
Modern European Economic History and the Multinationals

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Books on multinational corporations proliferate.¹ Some are historical.² As research moves forward, it seems obvious that the history of European (including British)* headquartered multinational enterprise has been grossly neglected.³ There have been some

* Throughout this paper I will use the word "European" to include "British".

¹ United Nations, Economic and Social Council, *Research on Transnational Corporations*, 28 January 1976, E/C. 10/12/Add 1 contains a bibliography on published materials and work in process. Since then, additional books have appeared, at the estimated rate of at least five a month!

² The authors of the history of Standard Oil (N.J.) found they were writing about multinational enterprise. See RALPH HIDY and MURIEL HIDY, *Pioneering in Big Business* (New York: Harper, 1955); GEORGE SWEET and EVELYN H. KNOWLTON, *The Resurgent Years 1911-1927* (New York: Harper, 1956); and HENRIETTA LARSON et al., *New Horizons* (New York: Harper & Row, 1971). MIRA WILKINS and FRANK ERNEST HILL, *American Business Abroad: Ford on Six Continents* (Detroit: Wayne State University Press, 1964) is a history of Ford Motor Company's international business. For a general history of American multinational enterprise, see the two volumes, MIRA WILKINS, *The Emergence of Multinational Enterprise: American Business Abroad from the Colonial Era to 1914* (Cambridge, Mass.: Harvard University Press, 1970) and MIRA WILKINS, *The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970* (Cambridge, Mass.: Harvard University Press, 1974).

³ Recent pioneer works that begin to fill the gap include LAWRENCE G. FRANKO, *The European Multinationals* (Stamford, Conn.: Greylock Publishers, 1976); CHARLES WILSON, *The Multinational in Historical Perspective*, in «Strategy and Structure of Big Business», edited by Keiichiro Nakagawa (Tokyo: University of Tokyo, n.d. [1976?]), pp. 265-286; and JOHN M. STOPFORD, *The Origins of British-Based Multinational Manufacturing Enterprises*, *Business History Review*, XLVIII (Autumn 1974), pp. 303-356.

splendid business histories of such multinational firms.⁴ But the surface has barely been touched. Many questions seem to cry out for answers. This paper is designed to consider the kinds of insights recent research on multinational enterprises might contribute to new studies in modern European economic history.

Students of multinational corporations emphasize that they are not dealing with international finance, but with the expansion internationally of enterprises. While capital flows are involved, there are also movements of goods, men, skills, technology, patents and trade marks, and *management*. The vast literature on British capital exports, for example, is useful to the student of multinational enterprise, but it only tells part of the story.⁵ Likewise, books on international finance, foreign trade, immigration, technology transfer, and the international histories of particular industries are relevant, but serve basically as grist to the mill of the researcher on multinational enterprise.⁶ The study of the history of multination-

See also LAWRENCE G. FRANKO, *The Origins of Multinational Manufacturing by Continental European Firms*, in «Ibid.», pp. 277-302. The research of Franko and Stopford was undertaken in connection with Professor Raymon Vernon's project at Harvard University, which initially studied American-headquartered international business and subsequently devoted attention to European (and Japanese) multinational enterprise. Both Franko and Stopford had done research on contemporary American business abroad before they embarked on their historical studies of continental European and British multinational enterprises.

⁴ For example, CHARLES WILSON, *Unilever*, 3 vols. (New York: Praeger, 1968); D. C. COLEMAN, *Courtaulds*, 2 vols. (Oxford: At the Clarendon Press, 1969); W. J. READER, *Imperial Chemical Industries*, 2 vols. (London: Oxford University Press, 1970, 1975).

⁵ The literature on British capital exports of the nineteenth and early twentieth century includes such volumes as C.K. HOBSON, *The Export of Capital* (London: Constable & Co., 1914); A. K. CAIRNCROSS, *Home and Foreign Investment 1870-1913* (Cambridge: Cambridge University Press, 1953); LELAND JENKS, *The Migration of British Capital to 1875* (New York: Harper & Row, 1973; first published in 1927); A.R. HALL, ed., *The Export of Capital from Britain 1870-1914* (London: Methuen & Co., 1968); HERBERT FEIS, *Europe: the World's Banker 1870-1914* (New York: W. W. Norton, 1965; first published in 1930); J.H. ADLER, ed., *Capital Movements and Economic Development* (London: Macmillan, 1967); MIRA WILKINS, ed., *British Overseas Investments, 1907-1948* (New York: Arno Press, 1977), which reprints G. Paish's and Robert Kindersley's important studies of British capital exports.

⁶ See WILLIAM WOODRUFF, *Impact of Western Man* (New York: St. Martin's Press, 1967); WILLIAM ASHWORTH, *A Short History of the International Economy* 3rd ed. (London: Longman Group, 1975); and A.G. KENWOOD and A.O. LOUGHEED, *The Growth of the International Economy* (London: George Allen & Unwin, 1971) and

nal enterprises throws new light on these topics yet is distinctive in its own right.

