REVIEW ESSAYS

MULTINATIONAL CORPORATIONS

Mira Wilkins
Florida International University

THE FUTURE OF MULTINATIONAL ENTERPRISE. By PETER BUCKLEY and MARK CASSON. (New York: Holmes & Meier Publishers, 1976. Pp. 116. $16.00.)

ALTERNATIVES TO THE MULTINATIONAL ENTERPRISE. By MARK CASSON. (New York: Holmes & Meier Publishers, 1979. Pp. 116. $26.00.)

DISTRIBUTIONAL CONSEQUENCES OF DIRECT FOREIGN INVESTMENT. By ROBERT H. FRANK and RICHARD T. FREEMAN. (New York: Academic Press, 1978. Pp. 157. $17.50.)

TRANSFER OF TECHNOLOGY BY MULTINATIONAL CORPORATIONS. Edited by DIMITRI GERMIDIS. (Paris: OECD, 1977. 2 vols. Pp. 309, 258. $13.50; $11.00.)

UNEMPLOYMENT AND THE MULTINATIONALS: A STRATEGY FOR TECHNOLOGICAL CHANGE IN LATIN AMERICA. By STEPHEN H. HELLINGER and DOUGLAS A. HELLINGER. (Port Washington, N.Y.: Kennikat Press, 1976. Pp. 158. $12.50.)

THE ECONOMIC EFFECTS OF MULTINATIONAL CORPORATIONS. Edited by ROBERT HAWKINS. (Greenwich, Conn., JAI Press, 1979. Pp. 330. $30.00, institutions; $15.00, individuals.)

BRIBERY AND EXTORTION IN WORLD BUSINESS. By NEIL H. JACOBY, PETER NEHEMKIS, and RICHARD EELLS. (New York: Macmillan, 1977. Pp. 294. $12.95.)

GOVERNMENT CONTROLLED ENTERPRISES: INTERNATIONAL STRATEGIC AND POLICY DECISIONS. By RENATO MAZZOLINI. (New York: John Wiley & Sons, 1979. Pp. 400. $34.50.)

https://doi.org/10.1017/S0023879100033720 Published online by Cambridge University Press

FOREIGN INVESTMENT IN COPPER MINING: CASE STUDIES OF MINES IN PERU AND PAPUA NEW GUINEA. By RAYMOND F. MIKESELL. (Baltimore, Md.: Johns Hopkins Press, 1975. Pp. 143. $8.95.)

THE DRUGGING OF THE AMERICAS. By MILTON SILVERMAN. (Berkeley: University of California Press, 1976. Pp. 147. $13.95.)

MULTINATIONAL CORPORATIONS AND THE EMERGING WORLD ORDER. By LEWIS D. SOLOMON. (Port Washington, N.Y.: Kennikat Press, 1978, Pp. 261. $16.50.)

The eleven books under review—published between 1975 and 1979—are but a small sample of the exploding literature on multinational corporations (MNCs).[1] Louis Goodman, in an earlier issue of LARR, reviewed six such works.[2] Each of the ones he selected he judged to be excellent, each used data from Latin America, and each gave insights into the functioning of international business in the Third World. The books reviewed here all consider matters that have relevance to the specialist on Latin America, because they reveal the wide range of economic, political, and ethical issues that concern students of MNCs. For the expert on Latin America, these books place the problems of MNCs in the region in a worldwide context.

Most authors seem to think that MNCs are something new. While I believe otherwise,[3] and find a few kindred souls (Casson in his 1979 work, for example), there is no question that in the post-World War II years there has been a vast expansion of the activities of MNCs. The definition of a multinational corporation is not controversial.[4] Clearly, a MNC involves control by business management over the firm's operations in foreign countries; MNCs undertake direct foreign investment. What is tremendously controversial are the benefits and costs of MNCs.

