# National Autonomy and Economic Development:

## Critical Perspectives on Multinational Corporations in Poor Countries

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WHETHER or not less developed countries can better realize their economic aspirations by strengthening their ties with developed countries will remain in dispute as long as there are rich and poor countries. Dispute will be particularly sharp while the main instruments of such interconnection are identifiable institutions like the multinational corporation. It is easier to map the growth of the multinational corporation than to assess its consequences, but the need for an assessment cannot be ignored. As this essay's subtitle suggests, my main concern is consideration of arguments which are critical of the role of the multinational corporation.

The growth of the multinational corporation is undeniable.[1] The value of the foreign subsidiaries and branches of United States–based corporations is more than $65 billion. Their sales have been rising faster than domestic sales

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[1] The most comprehensive survey of direct overseas investment by United States firms is that of Samuel Pizer and Frederick Cutler, *U.S. Business Investments in Foreign Countries: A Supplement to the Survey of Current Business* (Washington: Office of Business Economics, Department of Commerce, 1960). The United States Department of Commerce *Survey of Current Business* runs a regular feature on foreign investment; the most recent article in this series is David T. Devlin and George R. Kruer, "The International Investment Position of the United States: Developments in 1969," *Survey of Current Business,* October 1970 (Vol. 50, No. 10), pp. 21–37. Another excellent recent source, though one unfortunately lacking in financial data, is James W. Vaupel and Joan P. Curhan, *The Making of Multinational Enterprise: A Sourcebook of Tables Based on a Study of 187 Major U.S. Manufacturing Corporations* (Boston: Division of Research, Graduate School of Business Administration, Harvard University, 1969); see also the essay by Louis T. Wells, Jr., in this volume.



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of United States corporations, and their earnings are equivalent to about 20 percent of the net profits of American corporations.[2] Statistics on investment by corporations based in other developed countries are more difficult to obtain, but it appears that in recent years foreign investment by West European firms is increasing even more rapidly than that of American firms.[3] While locally owned firms will probably always retain some segment of their country's economy, it has been predicted that in another twenty years 600 or 700 corporations will control most of the business of the non-Communist world.[4] None of the 600 or 700 corporations is likely to be headquartered in poor countries, but almost all will have subsidiaries in them. About one-third of United States foreign investment is located in less developed countries, and almost all the major multinational corporations have subsidiaries in these countries.[5] Such international economic interconnection presents a poor country with a threat to its autonomy quite different from that posed by other states.

With the growing predominance of the multinational corporation increasing numbers of a poor country's economic actors become responsible to superiors and stockholders who are citizens of other countries. If a similar chain of command existed in public organizations, the poor country would be deemed a colony. Because multinational corporations are private economic organizations, chains of command leading outside the state may multiply without ostensible loss of political sovereignty. Yet, national autonomy, the ability of a nation-state as a collectivity to make decisions which shape its political and economic future, has been diminished. But is this loss a threat to general economic progress or only to the power of the elite?

Evaluation of the role of national autonomy in fostering economic progress depends on the evaluation of the effects of international corporate investment. If one sees the economic and social effects of the increased economic involvement of multinational corporations in less developed areas as beneficial, then

[2] Dividends, interest, fees, and royalties from United States direct investments were $9.54 billion in 1969; see Devlin and Kruer, *Survey of Current Business*, Vol. 50, No. 10, table 5, p. 26. Corporate profits after taxes were $50.5 billion; see *Survey of Current Business*, June 1970 (Vol. 50, No. 6), p. S-2. A recent survey of a number of large corporations found foreign earnings equal to 26 percent of total earnings; see "Worldwide Profitability 1964: 117 U.S. Firms Report," *Business International*, June 11, 1965, p. 186. For a look at trends over time in both sales and profits see Harry Magdoff, *The Age of Imperialism: The Economics of U.S. Foreign Policy* (New York: Monthly Review Press, 1969), pp. 179, 183–184.

[3] Sidney E. Rolfe and Walter Damm, eds., *The Multinational Corporation in the World Economy: Direct Investment in Perspective* (Praeger Social Studies in International Economics and Development) (New York: Praeger Publishers [for the Atlantic Institute, the Committee for Economic Cooperation, and the Atlantic Council of the United States], 1970), p. 12.

[4] George A. Steiner and Warren M. Cannon, *Multinational Corporate Planning* (Studies of the Modern Corporation) (New York: Macmillan Co., An Arkville Press Book, 1966), p. 4. Stephen Hymer has estimated that present trends could produce "a regime of 300 or 400 multinational corporations controlling 60% to 70% of the world industrial output." Quoted in the *Wall Street Journal*, December 7, 1970, p. 1.

[5] Vaupel and Curhan, p. 11.

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the nation-state cannot help but appear as an anachronistic impediment to further rationalization of the international economy. By creating irrational, chauvinistic barriers in the path of multinational enterprise the nation-state hampers the progress of its citizens. If, on the other hand, one sees the multinational corporation as an instrument—conscious or unwitting—for the preservation or exacerbation of the economic disparities that currently separate rich and poor countries, then the nation-state becomes the focus of political organization, an instrument to be used to secure economic autonomy and thereby to foster economic progress.

The multinational corporation, as an efficient technocratic solution to the problems of international economic organization, has numerous supporters in both rich and poor countries. They consider international investment by private corporations an important, perhaps the most important, factor in stimulating progress in poor countries. Without these "mighty engines of enlightened Western capitalism" the prospects for the future prosperity of these countries would be dim indeed.[6] The multinational corporation not only transfers capital to poor countries, it also provides them with the organizational and technological know-how necessary for the creation of a modern industrial society. The links between parent company and subsidiary are nurturing channels through which flow the resources needed by a less developed country for its economic growth.