“International business”, “multinational enterprise”, “transnational corporation” (I use the terms interchangeably) involve a company’s making foreign investments and establishing stakes abroad that are under the control (actual or potential) of the parent firm. Multinational enterprise signifies investment that carries *control*, not investment only for financial return where operations of the business are left exclusively to others. Contemporary terminology refers to investment by multinationals as “direct” investment.⁷

The origins of American multinational enterprise go back to the colonial period, when merchants installed members of their families in distant locales.⁸ The origins of *modern* American multinational corporations date from the 1850’s, when technologically-advanced U.S. manufacturing companies began to establish operations in Europe.⁹

Multinational enterprise headquartered in Europe has a longer history than American business abroad. As Charles Wilson has pointed out, in the Middle Ages Italian bankers such as Bardi and Peruzzi operated in England, representing the Papacy.¹⁰

The Hanseatic League had certain multinational characteristics. In the sixteenth century, Italian and German bankers/merchants undertook international operations, requiring coordination of business stakes in alien lands. The trading firms of the seventeenth

bibliographies in each. In 1976-1977, I assembled a collection of *out-of-print* books on European business abroad for a reprint series of Arno Press, a *New York Times* subsidiary. This series of fifty-nine volumes — published in 1977 and entitled «European Business: Four Centuries of Foreign Expansion» — gives an indication of the wide range of titles that are related to European direct foreign investments.

⁷ See publications of the U.S. Department of Commerce. Two Arno Press anthologies, *Estimates of United States Direct Foreign Investment, 1929-1943 and 1947* (New York, 1976) and *Statistics on American Business Abroad, 1950-1975* (New York, 1976) conveniently collect statistics on U.S. direct investments abroad.

⁸ WILKINS, *The Emergence*, Chap. 1.

⁹ *Ibid.*, pp. 29-30, 37-39.

¹⁰ WILSON, *The Multinational*, p. 265.

century, with their outposts directed from a British or Dutch center, fit some definitions of multinational enterprise.¹¹

Modern European business abroad had its origins before the nineteenth century. Rondo Cameron's *France and the Economic Development of Europe* tells of a French company's investment in Germany, in operating a coal mine at Hagenbach in Baden in 1770.¹² This precedes Lawrence Franko's example of the English ironmaster Cockerill, who settled in what became Belgium, and then built a factory making textile machinery in Prussia in 1815.¹³ After the Napoleonic wars "much British capital entered France... to establish textile factories and [later] to construct railroads."¹⁴ Indeed, from the 1830s British and other direct foreign investments in railroads inside and then outside Europe expanded.¹⁵

¹¹ Some definitions of multinational enterprise insist on "producing" stakes abroad and thus exclude trading companies (although some trading companies did processing abroad). My own definition requires a stake abroad that is part of (controlled by) the headquarters enterprise; the functions of the foreign operation can be to *produce goods* (the typical definition) or *services* (i.e. to trade, or perform other services). A splendid example of a study of XIXth century international trading and banking houses, which was published after my article was completed, is S. D. CHAPMAN, «The International House: The Continental Contribution to British Commerce 1800-1860», *The Journal of European Economic History* (Spring 1977), pp. 5-48.

¹² RONDO CAMERON, *France and the Economic Development of Europe* (Princeton: Princeton University Press, 1961), p. 372. We do not know whether the same company also operated in France.

¹³ FRANKO, *The European Multinationals*, p. 3.

¹⁴ HARRY D. WHITE, *French International Accounts 1880-1913* (Cambridge, Mass.: Harvard University Press, 1933), p. 102. See also JENKS, *The Migration*. Professor Ira A. Glazier has pointed out to me that he believes that «hundreds and probably thousands» of British, Swiss, and French firms invested in less developed regions of Europe, especially Italy, in the post-Napoleonic period. They started branches for production and trade and were important in developing export industries. They were active in agriculture and minerals in South Italy, as well as textiles. Dr. Glazier has suggested the following recent studies, dealing with specific aspects of this expansion: BERTRAND GILLE, *Les Investissements Français En Italie 1815-1914*, Archivio Economico dell'Unificazione Italiana, Ser. II, vol. XVI (Turin: ILTE, 1968), RALEIGH TREVLYAN, *Princes Under the Volcano* (London: Macmillan, 1972), LUIGI DE ROSA, *Iniziativa e capitale straniero nell'industria metalmeccanica del Mezzogiorno 1840-1904* (Naples: Giannini, 1968), MAURICE LEVY-LEBOYER, *Les Banques Européennes et L'Industrialisation Internationale dans la première moitié du XIX siècle* (Paris: Presses Universitaires De France, 1964), and IRA A. GLAZIER and VLADIMIR N. BANDERA, *Periphery and Metropolis in Historical Perspective: Commercial Relations Between Great Britain and Tuscany in Nineteenth Century*, in «Studi in memoria di Federigo Melis» Napoli, Giannini, 1978, Vol. V.

¹⁵ WILSON, *The Multinational*, p. 269. CAMERON, *France and the Economic Development of Europe*, Chaps. 8-10. See also note 41 below.

The investments over borders of modern European-headquartered manufacturing companies appears to have accelerated in the late nineteenth and twentieth centuries.¹⁶ This rise of multinational enterprise seems to have been directly associated with the shortening of distances by railroads and the steamships.¹⁷ European international firms introduced new products. To reach markets outside their home nations, before 1914 Nestlé, Lever, the Dutch margarine makers, Bayer, St. Gobain, Solvay, and SKF, to give a few examples, came to manufacture in foreign industrial countries. They made baby food, soap, margarine, aspirins, glass, alkali, and ball bearings.¹⁸ The extent of the international business interactions is barely touched on in this listing, which excludes oil, aluminum, and rayon companies with their complex multinational ties that included direct foreign investments.¹⁹ Swiss, British, Dutch, German, Belgian, and Swedish companies participated in multinational manufacturing. Some of the same firms, and others, also made supply-oriented investment to obtain raw materials. Leslie Hannah suggests that "since Britain was less-well endowed with raw materials than the United States, her entrepreneurs' experiments in integration took an international rather than national form".²⁰ This may well be, although many

¹⁶ WILSON, *The Multinational* and MIRA WILKINS, *Multinational Enterprises*, in «The Rise of Managerial Capitalism», edited by Herman Daems and Herman van der Wee (Louvain: Leuven University Press, 1974), p. 217.

