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AMERICAN INVESTMENTS AND INDUSTRIAL CONCENTRATION IN EUROPE

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1. The growth of firms. To analyze the problem in a meaningful way, it is useful to treat the many issues involved separately. Reversing the order suggested in the title, I will first consider briefly, the modern theory of the firm, its growth and development; secondly, I will examine the problem of industrial concentration and finally, some observations on the relationship between American investments in Europe and European industrial concentration will be presented.

In recent years, there has been a growing dissatisfaction with the neoclassical theory of the firm which has as its goal the maximization of its profit subject to a number of constraints. Such a theory is rather poor in explaining phenomena with which the firm is confronted. In fact it has been observed that management adopts policies other than profit maximization.

One variant of the noeuvelle theory of the firm, in its most complete representation, is that discussed by Marris.[1] In short, it says that the problems confronting a modern corporation are: the creation of a growing demand for its products and the provision of financial capital to allow the necessary growth of its productive capacity. The firm will try to realize the maximum profit; however, the search for or creation of new

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[1]Cfr. Marris, R., The Economic Theory of Managerial Capitalism, New York 1964.

markets costs money. Therefore, as the growth process is accelerate, the average return on the total assets of the corporation declines. On the other hand, the increase in sales requires an increase in its productive capacity and hence demands an adequate supply of financial capital.

If the main source of finance is internal, the rate of profit plays a strategic role in determining the available finance. In turn the rate of growth influences and is influenced by the rate of profit. If we assume the retained gains are the only source of finance and if the proportion of total earnings retained is fixed, then for a given corporation there would be only one rate of growth which could satisfy both conditions simultaneously, i.e., an equilibrium between growth rate and profit rate.

The profit rate in this model is low enough to permit the growth of sales and high enough to supply the firm with financial capital. The management having formulated its growth rate goal must then choose the corresponding retention ratio. If it does not behave in this way, it will run out of money or will miss the proposed target. Managers may not consider all these complications, but there is some evidence that they view the structure of the problem in this way. Moreover, once the growth rate target and the retention ratio has been chosen, it is possible to determine the optimal (unique) expected growth rate of the dividend to be paid. Stockholders can sacrifice present dividends for future capital gains up to a certain point. A growth rate chosen by the management which "goes" beyond this point will have the effect of depressing the stock price. This last proposition allows us to compare the neoclassical version with the "new" theory of the firm. The former assumes as a managerial objective the maximization of the price of

stock; the latter the maximization of growth subject to a minimum on stock prices.

2. Mergers and industrial concentration. One way to secure a continuous growth for a corporation is provided by mergers and amalgamation with other corporations. The incentives to merge are numerous such as: surplus capacity, damping out changes in demand, expansion of the range of product lines, increase in the geographical areas of operations, spread of "goodwill," introduction of new techniques into rather stagnant industries and so forth.

A problem of strategic importance is to determine the degree of concentration[2] or, in other words, the problem of assessing the monopoly power of corporations within an industry. It is worth mentioning at this point that this latter can be offset by a number of factors on the demand side of the market such as possible future competition from new products and countervailing power of the consumers, although this latter is as yet undeveloped.

The factors which contribute to the maintenance of high concentration are numerous. The literature on this subject is very large and the problem cannot be examined in detail here. However, it is interesting to list a few of these factors such as: a) the state of the industry activity, b) the economics of large-scale operation, c) capital requirements, d) patents and technical "know-how," e) access to raw materials, f) state regulations (anti-trust policies in particular, g) advertising and sales promotion.

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[2] Different indexes of industrial concentration have been proposed. The most important contributions are associated with the names of Lerner (1933), Adelman (1951), Chamberlin (1954), Rosenbluth (1957), Kaysen (1959), Scitovsky (1959), Bain (1966). The problem is somewhat complex and cannot be investigaged here.

When we try to compare degrees of industrial concentration in a given country, over a certain period of time, we have obviously to take into account the change in these factors, especially when we try to compare industrial concentration of different countries. Here the problem is aggravated by the differences which we encounter in the definition of an industry which if not taken into account can invalidate the results obtained.