Since this assessment of the role of the multinational corporation eliminates economic rationales, its proponents rely on political or psychological explanations for opposition to multinational enterprise. A recent text on multinational corporations has summarized this point of view nicely: "Two major sets of consequences emerge from the extension of corporate production across borders. The first set is economic consequences and is held almost universally to be beneficial. The second set is phrased in political or emotional terms; this includes the threat—often more apparent than real but nevertheless action provoking—which foreign investment poses to local autonomy, or sovereignty, or control."[7] Raymond Vernon has taken a similar position, marveling "at the tenacity with which man seeks to retain a sense of differentiation and identity, a feeling of control, even when the apparent cost of the identity and the control seems out of all proportion to its value."[8] For these observers the quest for national autonomy is a luxury, a psychologically desirable one perhaps, but one for which an economic price is paid.

Those who oppose the encroachments of multinational corporations in the third world spend little time analyzing psychological propensities for autonomy or self-differentiation. Since they are convinced that the effects of those

[6] The quotation is from Steiner and Cannon, p. 120.

[7] Rolfe and Damm, p. 26.

[8] Raymond Vernon, "Economic Sovereignty at Bay," *Foreign Affairs*, October 1968 (Vol. 47, No. 1), p. 122.

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"mighty engines of Western capitalism" are not to facilitate economic growth but to retard it, increased autonomy is an essential step toward hastening economic progress. While these opponents may agree that a sense of autonomy and control are psychologically gratifying, their main interest is explicating and documenting the retarding effects of asymmetric interconnectedness usually characterized as imperialism.

## I. Providing Capital for Poor Countries

Spreading capital from rich to poor countries is one function classically attributed to international investment, but on examination the direction of the capital flow appears in doubt. Historical retrospects by critics have suggested that the Industrial Revolution in Great Britain was fueled by capital extracted from its colonies and that the development of the colonies suffered in consequence. Paul A. Baran, for example, has related India's failure to develop to the extraction of its surplus capital by British firms, an outflow which he claimed reached 10 percent of its national income in the beginning of the nineteenth century.[9] Clifford Geertz has suggested a similarly negative role for the Dutch when comparing Indonesia's development with that of Japan.[10]

Recent examinations of financial relations between the United States and Latin America also suggest that less developed countries end up exporting more funds than they receive. From 1950 to 1965 remittances of income to United States parent companies exceeded net new private investment by $7.5 billion.[11] An examination of United States Department of Commerce figures for the period 1965–1969[12] reveals an additional gap approaching $3 billion.[13]

Some critics attribute the loss of capital by poor countries to exorbitant rates of return on foreign investment in these countries. Baran has noted that the

[9] Paul A. Baran, *The Political Economy of Growth* (New York: Monthly Review Press, 1957), p. 145.

[10] Clifford Geertz, *Agricultural Involution: The Process of Ecological Change in Indonesia* (Association of Asian Studies Monographs and Papers, No. 11) (Berkeley: University of California Press [for the Association of Asian Studies], 1966), pp. 135–136.

[11] Magdoff, p. 198. For a thorough analysis of the economic relations between the United States and Latin America in the period up to 1961 see Economic Commission for Latin America, *External Financing in Latin America* (New York: United Nations, 1965).

[12] See Devlin and Kruer, *Survey of Current Business,* Vol. 50, No. 10, and the preceding four articles in the same series.

[13] For supporters of the multinational corporation these negative effects are counterbalanced by contributions of foreign firms to exports and import substitution. Such an argument fails to deal with the question of whether foreign firms could be replaced by indigenously controlled organizations which would not be obligated to remit income abroad. It is also interesting that supporters of the multinational corporation see its activities as benefiting the balance-of-payments position of the United States over the long run, a position which would seem to rule out a positive effect on the balance-of-payments position of host countries. See Jack Behrman, *Direct Manufacturing Investment, Exports, and the Balance of Payments* (New York: National Foreign Trade Council, 1968), written in reply to G. C. Hufbauer and F. M. Adler, *Overseas Manufacturing Investment and the Balance of Payments* (United States Treasury Tax Policy Study, No. 1) (Washington: Government Printing Office, 1968).

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profits of British, Dutch, and Belgian companies with investments in colonies were well in excess of the rate of return normal in their countries of origin.[14] More recent data also substantiates this point.[15] An analysis of British investment has confirmed the profitability of Asian and African ventures but suggests that high rates of profit were not possible without the organized political support of the home country.[16] The lower rates of returns to British companies operating in Latin America can probably be explained by the fact that "there was greater stability within the Commonwealth and Empire and greater capacity to determine the investment climate."[17]

A look at the current profitability of American foreign investment suggests that higher rates of return are still achieved on investments in poor countries. The rate of return on investments in less developed countries in 1969 was more than double the rate of return on investments in developed countries. Separate examination of investment in extractive (mining and petroleum) industries and in manufacturing industries shows that high rates of return on extractive investment account for the difference. The following tabulation indicates earnings on United States direct investment in 1969 as a percentage of book value.[18]

| | All investment | Manufacturing | Extractive |
|---|---|---|---|
| Developed countries | 8.3 | 10.8 | 3.0 |
| Less developed countries | 18.8 | 8.9 | 27.6 |

While a combination of political dependency and concentration on extractive industry appears most conducive to exorbitant rates of return, the returns on investment in manufacturing industries may be underestimated by this analysis. In the first place, "fees and royalties" collected by United States firms from their direct investments are excluded. Were they added to earnings, rates of return would be increased by 15 to 20 percent.[19] The overpricing of intermediate goods sold by parent companies to their subsidiaries may be an even more important source of extra returns from manufacturing investment in less developed countries. A recent study of the pharmaceutical industry in Colombia suggests that return to parent companies from overpricing inter-

[14] Baran, pp. 228–233.