¹⁷ Alfred D. Chandler's work on the rise of American big business has been very helpful conceptually. See his «The Beginnings of "Big Business" in American Industry», *Business History Review*, XXXIII (Spring 1959), pp. 1-31, and his *Strategy and Structure* (Cambridge, Mass.: M.I.T. Press, 1962). In «The Development of Modern Management Structure», in LESLIE HANNAH, *Management Strategy and Business Development* (London: Macmillan, 1976), pp. 23-51, Chandler compares U.K. and U.S. enterprises.

¹⁸ WILSON, *The Multinationals*, p. 278, and FRANKO, *The European Multinationals*, p. 9.

¹⁹ On oil, see MIRA WILKINS, *The Internationalization of the Corporation - the Case of Oil*, in K.E. LINDGREN, et al., *The Corporation and Australian Society* (Sydney: The Law Book Company, 1974), pp. 278-282; ROBERT HENRIQUES, *Marcus Samuels* (London: Barrie and Rockliff, 1960), and F.C. GERRETSON, *The History of the Royal Dutch Company*, 4 vols. (Leiden: E.J. Brill, 1953-1957). On aluminum, see DONALD H. WALLACE, *Market Control in the Aluminum Industry* (Cambridge, Mass., Harvard University Press, 1937). On rayon, see COLEMAN, *Courtaulds*, and JESSE W. MARKHAM, *Competition in the Rayon Industry*, (Cambridge, Mass.: Harvard University Press, 1952).

²⁰ HANNAH, ed., *Management Strategy*, pp. 3-4. Hannah uses the word entrepreneur to encompass individual and enterprise activity.

British firms appear to have manufactured abroad before they made foreign investments in raw materials.²¹

Studies of the history of multinational enterprise begin with data on individual firms. They consider the reason for investments and markets contemplated. They look at decisions on vertical and horizontal integration, diversification, and unrelated conglomeration on an international scale.

Research on multinational enterprises provides important additions to our understanding of modern European economic history. In this article, I will suggest eight different aspects of modern European economic history that might profit from such inquiries. Because of space constraints, the first two will command more attention here than the subsequent six.

One. Studies on multinational enterprise turn new attention to conduits — that is, to the institutions, agencies, and vehicles participating in economic change. The studies provide valuable data on economic development. There is a recognition that economic change is *not* automatic and that there are actors in the form of business organizations. Research on European (and American) multinational enterprises offers suggestions on the means by which economic progress has spread within Europe, to Europe, and from Europe to the rest of the world. The work stimulates us to consider European nations as home of and host to international business. Most were both.²² Multinational investments appear to have been historically asymmetrical. Thus, American firms introduced into European markets and manufactured in particular European countries differentiated products that were new to Great Britain and the Continent. European firms produced in the United States distinctive products.²³

²¹ Lever Bros. is one example. On investments in foreign manufacturing versus raw material, see STOPFORD, *The Origins*, pp. 316-317, 325. Regrettably, the tabulations give no sequence on investments.

²² RAYMOND VERNON, *Storm over the Multinational* (Cambridge: Harvard University Press, 1977), Chap. 5, has fascinating suggestions on the conduit process.

²³ This asymmetry is explored in MIRA WILKINS, *Cross Currents*, forthcoming in « Business and Economic History Conference Proceedings », VI (1977).

Writers on economic progress have tended to look at national or regional economic change, or, when they consider international economic history to do so in terms of international trade, international migration, and international "finance". The literature on multinational enterprises provides very concrete alternative, or better still supplemental, approaches to the study of the spread of economic progress.

Michael G. Mulhall in the late 1890s recorded that in 1769 the first cotton factory in Spain was built and in 1851 the first cotton mill was constructed in India. He failed to ask about the interrelationships, the investment pattern, the role of multinational enterprise. Now scholars turn more attention to the movement of individual entrepreneurs and the spread of economic progress.²⁴ But, the questions that the literature on multinational enterprise prompts have still to be fully explored. What were the direct *investment* connections in cotton textiles, for example, between enterprises in diverse lands?²⁵ To what extent were enterprises transferred over borders as well as individuals and technology? Were there "headquarters" in the home country? What is the effect on the recipient and on homeland of the stake abroad? Not atypically, William Woodruff's *Impact of Western Man, A Study of Europe's Role in World Economy 1760-1960*, deals with international economic progress, but provides no answers to questions on the role of investments that carried with them skills, technology, and management.²⁶ Ivan Berend can write "Foreign Capital played a determinant role in investment activity in East-Central-Europe [in the years before World War I]". Research on multinational enterprises would suggest a follow-up analysis of these investments in very specific terms. John McKay uncovered excellent evidence on foreign *entrepreneurs*

²⁴ Compare, for example, MICHAEL MULHALL, *Dictionary of Statistics*, 4th ed. (London: G. Rutledge & Sons, 1899), p. 161 and DAVID LANDES, *The Unbound Prometheus* (Cambridge: Cambridge University Press, 1969) which gives attention to the entrepreneur's role.

²⁵ JENKS, *Migration*, pp. 180-183, has some suggestive data on cotton and linen textiles and direct foreign investments. This is only a beginning.

