BOOK REVIEWS

American Multinationals and American Interests
By C. Fred Bergsten, Thomas Horst, and Theodore H. Moran
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Consistent with its established role, The Brookings Institution has sponsored an intensive examination of the national interest effects of U.S. multinational corporations. The three scholars who undertook the study have provided a valuable addition to the literature but one which is disappointing in significant respects.

The main contribution of the book stems from the authors' exhaustive analysis of the literature of the field including a number of unpublished studies. They provide an excellent synthesis of the range of research and thinking on the main aspects of national interest: balance of payments, labor, raw materials, taxation, antitrust, monetary system, trade policy and foreign policy. Thus at this moment the book serves as a fine reference source distilling the content of the profusion of books and articles on national policy implications of MNCs which have poured forth in recent years. It should serve well for policy makers and academicians who seek a single sourcebook until new literature outruns its value a few years hence.

The shortcomings of the book lie in the quality of the original analyses undertaken by the authors and some of their recommendations. The former are interesting but not particularly productive, while the latter on key points seem quite unsound. These shortcomings are the more conspicuous because of contrasts with the recent work of the leading academic analyst of national policy on MNCs, Raymond Vernon in Storm over Multinationals, to which appropriate references will be made.

The main original work undertaken by the authors consists of two statistical analyses of data from U.S. corporate income tax returns. The first set of data analyze the relation between foreign investment levels and exports and imports as a percentage of domestic sales for 75 industries, with a number of other variables such as level of technology and intensity of advertising considered. The resulting numbers are interesting but do not show any clear relationship between investment and U.S. trade. Thus the authors have to settle for the inconclusive consensus of the range of available studies on the great national debate about whether MNCs have hurt or helped the U.S. balance of trade.

The second set of data compare the profitability of U.S. MNCs and domestic firms having comparable industry, technology and other characteristics. The analysis is informative in demonstrating that MNCs are appreciably more profitable. However, the authors make very questionable use of this finding as part of their antitrust analysis: "Much greater antitrust attention should be directed toward foreign expansion, because it appears to increase profits above the corporate average and hence, has the potential to create excessive market concentration within the United States." They go on to propose that "spinning off foreign subsidiaries is a possible remedy for excess domestic market power," suggesting that the government might force the spin-off of IBM Europe and the major foreign units of the U.S. auto companies. They apparently have no comprehension of the severe competitive damage that would result, especially for the auto firms. Furthermore their whole grasp of the world competitive structure is too limited for they have not noted the significant postwar decline in oligopolistic concentration in many industries emphasized by Vernon (pp. 81 & 131), a change notably apparent in the impact of foreign firms in the U.S. auto market.

The overall conclusions of the study are balanced, fairhanded and sound: "We reject the views of those who either eulogize or pillory the multinational enterprise. . . . We find that, whereas American multinationals generally contribute to both world welfare and the national welfare of the United States, the contribution could be increased by
eliminating a number of distortions now affecting the activities of the firms." Their broad recommendation is "the construction of wide-ranging international policies . . . to maximize global economic welfare by maximizing the scope of foreign direct investment to respond to market forces." At the international level this approach would include, for example, agreements among host nationals to mutually restrain incentives for new plants with a "beggar-thy-neighbor" effect similar to the trade restriction warfare of the 20s and 30s.

At the national level the chief expression of the general philosophy is in tax policy. The authors conclude that present taxes are essentially neutral in impact on investments, the benefits of tax deferral of foreign profits being offset by the domestic limitation of the investment credit. However, they recommend strengthening this neutrality by eliminating deferral, extending the investment credit to foreign operations, and other changes. The case for this very extensive restructuring of the tax system is not made strongly. A mass of past research confirms Vernon's observation that the decision to invest abroad is not sensitive to taxes (p. 127). The authors seem aware of this point at times. Yet they engage in an elaborate analysis, including a computer model, to demonstrate how tax changes would affect investment profits and conclude their recommendations with the observation that, "Our ultimate objective is to eliminate the impact of taxes on the location of new investment . . ."

Most questionable, however, are two proposals which could have major impact on MNC operations. The first is set forth as a counterpart to the escape clause process which is available to those domestic interests who perceive injuries from import competition. The authors propose that "an impartial, technically competent, fact-finding agency" be established to which any domestic group could appeal for review of the national interest impact of any foreign investment by a U.S. firm. If adverse effects were identified, various remedies could be undertaken by the government including in extreme cases blocking the investment. This is an extraordinary proposal from three authors who purport to be advocating elimination of governmental distortions and reliance on market forces. There is a case to be made for some limited measures like adjustment assistance to ease the labor impact of investments. But such a sweeping process of investment control would have severe competitive impact and cannot be justified by any presently identified major adverse effects of multinationals, an assessment consistent with the authors' own analysis.

The second major recommendation is that the U.S. government adopt measures to pressure raw materials firms to give up equity in foreign investments, relying only on the sale of services; that is to say, the "unbundling" concept. The authors argue correctly that MNC ownership for extractive operations does not assure home country access to the raw materials and that it is the source of substantial host nation dissatisfaction. They also observe correctly that unbundling arrangements involving variously management contracts, technical services, and loans have been successfully worked out in a number of cases where host countries would not accept MNC ownership. But these facts do not establish a case for the U.S. government to adopt a policy of pressuring firms by such measures as withdrawing tax credit and refusing investment insurance to firms which maintain equity in foreign extractive units. For one thing it is quite uncertain that LDCs are ready for such a wholesale shift in MNC practice. As Vernon observes, "I am inclined to see current efforts of most developing countries as altogether inadequate for implementing a broad policy of unbundling" (p. 173). But even from the U.S. interest point of view it is unsound to adopt an inflexible policy with this direction. There are many countries in which equity investment in extractive operations is still possible and composes the optimum apparent option for MNCs with a reasonable time horizon. There are assorted considerations one would have to analyze fully to do justice to this issue. But overall it would appear again that the authors would have done well to adhere to their basic position of leaving investment free of government induced distortions. A gradual trend toward expansion of the unbundling approach is apparent. It is better to let it evolve than to force it by heavy-handed measures before