[15] Ernest Mandel, *Marxist Economic Theory*, Vol. 2, trans. Brian Pearce (New York: Monthly Review Press, 1968), pp. 453–459.

[16] J. Fred Rippy, *British Investments in Latin America, 1822–1849: A Case Study in the Operations of Private Enterprise in Retarded Regions* (Minneapolis: University of Minnesota Press, 1959).

[17] Ibid., p. 184.

[18] Devlin and Kruer, *Survey of Current Business*, Vol. 50, No. 10, table 6, parts A and D, p. 26.

[19] Ibid., table 5, p. 26. Unfortunately, these figures are not broken down by industry or into the categories of "developed" and "less developed" countries.

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mediate products is many times the return received from dividends and interest.[20]

Even if profit rates on foreign investment were not excessive relative to domestic rates of return, foreign investment might still create a drain on the capital resources of a less developed country in the long run. The lack of a termination date is an important feature of direct investment.[21] With bonds and loans a borrower must eventually repay more than he borrows, but amortization at least diminishes his future obligation. With direct investment the recipient looks forward to interminable remittances and no guarantee that they will be matched by inflows of new capital. Initially a less developed country may receive more in new investment than it must pay out in remitted income, but over the years the balance is likely to shift to its disadvantage. A comparison of Latin America, where United States investment has a long history, with Africa, where it is relatively recent, will serve as illustration. From 1965 to 1969 Africa received about as much new capital from the United States as it remitted in income. Remitted income from Latin America, on the other hand, was over three and one-half times the amount of new capital received.[22]

Yet, multinational corporations could be making excessive profits and repatriating more capital than they invested and still contribute significantly to the economic growth of less developed countries. If the organizational and technological know-how they contribute serves as the spark to the industrialization process, departure of capital is not an unreasonable price to pay. It must only be understood that the contribution of the multinational corporation lies primarily in the transfer of intangibles rather than in the transfer of capital.[23]

## II. The Impact of Extractive Investment

Unfortunately, according to critics of the multinational corporation the past utilization of the organizational and technological resources of the corporation has diverted the productive energies of poor countries in directions unconducive to self-sustained economic growth. In 1950 H. W. Singer criticized

[20] Constantine Vaitsos, "Transfer of Resources and Preservation of Monopoly Rents" (Paper presented at the Conference of the Development Advisory Service of Harvard University, Dubrovnik, June 1970), pp. 63–64.

[21] Albert O. Hirschman, *How to Divest in Latin America and Why* (Essays in International Finance, No. 76) (Princeton, N.J: International Finance Section, Department of Economics, Princeton University, 1969).

[22] Figures are taken from Devlin and Kruer, *Survey of Current Business*, Vol. 50, No. 10, table 6, parts B and E, p. 29, and previous articles in the same series; figures for Africa exclude the Republic of South Africa. Note that the difference between Latin America and Africa is not due to differences in profit rates; rates of return are higher for Africa.

[23] This is essentially the position of Harry G. Johnson in his recent essay, "The Efficiency and Welfare Implications of the International Corporation," in *The International Corporation: A Symposium*, ed. Charles P. Kindleberger (Cambridge, Mass: M.I.T. Press, 1970), pp. 35–56.

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investment in extractive industries in less developed countries: "If we apply the principle of opportunity costs to the development of nations, the import of capital into underdeveloped countries for the purpose of making them into providers of food and raw materials for the industrialized countries may have been not only rather ineffective in giving them the normal benefits of investment and trade but may have been positively harmful."[24] Singer based his criticism of extractive investment on the idea that it is designed to operate as an "enclave" relatively unconcerned with the growth of the local economy because the goods it produces are sold outside it.[25] Baran has argued more strongly still that the effects of foreign investment in extractive industries are detrimental. He has concluded that "whichever aspect of economic development we may consider, it is manifestly detrimental to the prosperity of the raw materials producing corporations."[26] Development would mean increased labor costs and probably higher taxes but would do nothing to increase the demand for the goods the extractive exporter is selling. When the attenuated interest of investors in extractive industries in local development is coupled with the high rate at which they remit their profits to the United States, it hardly seems necessary to invoke a psychological need for differentiation in order to explain hostility toward these foreign investors.[27]

Defenders of extractive investment usually cite the resources made available to governments via taxation.[28] This argument also leads us to the importance of political independence in effecting the redistribution of returns from the investor to the host country. If less developed countries have been successful in retaining a larger portion of the income of extractive investment within their borders, it is because the state retained sufficient political autonomy to bargain with international firms. The existence of "aggressively nationalist groups" within a country has been a benefit to less developed states in their bargaining.[29]

[24] H. W. Singer, "The Distribution of Gains between Investing and Borrowing Countries," *American Economic Review,* May 1950 (Vol. 60, No. 2), pp. 473–485.

[25] For a good analysis of "enclave investment" see Charles E. Rollins, "Mineral Development and Economic Growth," *Social Research,* Autumn 1956 (Vol. 23, No. 3), pp. 253–280. For a more theoretical approach Albert O. Hirschman's idea of backward and forward linkages is useful; see his book, *The Strategy of Economic Development* (Yale Studies in Economics, No. 10) (New Haven, Conn: Yale University Press, 1958), pp. 110–112.

[26] Baran, p. 197.

[27] See the tabulation on p. 679. Not only are the earnings on extractive investments high, the proportion remitted to United States parent companies is also high. In 1969 income received by United States parent companies on investments in less developed countries amounted to 19 percent of book value in mining and over 29 percent in petroleum; see Devlin and Kruer, *Survey of Current Business,* Vol. 50, No. 10, table 6, parts A and E, pp. 28–29.