The difficulties to which we have referred make the problem of formulating international comparisons of the degree of concentration very difficult. Nonetheless, some studies have been made. In spite of their obvious shortcomings, it will be useful to present some results to shed light on the overall problem.

None of these studies have compared the United Kingdom with the United States basically because of the problem of availability of statistical data. For example, Evely and Little[3] (1960) examined a number of industries for the U.K. in 1935 and 1951. They employed three different concentration ratios, the share of gross output, net output and employment represented by the three largest business units. They classified as highly concentrated those industries which had 67 percent and over of the market size, medium as 33.6 percent and low as 33 percent and under. For the main, however, they used the employment ratio supplementing it with other indicators. For 1951, of a total of 220 industries, 50 were found to be highly concentrated, 69 of medium concentration and 101 of low concentration.[4]

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[3]Cfr. Evely R. and Little, I.M.D., Concentration in British Industry (Cambridge University Press, 1960).

[4]Classifying according to industrial groups, we have chemicals et similia 50 percent, electrical engineering et similia 48 percent, vehicles 41 percent, woolens and worsted 18 percent, clothing and footwear 14 percent, building,

Although there are other industries for which statistical data were unavailable, the ones examined give a fair representation of the English economy over the period considered. It was often noted that those corporations which had the highest growth rate contributed to a higher degree of concentration. Many of them were subsidiaries of American corporations or, in a few cases, of European corporations or English firms which had access to new technical know-how of foreign firms which were leading companies in their respective countries. Other studies show that the concentration ratios in the U.K. tend to be higher than those of U.S.

3. Industrial concentration in some European countries. Some studies concerning the assessment of industrial concentration have been done for a relatively small group of other countries. Here I will briefly summarize some of them paying particular attention to those concerning Europe.

The results of an inquiry into comparative degrees of concentration in West Germany industry, shows a tendency toward an increasing of concentration in the period 1954-60. (See Table 1.)

The study reveals that in the majority of industrial groups the share of the 10 largest firms has increased. While in 1954 a group of 50 firms

Footnote 4 continued from previous page:
51 percent, electrical engineering et similia 48 percent, vehicles 41 percent, woolens and worsted 18 percent, clothing and footwear 14 percent, building, contracting and civil engineering 12 percent. The industries in which concentration increased over the period 1935-51 are: coke owners and by-products, razors, mineral oil refining, watches and clocks, metalliferous mines and quarries, lead, building bricks, metal boxes and containers, tinplate, cinematograph, sugar glucose, wrought iron and steel tubes, bread and flour, soap. Concentration decreased in the following industries: polishes and canvasdressings, wallpaper, biscuits, linoleum and leathercloth, grain milling, matches.

Table 1

COMPARATIVE DEGREE OF CONCENTRATION IN WEST GERMAN INDUSTRY
BY SELECTED INDUSTRY GROUPS

Industrial Groups	Absolute Concentration: The 10 Largest Enterprises Have ...Percent of the Total Turnover — Ranking 1960	1954	1960	Change of Turnover Share 1960 as Against 1954 in Percent
Petroleum and coal products	1	72.6	91.5	+26.0
Tobacco	2	68.8	84.5	+22.8
Shipbuilding	3	71.5	69.0	- 3.5
Vehicles	4	58.6	67.0	+14.3
Rubber and abestos processing	5	60.7	59.7	- 1.6
Glass	6	45.7	51.7	+13.1
Non-ferrous metals	7	44.0	44.7	+ 1.6
Mining	8	34.6	42.0	+21.4
Paper	9	38.5	41.5	+ 7.8
Chemicals	10	37.5	40.6	+ 8.3
Electro-technical industry	11	37.8	38.4	+ 1.6
Ceramics	12	28.5	37.5	+31.6
Leather producing	13	36.5	37.3	+ 2.2
Precision, optical and watch industry	14	25.3	25.2	- 0.4
Synthetics	15	27.9	20.5	=26.5
Steel	16	25.6	20.2	-21.1
Leather processing and shoes	17	21.3	19.9	- 6.6
Quarrying industry	18	16.4	17.9	+ 9.1
Paper processing	19	12.2	17.5	+43.4
Machine construction	20	14.6	13.4	- 8.2
Pringint--and reproduction	21	11.5	13.4	+16.5
Food supply	22	11.7	12.0	+ 2.6
Sawing and milling	23	9.7	11.9	+22.7
Clothing	24	6.5	7.4	+13.8
Woodwork	25	6.6	7.3	+10.6

Source: Concentration in the Federal Republic of Germany; Cartel, 1964, Vol. XIV, No. 4, p. 170.

accounted for 17.7 percent of industrial production, the same group accounted for 22.8 percent in 1960. A higher degree of concentration in 1960 than in 1954 was found in banking and insurance companies.

