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THE POLICIES OF ENGLAND, FRANCE, AND GERMANY AS RECIPIENTS OF FOREIGN DIRECT INVESTMENT

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INTRODUCTION

THE growth of long-term international capital movements is widely recognized as one of the important economic phenomena in the postwar world economy. Long-term capital movements have, of course, played an important historic role in earlier periods of the world economy. One aspect of the postwar period that distinguishes it from the earlier experience is the quantitative importance of foreign direct investment and the emergence of the multinational firm as an important agent in the capital-transfer process.[1] Another aspect unique to the

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[1] It has been suggested that the multinational firm exists and grows quite independently of any capital movement in the traditional sense. There is much to be said for this view, particularly since the United States government imposed restrictions on American direct investment financed in the domestic capital market. To the extent that foreign-ownership control, per se, of domestic firms affects economic policy or behavior, the emphasis is correctly placed on this aspect rather than on the capital movement aspect. This view has been developed and expounded by S. Hymer. See C. P. Kindleberger, *American Business Abroad*, New Haven, 1969, pp. 11 ff. Also see Christopher Layton, *Trans-Atlantic Investment*, Paris, 1968, for a good review and critique of this discussion.

postwar period is the rapid growth of capital movements in the form of foreign direct investment between developed nations. In earlier periods, the flow was primarily from developed to underdeveloped countries or from mother countries to colonies. Flows of direct investment between developed nations not only raise new issues, but the old issues assume a different significance in the new setting.[2]

The purpose of this paper is to review some of these issues by examining the policies of England, France, and Germany toward direct investment by foreign firms during the postwar period. We shall seek to determine the degree to which these policies have been restrictive in nature, and the rationale behind these restrictive aspects. This rationale is of interest because the governments of all three countries—through their participation in postwar international agreements—have explicitly endorsed freedom of capital movements as a desirable policy.

We shall examine the policy actions and the rationalizations for these actions on their own terms, and within their own frame of analysis, rather than attempting an independent specification of the relevant economic effects. The latter approach, though extremely valuable, would be difficult, and it is not attempted here. Rather, we restrict ourselves to an examination of the effects suggested by policymakers as the important ones. Their views may not be accurate, or not even relevant, within certain frames of reference; nevertheless, they are strongly held and, consequently, become a reality in the formulation of policy. For this reason, evaluating and understanding them is important.

The three countries that we are dealing with have been selected to permit a comparative analysis. They obviously have much in common as the three major industrialized nations in Western Europe. But, as we shall show, there are also significant differences, which have affected their policies toward foreign direct investment.

[2] The discussion of the "technology gap" is intimately related to the emergence of the modern multinational firm. The literature is quite extensive on this but for a general summary see Organization for Economic Cooperation and Development, *Gaps in Technology: General Report*, Paris, 1968. For one view of the sovereignty aspect, see Raymond Vernon, "Economic Sovereignty at Bay," *Foreign Affairs*, October, 1968.

REVIEW OF POLICIES

THE ENGLISH CASE

A. Legislative Basis for the Control of Inward Investment[3]

Of the three countries being studied, only the United Kingdom still exercises formal control of inward investment by means of exchange-control regulations—regulations which derive from the Exchange Control Act passed in 1947. The Act itself gives the Treasury very broad and substantial powers for controlling payments between United Kingdom residents and nonresidents of the sterling area. As is not unusual in the United Kingdom, the legislation leaves great powers of interpretation to the discretion of the Treasury, which, in turn, delegates operational control to the Bank of England. This procedure permits substantial flexibility in policy, since the Treasury is able to alter policy by issuance of directives, without recourse to Parliament.

As this is being written, exchange-control regulations technically permit free inward investment by nonresidents if the investment is being effected through the purchase of securities quoted on the Stock Exchange. A formal exception is the stipulation that Treasury permission is required if the purchase will result in transfer of control (more than 50 per cent of the voting shares) from the domestic company to a nonresident. As a practical matter, however, the "complete" freedom of inward investment is only nominal, since, without specific approval, any subsequent repatriation would have to be made through an exchange rate of the pound sterling at a discount from the official rate. Thus, even if a purchase involves less than 50 per cent of the shares, permission must still be obtained to insure repatriation rights.

The effects of these regulations are twofold. First, they insure that foreign investments are financed by a capital inflow rather than by borrowing in the London capital market; hence, they produce an immediate increase in foreign-exchange reserves. The second effect, and

[3] This discussion benefited greatly from Leslie F. Murphy, "Investing in the United Kingdom," Conference on Financial and Economic Decisions for United Kingdom Operations, American Management Association, New York, September, 1966.

one more relevant for the discussion which follows, is that they prevent loss of control to foreigners of firms in industries considered vital to the interests of the United Kingdom. We shall now turn to an examination of what the interests of the United Kingdom are felt to be, and what methods other than outright prohibition of foreign investments are used to protect these interests.

B. The Conservative Government's Policy, 1952–65

Given the very general legislative basis for controlling foreign investment, one must look to specific cases to determine how the granted authority has been applied in practice. This method is admittedly selective, for it leaves out any potential investments which have been either submitted for approval, failing to receive it—or else so coolly received that the applications were subsequently withdrawn without the publicity that a formal disapproval might evoke. There is no way to document the precise number of such cases, since the applications need never become a matter of public record. Judging from off-the-record answers to inquiries about the number of such cases given by government officials, one would conclude that the number is small—and may even be zero.

During this period, several cases of foreign investment were important enough to precipitate a Parliamentary debate, thus requiring the Government to take an explicit policy position: the Texas Oil Company's purchase of Trinidad Oil Company (1956); the American Ford Company's purchase of the minority equity in British Ford held by residents of the United Kingdom (1960); and the purchases by the Chrysler Corporation that finally gave it controlling interest in British Rootes Motors (1964, 1967). These cases are well known; only the policy position that emerged need be summarized here.[4]

The Conservative Government studied each of these requests with some care but ultimately approved all three of them unconditionally. The major factors cited by the Government in support of its policy were the strengthening of the balance of payments that would result; the benefits that American technology would bring to the

[4] *Hansard*, Vol. 554, June 14 and June 20, 1956; Vol. 731, July 12, 1966. *The Trinidad Oil Company: Proposed Purchase by the Texas Company* (1956), Cmd. 9790, p. 5.

economy; and the need to protect British investment abroad from retaliatory restrictive policies.