[28] See, for example, Raymond Vernon, "Foreign Enterprises and Developing Nations in the Raw Materials Industries," *American Economic Review,* May 1970 (Vol. 60, No. 2), pp. 122–126. Vernon also discusses the role of the oil companies in maintaining artificially high prices. See also Michael Tanzer, *The Political Economy of International Oil and the Underdeveloped Countries* (Boston: Beacon Press, 1969).

[29] Edith T. Penrose, *The Large International Firm in Developing Countries: The International Petroleum Industry* (London: George Allen and Unwin, 1968), p. 199.

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Since mining and petroleum currently account for about 50 percent of the value of United States investment in less developed countries, just as they did in 1950, arguments about the effects of extractive investment must continue to have an important place in any critique of the multinational corporation. In this same period, however, the value of American investments in manufacturing in less developed countries has increased from $850 million to $4.7 billion.[30] Investment in manufacturing industries may be a more stimulating outlet for the knowledge and skills of the multinational corporation, but it also raises a new set of problems.

## III. The Impact of Manufacturing Investment

The manufacturing firm, unlike the extractive exporter, has a direct stake in the growth of the local market. Because of this stake the manufacturing firm participates more actively in the life of the host country. The goods that it offers embody a way of life. In order to ensure their consumption the manufacturer must take on a role which bears a more than coincidental resemblance to that of the original international organization—the Roman Catholic church.[31] For the church the transmission of values from Western Europe to less developed countries has been more an end than a means; the manufacturing firm becomes involved in the transnational transmission of ideals and values, although more as a means than an end. By introducing its wares and, even more important, by trying to convince people to consume them the manufacturing firm joins the church as an outsider helping to shape the culture of less developed countries.

The transfer of ideas may have no less economic impact than the transfer of capital, though it fits poorly into quantitative economic models. Supporters of the multinational corporation are likely to speak in terms of the transfer of neutral "skills" or "know-how" which will be useful to recipients in a less developed country in achieving whatever ends they may desire. Those who argue for greater autonomy are suspicious of the usefulness of the tools, but in addition they are afraid that the tools dictate the ends more nearly than the technocrats of developed countries would like to admit. Their arguments involve a range of issues from the ways in which people spend their paychecks to the kind of political philosophy they are likely to favor. These arguments are worth considering at some length.

As a transmitter of ideas and values, as well as a producer of goods, the multinational corporation becomes a means of encouraging consumptive emulation across societal boundaries. Thorstein Veblen's analysis of the ways the "leisure class" makes its own peculiar cultural standards normative for the

[30] See Pizer and Cutler; and Devlin and Kruer, *Survey of Current Business*, Vol. 50, No. 10.
[31] See the discussion of the Roman Catholic church by Ivan Vallier in this volume.

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social order as a whole now applies transnationally.[32] Products and ideas developed in rich countries shape the values and ideas of citizens of poor countries. Or, to adapt Karl Marx's statement on the class nature of ideas, the nation which has the means of material production at its disposal controls the means of mental production and, in turn, the ideas of those who lack the means of mental production.[33]

A short excursus on advertising expenditures should help make this argument more concrete. The United States Department of Commerce has estimated that sales of American manufacturing affiliates in less developed countries in 1968 were approximately $9 billion.[34] Those corporations which own the bulk of United States overseas investment spend, on average, 4 percent of their sales receipts on advertising.[35] We may estimate then that American manufacturing corporations are spending approximately $360 million each year in order to shape the consumptive habits of citizens of less developed countries. Rough as this estimate may be, it should stand as an indication of the magnitude of such expenditures. Expenditures by multinational corporations on the education of consumer preferences are less than the education budgets of national governments but not incomparably less. In Brazil, for example, use of the above percentages suggests that advertising expenditures by American manufacturing affiliates alone are over one-third of recurring public expenditures on all forms of education.[36]

The contradiction between imported consumptive tastes and the productivity of local economies is disturbing. Ivan Illich, founder of the Center for Intercultural Documentation in Cuernavaca, has expressed his distress about this situation as follows: "The plows of the rich can do as much harm as their swords. . . . Once the Third World has become a mass market for the goods, products, and processes which are designed by the rich for themselves, the dis-

[32] Thorstein Veblen, *The Theory of the Leisure Class: An Economic Study of Institutions* (New York: Mentor Books, 1953); see also Stephen Hymer's discussion of "the international trickle down" in his article, "The Efficiency (Contradictions) of Multinational Corporations," *American Economic Review*, May 1970 (Vol. 60, No. 2), pp. 441–448.

[33] Karl Marx and Friedrich Engels, *The German Ideology: Parts I and III* (New York: International Publishers, 1960), p. 39.

[34] R. David Belli, "Sales of Foreign Affiliates of U.S. Firms, 1961–65, 1967 and 1968," *Survey of Current Business*, October 1970 (Vol. 50, No. 10), pp. 18–20.

[35] The multinational corporations used in this estimate are from Vaupel and Curhan, pp. 6–8. Data on their advertising was found in "U.S. Industry's Ad Budgets," *News Front*, March 1966 (Vol. 10, No. 2), pp. 40–43. The percentage is based on firms included in both the *News Front* and the Vaupel and Curhan lists.

[36] Total recurrent public expenditure on education in Brazil was reported to be $148 million in 1966; see the UNESCO *Statistical Yearbook 1968* (Paris: United Nations Educational, Scientific and Cultural Organization, 1969). Sales of American manufacturing affiliates may be interpolated for 1966 at about $1.44 billion (Belli, *Survey of Current Business*, Vol. 50, No. 10) which, under our method, results in an estimate of resources devoted to advertising of $57.6 million or 39 percent of education expenditures of Brazil. Inclusion of European subsidiaries and investments suggests an allocation of resources to advertising by foreign-owned manufacturing firms approaching total recurrent public expenditures on education.