Solomon (professor of law, George Washington University) presents a set of statistics to demonstrate the economic importance of the MNC. He points out that by the late 1960s, two-thirds of the book value of foreign direct investments by MNCs of all nations was in *developed* countries, and only 18 percent of the total was in less developed nations in the Western Hemisphere. These figures are significant, since students of MNCs in the Third World (or Latin America) often forget that industrial rather than poorer countries attract the most investment by such corporations. Solomon examines the impact of MNCs on home and host developed countries. He looks at topics such as national economic planning, monetary policies, free markets (the MNC is a price maker not a price taker), technological dependence, income distribution, allocation of managerial talent, and intervention in political processes. Next, he considers MNCs and the Third World, reviewing the charges against the MNC by dependency theorists, the concerns over declining terms of trade, the fears that foreign investors in raw materials hinder the devel-

https://doi.org/10.1017/S0023879100033720 Published online by Cambridge University Press

opment process, the desires by less developed countries for foreign stakes in import-substituting manufacturing (and the subsequent alarm over this investment), the misuse by MNCs of transfer prices, the enterprises' restrictive business practices, and the inadequacy of MNCs in providing employment. Up to this section, Solomon had achieved his goal of a reasonably balanced presentation, but when discussing MNCs and less developed countries, he seems not to give the former a fair hearing.[5]

Solomon's overview of existing and potential transnational governmental responses to MNCs is well-done. On the other hand, I think he is a bit extreme even in posing the question, "Can Western market-oriented societies exist without the existence and continued growth of the foreign activities of multinational enterprises?" (p. 154). His answer makes one equally uncomfortable: "Greater restrictions on foreign investment . . . would not necessarily lead to a collapse of the U.S. economy or the world capitalist system" (p. 155). Solomon sees a trade-off between U.S. policies that redound to the advantage of U.S. MNCs and those policies that meet U.S. domestic needs for a more humane, albeit a less competitive, economy vis-à-vis other industrialized nations. The humanist confronts the economist.

Buckley and Casson's trim book covers some of the same ground; these authors, however, are more ambitious. They attempt to formulate a theory of multinational corporations—one that "can be used as the basis for rational economic policy toward the MNE [multinational enterprise]." Buckley is a business school professor, Casson an econometrician. Buckley was and Casson is at the University of Reading, where for over two decades John Dunning has stimulated research on MNCs. Buckley and Casson summarize concisely the characteristics of MNCs; the features they emphasize are those that have already been revealed in the writings of Stephen Hymer, Richard Caves, Charles Kindleberger, and Raymond Vernon.[6] Buckley and Casson argue that the growth of the multinational enterprise "is one aspect of a radical change in business organization. . . ." They are attracted by the work on internalization of markets that has been prompted by Richard Coase's seminal 1937 article.[7]

While they may not be as original as they profess (Robert Z. Aliber, as long ago as 1970, suggested the application of Coase's approach to MNCs),[8] nonetheless, Buckley and Casson have made a worthy contribution, and their book goes far beyond a summary of the state of the art. They believe the "main rationale" for the multinational enterprise "is the existence of widespread market imperfections which make the production and diffusion of knowledge and skills difficult to achieve except through internalization" (p. 109). Specialists on MNCs, particularly business school professors and economists, will find the

https://doi.org/10.1017/S0023879100033720 Published online by Cambridge University Press

volume thoughtful and intelligent. For those desirous of sampling the theoretical literature on MNCs, this book should be required reading.

Indeed, this 1976 study captured so much attention that Casson prepared his sequel, *Alternatives to Multinational Enterprise* (1979). Casson reiterated that the main contribution of the MNC is proprietary information—management, marketing, and the range of technologies. He believes host countries can promote "market alternatives" to MNCs by protecting property rights and that it is unfortunate that UNCTAD and similar organizations are "preoccupied with negative proposals for regulating and restricting the behavior of MNEs." Such negative views "represent at best a wasted opportunity for countries dependent on FDI [foreign direct investment]" (p. 103).

Casson seeks to present a theory of MNCs and at the same time to consider MNCs in less developed countries. At times, he is wrong—for example, when he states "until fairly recently, it was only LDCs that hosted substantial FDI." Actually, in 1897 and 1914 about 46 percent of U.S. foreign direct investment was in Canada and Europe.[9] What is important is that Casson reminds us that as modern business grows, there are more "intermediate" steps. Sometimes, these are tangible products, such as semiprocessed or even processed goods (alumina for aluminum, pig iron for steel, automobile bodies for cars); sometimes, these are intangible products (technical information passed from R and D to production).Often, business "internalizes" these intermediate activities; Casson goes so far as to define a firm as "an organization for allocating intermediate products without exchange of ownership" (p. 45). A multinational enterprise does this over country borders. Internalization serves the enterprise in eliminating the avoidable costs of having technological innovation in others' hands. "The optimal degree of internalization is determined by the margin at which the costs and benefits of internalization are equalized" (p. 46).