The report emphasizes the different causes of concentration for different economic sectors. It is argued--contrary to the most widespread opinion--that technological factors as an incentive to concentration play a minor role in most sectors while the major cause seems to be the financial and managerial capacities available to large enterprises. Strangely enough, concentration is reported to have been stimulated by company law and tax and patent legislation. This last proposition evidences the importance of legislation in the maintenance of a "fair competitive" system.

Bain[5] has recently produced some evidence on the difference in industrial concentration for 8 countries: U.S., U.K., Sweden, Canada, France, Japan, Italy, and India. As we are interested only in European countries, we will confine our attention to the figures for these. Out of a total of 34 industries France has a 20-plant concentration (i.e., the percentage of industry employment accounted for by the largest 20 plants in each industry in each country) equal or higher than the U.S. in 22 industries, Italy in 27, Sweden in 27, United Kingdom in 21 (see Table 2). The industries in which all the four countries have a degree of plant concentration higher than the U.S. are: plastics, tobacco products, petroleum refining, rubber, cement, paper and paperboard, canned and preserved fruits, vegetables, knitting mills, sawmills and planing mills.

The number of plants needed to account for 50 percent of industry employment (see Table 3) is larger in the U.S. than in France, Sweden,

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[5]Cfr. Bain, J.S., International Differences in Industrial Structure, Yale University Press, 1966.

Table 2

COMPARATIVE TWENTY-PLANT CONCENTRATION IN THIRTY-FOUR INDUSTRIES IN FIVE COUNTRIES, AS MEASURED IN TERMS OF RELATIVES TO TWENTY-PLANT CONCENTRATION IN THE UNITED STATES FOR MATCHING INDUSTRIES

Industries	Relative Twenty-Plant Concentration*				
	United States	France	Italy	Sweden	United Kingdom
High to moderate plant concentration					
Explosives	100	76	100	116(13)	94
Electric light bulbs	100	114	111	n.a.**	77
Plastics	100	n.a.	125	108	120
Distilled liquor	100	62	31	101	95
Sugar refining	100	86	108	185(16)	145
Shipbuilding	100	129	188	186	75
Drugs	100	46	83	211(18)	104
Steel works and rolling mills	100	125	153	189	85
Agricultural machinery	100	106	109	n.a.	n.a.
Aircraft	100	127	230	n.a.	100
Nonferrous metals	100	153	148	233(18)	86
Tobacco products	100	218	113	234(8)	181
Petroleum refining	100	218	210	234(5)	234(18)
Breweries	100	72	204	107	66
Soap	100	176	63	198	207
Motor vehicles and parts	100	160	230	n.a.	102
Rubber products	100	176	224	294	142
Moderate to low plant concentration					
Pulp mills	100	152	n.a.	192	n.a.
Hardware	100	89	115	n.a.	49
Glass products	100	87	105	227	178
Seafood (canned, preserved, cured)	100	78	210	229	156
Cement	100	133	111	398(8)	248
Leather tanning	100	112	127	380	91
Wool textiles	100	88	124	301	50
Cotton textiles	100	n.a.	124	n.a.	67
Paper and paperboard	100	170	192	285	161
Paints and varnishes	100	154	198	400	193
Canned and preserved fruits, vegetables	100	131	115	249	209
Wood containers	100	n.a.	100	514	118
Grain products	100	178	55	876	282
Knitting mills	100	172	120	470	175
Electrical industrial machinery	100	305	n.a.	n.a.	323
Sawmills and planing mills	100	108	197	370	157
Apparel	100	135	86	722	227

Table 2 (continued)

*Where the number of plants in an industry is less than 20, the actual number is shown in parentheses, and the concentration relative refers to the ratio of 100 percent (controlled by the actual number of plants) to the corresponding percentage of United States employment in the industry controlled by the largest 20 plants.