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crepancy between demand for these Western artifacts and the supply will increase indefinitely. . . . Each car which Brazil puts on the road denies fifty people good transportation by bus. Each merchandised refrigerator reduces the chance of building a community freezer."[37] The example of the passenger car is a classic illustration of the diffusion of inappropriate patterns of consumption. A mode of transportation, developed in response to the historical, economic, and technological conditions of early twentieth-century America, was introduced by the multinational corporation and has become the mainstay of transportation systems in countries whose economic and social requirements make it altogether inappropriate. It has been estimated that automobile production facilities created by multinational corporations in Latin America are already ten times as great as they need be to meet the demands of the regional market.[38] Yet, despite the resources devoted to their production, passenger cars are a form of transportation which can benefit only a minority of the population.

While ownership of a private automobile is beyond the reach of the average citizen of less developed countries, production of passenger cars absorbs resources which might be used to produce trucks, buses, bicycles, and other forms of transportation more within the reach of all citizens. Automobile production may exert pressure on foreign exchange reserves by requiring increased importation of gasoline or of the raw materials and capital goods necessary to produce cars. Cars tend to be heavily concentrated in a few cities, and the resources necessary to build a road network to support such an individualistic mode of transportation are not available. Congestion in the cities of many less developed countries is frequently worse than in most Western cities; pollution levels are also higher. The average city dweller in a less developed country must sit in a bus each morning and evening stranded in a sea of passenger vehicles, breathing exhaust fumes and wishing he were able to add to the anarchy by purchasing his own automobile.

It is important to keep in mind that the disjunction between private consumptive longings and the welfare of the community does not have to be resolved in favor of the former. Barry Richman, an English management consultant, was struck by the extensive use of bicycles by the personnel of the factories he studied in the People's Republic of China (Communist China). Even managers and administrators, who in many poorer countries invariably move by car, rode bicycles to work.[39] Consumer sovereignty is a concept of dubious empirical validity, and in less developed countries "freedom to con-

[37] Ivan Illich, "Outwitting the 'Developed' Countries," *New York Review of Books,* November 6, 1969 (Vol. 13, No. 8), p. 20.

[38] Jack Baranson, *Industrial Technologies for Developing Economies* (Praeger Special Studies in International Economics and Development) (New York: Frederick A. Praeger, 1969), p. 73 and chapter 6, passim.

[39] Barry M. Richman, *Industrial Society in Communist China: A Firsthand Study of Chinese Economic Development and Management* (New York: Random House, 1969), pp. 805–809.

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sume" is severely curtailed by poverty for all but the affluent elite. If collective decisionmaking at the national level could result in an allocation of productive resources more appropriate to the economic and social circumstances of the citizenry, it is hard to see how the freedom of the average individual can be said to have been diminished.

Without belaboring the issue further it seems plausible that multinational corporations help transmit standards of consumption which may well represent a misallocation of resources from the point of view of the welfare of the community as a whole. If this is true, then the distortion of consumer desires has a retarding effect on economic progress, and poor countries could achieve greater progress by exercising a greater degree of autonomy in shaping their consumptive norms. As Veblen has pointed out, the mark of a good borrower of technology is the ability to extricate the technology from the fetishes that grow up around its use in the culture of its origin.[40] It is possible to reject the goods which rich countries have chosen as embodiments of their technology without rejecting the technology itself.

## IV. Importation of Strategy

Consumer choices are not the only decisions affected by the internationalization of less developed economies. Decisions about the allocation of productive resources are also directly affected. These decisions, however, are more likely to be made in corporate headquarters in New York or Tokyo than in capitals of less developed countries. It might be argued that the geographical location at which an economic decision is made should have no effect on its outcome. If a rational man in Dar es Salaam will make the same decision as a rational man in New York, then the locus of decisionmaking is hardly vital. If, on the other hand, the outcome of a decision depends on the environment of the decisionmaker, the change becomes important.

Increasingly, social scientists have adopted the latter view and look upon rationality as dependent on social position. No decisionmaker can consider all the information that might be relevant—to say nothing of all the possible interconnections between the relevant facts. Time constraints and limited cognitive capacity ensure that rationality is always "bounded."[41] The social posi-

[40] Thorstein Veblen, *Imperial Germany and the Industrial Revolution* (New York: Viking Press, 1942), especially p. 38.

[41] See James G. March and Herbert A. Simon, with the collaboration of Harold Guetzkow, *Organizations* (New York: John Wiley and Sons, 1958), pp. 137–165, for a discussion of the cognitive limits on rationality. See also Charles E. Lindblom, "The Science of Muddling Through," in *Public Administration: Readings in Institutions, Processes, Behavior*, ed. Robert T. Golembiewski, Frank Gibson, and Geoffrey Y. Cornog (Chicago: Rand McNally & Co., 1966), pp. 293–304, for a similar perspective. Donald P. Warwick's essay in this volume provides some good examples of bounded rationality in a public organization. For a discussion of the differences in perspective among the different functional segments of private corporations see Paul R. Lawrence and Jay W. Lorsch, with the assistance of James S. Garrison, *Organization and Environment: Managing Differentiation and Integration* (Boston: Division of Research, Harvard Graduate School of Business Administration, Harvard University, 1967).

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tion of the decisionmaker will determine the relative salience of different pieces of information and the ways the various pieces will be put together. Each decisionmaker brings to a problem not only a particular subsample of the relevant information but also a particular set of theories on how his information should fit together.

It has repeatedly been the case historically that strategies of development concocted in advanced countries have been accepted by less developed countries despite their dubious appropriateness. In 1786 Queen Maria I of Portugal decided that factories should be abolished in Brazil because they diverted the attention of the populace from agriculture and mining.[42] It was, she felt, to the benefit of all concerned that the metropole should concentrate on manufacturing and the colony on primary production. Spain had already instituted the same policy for its colonies. In the nineteenth century Great Britain, which had the strongest manufacturing economy, carefully pointed out the universal economic advantages of free trade.