Both efficiency and equity are important, but Casson chooses to consider the former, which he feels has been too little regarded. Casson applies economists' insights into efficient resource allocation to proprietary information. Utilizing partial equilibrium theory, he is able to show that "with discriminatory pricing [by the MNC], profit maximization leads to the efficient development and use of information" (p. 37). Guided by the literature on property rights, Casson outlines why it is often desirable for a MNC to internalize transactions. After exploring the costs and benefits of internalization, with special emphasis on proprietary information, he scrutinizes his own view in the theoretical context of the Heckscher-Ohlin and the MacDougall models. In conclusion, Casson advocates LDC government policies to obtain a "socially efficient degree of internalization" (p. 92). The policies he favors relate to property rights and corrections of market imperfections. This is a refreshing

https://doi.org/10.1017/S0023879100033720 Published online by Cambridge University Press

and stimulating work. Many economists may, however, be surprised at how the capital movement (capital accumulation) aspects of direct foreign investment have lost priority to the MNC as a vehicle for the transfer and accumulation of knowledge and skills.

In 1976, Robert Hawkins organized a conference at New York University on the economic controversies relating to MNCs. He assembled a prominent group of economists and business school professors and included a labor leader and a few businessmen. The volume Hawkins has edited is the happy result. In it, Stephen Magee summarizes his theory of *appropriability*—"the ability of private originators of new information to obtain [to appropriate] their social return." Magee discusses MNCs and *U.S.* jobs. Duane Kujawa's fine essay is on collective bargaining in the United States and MNCs. Donald Lessard views the MNC as a financial system, while Arthur Lake and Richard Moxon present papers on technology transfer. James Riedel writes on economic dependence; after summarizing empirical studies on foreign capital-domestic savings relationships in LDCs, Riedel reveals the studies' unanimous conclusion that a negative relationship exists between foreign capital inflow and host country domestic savings (foreign resources are used only in part to augment investment and, in part, to finance additional consumption). Political scientists (and economists) may be astonished at Riedel's narrow treatment of dependency, as John Dunning, in his comments, aptly notes. Both Dunning and economist Walter Chudson (an expert on Africa) criticize the excessive level of aggregation employed in the econometric studies that Riedel reviews. Dunning opens the way to, but does not explore fully, the range of issues commonly considered under the heading *dependencia*.[10]

One of the most thoughtful articles in the Hawkins volume deals with exhaustible resources, MNCs, and LDCs. Carlos Díaz Alejandro, a professor at Yale, explores the relevance of capital, trade, and industrial organization theories. He sees the MNC commodity stabilization regimes of earlier years in decline; there are more actors, notably the state-owned enterprises. Will the latter form a new partnership with the MNC, giving the MNC in natural resources a "new lease on life"? Díaz Alejandro doesn't answer his own question, but suggests (in a new twist on the old enclave argument) that certain undesirable spillovers in LDCs from MNCs—"demonstration effects in luxury consumption, in wage claims, and in politics" (p. 294)—may be lessened by MNCs in mining being tucked away in remote parts of LDCs! To realize how strange this sounds, the reader new to the literature on MNCs and LDCs should read this statement in the context of the traditional attack on enclaves, best articulated in Hans Singer's 1950, "Distribution of Gains between Investing and Borrowing Countries."[11]

In addition, the Hawkins volume contains "comments" on MNCs

https://doi.org/10.1017/S0023879100033720 Published online by Cambridge University Press

and U.S. jobs (Thomas Horst and Robert Stobaugh), U.S. unions (C. Fred Bergsten and AFL-CIO's Rudolph Oswald), industrial organization theory (R. E. Caves), U.S. tax policy (Geraldine Gerardi of the U.S. Treasury Department), technology transfer (Ingo Walter, Roger Seymour of IBM, Jack Behrman, Norman Hinerfield of Kayser-Roth), and mining and oil investments in LDCs (Raymond Mikesell and Exxon's Donald Guertin). There seems to be something for everyone in the Hawkins book; however, the Latin Americanist will have to settle for "context." In the papers, only Richard Moxon and Díaz Alejandro deal specifically with Latin America, and even then in passing.