²⁶ WOODRUFF, *Impact of Western Man*.

in Russia and their links with foreign investment; studies of multinational business would encourage further questions on whether these stakes were part of a larger pattern of integrated, diversified, multinational enterprise.²⁷ Leslie Hannah suggests that the degree of foreign influence on British business was "so great, and is located in such important growth sectors of the economy, that unfavorable inferences about British entrepreneurs are difficult to avoid". The research on multinational enterprise can moderate and add to such conclusions.²⁸

The student of international business asks in specific terms how *enterprises* (not merely individual entrepreneurs) moved across borders and contributed to economic progress in the home country and the host countries. He looks at market requirements, investments, and licensing arrangements. He studies international agreements. He explores managers' motivations and concerns himself with tariffs and patent laws. He attempts to monitor the strategies of *managers* as they evaluated investment outside their homeland. He is not content to count spindles, or to add up iron production, or to present totals on barrels of oil refined. Rather, he wants to understand the dynamics — the strategies and structures of the firms that performed these tasks and the managers' plans as they crossed borders. He is ready to deal with questions as disparate as the effect of enterprise on the balance of payments, on entrepreneurship, on capital accumulation.

The student of multinational business is in a position to ask and

²⁷ See IVAN T. BEREND, *Investment Strategy in East-Central Europe*, in «The Rise of Managerial Capitalism», p. 176; JOHN P. MCKAY, *Pioneers for Profit* (Chicago: University of Chicago Press, 1970) and JOHN P. MCKAY, *Foreign Enterprise in Russian and Soviet Industry*, in «Business History Review», XLVIII (Autumn, 1974), pp. 336-356. RICHARD L. RUDOLPH, in the *Journal of European Economic History*, Spring 1976, reviewing BEREND and G. RÄNKI, *Economic Development in East-Central Europe in the XIXth and XXth Centuries*, (New York: Columbia University Press, 1974), notes the book's weaknesses on the role of foreign capital; the weaknesses appear to be of the sort that research into multinational enterprise might rectify. MIRA WILKINS, *Multinational Companies and the Diffusion of Technology to Africa: An Historical Perspective*, in D. BABATUNDE THOMAS, *Importing Technology into Africa* (New York: Praeger, 1976), pp. 25-43, explores one facet of the role of direct foreign investment in economic development in Africa. The multinational enterprise is seen as a conduit of technology.

²⁸ HANNAH, *Management Strategy*, p. 10.

often to help answer, why economic change occurred at a particular place and time. In his consideration of enterprises moving over frontiers, he asks how individual men were linked, or not, with established national or international ventures; he is able to trace important facets of technological transfer.²⁹ Enterprise can be of a family nature or of a corporate nature (or both). I would like to see far more discussion on the nineteenth and twentieth century international interrelationships (looking at investments and issues of control) of family firms in Europe and their impact on economic progress.

While most American multinational corporations expanded from U.S. headquarters, the single headquarters seems less distinct in the study of European multinational enterprise; at times there appears to be a complex pattern of headquarters that has to be traced. Thus, two of the most important twentieth-century European multinational enterprises (Royal Dutch Shell and Unilever) have more than single nation origins. Each was instrumental in economic progress inside, and outside, Europe. Perhaps, too, the British-German (Swedish) enterprise axis needs study (Liebig, Siemens, and Nobel enterprises).

In short, scrutiny of multinational enterprise stimulates us to reconsider both national and international economic history with an eye to seeing how goods, men, skills, technology, patents and trade marks, and management, along with capital (in the package called an enterprise) influenced economic development. There is no determinism or myopia in this approach. We are far from implying that all facets of nineteenth and twentieth century national, or international, economic development were shaped by multinational enterprises. Rather, we urge new attention be given to the role of these enterprises to enrich our understanding of national and international economic history. The student of European economic development — using the research on multina-

²⁹ Technology transfer can go with or without multinational enterprise. See exploratory essay, MIRA WILKINS, *The Role of Private Business in the International Diffusion of Technology*, «Journal of Economic History», XXXIV (March 1974), pp. 166-188.

tional corporations — asks, were there direct foreign investments involved in development? Were they part of a broader, extensive multinational business? How did direct foreign investment strategies of enterprises affect the pace and nature of economic development? What was the role of particular important companies and their managers?³⁰

Two. Numerous historical studies on international capital flows exist.³¹ This literature in the past often short-changed foreign *direct* investment.³² There are certain problems of definition. Today, economists agree that portfolio and direct investments are different.³³ Students of international capital movements, in the past, frequently perceived such differences, but most either failed to emphasize them, or, and much more important, neglected to deal with them conceptually.

³⁰ In this section we have referred to economic development in *home* and *host* countries. Multinational direct investment has to be investigated from each vantage point. On the one hand, some writers see foreign investment as always to the benefit of the nation of the investor. See HANS SINGER, *Distribution of Gains Between Investing and Borrowing Countries* (1950). Reprinted in HANS SINGER, *International Development* (New York: McGraw-Hill, 1964), pp. 161-172, for example. Others see it as detrimental to that home country. JOHN MAYNARD KEYNES, *Foreign Investments and National Advantage*, [London] *Nation*, August 9, 1924, was very critical of foreign loans. Some of his comments could apply to direct foreign investment. The Liberal Industrial Inquiry, «Report on Britain's Industrial Future» (London 1928), Chap. IX, Sec. 1, to which Keynes contributed, praised Britain's "past" foreign investments in industry, agriculture, mining, and railways overseas, but was concerned that in 1928, investment *at home* should «be the first charge on the national savings». Recently, I came across White's *French International Accounts*, Chaps. XII-XIV, which are extremely useful on the distribution of gains; these data need to be reinterpreted along with our new insights into multinational enterprise. See also the recent work of ROBERT GILPIN, *U.S. Power and the Multinational Corporation* (New York: Basic Books, 1975). The effects on the *host* country have likewise been seen in both positive and negative terms. VERNON, *Storm over the Multinationals*, has a good summary of the issues involved.

