporate property rights) and promotion in the form of incentives for fresh investment by MNCs.

Rising "stop-and-go interventionism" can be interpreted as follows. Due to high MNC penetration, negative structural effects appear and the economic growth rate is lowered; both contribute

TABLE 4
Policies Against MNCs, Based on Eight-Step Typology of Economic Policies



		General interventions	Transfer restrictions	Incentives
Advantageous for MNCs ↑	(1) Promoting liberalism	Low	Low	High
	(2) Laissez-faire liberalism	Low	Low	Low
	(3) Stop-and-go liberalism	Low	High	High
	(4) Restrictive liberalism	Low	High	Low
	(5) Promoting interventionism	High	Low	High
	(6) Non-specific interventionism	High	Low	Low
	(7) Stop-and-go interventionism	High	High	High
↓ Disadvantageous for MNCs	(8) Restrictive interventionism	High	High	Low

TABLE 5
Distribution of Countries Examined According to Eight-Step Typology of Economic Policies

	1*	2	3	4	Total 1–4	5	6	7	8	Total 5–8
1960	15	14	6	8	43	7	2	0	21	30
1965	16	12	11	4	43	5	1	10	14	30
1970	19	9	9	2	39	6	1	14	13	34
1975	19	3	6	1	29	10	1	30	3	44

* See Table 4 for types.

to increasing social and political problems. This is seen as a major source of restrictive legislation against MNCs in many countries, especially LDCs. Such restrictions on foreign capital, especially in the context of a general interventionist economic policy, affect the propensity to invest negatively and thus are likely to contribute, at least in the short run, to further lowering of the economic growth rate. This makes the economic and social crisis more acute. A shift in economic policy, represented by investment incentives for MNCs, can be considered to be an attempt to maintain the short-term positive growth contribution of MNC investment in order temporarily to mitigate the negative structural and growth effect of MNC penetration. Since the positive growth effect of MNC investment is transitory and MNC investment adds to their penetration and hence to increased subsequent negative effects, such policies can only be considered as patch-ups.

DETERMINANTS AND CONCOMITANTS OF ECONOMIC POLICIES

In this section we report structural determinants and political concomitants of government measures against foreign capital.

Structural Determinants

According to the underlying theoretical propositions the following hypotheses have been tested.

The economic policy is likely to be characterized by interventionist and restrictive measures if there are many structural tensions in society and if the government is willing to increase their legitimacy. Some of the sources of structural tensions are: low level of development, lack of qualifications in the labor force, and unequal distribution of income. However, despite available qualifications in the labor force, which may be reflected in a well-established educational system, the development efforts may become frustrated. Reasons for this may range from scarcity of raw materials and energy, to an unintegrated labor market, to political unrest. This is also likely to result in structural tensions.

We assume that interventionist and restrictive economic policy is more likely in a situation of higher structural tensions than in situations of low tensions. Such policy measures are then aimed at a reduction of the social pressure stemming from structural tensions.

Also the degree to which the country is penetrated by MNCs is an important determinant of its type of economic policy. High penetration indicates that economic policy has been rather permissive and liberal in the past. Therefore, it may be difficult to shift to a more restrictive policy against foreign capital because the emergence of MNCs in the world economy has taken place within patterns of external and internal dependence which are mediated by foreign trade and reflected in distinct class interests. Yet these foreign trade structures are mostly beyond the control of national governments, even if they are able to act against established class interests.

Although the role of MNCs is therefore likely to prevent a shift from permissive and liberal economic policies in the short run, it can be proposed that MNCs in the longer run provoke re-

strictive orientations in the economic policy. Their operations—as suggested by the findings already mentioned—add to structural tensions and thus increase social pressure. Their operations influence the rising aspirations in the population, yet they do not foster long-term economic growth and a more equitable distribution of income.