**Not available.

Source: Bain, op. cit., pp. 44-45.

Table 3

NUMBER OF LARGEST PLANTS ACCOUNTING FOR 50 PERCENT OF INDUSTRY EMPLOYMENT, FOR TWENTY-FOUR INDUSTRIES IN FIVE COUNTRIES

Industries	Number of Plants to Account for 50 Percent of Industry Employment				
	United States	France	Italy	Sweden	United Kingdom
Electric light bulbs	7	7	5	n.a.*	17
Explosives	8	13	1	2	11
Plastics	11	n.a.	4	9	9
Distilled liquor	12	36	125	9	14
Sugar refining	18	25	22	5	12
Shipbuilding	19	11	5	4	31
Petroleum refining	24	8	3	1	4
Drugs	24	93	33	3	21
Breweries	29	46	8	26	67
Steel works and rolling mills	31	16	7	6	29
Aircraft	35	17	1	6	20
Soap	35	9	107	6	6
Pulp mills	43	13	n.a.	16	n.a.
Cement	58	37	51	3	16
Leather tanning	62	69	52	4	74
Seafood (canned, preserved, cured)	64	64	16	16	47
Wool textiles	91	106	61	11	247
Paper and paperboard	96	37	33	16	31
Grain products	107	237	3,236	5	53
Paints and varnishes	114	57	20	8	36
Wood containers	128	n.a.	718	9	130
Canned and preserved fruits, vegetables	182	71	40	26	94
Knitting mills	292	127	327	23	117
Sawmills, planing mills	1,072	939	525	121	401

*Not available.

Source: Bain, op. cit., pp. 52-53.

United Kingdom and Italy.

4. Industrial concentration in Italy. Let us examine the Italian case in more detail. According to the findings of Bain, top-level seller concentration in the Italian manufacturing industries sampled tends to be higher than in France, U.K. and U.S. Of 19 industries, 14 are more concentrated than the corresponding ones in the U.S. In particular, there are several cases in which the largest company in the industry controls a proportion of the industry roughly equal to that of the four largest firms in the corresponding industry in the U.S. (passenger automobiles, sulfuric acid, plastics, watches, shipbuilding, cement, paper and paperboard, wool yarn). In most cases, the largest two or three companies in Italian industry seem to have the same market share of the largest eight companies in the corresponding American industry. This would indicate a higher degree of monopoly and oligopoly power in Italy.

It is difficult to draw conclusions from the above study as the 19 industries examined represent a small sample. Furthermore, due to the "dual structure" of the Italian economy, it is possible only to make some superficial observations on this problem. As it is well known, Italy is one of the few industrial countries which does not yet have any anti-trust legislation. Cartelization is rather widespread in industries such as chemicals, steel, textiles, foodstuff, cellulose, paper, glass, metallurgic products and machinery and equipment made of metal. If we consider this list, it is obvious that these firms represent a large and important part of the whole national product of Italy. The fact that some of these industries are

"controlled" by the state (wholly owned or controlled companies[6]) does not significantly change the picture since it is not clear whether state controlled enterprises produce an antimonopolistic effect.

Quoting from Bain, "Whether or not or to what extent the presence of nondominant government firms in numerous industries alters the sort of competition and market performance which would otherwise emerge from the observed patterns of seller concentration is not clear, nor is it clear whether the government uses its firms in the numerous industries in question to influence or control pricing, output, and investment policies. The Italian government clearly has a substantial potential leverage along this line, but whether it does otherwise than go along with the quasi-monopolistic policies of the concentrated oligopolies of which it is a member is not clear. The general character of its policy is such that it would not be

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Industries	Percentage of Output Supplied by Governmentally Controlled Firms
Shipbuilding	67
Tractors and farm machinery	67
Steel	38
Motors and engines	33
Aircraft	22
Petroleum refining	21
Railway rolling stock	20
Cement	11
Passenger automobiles	10
Trucks	9

Source: Bain, op. cit., p. 100.

expected to employ public enterprise in manufacturing industries as a means of limiting private monopoly power."