³¹ See works cited in note 5 above and ARTHUR I. BLOOMFIELD, *Patterns of Fluctuation in International Investment Before 1914*, Princeton: International Finance Series, 1968, for example.

³² This has not been true of studies relating to the United States. CLEONA LEWIS, *America's Stake in International Investments* (Washington: Brookings, 1938) did not neglect direct foreign investment.

³³ See STEPHEN HYMER, *The International Operations of National Firms* (Cambridge: MIT Press, 1976; this was Hymer's Ph. D. dissertation of 1960) and CHARLES KINDLEBERGER, *American Business Abroad* (New Haven: Yale University Press, 1969), Chap. 1. The argument that direct and portfolio foreign investments have to be treated differently is now commonly accepted.

The U.S. Department of Commerce defines direct foreign investment as an investment that controls over 10 per cent of the equity interest in a business. The potentials for management are there. Investments in stocks and bonds that do not carry control (10 per cent or more) are called portfolio investments.³⁴ Students of the history of European capital movements did not, in the past (before the mid-1960s), make such sharp distinctions, although often their materials can be used to sort out direct from portfolio investments. Herbert Feis, studying European foreign investments, defined "direct investment" differently — as investment that did not leave traces in the securities markets.³⁵ Multinational corporate investment may not leave traces in the securities market, since it can be done "directly". But, multinational corporate investment that carries control may also be made through securities markets. It becomes important to look at European capital flows to ask, were they "pure" capital transfers, strictly for financial returns, or did they carry management and control as does the presentday multinational corporation? The extensive literature on capital flows needs to be reconsidered to distinguish financial from business transactions.³⁶ When I started to view the history of British foreign investments, through the eye glasses of studies of U.S. business abroad, it seemed to me that certain investments which historians of British capital exports (1870-1914) had been calling portfolio investments did carry management and control and

³⁴ Earlier U.S. Department of Commerce definitions used a 25 per cent figure.

³⁵ Feis, *Europe: The World's Banker*, p. 15 n. It has long been recognized that the securities market was an inadequate source of information of foreign investment. Jacob Viner wrote about the difficulties in *Canada's Balance of International Indebtedness 1900-1913* (Cambridge: Harvard University Press, 1924), pp. 120-126 in connection with measuring British investment in Canada. Y.S. PANDIT in *India's Balance of Indebtedness 1898-1913* (London: George Allen & Unwin, 1937), p. 109, commented on Edgar Crammond figures on «British Investments Abroad», *Quarterly Review*, July 1907 and July 1911, that Crammond used the «value of Indian securities quoted in the Stock Exchange Official Intelligence... This method cannot be applied to estimate the amount of capital employed by British companies in carrying on their business in India. The capital of such concerns is therefore completely excluded by Crammond from his estimates». See PANDIT, *India's Balance*, 109-131, for intelligent discussion of the problems. Yet, typically, securities markets were used to trace capital flows.

³⁶ Since the mid-1960s, studies of *contemporary* European capital movements have tended to look at both direct and portfolio investments.

should be brought under the contemporary definition of direct investment.³⁷ Independently, Professor John Stopford had begun to look at what he called a special category of portfolio investments — expatriate investments. He defined as an “expatriate investment” a company that was incorporated in the United Kingdom, got financing in the United Kingdom, but got *no* managerial direction from there. The managers were British expatriates. There was basically no London headquarters. In time, however, many of these companies became part of British multinational enterprise, and a London headquarters did emerge. It seemed what I was thinking of as a special category of direct investment, Professor Stopford was classifying as a special category of portfolio investment.³⁸ In any case, both of us were looking more closely at the *nature* of British foreign investment and asking new questions derived from the study of American multinational enterprise.

Recently, Charles Wilson, using data from Herbert Feis' *Europe: the World's Banker* (1930), noted that by 1914, while one-third of British investment abroad was in lending to governments (portfolio investment), two-thirds were in industrial investments, including railroads.³⁹ What percentage of these investments carried some form of management and control? We need more inquiries. Wilson points out that the management of capital and the railroad itself, “often built with British materials, equipment, and labor, remained frequently under British control. Often two boards of directors existed, one in London mainly concerned with financial management, the other where the railway ran and concerned with its immediate management”⁴⁰ He could have added that British investments in American railways (that did *not* carry management) were sometimes “tied investments”, tied to

³⁷ WILKINS, *Multinational Enterprise*, p. 232 n. 9.

³⁸ Stopford first presented these views in a paper given at the Harvard Business School in 1972. (I did not see this paper until 1973). He delivered a paper on this at the Academy of International Business Meeting, December 1973. His views were later refined and developed in his *Business History Review* article (see note 3 above). By that time, he felt « Most probably, there were thousands of “expatriate” British firms before 1914 » (see pp. 305-307).

³⁹ WILSON, *The Multinational*, p. 268.

⁴⁰ *Ibid.*, p. 269.

the export of British iron rails.⁴¹ How did this affect the nature of British capital flows? Can an investment be purely portfolio, when there is direct business interest and control over a significant facet of the business?