C. The Labour Government's Policy, 1965–69

Although the Labour Party's opposition to Government approval of the transfers cited above was spirited,[5] it was not based upon a closely reasoned argument, rather it was inherently a dislike of foreign control of British firms. Nevertheless, the Labour Party's own policy after 1965 was not significantly different.[6] Doctrinaire standards were not applied; the policy was to judge each case on its individual merits.

The first major application of Labour policy came in 1967 when the Government approved Chrysler's proposal to increase its minority holdings in Rootes Motors to a controlling interest. What differentiated this approval from similar actions by the Conservative Party Government was the attachment of several conditions regarding export efforts and the stipulation that the majority of the Directors would remain British. Even more significant was the further stipulation that the Government would participate in the firm as a minority stockholder, with representation on the Board of Directors. This move was designed to insure that the "national interest" would be formally represented in the Board room. Financial participation by the Government represents a major departure from Conservative practice, which in similar circumstances was limited to attempts to induce private British capital sources to aid domestic firms in financial difficulty.

Apart from this, the policy of the Labour Government differed little from that of its predecessor when faced with similar foreign takeovers. Both Governments were equally constrained by immediate balance-of-payments needs, by fears that the investment might be transferred to a European competitor, and by a desire not to precipitate restrictive treatment of British investment abroad. Faced with these constraints, the Labour Government expressed its somewhat greater concern over possible deleterious effects of foreign investment by adopting policies designed to strengthen the structure of domestic industry.

[5] *Ibid.*
[6] *Hansard*, Vol. 731, July 12, 1966, p. 1196. Compare with the statement of the Conservative Government in the Trinidad Oil White Paper, p. 9.

One form which this policy took was the establishment of legislation giving the Government significant power both to prevent mergers and to stimulate reorganization. Two major parts of this legislation are the Monopolies and Mergers Act of 1965 and the Industrial Reorganization Corporation Act of 1966. Interestingly, one of the first cases referred to the Monopolies Commission under the 1965 act—the take-over of Pressed Steel Company by British Motors Corporation—resulted in a favorable report, at least in part because the proposed merger was between two domestic firms. One reason that the Commission saw this merger as desirable was that it would prevent a take-over of Pressed Steel by a foreign firm.[7]

Another effort by the Labour Government to strengthen the structure of domestic industry was the creation in 1966 of the Industrial Reorganization Corporation. The IRC was charged to promote or assist the reorganization or development of any industry on its own initiative, or upon request by the Secretary of State,[8] through the market purchase of equity shares, or by loans (either direct or arranged with private lenders). The IRC began operation with its participation in the Chrysler-Rootes take-over. Since then it has sought to promote rationalization of various sectors of British industry. The general goals are to create larger and more efficient British-owned industrial firms that will (not incidentally) be less vulnerable to foreign take-overs. The recent IRC involvement in promoting a merger of the three largest British bearing manufacturers was at least partly motivated by a prospective foreign take-over of one of these firms.[9]

In summary, when one looks at the policy of the United Kingdom toward foreign direct investment during the postwar period (where this policy is strictly defined to encompass only legal or administrative restrictions and major official statements), the policy would have to be characterized as basically and consistently liberal or unrestrictive. Concern over investments by foreign firms—especially when these would involve take-overs of British-owned firms—has, instead, been

[7] The Monopolies Commission, *The British Motor Corporation Ltd. and the Pressed Steel Company Ltd.: A Report on the Merger*, London, 1966, p. 16.

[8] *Industrial Reorganization Corporation Act, 1966*, London, 1966, p. 2.

[9] "IRC Statement on the U.K. Ball and Roller Bearing Industry," printed in full in *The Economist*, May 24, 1969, p. 76.

manifested in attempts to restructure industries that are vulnerable to take-overs and in which domestic ownership is felt to be in the "national interest." In such industries, policy has been aimed at maintaining intact a significant vertically integrated share under domestic ownership.

Certain broad criteria for defining the national interest emerge from these recent actions. Industries which are large and produce traded goods (i.e., exports and import substitutes) are felt to involve the national interest both through their implications for the balance of payments and through their quantitative importance in the over-all level of economic activity (e.g., the automotive and petroleum industries). The national interest has also become associated with domestic control of industries which are experiencing rapid technological change —in particular, all science-based industries. This association has thus become more extensive than the accepted concern for protecting the traditional "national-defense industries"—a fact to which we shall return later.

THE FRENCH CASE

During the period under consideration, French policy toward foreign investment has been characterized by major shifts. Furthermore, these policy changes were more often hinted at than explicitly announced by new legislation or directives. For both of these reasons, it will be necessary to review French policy in somewhat greater detail.

The volatility of French policy is the more surprising when one considers that France has entered into several international agreements designed to liberalize capital movements, and which, technically, should have significantly restrained the policies of that nation. Among these are the bilateral treaty between France and the United States guaranteeing the right of establishment to each other's nationals (1959); the Code of Liberalization of Capital Movements of the Organization for Economic Cooperation and Development (1960); and Articles 52, 58, and 67 of the Treaty of Rome (1958). Although the legal implications of these agreements are undeniably important, they lie beyond the scope of this paper.[10]

A. Policy Under Finance Minister G.-d'Estaing, 1962–65

In the postwar period up to 1962, French officials were clearly hospitable to new foreign investments, both for the immediate balance-of-payments effects and for the creation of real capital that was generally directly associated with the financial flow. The balance-of-payments effect was insured because new foreign investments had to be financed with funds brought in from abroad. This, however, was a common feature of the exchange-control systems of Western European countries during this period. The policy during this era could be characterized as favorable but restrained,[11] and a steady increase in foreign direct investment in France took place.