Looking at Latin America in the nineteenth century, Celso Furtado has noted the detrimental effects of the fervent belief in the gold standard inculcated by European economic theories. Of Brazil, Furtado has written: "All efforts were spent in a task that historic experience has shown to be in vain: that of subjecting the economic system to the monetary rules prevailing in Europe. This strenuous effort at mimicry, arising from an unshakable faith in the principles of a doctrine with no basis in reality, was to continue for the first three decades of the twentieth century."[43]

A more contemporary example of imported economic ideology is the law recently instituted in Brazil which gives substantial tax relief to companies whose stock is "highly negotiable."[44] Billed as an effort to achieve the "democratization of capital" and derived from the American example, this strategy has the effect of benefiting multinational corporations and a small community of investors at the expense of locally owned, family-run corporations. Its usefulness to the economic progress of the country as a whole remains to be seen.

Another contemporary issue is the patent system. Developed countries in general and multinational corporations in particular are firm believers in the value of patents. The rationality of the patent system for less developed countries is highly questionable both on theoretical and practical grounds.[45] Yet,

[42] Andre[w] Gunder Frank, *Capitalism and Underdevelopment in Latin America: Historical Studies of Chile and Brazil* (New York: Monthly Review Press, 1967), p. 161.

[43] Celso Furtado, *The Economic Growth of Brazil: A Survey from Colonial to Modern Times,* trans. Ricardo W. de Aguiar and Eric Charles Drysdale (Berkeley: University of California Press, 1963), p. 177. Albert O. Hirschman's discussion of the Kemmerer mission in Chile provides a parallel analysis; see his *Journeys toward Progress: Studies of Economic Policy-Making in Latin America* (New York: Twentieth Century Fund, 1963), pp. 175–183.

[44] United States Department of Commerce, *Brazilian Income Tax Legislation* (Overseas Business Reports, No. 67–26) (Washington: Government Printing Office, 1967).

[45] On the practical side see Vaitsos; for some theoretical arguments see Johnson, in Kindleberger.

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until very recently most less developed countries accepted the theory of patents promulgated by developed countries and belonged to the International Union for the Protection of Industrial Property.

It is not necessary to view the promulgation of these development prescriptions as arising from any consciously exploitative motives. Such motives may exist, but they need not be invoked in explanation. Even if it is assumed that the queen of Portugal was motivated only by the desire to promote the economic betterment of the populace of her dominions, it is not surprising, given the milieu in which she reached her decision, that the destruction of Brazilian factories should seem the most rational course.

Just as imported development strategies have proven irrational to their borrowers, strategies that looked irrational to developed countries have proven efficacious to late starters. David S. Landes has illustrated this nicely in his analysis of the differing rationales of British and German entrepreneurs in the latter half of the nineteenth century—when Germany was a "less developed country": "The British manufacturer remained faithful to the classical calculus . . . making those investments which, given anticipated costs, risks, and sales, yielded the greatest margin over what existing equipment could provide. . . . The significance of this approach is best appreciated when contrasted with the technological rationality of the Germans. This was a different kind of arithmetic, which maximized, not returns, but technical efficiency."[46]

The German kind of arithmetic, irrational as it may have appeared to established British entrepreneurs, proved efficacious. In broader terms Alexander Gerschenkron has shown that each of the European countries needed a distinctive system of banking, governmental involvement, and industrial organization suited to its own material circumstances in order to industrialize.[47] Japan, with its direct governmental involvement in the creation of new industry and its cartelized, paternalistic method of industrial organization, also chose a path that looked irrational in terms of the cultural prescriptions of its predecessors but proved appropriate to its own circumstances.[48]

Too great a reliance on development rationales evolved in other times and circumstances entails the same kind of disadvantages as absorption of alien standards of consumption. Greater reliance on indigenous ideas provides no guarantee of producing better strategies, but it increases the possibility of innovations shaped by the particular situation of a less developed country. Poor

[46] David S. Landes, "Technological Change and Development in Western Europe 1750–1914," in *The Cambridge Economic History of Europe,* Vol. 6, Part 1: *The Industrial Revolutions and After: Incomes, Population and Technological Change (I),* ed. H. J. Habakkuk and M. Postan (Cambridge: Cambridge University Press, 1965), pp. 580–581.

[47] Alexander Gerschenkron, "Economic Backwardness in Historical Perspective," in *The Progress of Underdeveloped Areas,* ed. Bert F. Hoselitz (Chicago: University of Chicago Press, 1952), pp. 3–29.

[48] For discussion of Japanese industrial organization see Seymour Broadbridge, *Industrial Dualism in Japan: A Problem of Economic Growth and Structural Change* (Chicago: Aldine Publishing Co., 1966); and M. Y. Yoshino, *Japan's Managerial System: Tradition and Innovation* (Cambridge, Mass: M.I.T. Press, 1968).

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countries are desperately in need of such innovations: Only by discovering rules that work for them do they have a chance to achieve parity. Following the rules that created the present system of international stratification can hardly be expected to eliminate this system.

Even if less developed countries completely rejected the development theories proffered by developed countries, they would still be circumscribed in their choice of strategy by the predominance of foreign-owned firms in their economies. The presence of foreign-owned firms substantially limits the ability of a poor country to shape its own industrial structure. Gerschenkron's paradigm of European development and the experience of Japan suggest that the more backward a country, the more essential is initiative and direction by its government. Yet, governments of poor countries are often forced into roles more passive than those of governments in developed countries. European governments have been very active in engineering mergers to bring together locally owned firms and strengthen national industries.[49] The government of a less developed country, faced with an economy full of subsidiaries attached to foreign-based, private corporations, is much more limited in the kinds of organizational initiatives that it may take.