The "double" board of directors needs to be looked at in terms of the management of capital exports. Wilson tells us of similar arrangements for mining and plantation properties — gold and diamonds in Africa, copper in Africa and South America, tin in Malaya and Bolivia, and rubber plantations in Malaya.⁴² Robert Kindersley found there were in 1929 about 3,000 British companies "operating abroad" —that is, their main plant and equipment were in foreign countries. This group excluded a "number of large companies" that did "extensive business both at home and abroad". Kindersley discovered that "almost every British company operating abroad maintains an expensive London office or agency, which absorbs part of the company's capital". He also studied a large collection of other companies registered outside Great Britain in which British capital was invested.⁴³

We need to go deeper into the nature and structure of British multinational management.⁴⁴ Research on American multinational corporations suggests that we should look not only at the corporate structures devised, but the nature of decision-making that accompanied capital exports, as well as the relationship between the

⁴¹ DOROTHY ADLER, *British Investments in American Railroads* (Charlottesville: University Press of Virginia, 1970), pp. XIII, 12, 14, 19 n., 20, 25, 41 ff. points out various types of control. E-Tu Zen Sun's study of Chinese railroads (*Chinese Railways and British Interests* [New York: Russell & Russell, 1954], p. 10) reveals that the "bond" was hardly a portfolio stake divorced from managerial control. Rather, she writes, «The usual advantages that accompanied the loans were the management of fiscal and general affairs of the railroad for the duration of the loan...». Yet, she found the British control through the loan proved «mild and inefficient» (that is, the British accomplished less railroad construction per amount invested) compared with the truly direct investments of the Russians in the Chinese Eastern Railroad, the Japanese in the South Manchurian Railway, and the Germans in lines in Shantung.

⁴² WILSON, *The Multinational*, p. 269.

⁴³ ROBERT KINDERSLEY, *British Foreign Investments in 1929*, pp. 374, 376. Reprinted in WILKINS ed., *British Overseas Investments*.

⁴⁴ DEREK CHANNON, *The Strategy and Structure of British Enterprise* (Boston: Graduate School of Business Administration, Harvard University, 1973), does not deal with multinational management to any extent.

investment and the marketing of the output of the mine, plantation, and factory. Inquiries into multinational enterprise push us far beyond the study of the international capital movements. We look first at the business, then at its strategies, next at its expansion, then at its management (and its structure), and finally at the corporate organization that may or may not reflect administrative structures. (Sometimes corporate structures reveal a great deal about management; sometimes they are established for tax liability, local, or other requirements, and tell little about management).

There is evidence in the literature on British capital exports that multinational direct investment was far from insignificant. Gustav Cassel's *Foreign Investments* contains a table based on British Inland Revenue Department figures, entitled "Identifiable Income from Abroad". Group I includes "Government securities; dividends, interest, etc. on dominion and foreign stocks, shares, etc., payable in Great Britain; dividends of dominion and foreign railway companies payable in Great Britain; other foreign and dominion coupons and dividend warrants". Group II has "profits from certain concerns trading abroad and having assets abroad". "This entry covers (a) railways, tramways, etc. operating abroad; cables, telegraphs, and telephones situated abroad; (b) mines, oil wells, and nitrate fields situated abroad; (c) tea, coffee, rubber, sugar, etc. plantations abroad; (d) gas, water, harbor, mortgage, financial, manufacturing and trading operations abroad". Group II seems to comprise many "direct investments". What is remarkable is that in 1913-1914, 1920-1921, and 1925-1926 (the years for which data are given, income from Group I was exceeded by that from Group II (1913-1914: £ 205.7 million; £ 91.4 million; 1920-1921, £ 81.7 million v. £ 205.7 million; 1925-1926 £ 96.0 million v. £ 216.0 million). Moreover, the Table omitted a Group III that included certain shipping, banking, insurance, manufacturing, and trading firms with "works or branches abroad" and more generally, British concerns doing business mainly at home "but partly abroad".⁴⁵ (These last

⁴⁵ GUSTAV CASSEL, *Foreign Investments* (Chicago: University of Chicago Press, 1928), 140, 141, 126.

companies — which might well fit our U.S. definitions of multinational enterprise — also could not be traced by Kindersley).⁴⁶ Of course, income does not measure size of investment; it does suggest, however, that there is an important topic to be pursued here.

Rondo Cameron, studying nineteenth-century French foreign investments, was surprised how often he discovered links between capital export and entrepreneurship.⁴⁷ He found that French engineers, technicians, and skilled workers acted as personal carriers of science and technology abroad. While some engineers went abroad on official missions (for the French government or at the request of a foreign government) and some went to work for foreign firms, many went abroad “in the service of French companies or French sponsored foreign companies operating abroad, and as entrepreneurs in their own right”. Cameron made careful estimates of French foreign investments. His tables show us approximate sums invested by the French in foreign government securities and in “private investments” 1816-1851 and French foreign investments in government securities, transport, and “industry and banking” 1852-1881. While in his tables he does not use the words portfolio or direct, his text indicates that in the first half of the nineteenth century, French “foreign investments tended to take the form either of purchases of foreign government securities or direct investment abroad. The latter . . . if not in real estate was largely limited by the willingness of entrepreneurs to settle abroad at least temporarily”. One could assume from this that most of the “private investments” were “direct” investments by American contemporary definition; but, this is too easy, for we learn that the French were purchasers of American railway securities (private investments, but investments that did not carry management — the management was American). On the other hand, investments by the French in *European* railways often did employ French personnel and equipment (what about

⁴⁶ See note 43 above.

⁴⁷ CAMERON, *France and the Economic Development of Europe*, p. VII.

French top management?) Just as we need more careful scrutiny of the extent to which British foreign investment carried management, so too we need the same kind of careful scrutiny of French investments.⁴⁸ John McKay and Alice Teichova found indications of French multinational behaviour in Russia and Czechoslovakia respectively.⁴⁹ Larry Franko's new book on the continental European multinationals belies the notion that French foreign capital went simply into portfolio investments.⁵⁰

Research on American multinational corporations prompts us to ask of capital exports, did they carry management and control? What were the strategies and structures of multinational organization? How much were individual foreign investments integrated into an international pattern?