Beginning in late 1962, and continuing through 1965, French policy entered a new and decidedly more hostile phase. To recognize this change, it is necessary to refer to particular cases, each of which has received sufficient publicity to make it somewhat of a *cause célèbre.* Although the events are well known, and some have been subjected to extensive analysis,[12] they will be briefly summarized here for purposes of interpretation.

Two American-owned plants, a GM-Frigidaire plant near Paris and a Remington Rand plant at Lyons manufacturing portable typewriters and office furniture, announced substantial layoffs. Official French reaction to these layoffs was prompt and highly critical.[13] The official criticism emphasized a common theme—the irresponsibility of foreign control. The action of these firms did not conform to the ac-

[10] *Conventions of Establishment Between the United States of America and France,* signed at Paris, November 25, 1959. For a legal view of recent French policy in the light of the obligations of this treaty, see Charles Torem and William L. Craig, "Control of Foreign Investment in France," *Michigan Law Review*, February, 1968, pp. 669–720.

[11] See Rosine Dusart, "The Impact of the French Government on American Investment in France," *Harvard International Law Journal,* Winter, 1965, pp. 75–112, for the development of these regulations.

[12] Allan W. Johnstone, *United States Direct Investment in France: An Investigation of French Charges,* Cambridge, Massachusetts, 1965 and Dusart, *op. cit.,* p. 78.

[13] Both the Minister of Industry, M. Maurice Bokanowski, and the Minister of Finance, M. Valéry Giscard-d'Estaing, commented critically on these layoffs. *Christian Science Monitor,* October 6, 1962, p. 5.

cepted French practice of prior consultation by management with the State when significant layoffs were planned.

The dispassionate analysis of these events by Allan W. Johnstone confirms the charge that no prior consultation was made; however, the actions of the firms were not nearly so callous as press reports and official indignation suggested. The labor market was quite tight, so that layoffs would result in only temporary unemployment for most workers, and the firms themselves had undertaken to find employment for many workers in anticipation of the layoffs.

In retrospect, the facts strongly suggest that the official reaction was motivated by considerably more than the events themselves. Not only were the firms not publicly credited with the concern they did show, but the economic forces that initiated the firms' actions were generated within the EEC. The Remington Rand decision was a move to rationalize their production facilities within the EEC, and the GM-Frigidaire redundancy was caused by refrigerator imports from Italy.

Within a few months of these two events, it was announced that the Chrysler Corporation had acquired a controlling interest in the Simca automobile firm. Chrysler had purchased a 25 per cent share in 1958, and now had purchased another 38 per cent from other foreign owners. Had the owners been French, the approval of the French government would have been required, but since the owners who were selling to Chrysler were not French, no such approval was necessary under existing French law. The official French reaction to the transaction in question was publicly critical.[14] Moreover, as noted below, French regulations were subsequently changed to bring such transactions within the reach of French law.

The official concern expressed during late 1962 and early 1963 was in sharp contrast to the lack of specific criticism during the earlier postwar period.[15] Numerous unattributed reports and public statements by French officials now extended the criticism from these specifically

[14] *The Economist*, February 9, 1963, pp. 495–496.

[15] This is not to say that U.S. economic influences had evoked no earlier public concern. See, for example, the *New York Times*, October 19, 1961, p. 8, for a rejection of a "gadget civilization" and the "creation of artificial needs," both of which characterize the "American Way of Life."

French experiences to the broader issue of foreign economic domination of the entire EEC.[16]

This sudden fear of foreign—that is, American—domination can be better understood if viewed simultaneously with other events of the period, especially the application of Great Britain for entry into the Common Market. Preliminary negotiations had been under way for several months when President de Gaulle abruptly announced the French veto on January 14, 1963. The threat of American domination was posed in two ways: first, through the "special relationship" existing between the United States and England; and second, through American firms operating within the EEC. The French veto unilaterally countered the first threat. However, a similar "French solution" to the second problem was much more difficult to achieve.

During 1963, the French attempted to raise direct investment by American firms to the level of a Community problem by bringing the issue before the meetings of the EEC finance ministers.[17] The ministers, however, gave little support to the French position that a Community policy was needed to prevent excessive American investment. The consensus of the other members was that any Community response to the question of foreign investment could only be based upon Community Competition Policy—Article 86 of the Treaty of Rome, which provides for Community action in the case of the abuse of a dominant position by a firm or group of firms. Community control on any other basis would be contrary to Article 52, which establishes as Community policy the expansion and encouragement of capital movements.[18]

The French effort to raise their concern over increasing foreign direct investment to the level of a Community problem requiring Community action was thus a failure. The lack of response to this issue by the other members can be attributed to the advantages each saw in con-

[16] Speech by Prime Minister M. Pompidou, reported in the London *Times,* April 25, 1963, p. 18. See also statements by Minister of Finance Valéry Giscard-d'Estaing expressing similar sentiments, reported in the *Christian Science Monitor,* February 7, 1963, p. 4.

[17] *New York Times,* January 25, 1963, p. 13; March 25, 1963, p. 2; *Christian Science Monitor,* February 7, 1963, p. 14.