It seems worthwhile here, before we move from the general treatments, to consider briefly the work of Renato Mazzolini. The "theoretical" structures employed by Buckley and Casson, Casson, and the Hawkins conference participants are entirely different from that of Mazzolini, who, seeking to understand government-controlled multinational enterprise, finds most valuable John Fayerweather's 1969 framework that asks why and when companies transmit resources internationally.[12] Mazzolini, interested in *organizational* strategies and policies, looks at the nature of organization (an aggregation of semiautonomous units) and the specifics of enterprise decision-making far more closely than any of the other authors considered in this review. He pays special attention to organizational process and politics. While his book deals with government-owned multinational enterprises (and is thus not a "general work"), his methodology is not specialized and is applicable to all MNCs. At times, indeed, the "organizational" perspective helps explain MNCs' behavior that other theoretical structures neglect. While economists who consider internalization focus on the firm, their models do not yet incorporate the complexities suggested by the organization theories. On the other hand, Mazzolini's discussions of the behavior of MNCs neglect many general works on MNCs published in the 1970s.

Every general work on MNCs accents that multinational enterprises are characterized by their "high level of technology," by their "high research- and skill-intensity." Technology is sometimes defined to include management and marketing as well as product design and production method. Arthur W. Lake (in Hawkins) points out that the transfer of technology by MNCs "has increasingly been thought to be associated with a comparative deterioration of U.S. technological performance" (p. 137). Other industrial nations are catching up to the United States. Lake is reasonably atypical in his concern with technology transfer among *developed* nations.

Most of the vast literature on technology transfer and the MNCs deals with LDCs. Third World nations now recognize the importance of science and technology to economic development. For most such coun-

https://doi.org/10.1017/S0023879100033720 Published online by Cambridge University Press

tries, there has come to be a tentative, cautious awareness of the need to come to terms with MNCs as actors in the process of technological change. The literature on technology transfer and the MNCs reflects LDCs' concerns over what multinational corporations can do in vocational training. What are MNCs' personnel policies? Do MNCs locate research and development facilities in developed countries to the exclusion of poorer ones? Should research and development facilities be physically in the less developed country? The two volumes edited by Dimitri Germidis are devoted to these matters, but the treatment is uninspiring.

The Hellingers in their *Unemployment and Multinationals* note that their Peace Corps tours made them dubious of the "traditional attitudes" of the international business community toward the Third World. For these two authors, appropriate technologies are those that create new jobs in a labor-abundant economy and "can be understood and controlled at the local level for the satisfaction of self-determined needs." They believe capital-intensive technologies introduced by the MNC are not appropriate; economic growth does *not* solve LDCs' employment problems. The Hellingers insist that it is not in the short-term interest of MNCs to adapt and to share their technology to help solve Third World socioeconomic problems of unemployment and underemployment. At the same time, they state, subsidiaries of MNCs "are perhaps best suited of all institutions within Latin America for developing technologies appropriate to the region's conditions and factor endowments" (p. 132). Accordingly, they believe host government action is required to compel MNCs to adapt their technologies to serve Third World needs. The Hellingers point to the contradictions of an economic system that makes capital underpriced and labor overpriced in Latin America. They argue that investment in science and technology must be made *in* Latin America and that MNCs should develop research and development activities there.

While the Hellingers see MNCs as continuing to play a key role in Latin America, they do not discuss the costs to the MNCs of redesigning technology. They do, however, summarize divergent views on the technological "flexibility" of MNCs. They understand and accept that to redesign technology with an eye to raising employment in LDCs might "postpone" economic growth, but they are convinced that employment, not growth, has to be the first priority for poor countries.

For the Hellingers appropriate technology is that which creates employment; by contrast, for Richard Moxon (in Hawkins) appropriate technology is that which makes efficient use of available resources. Moxon summarizes the literature on MNCs' adaptations of technology, concluding "there is no overwhelming evidence that the MNC adapts less to the local factor prices than do local companies" (p. 195); he feels

https://doi.org/10.1017/S0023879100033720 Published online by Cambridge University Press

there is a potential for further adaptation and explores the obstacles to adaptation.

Also in the Hawkins collection, Richard Caves' comments are in even sharper contrast to the perspective of the Hellingers. Caves points out that there is a fixed cost to the MNC of adapting technology to lower relative labor costs, and this cost may exceed the present value of expected cost reductions. Caves notes that MNCs see capital-intensive technologies as valuable in maintaining product quality. Costs to the MNC become, in time, costs to the LDC.

Like Caves, Casson looks at the costs of technology transfer and the often-discussed question: Does the MNC charge "too much" for technology? Casson argues that "the major barrier to the transfer of technology to LDCs is not the cost to the LDC but the unwillingness of source-country firms to license or invest because of the difficulty of appropriating a reasonable share of the wealth created by the technology" (p. 20). Casson's application of economic theory to the costs of *communicating* information throws new light on issues LDCs should be considering. He points out that when the cost of communicating technological information is negligible, "all replication of the development of [such] information is inefficient" (p. 43). This, of course, does not address the issue of whether what is communicated is appropriate technology.