The automobile industry again provides a good example. As noted earlier production facilities for automobiles in Latin America exceed regional needs. At the national level the situation appears even more extreme. Argentina produces about 3 percent of the number of cars made in the United States, yet it was recently reported that Argentina had thirteen manufacturers competing in the local market. Since the assembly of automobiles is an industry with undeniable economies of scale, the cost of manufacture is grossly inflated by this fragmented industrial structure.[50]

What action is open to a less developed country faced with an industrial structure that is inefficient because it is a "miniature replica" of those of developed countries?[51] The government of a small country is unlikely to be able to persuade FIAT, Volkswagenwerk, and General Motors Corporation to merge for its convenience. As long as it allows foreign-owned firms to compete freely for its internal market, it must either import automobiles and lose

[49] Some discussion of trends in European mergers can be found in Philip Siekman, "Europe's Love Affair with Bigness," *Fortune*, March 1970 (Vol. 81, No. 3), pp. 94–99, 166, 168, 171; in "Europe's Merger Boom Thunders a Lot Louder," *Business Week*, November 23, 1968 (No. 2047), pp. 53–56; and in Bengt Rydén, "Concentration and Structural Adjustment in Swedish Industry During the Postwar Period," *Skandinaviska Banken Quarterly Review*, 1967 (Vol. 48, No. 2), pp. 51–58.

[50] See Jack Baranson, *Automotive Industries in Developing Countries* (World Bank Staff Occasional Papers, No. 8) (Baltimore, Md: Johns Hopkins Press [for the International Bank for Reconstruction and Development], 1969), pp. 44–53.

[51] The "miniature replica" idea was introduced by H. Edward English in his examination of the Canadian situation, *Industrial Structure in Canada's International Competitive Position: A Study of the Factors Affecting Economies of Scale and Specialization in Canadian Manufacturing* (Montreal: Canadian Trade Committee, Private Planning Association of Canada, 1964). For a broader analysis of the problems of industrial organization in poor countries see Meir Merhav, *Technological Dependence, Monopoly, and Growth* (New York: Pergamon Press, 1969).

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foreign exchange or produce them locally at production costs that may be as much as twice those at facilities utilizing efficiencies of scale.

## V. Political Ramifications

Since effective utilization of human resources is as important to a less developed country as utilization of its land and minerals, it has been argued that a close bond between elites and masses is critical to a country's development.[52] Yet, a populist orientation is rare in traditional societies, and the experience of colonialism is likely to increase the separation between elites and masses.[53] The multinational corporation may also help to maintain an external orientation among elites.

Nationals working at the local level strive to absorb the cultural perspective of the organizations that provide their livelihood and their work environment. The ability to identify with the corporation as an organization and to acquire the cognitive and stylistic norms that prevail within it is an important prerequisite of executive success. The socialization of local elite personnel is reinforced by the employment of foreign personnel in key high-level positions. If corporations are successful in inculcating a sense of organizational identity, the probability that the local economic elite will act on the basis of national identification diminishes.

The relation between foreign economic linkages and attitudes toward domestic politics has been nicely illustrated in a recent paper on Brazilian entrepreneurs. It was found that entrepreneurs in firms dependent on foreign corporate support felt that the proper functioning of society required only an alliance of upper-class groups. Entrepreneurs in firms independent of foreign economic interests were much more likely to feel that salaried employees and wage workers should share in political power.[54]

This analysis implies that policies favoring foreign investors should rarely be found in conjunction with policies that stress a higher level of participation and effort from the populace. An impressionistic glance at less developed countries appears to confirm this hypothesis. Tanzania's choice of the policy of *kujitegemea* ("self-reliance") in 1967, for example, was spelled out in a two-pronged manner.[55] One prong was the nationalization of foreign-owned

[52] T. B. Bottomore, *Elites and Society* (Baltimore, Md: Penguin Books, 1966), p. 108.

[53] See, for example, Hugh H. Smythe and Mabel M. Smythe, *The New Nigerian Elite* (Stanford, Calif: Stanford University Press, 1960). J. E. Goldthorpe notes that Mackerere University graduates in East Africa often appeared as "indigenous expatriates" when they ventured into rural areas in *An African Elite: Mackerere College Students, 1922–1960* (East African Studies, No. 17) (Nairobi: Oxford University Press [for the East African Institute of Social Research], 1965).

[54] Vilmar Faria, "Dependência e ideologia empresarial" (Paper presented at the Ninth Latin American Congress of Sociology, Mexico City, November 1969).

[55] For further elaboration refer to the Arusha Declaration which may be found in Julius K. Nyerere, *Freedom and Socialism: Uhuru na Ujamaa—A Selection from Writings and Speeches* (New York: Oxford University Press, 1968), pp. 231–250.

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investment; the other was an attempt to increase the economic and political participation of the people of the country by diminishing the distance between the people and their leaders and convincing them that it was only through their own cooperative efforts that the country would grow. A contrasting example is that of the military government which ascended to power in Brazil in 1964. It was successful in improving the climate for foreign investors but was suspicious to the point of paranoia of widespread political participation.[56]

If regimes can hope to mobilize either foreign investors or their own constituents but not both, then the alienation of the populace from its government must be counted as one of the "opportunity costs" of policies favoring foreign investors. This cost may be especially large in very poor countries in which agriculture is primitive and dominant and the low productivity of agricultural labor is a major concern.