[18] *European Community,* April–May, 1963, p. 9. See also D. Swann and D. L. McLachlan, *Concentration or Competition: A European Dilemma?* London, 1967, pp. 46ff., for an analysis of Article 86.

tinuing American investment in its own economy; and, perhaps, in some degree, to resentment at the way France had dealt unilaterally with the question of British entry.[19]

Although French officials had indicated that their policy was to protect vulnerable sectors, they did not specify what sectors these were. The French response to the bid by General Electric to take over Machines Bull revealed that the French electronic-computer industry was among those considered vulnerable.[20] An elaboration of French policy was given by Finance Minister G.-d'Estaing at the end of 1964. He stressed two points: that French industry required protection during the transition period 1965 to 1970; and that in affording this protection, the government would make a distinction between foreign take-overs of French firms, and investments which created new productive facilities in France. The former were to be strictly controlled during the transition period, while the latter would be permitted on condition that they conformed to the objectives of French policy, particularly the National Plan.[21]

During 1965, the French policy of discouraging American investment reached its apex. The philosophical basis was expounded by President de Gaulle in his New Year's speech as he warned the French people that great economic efforts would be required if they were to avoid "being engulfed in painful mediocrity and . . . being colonized by foreign interests, inventions and capability."[22] A few months later, he made the same point even more clearly: "We must see that our activities of the essential part remain under French management and French control."[23] Although never officially acknowledged, it was

[19] It should be noted, however, that concern at the Community level had previously been hinted at. The Memorandum of the Commission on the Action Programme of the Community for the Second Stage, published in October, 1962, makes a brief reference to foreign investment in the discussion of sector investment policy: "In certain special cases foreign investments in the Community may raise special problems" (p. 59).

[20] *New York Times*, February 5, 1964, p. 44. The negotiations involved a major reorganization and division of the corporate structure. The defense-oriented work of the firm was absorbed by a newly created and wholly French-owned corporation. For an extensive treatment of the details of this affair, see Robert D. W. Landon II, "Franco-American Joint Ventures in France: Some Problems and Solutions," *Harvard International Law Journal*, Spring, 1966, pp. 238–285.

[21] Speech by Minister of Finance Giscard-d'Estaing, December 16, 1964.

[22] "Nationalism and Cooperation," address given December 31, 1964.

[23] "The Independence of France," address given April 27, 1965.

widely reported that all applications for approval of new investments were blocked—simply by not being acted upon.[24]

The effort to sponsor an EEC policy along French lines having failed, during 1965 the French government carried out an extensive review of its national policy toward foreign direct investment. Part of this effort included the first official compilation and analysis of statistics measuring, by sector, the magnitude of foreign direct investment in the French economy. Until this time, the most detailed published statistics were those collected by the U.S. Department of Commerce, but these were limited to American capital only and the figures were not broken down into sectors. The report,[25] prepared by the Ministry of Industry, introduced into the policy discussion facts as well as some analysis—both of which had heretofore been largely absent.

The report noted both the macrodimensions of foreign investment and its distribution by sectors. By the macromeasures, the scale of American investment was acknowledged to be small—2.8 per cent of American productive investments abroad and only 1.7 per cent of the French GNP. The main stress, however, was on the sector breakdown, where percentage of sales in 1963 was the measure of participation. The report's definition of sectors seemed at best capricious: the list ranged from standard sectors, such as automobiles and agricultural machinery, to hybrids such as razor blades and elevators. There is no sense in which these latter two could reasonably be considered to be of equal economic importance to the former pair. The classification scheme appears to have been selected largely to achieve dramatic effect by singling out classes of industry narrowly defined in such a manner that the degree of American participation seems particularly high.

The data and analysis notwithstanding, the conclusions of the report were moderate and balanced, in contrast to many earlier official evaluations of direct investment and its implications for France. The report advised against a strict ban on foreign investment. It argued

[24] It is ironic that the International Monetary Fund's *Annual Report on Exchange Restrictions for 1964* had for the first time stated that foreigners were now freely permitted to make direct investments in France (p. 176).

[25] Ministére de l'Industrie, *Rapport sur Les Investments Etrangers Dans L'Industries Francaises* (Bokanowski Report), 1965.

that since the foreign firms could invest elsewhere within the EEC and freely supply the French market, such a policy, although possible, would leave French industry ultimately facing the same competition. Furthermore, the French economy would lose the advantages of investment in France, such as balance-of-payments effects and the introduction of new technology. This cost of French policy was pointed out by other observers each time an applicant for French approval withdrew and invested elsewhere in the EEC.

By the fall of 1965, the French had relaxed their ban on investment applications, although no take-overs were being approved.[26] During this year there also developed more publicly expressed concern within the Community institutions. Early in the year, President Hallstein addressed himself to the question of American direct investment in an address given before a conference on "Europe, America, and World Trade"; his concern, too, was "excessive sectorial concentration of American investment."[27] The Monetary Committee also expressed concern in its report issued in 1965.[28] The committee, however, stressed the need to control inflation within the EEC. Capital inflows, the report stated, made this control more difficult to achieve, particularly when the inflows were direct investment and affected demand directly.

Over-all, during the period 1963–65, we observe a shift in policy from unrestricted approval of foreign investment to a careful screening of applications and a much more frequent rejection of requests. The method of rejecting the applications was generally that of prolonged delay in acting upon the applications. Both the method used for screening—administrative secrecy—and public interpretations of the policy reflect a lack of any consistent criteria except a strong, if not overriding, preference for investments creating new productive facilities rather than take-overs of existing French-owned firms, and a special concern for certain "key sectors."

Although a distinction between new capital investments and take-overs is made so frequently that its significance seems always to be

[26] *New York Times* (International edition), September 17, 1965, p. 7; *The Economist*, November 6, 1965, p. 633.

[27] Address delivered in Amsterdam, February 4, 1965.

[28] *Seventh Report of the Monetary Committee* (English edition), March, 1965, pp. 7ff.

taken as self-evident, in fact it is not possible to differentiate clearly between the economic effects of these two forms of investment. Both a take-over bid and the direct creation of new capital have identical initial balance-of-payments effects, and theory alone offers no guidance regarding long-run balance-of-payments effects. The widely held view that the one has "real" effects on the economy, while the other is purely a financial transaction, is fallacious. The previous French owners of the firm that has been purchased will use the funds for consumption, other domestic investment, or foreign investment. The mass consumption of capital under the prevailing economic conditions seems unreasonable as a general assumption; foreign investment does not seem to have been a major concern during this period, as foreign-exchange controls were being relaxed; the form of new domestic investment might, however, be a cause for official concern.