One common approach to considering the cost of technology to LDCs is to consider "transfer prices" (a topic neglected by the Hellingers). The term "transfer price" should be a descriptive, neutral one, referring to those prices that a firm uses in accounting for transactions between and among units within the enterprise. Transfer prices are by no means distinctive to MNCs. Multidivisional enterprises have to assign prices to goods and services supplied within a domestic firm to obtain consistency in divisional accounting and a measure of the performance of each division. Similarly, MNCs put imputed prices on transactions to keep the books straight. There is nothing nefarious about transfer prices per se. Clearly, however, transfer prices can be utilized for other than accounting purposes. MNCs have employed transfer pricing to avoid substitution decisions,[13] to minimize tax obligations (domestic enterprises have done the same thing), to safeguard or to secure profits, to relocate financial resources, and to bypass certain constraints on corporate behavior imposed by national regulations.

Since the "value" of technology is often difficult to determine, "correct" prices for technology in intrafirm transactions have been equally hard to set (often there is no arm's length or market price to serve as a guide). While all intrafirm pricing by MNCs has come under new scrutiny, no subject has occupied more attention then the pricing of technology. To add to the difficulty, as Buckley and Casson point out,

https://doi.org/10.1017/S0023879100033720 Published online by Cambridge University Press

knowledge (including that of new technology) is a public good within the firm. As they note, "A public good is one that can be sold many times over, because the supply to one person does not reduce the supply available to others. However, the value of a public good to the purchaser may depend on the number of other people supplied" (p. 38). This characteristic, of course, contributes to the problems of pricing.

The phrase "transfer pricing" has frequently taken on a normative, pejorative connotation. Solomon writes, for example, of the "pervasive existence of transfer pricing," failing to recognize that the concern should not be over "transfer prices," but rather over the reasons why "inappropriate" transfer prices are ever utilized (the reasons may lie in inappropriate host nation policies that encourage transfer price distortions). Transfer prices can be identical to arm's length prices, Solomon's comments notwithstanding (Solomon, in fact, contrasts the two). They can be prices that are of benefit to both buyer and seller.[14]

In recent years, LDCs have sought to formulate policies toward MNCs, which in many cases involves an advocacy of what has been called "unbundling." Instead of viewing the MNC as a complete package of attributes (including capital, management, technology, skills, products, marketing outlets, etc.), the host government considers each attribute separately. In this spirit, the Hellingers write (preach) that the MNC "must recognize that its competitive advantage frequently lies not in its use of capital-intensive technologies, but in its managerial skills, which can render the utilization of labor-intensive methods equally, if not more, profitable" (p. 101). The problem here is that management is disembodied from the enterprise. I have some doubts as to whether the disassembled elements comprising the MNC can each maintain its worth (its advantage) separate from the whole. Casson's *Alternatives to the Multinational Enterprise* touches on this issue. He discusses the rationale for "unbundling," at the same time recognizing that "there are dangers in separating the sourcing of certain elements" (p. 97). In the Hawkins volume, Roger Sherman, Richard Moxon, Jack Behrman, and Raymond Mikesell each discuss "unbundling," and each has reservations about its benefits.

In the aftermath of Watergate in the late 1970s, bribery by MNCs in foreign lands came to be documented, and many writers assumed it was a "prevalent activity." So too, when promoting their book, Jacoby, Nehemkis, and Eells reported that political payments by multinational companies in foreign nations are "pervasive" (p. xi) and thus, they devote an entire volume to the subject. However, Jacoby (in chapter 3) argued that such payments are small relative to the total volume of international business "and relatively infrequent" (p. 87)! *Bribery and Extortion in World Business* displays a practical moral relativism; if U.S. business is to compete it must be allowed to do what the French, British,

https://doi.org/10.1017/S0023879100033720 Published online by Cambridge University Press

West Germans, and Swedes can do, that is, participate in political payoffs. A company that doesn't pay off, goes out of business. Investors—as demonstrated by their marketplace behavior—generally do not consider political payments as adverse reflections on the integrity or competence of the managements of the companies in which they have invested.