When we consider Belgian, Dutch, German, or Swiss capital exports, the type of questions being asked about the history of American business abroad seems extremely useful. Each of these countries had enterprises that made important multinational investments.⁵¹ Indeed, so important are the direct foreign investments (defined in American terms) that they seem hopelessly neglected in studies of capital flows. More research is needed on these nation's investments that carried management and control.

Research on multinational enterprise looks at the *business* (if there are capital flows, it identifies their sources and rationale).⁵² Charles Wilson points out that in the case of mining companies operating in less developed countries, ownership was often shared between and among nationalities (with a blending of British, French,

⁴⁸ *Ibid.*, pp. 54, 85, 86. On French capital exports, see White, *The French International Accounts*, Chap. 5 and *passim*.

⁴⁹ JOHN MCKAY, *Pioneers for Profit* and McKay, « Foreign Enterprise »; ALICE TEICHOVA, *An Economic Background to Munich: International Business and Czechoslovakia 1918-1938* (London: Cambridge University Press, 1974).

⁵⁰ FRANKO, *European Multinationals*.

⁵¹ *Ibid.*

⁵² It is altogether possible for there to be multinational enterprise without capital flows. For example, there are no international capital flows when profits earned abroad are reinvested abroad. Likewise, if a multinational enterprise obtains an interest in a foreign firm in exchange for patents or other licensing arrangements, international business (with equity ownership) may exist without monetary capital flows.

Belgian, and American capital and personnel). Studies of multinational enterprise encourage us to ask why, to ask who initiates, what is the basis of the "sharing" (to share product to be sold, to share financial risks, to cope with political perils, to get under a colonial cloak)? Research on multinational corporations poses numerous questions on the ways of "international capital flows". There is a dissatisfaction *per se* with the explanations of capital "surpluses" or differences of interest rates; instead there is a new, close, in depth scrutiny into the nature, rationale, and character of the capital exports. Moreover, the course of the enterprise abroad is followed, not simply the capital flows.

Writing in 1968, Arthur Bloomfield stated « Portfolio investment was a far more important component of long-term capital movements before 1914 than direct investment . . . ». His exceptions were investments in China and U.S. investments abroad.⁵³ Are there other exceptions? Perhaps direct investment is more significant than has been generally recognized.

Three. Most research on American multinational corporations has been on industrial enterprises; the same methodology can, however, be used in relation to the expansion of international banks.⁵⁴ The ties between the Rothschilds and European multinational enterprise need careful exploration. Did the Rothschilds only furnish financial services, or more? What kinds of managerial roles did the Rothschilds have in their various European multinational ventures? Likewise, the story of the large German banks and their connections with multinational business would seem to warrant elaboration.⁵⁵ The large British banks, such as The Chartered Bank of India, Australia, and China need far more study as multi-

⁵³ BLOOMFIELD, *Patterns*, p. 3.

⁵⁴ Indeed, the Centre on Transnational Corporations of the United Nations has put as a top priority *contemporary* research on transnational banking. See « Policy Analysis Research Projects (1977-1979) » in *The CIC Reporter*, I (December 1976), p. 6. We have already suggested earlier in this paper that the term multinational enterprise should not be confined to manufacturing and should include trading companies, railroads, and so forth (the production of services).

⁵⁵ There is fascinating material on the international activities of German banks in J. RIESER, *The German Great Banks* (Reprinted: New York: Arno Press, 1977; first published 1911).

national enterprise.⁵⁶ The new focus should be on the banks as multinational business — as furnishers of services and not merely as financial intermediaries. Banking groups had substantial investments in Europe outside of their home country in the producing and marketing of oil before World War I, but this economic historian has not seen evidence on the exact nature of their role. Was it merely financial, or did the banks furnish management?

Four. There has been a large literature on European business from the vantage point of international cartelization.⁵⁷ Research on multinational corporations profits from such studies and contributes to them. It seems to me that when we talk about the growth of enterprises, we have to concern ourselves with cartelization. In America, the rise of big business came after the pool and the agreement to restrain trade were ruled illegal. I am not arguing that it would not have come anyway, but merely that a form of business behaviour common in Europe was barred in the United States. In dealing with the development of European multinational enterprise, it is useful to see the cartel structure as linked with the development of such enterprises, and also as an alternative possibility. There are cases where multinational behaviour (direct foreign investment) did not occur because agreements between two, or more, otherwise independent enterprises precluded it. The strategy of the multinational manager had division-of-territory agreements as alternatives or sometimes complements to direct foreign investment. This became evident in studying American business abroad.⁵⁸

⁵⁶ COMPTON MACKENZIE, *Realms of Silver* (London: Routledge & Kegan Paul, 1954) is no substitute for a more detailed work. A.S.J. BASTER, *The Imperial Banks* (Reprinted: New York: Arno Press, 1977; first published 1929) and A.S.J. BASTER, *The International Banks* (Reprinted: New York: Arno Press, 1977, first published 1935) are very useful.

⁵⁷ For example, ALFRED PLUMMER, *International Combines in Modern Industry*, 3rd ed. (London: Pitman, 1951); ROBERT LIEFMANN, *Cartels, Concerns and Trusts* (London: Methuen & Co., 1932); ERVIN HEXNER, *International Cartels* (Chapel Hill, N.C.: University of North Carolina Press, 1945); GEORGE STOCKING and MYRON WATKINS, *Cartels in Action* (New York: Twentieth Century Fund, 1946).