There are some alternatives to restrictive policy for reducing social tensions. Economic incentives for fresh capital may lessen somewhat the social pressure through short-term economic expansion. In contrast to this strategy, restrictive economic policy is aimed at weakening the dependence linkages which characterize the position of LDCs in the global world economy. It aims also at turning away from too highly capital intensive and too advanced technological patterns of production. Instead it may be geared at substituting these patterns by fewer labor-replacing technologies. To put it the other way around: restrictive economic policy against MNCs may try to reach a higher level of employment and less social marginality.

Empirical findings.

The analyses of economic policy in the years 1960, 1965, 1970 and 1975 revealed rather consistent findings and suggest support for the hypotheses (Berweger and Hoby, 1980). Restrictive economic policies are more frequent if the social problem pressure, as indicated by low level of income *per capita* or unequal distribution of income, is high. Furthermore, a social structure characterized by a low supply of secondary and vocational training is likely to lead to more restrictive economic policy measures, whereas there is a clear tendency towards more liberal economic policy among countries with a high educational potential.

The relationship between penetration by foreign capital and type of economic policy is as expected. The higher the penetration the more the economic policy can be termed liberal. This linkage, however, is drastically weakened over time (see below).

Finally, there is support for the hypothesis that restrictive economic policy goes together with a high level of employment as indicated by the change of the economically active population in relation to total population. The realization of a certain economic policy is, however, only in part determined by structural factors as discussed above. Other important factors for the type of government measures are political framework factors.

Political Concomitants

The analysis of political concomitants of economic policies is based on the following assumption. Restrictive measures in economic policy need a political framework characterized by an emphasis on governmental social policy measures and by a rather radical political ideology. These expectations are substantiated by the fact that social insurance program experience is more frequent and more developed among countries with a more restrictive economic policy (Berweger and Hoby, 1980).

Among the concomitants or framework variables for economic policy, which are rather independent of the level of development, one can point to the voting behavior within international organizations (east-west and north-south cleavages) and the degree of integration into international organizations (Berweger and Hoby, 1978, 1980). The relationship of such variables with economic policy suggests that—although they are structurally rooted within host countries—their implementation may be supported by increased political participation and synchronization within the system of international organizations. This might explain why international organizations have become increasingly important, especially for LDCs.

Conditions for the Choice of a Certain Economic Policy

The higher the level of MNC penetration, the less interventionist and restrictive is economic

policy generally. However, this linkage, which would normally be expected, is weakened over the course of time. Increasingly, countries are able to adopt an unfavorable policy towards MNCs, despite high MNC penetration. Contrary to this negative, though considerably weakened, relationship with MNC penetration as measured on the basis of capital invested, the association between patent penetration and restrictive policy is somewhat positive. Although one can assume that restrictive policies towards MNCs are frequently accompanied by regulations concerning the use and abuse of patents (monopolistic practices), the positive correlation would suggest that such regulations have remained generally ineffective because of absent or insufficient control. This permits MNCs to react with alternative strategies towards a changing political climate in the world: they can penetrate countries either on the basis of capital and organization and/or by technology—that is, by control over patents (Berweger and Hoby, 1978, 1980).

CONSEQUENCES OF ECONOMIC POLICY

The long-term consequences of economic policy cannot be adequately analyzed because there has been an intensification of measures aimed against MNCs only in the second half of the 1960-75 period. The following findings refer, therefore, only to the period studied and the lags are in general no longer than five years. Moreover, we wish to point out that no analyses employing statistical interaction have been performed so far concerning economic policy—investigating, for example, the impact of MNC penetration on structure and growth under different conditions. This can easily be done in the future by analysis of covariance. Furthermore, the relationship between economic policy and income distribution has not yet been studied because the observations for the latter variable scatter over a rather wide range of years.

The policy variable that has been built as a scale of types of policy, ranked by intensification of measures to counter the MNCs, acts negatively on investment stocks and flows of MNCs. The association with flows is, as one would expect, more significant, but the impact on stocks is clearly accentuated with longer lags. The individual policy types also act in the expected directions.