Jacoby, Nehemkis, and Eells trace the involvement of the SEC (does bribery materially affect a company's position?), the IRS (how are bribes to be handled in taxation?), the FTC (does a bribe put one U.S. company at a competitive advantage over another?) and the Church Committee (what are the foreign policy implications of bribery?). The book argues that the absence of strong U.S. government support for MNCs "has led American multinationals [in Chile and Honduras, for example] to intervene in foreign political affairs to protect their properties. It has compelled them [the MNCs] to buy the protection their own government has failed to supply" (p. 104). Situations where bribery is rampant are identified (in Mexico, for example, where local officials can negotiate tax settlements), and the authors differentiate extortion (where the initiative along with the threat of harm comes from the payee) from bribery. Nehemkis believes that, where permissible, U.S. subsidiaries should participate in political processes abroad and contribute "modest sums to the local parties and their candidates" (p. 170). The authors search in this volume to provide a systematic treatment of political payments—where appropriate and where inappropriate. They discuss the pros and emphasize the cons of exporting morality. They insist on the complexity of the problems in dealing with political payments.

After much discussion of moral relativism, Jacoby, in the concluding chapter, notes that, morality aside, the "economics are wrong" (p. 229). Political payments interfere with efficient markets. Moreover, Jacoby—departing from the relativist thrust of his coauthors—notes that bribes and extortion violate the moral standards of societies around the world. His solutions are *written* corporate codes to minimize unlawful political payments, effective functioning of corporate boards (and audit committees), stronger U.S. government support of U.S. business abroad, the cooperation of OECD nations to reduce political payments, codes of Third World nations designed to encourage investment, a reduced role of governments in LDCs ("the most dirigiste societies are the most corrupt" p. 244), laws abroad that lack ambiguity and minimize discretionary authority (the more discretion, the more latitude for extortion), higher salaries to foreign civil servants, and foreign enforcement of laws against corruption.

After finishing this volume, it was comforting to read Silverman's views. For him, there are no ambiguities, ethical considerations must be paramount: "Laws and regulations do not establish the ethical obligation; instead they merely specify it" (pp. 132–33). Despite its racy title,

https://doi.org/10.1017/S0023879100033720 Published online by Cambridge University Press

The Drugging of the Americas is a serious study on how pharmaceuticals (twenty-eight drugs) are labeled and sold in Latin America by more than twenty U.S. and European-headquartered multinational enterprises. Silverman, a pharmacologist, selected products that were widely used, were marketed in the United States and Latin America by the identical MNCs, had both known usefulness and hazards, and were described in the standard reference sources for physicians in this hemisphere. Silverman looked at the adequacy and reliability of information physicians received about the drugs. For specific antibiotics, oral contraceptives, nonsteroid antiarthritics, steroid hormones, antipsychotic tranquilizers, antidepressants, and anticonvulsants, Silverman compared the "indications for use," "contraindications and warnings," as well as "adverse reactions" made public by the drug companies in the United States, Mexico, Central America, Argentina, Ecuador, Colombia, and Brazil. His research revealed glaring differences in corporate promotion between and among the countries studied. He is able to demonstrate that corporate labeling in the United States is far more responsible than in Latin America. Briefly, he reviews the pertinent drug regulations on disclosure in eleven Latin American nations. He attributes the better information provided physicians in the United States to U.S. law along with its vigorous enforcement.

In an especially revealing concluding chapter, Silverman notes that in Latin America the ratio of detail men (salesmen for the pharmaceutical companies, called *visitadores*) to M.D.s is far higher than that ratio in the United States and that the average detail man in Latin America earns more than the average physician! This book is a study of multinational enterprise and one that should be included on the reading list of students of MNCs in Latin America.

Whereas Silverman is unknown to most students of MNCs, Raymond Mikesell's work is very familiar. Under review here is his study of the basic factors affecting the decision by MNCs to invest in foreign *mining* operations. He explains how cash flows and rates of return are calculated and how companies try to judge political risks (nationalization and inconvertibility of revenues). He shows that different firms have different requirements for asset diversification, as well as supply sources. Firms also have different amounts of funds and managerial and technical personnel, which factors shape their decision-making. A substantial number of relevant considerations exist—from the standpoint of the MNC and the host country—in developing a mining contract. Mikesell's book gives a well-structured, knowledgeable presentation of these considerations. Mikesell presents details on Southern Peru Copper Corporation (SPCC)'s Toquepala mine (one of the world's largest open-pit mines) and another mine in Papua New Guinea. He attributes the survival of SPCC through the general expropriations in Peru to the

https://doi.org/10.1017/S0023879100033720 Published online by Cambridge University Press

company's "usefulness." Mikesell's work joins Silverman's in its concentration on a specific industry.