The French planning mechanism relies heavily upon the control of credit to insure that domestic investment conforms to the plan. Thus, it is possible that foreign take-overs could indirectly finance domestic investment that credit institutions would discourage, e.g., land speculation. Of the three possible explanations, this one is the most plausible, although official emphasis has not been placed upon it to rationalize the ban on take-overs.

The rationale that does seem implicit in the French attitude toward foreign take-overs is that the remaining French firms in the industry will be less able, or willing, to compete with the firms that have been taken over than they would be had the foreign investment created a new firm. Although it is true that French firms would have more time to adjust before feeling the competitive impact, this—when it does occur—may well be stronger, due to the incorporation of the most modern technology into a new plant.[29] Alternatively, if the barriers to entry of new firms are very high in an industry, preventing take-overs may effectively prohibit all foreign investment in that industry. Hence, a ban on take-overs is a convenient device for banning all foreign investment.

[29] The ban on take-overs may also be interpreted as one method of encouraging the merger of French firms, in an effort to put them in a stronger competitive position vis-à-vis the much larger American corporations. With the option of selling out to foreign interests closed, merging with other firms may become the only alternative for the financial survival of small firms.

Let us turn now to the other major factor that appears to have dominated French policy toward foreign direct investment during the period under consideration: the desire to protect certain "key" sectors from foreign investment. All references to key—or advanced—sectors indicated that they were those in which the most rapid technological change was taking place. The electronics industry generally, and the computer branch specifically, is the example that comes most readily to mind as the archetypal key sector in French policy.

This key-sector criterion for screening applications for foreign investments proved to be at least as inconsistent and unworkable as the new versus take-over criterion. A recurring dilemma was created as the policy of excluding investment in key sectors met head-on with a policy of encouraging investments which introduced new technology, simply because key sectors were most often those in which French technology was lagging. Furthermore, foreign investors with a technological advantage were obviously unwilling to invest unless they could retain management control.[30] *L'affaire Bull* presents an excellent example of this latter conundrum: in this instance, French authorities opted to have the technology even at the expense of increased foreign participation in a key sector.

B. Policy Under Finance Minister M. Debré, 1966–68

By 1966, it was clear that France lacked any viable long-run policy, both because its membership in the EEC left the French economy vulnerable to imports from American subsidiaries in other member countries, and because the cost of developing French technology in all fields was too high.

The replacement of Valéry Giscard-d'Estaing as Minister of Finance by Michael Debré in January of 1966 initiated a reformulation of French policy. The strident official commentary on the threats to French independence posed by foreign investment ceased. Whereas formerly one received the impression that foreign investment was

[30] Evidence also indicates that introduction of new technology through licensing agreements would be no more acceptable to the French government than to the American firms involved. This official concern over the purchase of foreign technology is reflected in the fact that such agreements also required government approval.

presumed to be harmful unless the merits of a particular case were especially strong, official statements now indicated that foreign investment was desirable unless the demerits of a particular case were strong.[31]

Although explicit new criteria were not issued,[32] the legal structure by which foreign investments were controlled was substantially altered by a new law introduced in December of 1966.[33] The new law replaced the complex structure of foreign-exchange controls dating from as far back as 1939. Although this new law was popularly proclaimed as a major step toward freedom of capital movements, in fact it intensified the controls over direct foreign investment in the French economy. New foreign investments still required approval by the Finance Ministry although the Ministry could no longer block an application by indefinite inaction. Two months after filing, applications were to be considered automatically approved, unless the Ministry explicitly disapproved the application or requested a postponement.

The scope of the investments subject to a declaration procedure has, however, been substantially increased. For example, the transfer of ownership of firms located in France from one foreign owner to another requires approval. Similarly, the merger of two foreign firms would require official approval if one of the merging firms owned a French subsidiary, on the ground that the merger would change the ownership of this subsidiary; existing foreign subsidiaries must now obtain approval of the Finance Ministry to expand using new capital from abroad—either equity or loans.

The law fails to provide a general definition of what constitutes a controlling foreign interest in a French firm, except to exempt purchases on the Bourse of less than 20 per cent of existing shares. Further, other factors than percentage of ownership may be considered in the definition. The Ministry of Finance lists these other factors as follows: loans or debt instruments held by the investor, real-property rights, leases and mining rights, technical-assistance agreements, and licensing of industrial-property rights.[34]

[31] London *Times*, January 31, 1966, p. 15.

[32] *International Financial News Survey*, April 15, 1966, p. 120.

[33] The following summary of the legal aspects of the problem relies heavily upon the excellent article by Torem and Craig, "Control of Foreign Investment in France," previously cited.

[34] *Ibid.*, p. 685.

A decree issued at the same time as the new regulations for foreign investments provides for government control of purchases by French firms of foreign industrial-property rights and know-how. All French firms must now obtain the approval of the Ministry of Industry before acquiring foreign industrial-property rights, know-how, or technical assistance. Further, if such acquisition is approved, annual reports of expenses are required.

In summary, these new regulations provide a legal basis for exceedingly close control of all economic activity of foreigners in the French economy—control which is actually more stringent than under the previous structure of foreign-exchange controls. None of the foreign investments mentioned earlier in this account of French policy could have been made without explicit approval. For example, the purchase of controlling interest in Simca by Chrysler was beyond reach of the exchange controls because both parties were foreign. The new law clearly brings such transactions under government control.

This law has, however, recently been seriously challenged by the Commission of the European Economic Community. As was noted above, French membership in the EEC legally subordinates French policy to the provisions of the EEC treaty governing capital movements; the Treaty of Rome and subsequent directives clearly establish freedom of capital movements within the EEC—including direct investment. The Commission has notified the French government that it considers the French authorization procedure for major foreign investments in France to be in violation of EEC regulations. The French have replied that although authorization is required, it is automatic for EEC companies, but this has not satisfied the Commission. Although not explicitly raised, an important issue here is whether the European subsidiaries of American firms are "European companies." To the French, they are clearly not. This dispute will be resolved by the Court of Justice of the European Communities, as the Commission has formally charged that the French law governing capital movements is a violation of the treaty.[35]

French policy continues to permit foreign investment on a selective basis, with a strong bias against foreign take-overs.[36] There is also,

[35] *Wall Street Journal*, February 10, 1969, p. 12, and October 20, 1969, p. 12.
[36] For a recent example see *The Economist*, December 13, 1969, p. 75.

however, some tangible evidence that other types of foreign investment are actively welcomed—at least in development regions. The French government has again opened an office in New York to stimulate the interest of foreign investors.[37] Such an office existed previously but was closed in the early 1960's.