A different interpretation was obtained by an Italian study (Boni, Gross-Pietro)[7] on industrial concentration for 1951 and 1961. The authors claim a decline in the degree of industrial concentration in 1961 as compared with that for 1951. If one reinterprets their results and views the Italian economy as "dual" in its structure, their findings are very closely related with those of Bain. The degree of industrial concentration is higher in those sectors which use a more advanced technology and where capital requirements are substantial. These industries play, however, a strategic role in the choice of economic policies pursued by the government.

The fact that the number of firms has increased in 1961 in a variety of sectors shows that conditions of free entry in the market are granted for firms who intend to operate in less--important sectors. This last proposition can be explained in the wider context of Italian economic growth. As the economy develops, the "economic structure" changes in the sense that the complexity of the system increases. The economy then consists of a "hard core" of well established industries to which entry is very difficult, surrounded by a fringe of new activities undertaken by new firms. The influence of the latter on overall market conduct will clearly be very limited. The significant consideration is therefore not the number of new firms but the sector into which they enter.

In conclusion, the European countries examined (France, Germany, Italy,

[7] Cfr. Boni, M. and G.M. Gross-Pietro, La Concentrazione Industriale in Italia, Franco Angeli Editore, 1967.

Sweden, United Kingdom) show a higher degree of industrial concentration than in the U.S. Other European industrialized countries with an economic structure "similar" to that of the five countries for which statistics are available will, probably, have a higher degree of industrial concentration as well.

The increase in the degree of concentration from the end of the Second World War until now can be explained considering a number of different factors such as: (a) the effects of the Second World War, (b) technological advances, (c) economic policies chosen by the different governments and, (d) mergers and other forms of company acquisition.

Related with (a) is the destruction of productive capacity, shortage of raw materials and policy restrictions; with (b) the development and improvement in production techniques; with (c) tariffs and import quota policies as well as nationalization of companies operating in strategic sectors; with (d) a way to reduce excess capacity to make "feasible" the introduction of new techniques, to reduce the degree of competition (or to strengthen the control of industries), to decrease advertising costs as a means of sales promotion.

5. The rationale of American investments in Europe. The export of capital to finance growth and development of other countries is not something new. England in the 19th century initiated this policy obtaining as a reward, first place in the hierarchy of the industrialized countries for quite some time. As we will see, the export of American capital to Europe is, however, of a different nature. The rationale of U.S. investment abroad can be formulated in the following way. Corporations, because of the necessity

to grow in addition to their own domestic potential for growth, have two paths open to them: merge with some other company and/or invest more profitably abroad, i.e., at a higher rate of return on capital as compared to the U.S. market.

The first method has been widely used particularly in this last decade. Statistics suggest that America is presented with the largest "wave" of mergers it has ever had.[8] Although this question has been extensively investigated, there does not seem to exist any rigorous theory which can explain such a phenomenon.

It is obvious from our preceding remarks that the problem of U.S. investments abroad is strongly connected with the merger movement. Once the structure of the market in a given industry has reached some kind of equilibrium mergers are opposed by anti-trust legislation and by an increasing opposition from public opinion. The latter develops as a result of misplaced faiths in the "myth of consumer sovereignty" and of perfect competitive forces in the market.

In such a framework, an alternative is represented by the possibility of investing abroad. Given that the requirements for a profitable investment are numerous only a few countries which have already developed a highly industrialized economic infrastructure are considered as places for American investment.[9]

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[8] In 1968 there were 4,462 mergers, an amount 10 times larger than that of 1950.

[9] Recently an economist has suggested an interesting hypothesis, the so-called product-cycle theory. The mechanics of such a cycle is the following. New products in the U.S. are, in general, highly capital-intensive, because large sums are devoted to research and development.

A Although the statistics on foreign investment are open to question, they provide us with some useful insights. The first country to attract U.S. investments was U.K. followed by France, Germany, the Netherlands, Belgium, and Italy. The disparity in the amount of interest in these different countries is evidenced by the different totals of American investments in them. (See Table 4.)