Several of the books under review here compare and contrast MNCs headquartered in the United States with those located elsewhere. Buckley and Casson, for example, show the different regional patterns for investments of such enterprises. The Hellingers find that Japanese MNCs provide more employment per dollar invested in LDCs than their American counterparts, and note that the presence of European and Japanese MNCs provide added options to host countries in Latin America—in bargaining with U.S.-based MNCs. Jacoby, Nehemkis, and Eells urge that U.S. companies not be penalized (by exposures of corruption) in their competition with foreign MNCs. Silverman found similar promotional techniques of multinational pharmaceutical companies in Latin America—whether they were based in the United States or in Europe.

Mazzolini's volume is devoted to EEC-headquartered *government controlled enterprises* (GCEs) that compete in the market with other companies and that participate in multinational investments. These GCEs fall into four categories: nationalized enterprises, de novo creations of state, stock corporations (in which the state invests), and state holding companies. While "Latin America" is not in the book's index (Brazil appears only once), within Latin America today, Latin American-headquartered GCEs are important. This study provides insights into GCEs' goals, roles, and functions and offers a framework of questions that need to be considered by students of Latin American GCEs.

I had mixed reactions to the Mazzolini volume. On the one hand, I was fascinated by the many interviews he has conducted with GCE managers, pleased with his sense of organizational dynamics, delighted with his emphasis on the *process* of decision-making (the mysteries of odd MNC decisions are nicely explained), happy with his sense of the varieties of behavior, and newly educated on some of the relationships between governments and the GCEs. His conclusions that there are marked differences between a GCE newly involved and one long involved in multinational expansion confirm my similar findings on U.S.-headquartered private MNCs. His explanations of why government control of companies in net reduces their multinational business are of considerable interest.

On the other hand, I found myself at times overwhelmed by the organizational theory frameworks that will undoubtedly be helpful to an instructor teaching a course in management, but which failed to contribute substantially to my understanding of what *differentiates* a GCE from a private MNC. As noted earlier, the theories are applicable to all MNCs. Indeed, sometimes Mazzolini seems to assume certain "distinc-

https://doi.org/10.1017/S0023879100033720 Published online by Cambridge University Press

tive'' GCE behavior whereas this reviewer knows of comparable behavior by private MNCs. From a policy standpoint Mazzolini's book gives no guidance on whether a host country should prefer a GCE to a private MNC in the same industry. (His policy insights relate more to *home* than host governments). Too often, Mazzolini provides examples of an operating company making an investment in an unspecified industry, in an unspecified country. His comments on this unidentified company, investment, industry, country seemed to have limited value. While at the start, he defined different types of state-owned enterprise, he never elaborates (systematically) on whether the way a company became state-owned relates to its multinational behavior. While his conclusions are not profound, nonetheless, because government-owned enterprise is tomorrow's subject,[15] this introduction to their multinational involvements is well worth consulting.

The title's suggestion notwithstanding, Frank and Freeman's *Distributional Consequences of Direct Foreign Investment* does *not* deal with LDCs, but rather with the effects of U.S. headquartered MNCs on the *U.S.* economy. The authors, using econometric methods, came up with inconclusive results: ''We simply do not know enough about the domestic repercussions of U.S. direct foreign investment to justify a program of policy intervention for or against it'' (p. 114), but their data did suggest ''that tax policies whose aim or effect is to encourage U.S. direct foreign investment deserve careful reevaluation'' (p. 115).

Several of the books under review consider transnational governmental and private responses to multinational corporations, among them Solomon's volume. Mikesell believes if host states agree to contract provisions for international arbitration of disputes, this will lessen conflicts. Silverman stresses the importance of the international medical scientific community in providing an alternative to multinational corporations in offering national governments ''objective'' information on pharmaceuticals; this community, he feels, should determine minimum standards for pharmaceuticals and resolve honest differences of viewpoint.

In sum, the books under review represent an extraordinary kaleidoscopic view of an important subject. The volumes are descriptive, theoretical and prescriptive, and together they demonstrate that the MNC has become a truly significant topic in many disciplines.