The viability of current French policy depends very much on the outcome of the legal case brought by the European Commission, and on the form and speed of the evolution of the EEC itself. We shall return to the implications of the latter in the section on comparative analysis.

THE GERMAN CASE

The German policy toward direct foreign investment has been exceptionally liberal, especially when contrasted with the policies of France and Great Britain. This liberality has been evidenced both by the complete lack of restrictions on such investment in Germany itself, and by the opposition of Germany, within the EEC, to French efforts to create a Community-wide policy to control foreign investment. Further evidence is to be found in the absence of any German law giving the government legal power to prohibit direct foreign investment or to require prior notification.[38] The law does, however, require registration of the investment.[39] The openness of the government policy extends to the regular publication of data on the magnitude and distribution of foreign participation in the German economy.[40] It is the only one of the three countries to do so. Because the policy has been so unrestrictive, our discussion can be much more brief than it was in the previous two cases.

Although German officials have not indulged in the strong implicit and explicit criticism of foreign investment that has been evident in

[37] *Wall Street Journal,* September 11, 1965, p. 1.

[38] Admittedly, governments of nations as large and modern as Germany do not, in fact, need a legal base for preventing foreign investments. The mere expression of government dissatisfaction with a proposed investment would normally be sufficient to dissuade any foreign investor.

[39] *Verordnung zur Durchführung des Aussenwirtschaftsgesetzes,* paragraphs 57 and 58.

[40] *Monthly Report of the Bundesbank,* May, 1965; November, 1966; and May, 1969.

France, there have been occasional expressions of concern.[41] These, however, have been moderate in tone, and have tended to stress the economic rather than the political implications of excessive foreign investment. In particular, such comments have drawn attention to the possible reduction in competition that might be caused by highly concentrated industries, whether this concentration is foreign or domestic or both.[42]

The official policy toward foreign investments was extensively outlined, in December, 1966, in a statement by the Minister of Economics, Professor Schiller, responding to a question raised by a member of the Bundestag. Professor Schiller stated that participation of foreign capital in the German economy does not have prejudicial effects; rather, it strengthens the economy by stimulating competition and introducing new ideas and techniques. The only problem that might arise, he stated, would be due to concentrations that reached monopolistic levels. Although he felt that no such concentrations then existed, the government was closely observing key industries such as oil.[43]

The only publicly reported instances of government intervention to prevent a foreign take-over involved the oil industry. Early in 1966, a bid was made by the Texas Oil Company for a controlling interest in the ailing firm Deutsche-Erdöl. Negotiations were broken off, owing to government opposition. However, for reasons not known, the government soon withdrew its objections, and the transfer of ownership was ultimately accomplished.[44]

A similar situation arose again in the oil industry when the Dresdner bank sought to find a buyer for its 30 per cent share in one of the only three remaining German-owned oil firms, Gelsenkirchner Bergewerk (GBAG). Both American and French firms were said to be in-

[41] It should, perhaps, be added that Germans not holding official government positions have been rather more apt to criticize the Government's liberal policy toward direct foreign investment. See, for example, "The New American Invasion of Germany," *Der Spiegel*, October, 1965; and the remarks of a key member of the German Parliament, reported in the *Wall Street Journal*, April 6, 1966, p. 5.

[42] See "Foreign Investments in Germany," a statement by Government Director Waldemar Muellar-Enders, Federal Ministry of Economics, in the *Bulletin of the Federal Press Office*, August 26, 1966.

[43] Drucksache, v/1249 of December 19, 1966.

[44] *Wall Street Journal*, May 2, 1966, p. 5; and May 13, 1966, p. 32; *The Economist*, May 14, 1966. p. 743.

terested. However, the German government actively sought a German buyer and succeeded in finding one. GBAG was finally taken over by Germany's largest electrical producer.[45]

The German government's sensitivity to foreign investment in the domestic oil industry reflects considerably more than a fear of economic concentration per se. First, it is not clear that concentration in the German market would have been increased by any of the proposed foreign purchases. Secondly, any definition of the relevant market should start at the level of the EEC and then be limited as other economic factors suggest. To start with, the German market—particularly to the exclusion of French purchasers—indicates that nationalist sentiments, although less of a factor in German policy, are nevertheless not completely absent. We shall return to some implications of German policy for the European Economic Community in our final section, "Summary and Conclusions."

COMPARATIVE ANALYSIS

STATISTICAL ANALYSIS

It is of some interest to review the quantitative changes in foreign investment in the three countries during the postwar period. To the extent that policies have differed significantly among them, these differences should be reflected in the data for this era. We shall restrict our attention to the period 1958 to 1968; 1958 provides a natural starting point because the European Economic Community formally came into existence in that year, and because there was a significant move toward greater convertibility of European currencies at this time. Both factors represent important structural changes affecting foreign investment, and differentiate these years from the earlier postwar period.

Our attention will be restricted to flows from the United States to Europe, to the six countries of the European Economic Community,

[45] *The Economist*, August 12, 1967, p. 595; June 17, 1967, p. 1264; October 5, 1968, p. 99; February 8, 1969, p. 77.

and to each of the three countries selected for this study. The reasons for this restriction are the availability of comparable data, the overriding importance of American investment, and the obvious economic homogeneity of Europe, as contrasted with other areas of the world. Further, we are only concerned with relative shifts in the flow of American investment to these parts of Europe.

Adopting these restrictions, the available data have been assembled into two tables. Table 1 gives the annual net capital outflow from the United States and Table 2 records the book value of American investment abroad at the end of each year.