6. Attentative explanation. It is useful to explore further some of the problems raised above. A very important one is that of investigating the financial sources of American investments in Europe. The question is connected with the growth and development of the Eurodollar market. This type of market (whose size is roughly $20 billion in net size) is made up, as it is well known, of foreign banking institutions which accept and invest balances on deposits in American banks. The existence of such a market has contributed to the spread of the idea that American investments in Europe (and not only in Europe) are, in fact, financed by European savers. It is hard to assess whether and to what extent such a proposition is true. Wherever this is the case, the poor functioning of capital markets in Europe is, in my opinion, to be held the major cause.

Footnote continued from preceding page.
Once the product becomes "standarized" and mass production is started, American enterprises lose the comparative advantage that they had with respect to other countries in producing these goods. At this point, it is more profitable for American corporations to produce these goods abroad. Acquisition of foreign firms or control of existing ones which are in this framework means to insure an extension of productive possibilities. Cfr. Vernon, R. (1966), International Investment and International Trade in the Product Cycle, Quarterly Journal of Economics, Vol. LXXX:190-207.

Table 4

VALUE OF U.S. DIRECT INVESTMENTS ABROAD
SELECTED YEARS, 1953 - 1966
(Millions of Dollars)

Area and Country	1953	1958	1965	1966	Compound Annual Rate of Increase (%) 1953-58	1958-66
All areas, Total	16,329	27,355	49,328	54,563	10.8	8.0
EEC	908	1,908	6,304	7,587	16.0	18.8
Belgium-Luxembourg	108	208	596	745	14.0	17.3
France	304	546	1,609	1,758	12.4	15.7
Germany	276	666	2,431	3,077	19.3	21.5
Italy	95	280	982	1,148	24.1	19.3
Netherlands	125	207	686	858	10.6	19.4
EFTA*	1,309	2,438	6,910	7,624	13.2	15.3
Denmark	36	49	200	226	6.4	21.5
Norway	37	53	152	167	7.5	15.4
Sweden	74	107	315	369	7.6	16.7
Switzerland	31	82	1,120	1,210	21.5	40.0
United Kingdom	1,131	2,147	5,123	5,652	13.7	12.9
All other	14,112	27,879	36,114	39,352	10.2	4.4

*Excluding Austria and Portugal whose data are available only for 1953.

Sources: U.S. Department of Commerce, Survey of Current Business, August 1955, September 1960, September 1967.

Another issue frequently referred to concerns the earnings of the American corporations. It is claimed that American corporations have in the European markets a variety of advantages which make it possible for them to obtain a higher rate of profit than that obtained by European companies. The differences in the rate of profits can be explained considering the nature and the characteristic of American corporations. Contrary to the European companies all the American corporations investing in Europe are international in the sense that they operate different plants in different countries realizing therefore economics of different sort such as: large-scale operations, research and development facilities provided by parent firms in the U.S., easier access to financial capital, decreasing risks. Furthermore, if we consider some socio-economic factors and the obsolete tax legislations which exist in some European countries the differences in profit rates can be better understood.

Strictly tied with the previous problem, is the use of earnings of American corporations. At different degrees, it has been purported that these corporations tend to transfer their profits to the U.S., and, eventually, use such earnings to finance the growth of the parent corporation in the U.S. Also in this case, however, the issue is controversial and it is impossible, at the moment, to assess the exact nature of the problem.

The total value of direct investments in Western Europe[10] (10 countries) was $2.2 billion in 1953, $4.3 in 1958, $12.2 in 1965 and $15.2 in

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[10]The preference for such countries is due to the high rate of return on capital American corporations in Europe as compared with the rest of the world. There exists evidence that rates of return are higher in Europe for chemicals, rubber products, food products, primary metals, electrical machinery as compared with those in Canada and in Latin America.

1966 (see Table 4.) Until 1958 EFTA countries were the main beneficiaries. After the creation of the EEC, the Common Market countries have increasingly interested American investors at the expense of the United Kingdom. This country has lost its supremacy in the rate of growth of American investments compared with many countries of Western Europe. Among these, Switzerland, because of special tax treatment accorded to American corporations, has increased its assets from $3.1 million (1953) to $1.2 billion (1966) (see Table 4). It is worth noting that the Swiss trading and financial enterprises have, in general, their own investments outside Switzerland and in particular in the Common Market countries.