⁵⁸ WILKINS, *The Emergence*, Chap. 5, and WILKINS, *The Maturing*, passim. CHANDLER, *The Development*, p. 48 points out that different antitrust requirements had profound influence on structure variations between U.S. and British firms.

It needs systematic study in relation to British, German, French, Swiss multinational corporations.

Five. Studies of particular industries can be enriched by looking at the role of U.S. and European multinational corporations. For example, L.F. Haber's work on the chemical industry draws on company histories, has valuable material on direct investment, but fails to ask questions that historians of multinational corporations pose: what is the *specific interaction* (as carried out by managers) of the particular business activities in different countries?⁵⁹ Similarly, Ehrlich's splendid new book on the piano industry could profit from asking certain questions on direct investment experience.⁶⁰ I would suggest that the application of thinking about business investment across boundaries would greatly enrich the study of many industries.⁶¹

Six. Students of multinational corporations are, in general, convinced that a multinational enterprise goes abroad because it has an advantage. Some stress the technological advantage, others the marketing advantage, and still others have different emphases. This author believes that the concept of advantage is of great importance. When we find a European business going, and succeeding, abroad, we can look at its advantages and see why it was able to so perform. Studies of American multinational enterprises press us to ask new questions about advantages held by individual European multinational businesses.

Seven. European economic historians who write on imperialism will find much of value in the current research on multinational corporations. Multinational corporations make investments in industrial and non-industrial countries, in colonies and independent areas. If, instead of simply considering trade and investment in non-enterprise terms, attention is paid to the goals of multinational

⁵⁹ L.F. HABER, *The Chemical Industry 1900-1930* (Oxford: Oxford University Press, 1971).

⁶⁰ CYRIL EHRLICH, *The Piano* (London: J.M. Dent, 1976).

⁶¹ Already it has enriched the study of the rayon industry. See note 19 above. Markham's book, written before there was a large literature on multinational corporations, provides a splendid example of how useful thinking about such enterprises can be.

corporate behaviour, the importance of a particular region in a multinational investment, the role of industry (rather than finance), the development of vertically integrated enterprise, perhaps many ambiguities in the studies of imperialism may be clarified. The work on multinational corporations suggests that the researcher should go into corporate archives to discover the extent to which enterprises needed (or did not need) colonial administrative protection. European firms often invested outside their own colonies, even in raw materials. Lever made palm oil investments in the Belgian Congo; the British steel companies had mines in Spain; Shell's first stake in oil production was in Dutch Borneo (before Shell merged with Royal Dutch), and so forth.⁶² Franko has argued in relation to Continental European investors that « the correspondence between colonial adventurers and business activities seems to be rather limited . . . The returns from colonies, if returns there were, were mainly non-industrial and psychic, for enterprise and state strategies were an imperfect match ».⁶³ We require much more on direct foreign investment and the colonial experience. The literature on imperialism seems to have neglected undertaking detailed studies of individual important investors, based on business records. Studies of European multinational enterprises can augment our knowledge of the economic, and non-economic, dimensions of imperialism.

Eight. Research on multinational corporations also contributes to the sub-field of economic history that looks at business-government relationships. Multinational corporations, because they move over frontiers, frequently deal with governments (home and host governments). Studies of multinational corporation provide insights on the role of governments in economic development and on business and politics.⁶⁴

⁶² WILKINS, *Multinational Enterprise*, p. 318; HANNAH, *Management Strategy*, p. 4.

⁶³ FRANKO, *European Multinationals*, pp. 56-57.

⁶⁴ IRVINE ANDERSON, *Standard-Vacuum Oil Company and United States East Asian Policy 1933-1941* (Princeton: Princeton University Press, 1975) and MIRA WILKINS, *Multinational Oil Companies in South America in the 1920s*, « Business History Review », XLVIII (Autumn 1974), pp. 414-446, touch on European as well as American companies in business-government relationships. See also MARIAN KENT, *Oil and Empire: British Policy and Mesopotamian Oil 1900-1920* (London: Macmillan, 1976).

In summary, in this brief essay, I have argued that additional study of the history of multinational enterprises can contribute to many aspects of European economic history.⁶⁵ The scholar can ask new questions that deal with the nature of corporate strategies outside a domestic setting. No longer is he simply talking about capital, individuals, skills, or technology, patents or trade marks as separate and distinct; the researcher becomes concerned with how a business enterprise seeking markets and supplies outside its home country comes to transfer to foreign countries (through direct investment, licensing, or agreements of various sorts) the advantages it can offer. The multinational corporation because it transfers a « package » has a distinct impact.

Franko's book on European multinationals provides a good start. He once and for all lays to rest the untenable but amazingly durable idea that multinational corporate behaviour is distinctive to American companies. But Franko is not an economic historian. Economic historians should be delving into business and government archives, business papers, and doing more studies of multinational behaviour when they write about (1) the economic development of Europe, particular countries in Europe, Europe's impact on world-wide economic development, (2) the nature of capital flows, (3) the role of European banks, (4) cartelization, (5) industrial organization, (6) economic advantage, (7), imperialism, and (8) business-government relationships. Each of these topics can profit from the ideas of and the questions asked by students of multinational enterprise.

⁶⁵ The eight topics are by no means all-encompassing. My colleague, Dr. Duane Kujawa, who has done studies on multinational corporations and contemporary industrial relations, suggests that research in this area might also provide ideas to the student of European economic history. Likewise, the research done on multinational corporations and national security might be useful to European economic historians.