The general statistical picture that emerges from these two tables is well known: the flow of American investment to Europe increased quite rapidly early in this period but declined at the end of it as U.S. controls over direct investment in Europe came into effect. There was, nevertheless, more than a fourfold increase in the book value of American investments in Europe in this ten-year period.

The data on book values are of interest primarily because they provide historical perspective. These data reflect both the relative attractiveness of countries for American investors over long periods and the residual effects of major upheavals in the international economy, such as wars.

Within Europe, the United Kingdom and the countries of the European Economic Community combined accounted for 89 per cent of all American investments in 1958, and 81 per cent in 1968. The decline notwithstanding, the two areas have clearly dominated the European picture both historically and over this recent period. Among individual nations, the United Kingdom similarly dominates with 47 per cent of all American investments in Europe in 1958, and 35 per cent in 1968. This dominance reflects the historical preferences of American investors for Britain, although, since 1958, the creation of the EEC has tended to alter this pattern. In 1957, the British share was 48 per cent, as compared with the 40 per cent share of the EEC countries; by 1968 these shares had changed to 35 per cent and 46 per cent.

Although the book values are arrived at over this period as a cumulation of net flows, the flows are also of interest because they quickly highlight important shifts in investment—shifts which produce notice-

TABLE 1

American Direct Investment Abroad, Including Net Capital Outflow and Undistributed Earnings of Subsidiaries

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968
						(millions of dollars)					
Europe	428	750	1,325	1,057	1,161	1,443	1,776	1,867	2,244	1,749	1,437
EEC	219	283	436	406	566	733	907	854	1,243	893	526
France	76	77	101	104	157	204	191	184	143	142	−1
Germany	81	130	209	168	290	279	294	317	631	420	285
U.K.	172	330	749	318	261	343	373	559	576	434	583
						(percentages)					
France as a % of EEC	35	27	23	26	28	28	21	22	12	16	0
Germany as a % of EEC	37	46	48	41	51	38	32	37	51	47	54
U.K. as a % of EEC	79	117	172	78	46	47	41	65	46	49	111
U.K. as a % of Europe	40	44	57	30	22	24	21	30	26	25	41
EEC as a % of Europe	51	38	33	38	49	51	51	46	55	51	37

SOURCE: *Survey of Current Business*, September, 1967; October, 1968; and October, 1969.

TABLE 2

Book Value of American Direct Investments Abroad

	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968[a]
						(millions of dollars)						
Europe	4,151	4,573	5,323	6,681	7,713	8,930	10,340	12,109	13,985	16,209	17,882	19,386
EEC	1,680	1,908	2,208	2,644	3,087	3,722	4,480	5,426	6,304	7,584	8,405	8,992
France	464	546	640	741	857	1,030	1,240	1,446	1,609	1,758	1,904	1,910
Germany	581	666	796	1,006	1,177	1,476	1,780	2,082	2,431	3,077	3,487	3,774
U.K.	1,974	2,147	2,477	3,231	3,542	3,824	4,172	4,547	5,123	5,657	6,101	6,703
						(percentages)						
France as a % of EEC	28	29	29	28	28	28	28	27	26	23	23	21
Germany as a % of EEC	35	35	36	38	38	40	40	38	39	41	42	42
U.K. as a % of EEC	118	113	112	122	115	103	93	84	81	75	73	75
U.K. as a % of Europe	48	47	47	48	45	43	40	38	37	35	34	35
EEC as a % of Europe	40	42	41	40	40	42	43	45	45	47	47	46

SOURCE: *Survey of Current Business*, September, 1966; September, 1965, p. 24; August, 1964, p. 10; August, 1963, p. 18; September, 1958; August, 1957, 1961, 1962, and 1959; September, 1960.

[a] Preliminary data.

able effects in the stock figures only over longer periods of time. Because of the sharp changes in French policy during this period, the flows relating to France are of particular interest.

In 1958, the flows of American investment to Germany and France were approximately equal, each representing about 36 per cent of American investment in the countries of the Community. In combination, they represented only slightly less than American investment going to England. For the remainder of the period, Germany's share of foreign investment in the Community was significantly larger than the French share. In 1968, Germany received half of all American investment in the Community, while the French share was zero. The impact of the more restrictive policy is clearly seen in the steady decline of France's share of American investment in the countries of the Community after 1963. The precipitous drop from 1967 to 1968 was, however, no doubt attributable to the civil disorders in 1968.

The data for the United Kingdom are complicated by several large individual investments, especially Ford's purchase of the minority interest in British Ford in 1960, and Chrysler's final purchase of Rootes Motors in 1965. Making an allowance for these, from 1958 to 1961 the flow into the United Kingdom was approximately 80 per cent of the flow to the Community, although this flow exceeded the combined flow to Germany and France. In 1962, the flow into the United Kingdom relative to that into the Community declined abruptly and then, through 1967, remained constantly in the range of 40 per cent to 50 per cent of American investment in the Community. During this same period, American investment in France and Germany combined was in the range of 60 per cent to 70 per cent of the investment in the Community, with the share going to Germany steadily increasing over that going to France. By 1966–67, Germany and the United Kingdom were receiving equal amounts.

The data for 1968 are substantially at variance with the trends established during the previous five years. The jump in investment in Britain relative to that in the Community reflects the impact of three major events: the complete cessation of further investment in France (resulting in part from French domestic political instability); the devaluation of the pound in the fall of 1967 (making assets in the United Kingdom cheaper); and, finally, political uncertainties aroused by the invasion of Czechoslovakia. One can only conjecture as to the relative weights that should be assigned to each of these happenings.

In spite of the difficulties in accurately assessing causes of the 1968 data, the impact of French policy is still clear: no other explanation adequately explains the intra-Community shifts of American investment away from France. During this same time, American investment in the Community as a whole did not show any decline relative to American investment in Europe. From 1962 to 1967, the Community's share of all American investment in Europe has remained very stable at around 50 per cent.