NOTES

1. For bibliographies, I have found especially useful, although now slightly out-of-date, the United Nations, Economic and Social Council, Commission on Transnational Corporations, *Research on Transnational Corporations*, E/C.10/12 and E/C.10/12 Add 1 (1976). Helga Hernes, ed., *Multinational Corporations: A Guide to Information Sources*

https://doi.org/10.1017/S0023879100033720 Published online by Cambridge University Press

(Detroit, Mich.: Gale Research Co., 1977) is very selective. Oceana Publishers (Dobbs Ferry, N.Y.), which handles works on international law, has a *Bibliography of Multinational Corporations and Direct Foreign Investment* by Eric Brownsdorf and Scott Reimer (1979), which is advertised as containing ten thousand books and articles (1970–79). A supplement is announced for 1980. For economists, the notes in Casson's *Alternatives to the Multinational Enterprise* contain an up-to-date introduction to key sources on multinational corporations.

2. Louis Wolf Goodman, "Horizons for Research on International Business in Developing Nations," LARR 15, no. 2 (1980):225–40.
3. For evidence to the contrary, see Mira Wilkins, *The Emergence of Multinational Enterprise: American Business Abroad from the Colonial Era to 1914* (Cambridge, Mass.: Harvard University Press, 1970) and *The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970* (Cambridge, Mass.: Harvard University Press, 1974).
4. At least as far as the books under review are concerned. In the early 1970s, this was a major topic of discussion, and it is still talked about at professional meetings. Apparently, definitional disputes are far from dead. See, for instance, the acerbic comments of P. Hvoinik, of the USSR Academy of Sciences, in *The CTC Reporter* (Spring 1980), wherein he pushes authors to distinguish between the "true" transnational corporations (the "giant" enterprises) and the many other firms with operations abroad.
5. Compare, for example, Solomon's presentation with that of the even-handed summary of Everett E. Hagen, *The Economics of Development*, 3d ed. (Homewood, Ill.: Richard D. Irwin, 1980), pp. 91–97, 314–23.
6. Stephen Hymer's 1960 Ph.D. dissertation at M.I.T. has been published as *The International Operations of National Firms* (Cambridge, Mass.: M.I.T. Press, 1976). The dissertation was widely circulated and cited in the sixteen years before publication. R.E. Caves, "International Corporations," *Economica* 38(1971):1–27. Charles Kindleberger, *American Business Abroad* (New Haven, Conn.: Yale University Press, 1969). Raymond Vernon, "International Investment and International Trade in the Product Cycle," *Quarterly Journal of Economics 80* (1966):190–207, and his *Sovereignty at Bay* (New York: Basic Books, 1971).
7. R.H. Coase, "The Nature of the Firm," *Economica*, N.S. 4 (1937):386–405.
8. Robert Z. Aliber, "A Theory of Direct Foreign Investment," in Charles Kindleberger, ed., *The International Corporation* (Cambridge, Mass.: M.I.T. Press, 1970), p. 20. See also, Wilkins, *The Maturing*, p. 565, n. 9. Oliver Williamson's *Corporation Control and Business Behavior* (Englewood Cliffs, N.J.: Prentice Hall) appeared in 1970 and in some ways sets the stage for this approach.
9. Based on figures in Wilkins, *The Emergence*, p. 110. In Britain, in 1901, contemporaries thought U.S. direct investment was substantial (p. 215).
10. For a good summary introduction to the dependency literature, see Peter Evans, *Dependent Development: The Alliance of Multinational, State, and Local Capital in Brazil* (Princeton, N.J.: Princeton University Press, 1979).
11. Reprinted in Hans Singer, *International Development* (New York: McGraw-Hill, 1964), pp. 161–72.
12. John Fayerweather, *International Business Management* (New York: McGraw Hill, 1969). Mazzolini also relies heavily on Yair Aharoni, *The Foreign Investment Decision Process* (Boston, Mass.: Graduate School of Business Administration, Harvard University, 1966).
13. See Buckley and Casson, *The Future of Multinational Enterprise*, pp. 37–38, for an explanation of how discriminatory transfer pricing based on a derived demand curve for an intermediate product would maintain the *average* price of the factor, remove the incentive to substitute against it, and increase the profits of the seller of the product without reducing those of the buying unit.
14. Ibid. Also, the "transfer price" issue has implications far beyond the topic of technology transfer. A sizable proportion of world trade now involves transactions between units within a MNC. I have not seen in the general literature any systematic analysis of the overall effects on international prices of these intracompany transactions.
15. There are a number of research projects now in process on government-owned companies, the most important of which is headed by Raymond Vernon at Harvard University.

https://doi.org/10.1017/S0023879100033720 Published online by Cambridge University Press