Although one can observe that high MNC penetration has to some extent inhibited policies against the MNCs, especially in the earlier half of the period under study, one must observe that such policies, once implemented, can in fact lessen dependency on foreign capital provided by MNCs. This would reduce the future negative impact of MNCs on structure and growth. However, one cannot conclude that these restrictive policies have themselves had an immediate positive impact on economic growth. Quite the opposite is suggested by the findings.

The more interventionist and restrictive the economic policy against MNCs, the lower the subsequent economic growth. This has been controlled for the level of MNC penetration and cannot be explained by relation to prior growth because the relation between this and subsequent policy formulation is not significant. The same effect as for the scaled policy variable holds also for the degree of general interventions in the economy, whereas investment incentives (due to their positive effect on MNC investment) have positive growth consequences. The negative impact of interventionist and restrictive policies for economic growth can largely be explained by the fact that the propensity to invest is reduced.

Since capital formation, in general, has a strong positive influence on average economic growth, while foreign investment has a negative impact, it can be suggested that an economic policy for growth should restrict foreign capital formation and compensate, or even overcompensate, by promoting indigenous capital formation. The available empirical evidence suggests that restrictive policy against MNCs has not succeeded in doing this, at least not in general.

It remains, therefore, an open question to what extent policy measures unfavorable for MNCs (and increasingly implemented recently) have resulted in or initiated a real reconstruction of underdeveloped economies towards greater satisfaction of basic needs—including a wide redistribu-

tion of income and a reduction of economic and regional disparities—and actually led to more self-sustaining development. Such a reconstruction would be decisive in order for an approach meant to counter forces in the world economy to result in a more even and equitable growth in the long run.

Yet our available findings point to severe difficulties (short-term intensification of the social and economic crisis) for such reconstruction. That interventionist and restrictive policies have a negative impact on subsequent growth, at least in the short run, is likely to imply limited popularity for such policies and the regimes that implement them; this strengthens the hands of those supporting the *status quo*. This can be seen as a stabilization mechanism built into dependency on the world economy. It frequently seems to leave no choice other than a patch-up policy. The contradictory combination of restrictions upon and incentives for the MNCs which has suddenly arisen in recent times is a case in point; it might be interpreted as one of the results of the stabilization mechanism of the *status quo*. Therefore, it would be rather misleading to consider the increase in investment incentives for MNCs as a host-country policy basically in favour of MNCs, as apologists have frequently asserted in recent discussions.

CONCLUDING REMARKS

Investment by MNCS in LDCs could contribute to faster economic growth if it did not add to, or actually produce, structural imbalances so that the short-term growth contributions are compensated and reversed. The experience of the last two decades leaves but little hope that there are self-sustaining mechanisms mitigating or even overcoming these structural imbalances of dependent industrialization over time. The economic policy of states seems not to have counteracted them, due to either a lack of options or will.

The empirical findings do not lend support to the frequently advanced position that high income inequality in the course of development is a necessary sacrifice for faster economic growth. Such sacrifice would make sense only if the lower social strata could also derive advantages in absolute terms, though they would have to content themselves with a smaller relative share. MNCs accompany higher income inequality and do not make for greater, but for less, eventual economic growth. And income inequality, quite apart from MNC presence, results in slower economic growth for the majority of LDCs. Therefore a strategy of industrialization relying heavily on inequality and MNCs is not one designed to satisfy the needs of the majority of the population in LDCs, not even in regard to faster absolute gains.

The growing dependency on MNC investment as well as on foreign credits, which numerous less developed states suffer in order to mitigate the long-term structural defects that have appeared as a result of dependent industrialization, is likely to prove a major structural hindrance for a development policy directed towards the needs of the masses. This constellation is especially likely to frustrate the redistribution of income in LDCs, because it would weaken the short-term opportunities of MNCs in the domestic market.