If American investments are subdivided in groups (see Table 5) we find that investments in manufacturing and petroleum represent about 70 percent of the total direct investments. Investments in the former have considerable increased in the last six years as a consequence of acquisitions of European enterprises.

Earnings of U.S. direct investments in these last years have declined substantially. Such decline reflects a slowdown in business expansion in most of the industrial countries and also a rise in foreign taxes on natural resource industries.

7. Welfare implications of the U.S. investment in Europe. From another point of view, the role of American investments in Europe can be examined considering the welfare implications for the U.S. and for the European countries. Here I will briefly discuss some of these.

The "classical" argument says that both the investor and the recipient

Table 5

VALUE OF U.S. DIRECT INVESTMENT ABROAD BY MAJOR SUBGROUPS, SELECTED YEARS, 1953-66

(millions of dollars)

Area and Subgroup	1953	1958	1965	1966	Compound Annual Rate of Increase ( ) 1953-58	1958-66
Total Direct Investment	16,329	27,255	49,328	54,563	10.8	9.1
Manufacturing	5,226	8,673	19,339	22,050	10.2	12.4
Petroleum	4,935	9,817	15,298	16,264	14.6	6.5
Other	6,168	8,765	14,691	16,249	7.2	8.0
EEC	908	1,908	6,304	7,587	16.0	18.8
Manufacturing	452	970	3,725	16.5	20.5	
Petroleum	307	665	1,624	1,978	16.7	14.6
Other	149	273	955	1,280	12.9	21.5
IFTA*	1,309	2,438	6,910	7,624	13.2	15.3
Manufacturing	808	1,463	3,619	4,099	12.6	13.8
Petroleum	244	547	1,499	1,639	17.5	14.7
Other	257	428	1,792	1,886	10.7	20.5

*Excluding Austria and Portugal.

Sources: U.S. Department of Commerce, Survey of Current Business, August 1955 and September 1967; U.S. Business Investment in Foreign Countries, Supplement to Survey of Current Business, 1960.

benefit from a foreign investment; the former by obtaining a higher rate of profit abroad, the latter from increases in labor productivity and wages. However, the effects of foreign investments on the national product cannot be examined in terms of profits and interests derived from them. Investments, in general, introduce new productive facilities and thus are for the country where they are located a source of additional income in terms of payments of wages and salaries, taxes and purchases of locally produced resources. It is obvious that the extent to which these investments produce an increment in total incomes and tax receipts in the capital recipient countries will depend on the alternative opportunities for employment in these countries.

In the case of Europe and in particular of the integrated area of EEC, a number of other effects can be spelled out. Among these the most important are those of increased competition and the transmission of new technology and technological know-how. This last can be examined by considering the relevant number of new products of Western Europe which were imported from the U.S. Moreover, in introducing new products and in the application of modern techniques, American subsidiaries have transferred the methods and the organization and production of some European countries.

A different and rather complicated issue is the one of increased competition. It is claimed that the inflow of U.S. capital tends to increase competition in industries where national corporations have a monopolistic or oligopolistic power. Strictly tied with this phenomenon is that of industrial concentration in Europe. It is very likely that the increase in the size of firms and the concentration process which we

witness in Europe has been largely determined by the necessity to withstand the increasing American competition. If we associate industrial concentration with increases in productivity and a better utilization of resources, it is evident that the effects of American investments are positive. However, a different interpretation can be given.

American investments are, in general, in those sectors which experience the highest growth rate. The most efficient and concentrated national industries are also in these sectors. In such a case one would assume that the entry of American corporations in these sectors should increase the competition contributing, therefore, to an improvement in the social welfare of the nation. Such a proposition is, however, rather naive. In fact, it does not consider the nature and the role of the modern international firm, which, as is well known, operates through a complicated financial network system in such a way as to eliminate most of the disadvantages faced by national firms. An understanding of many of the "financial networks" could probably explain the international market structure and the existence of persisting oligopolistic structures as well as collusions and cartels which, being international, escape any form of government control.