A related argument revolves around the role of the state as a bargaining agent. It has already been noted that governments with little political independence, for example, colonies, were most likely to provide foreign investors with exorbitant returns. It was also observed that the prevalence of nationalist sentiments within a populace might be a useful resource to governments in bargaining with foreign investors. If economic dependency reduces political autonomy, then the very countries which have the largest amounts of foreign investment will be least likely to secure their fair share of the fruits of this investment. China in the nineteenth and early twentieth centuries might be considered a case in point.[57]

A determinate relation between economic dominance by foreign-owned firms and a particular combination of political strategies cannot be proven by a few examples. Nonetheless, the examples suggest that the predominance of foreign-owned firms has political consequences which, in turn, have implications for the future economic progress of a poor country. If a state's ability to mobilize the energies of its populace and to bargain effectively are considered economic assets, then penetration by multinational corporations must be considered an economic threat to the degree that it undermines political autonomy or increases the distance between the citizenry and its leaders.

## VI. Consequences of Greater Autonomy

A range of arguments leads to the conclusion that the increased economic interconnectedness between rich and poor countries fostered by large corpora-

[56] See Octavio Ianni, *Crisis in Brazil,* trans. Phyllis B. Eveleth (New York: Columbia University Press, 1970), pp. 127–196.

[57] For a discussion of the problems of the Chinese elite see Barrington Moore, Jr., *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World* (Boston: Beacon Press, 1967), pp. 181–201. For a comparison of the experience of Japan with that of China see G. C. Allen and A. G. Donnithorne, *Western Enterprise in Far Eastern Economic Development: China and Japan* (London: George Allen & Unwin, 1954).

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tions is not without negative consequences. Some of these arguments, for example, that multinational corporations inculcate an inappropriate set of consumer desires and promulgate unsuitable development theories, are not amenable to quantitative estimation. Other arguments—that less developed countries lose capital as a result of direct investment or that profit rates are excessive—are potentially subject to rigorous analysis though a great deal of work is yet to be done. Despite the need for more information and analysis it does not seem wise to assume that increased international interconnectedness via the multinational corporation automatically increases benefits to both rich and poor countries. Less developed countries cannot count on having their welfare maximized by relying on the unseen hand of economic interchange mediated through the organizational framework of the multinational corporation.

Rejection of reliance on foreign-owned firms almost inevitably leads to diminished reliance on private enterprise in general. Leaving industrialization in less developed countries to private enterprise is tantamount to leaving it in the hands of foreign enterprise. Individual entrepreneurs in less developed countries are rarely a match for their gigantic competitors.[58] More often they find that their self-interest demands playing a cooperative, subordinate role. Managing the subsidiary of a multinational corporation is usually a more attractive possibility than competing against it.

Weakness of the local entrepreneurial class forces countries in search of greater autonomy toward more socialist forms of economic organization. Emphasis on collective rather than individual decisionmaking increases. Much more initiative will be required of the state. Throughout the discussion the importance of the state as the only organization with sufficient leverage to bargain with the multinational corporation has been stressed. Far from being an anachronistic impediment, the state appears to be the only organization that citizens of a poor country might utilize to defend their interests.

Having decided to move in the direction of a more autonomous society in which the state is a major entrepreneur, the poor country is then faced with the knotty problem of creating a state whose actions and decisions reflect the interests and desires of the populace. In most poor countries the state is primarily the instrument of the elite. If increased national autonomy results only in the creation of more cumbersome, ineffective bureaucracies or in the

[58] For one example of the demise of local entrepreneurs see Eduardo Galeano, "The Denationalization of Brazilian Industry," *Monthly Review*, December 1969 (Vol. 21, No. 7), pp. 11–30. For more general discussion of the predominance of foreign capital in the case of Brazil see Mauricio Vinhas de Queiroz, "Os Grupos Multibillionarios," *Revista do Instituto de Ciencias Sociais*, January–December 1965 (Vol. 2, No. 1), pp. 44–80. Michael Kidron's work on India is illustrative in this regard; see his book, *Foreign Investment in India* (New York: Oxford University Press, 1965). An interesting case study may be found in the analysis of one of the largest Latin American firms (Industrias Reunidas F. Matarazzo) in "The Business Globe: Matarazzo—Not One Company but 300," *Fortune*, July 1960 (Vol. 62, No. 1), pp. 71–72, 77.

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more effective domination of the local populace by a local elite, it is hardly a step forward. Presently constituted public bureaucracies are poor models. The building of efficient, responsive public organizations must become a primary goal for a poor country in quest of greater autonomy.

A poor country which rejects interconnectedness based on the multinational corporation must also find new means of relating itself to other countries. Autonomy does not mean autarky any more than "self-reliance" means "self-sufficiency."[59] The possibility of autarky would make the achievement of autonomy much easier, but autarky is not possible for any but the largest of the less developed countries. For most poor countries greater autonomy must mean increased control over external economic relations, not their absence. Arguments against the further strengthening of the ties that currently bind poor countries to developed countries should not be construed to imply the wisdom of isolation. One way for less developed countries to achieve increased control would be cooperating in areas in which they face similar problems, for example, coordination between poor countries exporting the same product.[60] Replacing a private, asymmetric type of integration with a more public, symmetric interconnectedness may offer the best hope of greater autonomy.

Moving toward greater autonomy is essentially choosing to orient economic decisions around the political constituency of the nation-state rather than to allow the locus of decisionmaking to gravitate toward private, profitmaking corporations based in rich countries. There is good reason to believe this policy is an economically rational choice, but it provides no ready-made solutions to the problems of poor countries. It is rather the selection of a new paradigm, a new framework in which to seek solutions.

[59] For a good discussion of the latter distinction see "After the Arusha Declaration," in Nyerere, pp. 385–409.

[60] The Organization of Petroleum Exporting Countries (OPEC) represents such an attempt, albeit, not an entirely successful one; see Tanzer, pp. 70–74.

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