In a broader perspective, one may conclude that a fundamental contradiction is obviously built into the functioning of the world economy, and it threatens the working of the system. Whereas the maximization of the goals of private enterprise requires a large part of the produced surplus to be withheld from immediate consumption by the majority of the population, an effective mass demand is the precondition for balanced and continuous economic growth. This can only be achieved by redistributing a significant part of the surplus to those from whom it is withheld by the normal functioning of the economic system. Since such indispensable redistributions in LDCs do not occur to any appreciable extent, and since, at the world level, there are no independent redistributing agents, the contradiction is assuming dimensions that threaten world society.

REFERENCES

Ballmer-Cao, Thanh-Huyen
1979 "Système politique, "séparation des revenus et pénétration des entreprises multinationales." Annuaire Suisse de Science Politique: 153-179.

Berweger, Gottfried and Jean-Pierre Hoby
1978 "Wirtschaftspolitik gegenüber Auslandskapital." Bulletin of the Sociological Institute of the University of Zurich 35 (December):1-136.
1980 "Nationale Wirtschaftspolitik und multinationale Konzerne." In V. Bornschier *et al.* (eds.), Multinationale Konzerne, Wirtschaftspolitik und nationale Entwicklung im Weltsystem. Frankfurt and New York: Campus.

Bornschier, Volker
1975 "Abhängige Industrialisierung und Einkommensentwicklung." Schweizerische Zeitschrift für Soziologie 1 (November):67-105.
1976 Wachstum, Konzentration und Multinationalisierung von Industrieunternehmen. Frauenfeld and Stuttgart: Huber.
1978 "Einkommensungleichheit innerhalb von Ländern in komparativer Sicht." Schweizerische Zeitschrift für Soziologie 4 (March):3-45.
1980 "Multinational corporations and economic growth: A cross-national test of the decapitalization thesis." Journal of Development Economics 7 (June):191-210.

Bornschier, Volker and Thanh-Huyen Ballmer-Cao
1978 "Multinational corporations in the world economy and national development. An empirical study of income per capita growth 1960-75." Bulletin of the Sociological Institute of the University of Zurich 32 (January):1-169.
1979 "Income inequality. A cross-national study of the relationships between MNC-penetration, dimensions of the power structure and income distribution." American Sociological Review 44 (June): 487-506.

Bornschier, Volker, with contributions by Thanh-Huyen Ballmer-Cao, Gottfried Berweger, Christopher Chase-Dunn, Jean-Pierre Hoby, Peter Meyer-Fehr, Richard Rubinson
1980 Multinationale Konzerne, Wirtschaftspolitik und nationale Entwicklung im Weltsystem. Frankfurt and New York: Campus.

Bornschier, Volker and Christopher Chase-Dunn
n.d. Core Corporations and Underdevelopment in the World-System. (In preparation.)

Bornschier, Volker, Christopher Chase-Dunn and Richard Rubinson
1978 "Cross-national evidence of the effects of foreign investment and aid on economic growth and inequality: A survey of findings and a renalysis." American Journal of Sociology 84 (November): 651-83.

Bornschier, Volker and Peter Heintz (eds.)
1979 Compendium of Data for World System Analyses. A Sourcebook of Data based on the Study of Multinational Corporations, Economic Policy and National Development. (Reworked and extended by T.H. Ballmer-Cao and J. Scheidegger.) Bulletin of the Sociological Institute of the University of Zurich (March):special issue.

Meyer-Fehr, Peter
1978 "Bestimmungsfaktoren des Wirtschaftswachstums von Nationen Komparative empirische Analyse unter Berücksichtingung Multinationaler Konzerne." Bulletin of the Sociological Institute of the University of Zurich 14 (December):1-105.
1979 "Technologieabhängigkeit und Wirtschaftswachstum." Schweizerische Zeitschrift für Soziologie 5 (March):79-96.

Stoneman, Colin
1975 "Foreign capital and economic growth." World Development 3:11-26.