Looking at the U.S. side, the most widespread belief is that American decisions to invest abroad reduce investments in the U.S. and, therefore, have bearings upon the domestic growth rate, increase unemployment in the U.S. and worsen the balance of payments. It is difficult to assess whether and to what extent investments abroad affect all these variables. The problem is rather complicated and a clear answer cannot be given. For example, if a firm establishes a plant in a foreign country to produce goods which

could have been exported from the U.S. and reinvests most of its earnings in the foreign country, there might be adverse effects on U.S. economy. If, on the other hand, the investment increases exports, leads to inflow of earnings and does not reduce domestic investments, then the effects are just the opposite.

The most important effect of the foreign investments is the one related to the balance of payments. Especially since European integration, U.S. investments have grown considerably. This period (1958-68) corresponds to the increasing deficit of the U.S. balance of payments. In fact, although the worldwide net asset position of the U.S. was in 1967 around $51.5 billion, the net position with Western Europe was an excess of liabilities of nearly $3 billion. The relationships between direct investments and balance of payments are, however, not easily observable and quantifiable. The problem is, therefore, open to further investigation.

8. Summary and conclusions. It is useful to summarize the most important features which are relevant in the understanding of the problems we have tentatively analysed.

Modern corporations have in order to "survive" to grow continuously. In this process two aspects are of fundamental importance: that of mergers and the resulting industrial concentration and that of foreign investments. This last is, in fact, a way to secure a continuous growth for corporations which are already "large" and cannot further expand without "breaking" anti-trust regulations of the country in which they are based.

American corporations have increasingly invested in Europe because of

the higher rate of return on capital as compared with the rest of the world. The choice of the sectors in which they operate is, however, rather narrow being concentrated in industries which experiment the highest growth rate such as car manufacturing, mechanics, electronics, chemicals.

The elements which, at different degrees, have contributed to the establishment of American corporations in Europe are various and numerous. Among these, the ones that play a strategic role seem to be large scale dimension, technological progress, advanced entrepreneurial skill and a favorable system of incentives provided by many European countries.

A number of problems have arisen as a consequence of American investments. These are related with (a) the financial sources of such investments, (b) the use of earnings and, (c) the worsening of the American balance of payments. A more important issue to be considered is, in my opinion, the one raised by the increasing industrial concentration in all the European countries which have an inflow of American investments. Such an increase can be explained on the ground of increasing competition produced by American corporations in some European industries. This understanding can easily be challenged if we consider the "dual" of such a problem, i.e., that American corporations invest in sectors with a high degree of industrial concentration. Whether American investments produce an increase in industrial concentration or whether they invest in industrial concentrated sectors is, therefore, an open problem.

It could be asked whether American investments in Europe play a positive or a negative role. A clear answer cannot be given as it is difficult to assess and to measure the "welfare" implications for the U.S.

economy and for the single European countries as well. At any rate, in the restricted national context such an issue is of limited interest. What is more important is to assess the role that international corporations play in the economies of different countries. This understanding will provide a solid base for a more rigorous analysis of the previous problem.

Increasing interest among economists is devoted to the study of the international corporation.[11] Its relevance can better be understood considering the welfare implications relative to a number of countries in which it operates. There are a number of problems which need to be investiaged; in particular its existence, growth, area of influence, as well as a number of other socio-political and cultural aspects. The issue which is more relevant for the "welfare" of individuals in different countries where the international firm operates is that of lack of government control on its operations. While, in fact, there exists in almost all countries an anti-trust legislation which operates--or should operate--so as to insure the existence of competitiveness in the market (note that the notion of competitiveness changes with time); this is not the case for international corporations. These can, through a complicated (and not disclosed) financial network system escape any form of control. Furthermore, it seems rational to assume that the internationalization of some companies has been caused, inter alia, by an increasing control from the government anti-trust legislations.

In this framework it is a problem of fundamental importance to

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[11]The earliest contribution is that of Hymer, S.H. (1960),"The Investment Operations of National Firms: A Study of Direct Investment,"Ph.D thesis at M.I.T.

assess the welfare losses that each consumer--independently on his nationality--has as a result of this growing economic power of the international corporation. Such an assessment will be however feasible once economists analyse the role that international corporations play in the economies of the countries in which they operate.