This brief analysis of the data indicates that French policy has been both too effective (with respect to discouraging American investments in France) and quite ineffective (not achieving any significant reduction in American investment in the Community). French policy has only redirected American investment from France to the other countries of the Community—especially Germany.

ECONOMIC DETERMINANTS

In this section we consider in turn those economic variables which have appeared most frequently in the discussions of foreign investment policy, our objective being to evaluate their actual importance in the decision-making of each of the three countries. In the subsequent section we shall consider those variables that could be classified as economic but which, we feel, have in actuality been shaped more by political considerations.

A. Balance of Payments

During the whole postwar period, the balance of payments has been a major factor in the economic policy of the United Kingdom, and certainly, as we have noted, any official discussion of foreign investment always mentions the favorable balance-of-payments effects. Nevertheless, it seems extremely unlikely that the weak balance of payments was a crucial determinant of the generally unrestrictive United Kingdom policy; rather, it served primarily to rationalize it.

Should the balance-of-payments problem of the United Kingdom be "solved," this would be more likely to lead to a removal of government restrictions on foreign investment by British firms than to the adoption of a more restrictive policy toward foreign investment in the United Kingdom. The United Kingdom is too important a foreign investor itself to risk an overtly restrictive policy.

In Germany, the balance of payments was typically in surplus over this period, frequently combined with problems of inflation. Restriction of foreign direct investment would have assisted in ameliorating both of these problems. Nevertheless, no restrictions were imposed or mooted in public.

Early in the period, France was experiencing balance-of-payments deficits, and the liberal foreign-investment policy of this time encouraged capital inflows, which assisted in the financing of these deficits. In the mid-1960's, when foreign-investment policy became highly restrictive, French reserves were rising, thus permitting the balance-of-payments impact of this reversal of policy to be ignored. Subsequently, the balance of payments returned to a deficit. Nevertheless, there has been no return to the earlier liberal policy. Foreign investments that would involve the take-over of French firms are still discouraged.

On the basis of these three different situations, we conclude that the balance of payments has generally played a peripheral role, rather than an overriding one, in determining policy toward foreign direct investment.

B. Economic Planning

The literature makes frequent reference to the complications created for national economic planning by direct foreign investment in Europe. Usually such references take the complications as self-evident; hence, no supporting evidence is offered. Here, we shall critically review the potential importance of these complications for the countries in our study. Of these three, only two are of interest in this respect, Germany having no significant, detailed national economic planning. The United Kingdom and France do have forms of economic planning, although implementation of the British plan has not been vigorously pursued. We shall discuss each in turn.

A review of the planning mechanism in the United Kingdom is beyond the scope of this paper.[46] We are primarily interested in potential and actual conflicts between planning goals, the means for achieving them, and foreign participation in the British economy. With this in mind, it is interesting to observe the role and the problems that the planners themselves anticipated. The basic document for the British effort at detailed planning was issued in 1965, a time of manifest concern over foreign investment.[47] Although this document runs to over four hundred pages, there is only one significant reference to foreign investment:

> New productive investment by foreign companies, especially in underemployed areas of the United Kingdom, will continue to play an important part in the creation of new industrial capacity. A special effort will be made to attract those companies whose exports to Britain have already secured them a firm base in the British market to start local production. There will continue, of course, to be regulation of the acquisition of control of existing British companies.[48]

Taken at face value, this statement indicates that conflicts between economic planning and foreign direct investment are not at issue. Further, in the regional planning of the United Kingdom, the significant role played by American investment is well recognized. If planning encompasses the alteration of the structure of industries, both to create larger production units and to preserve a substantial degree of domestic ownership, then the potential for conflict is significant. As we noted earlier, British policy regarding the structure of industry places considerable emphasis on protecting domestic ownership.

In France, the planning issue is more complex than in Britain, because it has been an important guiding force in the French economy during the whole postwar period; [49] it is an integral part of the economic

[46] For a thorough discussion of the development of United Kingdom planning, see Everett E. Hagen and Stephanie F. T. White, *Great Britain: Quiet Revolution in Planning*, Syracuse, N.Y., 1966. For a comparative analysis of planning among the countries of interest here, see M. MacLennon, M. Forsyth, and G. Denton, *Economic Planning and Policies in Britain, France, and Germany*, New York, 1968.

[47] *The National Plan*, Cmd. 2764, London, 1965.

[48] *Ibid.*, p. 10.

[49] See MacLennon *et al.* for a brief review and analysis of French planning:

fabric of the nation. Further, the plan is much more detailed in that output targets are set for individual industries rather than just for macrovariables. For implementation, the plan relies upon both government intervention and an *économie concertée* achieved through cooperation between industry and government. Government intervention takes place through both fiscal and monetary incentives—particularly the latter. Extensive government control of the capital market and major credit institutions is a basic factor in insuring compliance with the plan.

With this institutional structure of planning in the French economy, one can readily see that a large disruptive influence might be wielded by foreign-controlled firms.[50] Such firms can be expected neither to identify with the plan as a national goal nor to depend as much upon French credit sources as do French-owned firms. This point has been frequently reflected in the public criticism of foreign investment. The closures of the plants of Remington Rand and Frigidaire cited earlier gave credence to the alleged indifference of American firms to accepted modes of French socioeconomic behavior.

Because of this widely accepted presumption that direct investment has been incompatible with the French planning mechanism, the statement of Oliver Giscard-d'Estaing before a Congressional committee is of particular interest. In listing the significance of American investment for the French economy, he stated that subsidiaries of American firms have been responsive to French economic-planning policies.[51] The major concern expressed by Oliver Giscard-d'Estaing related to the technology gap and American investments. We shall return to this issue below.

Another factor that reduces the disruptive potential of foreign investments for French planning is the wide power for regulating this investment embodied in the law passed in 1967. This piece of legislation effectively prevents foreign firms from escaping French credit these gaps. Nevertheless, the report suggests that member countries

[50] MacLennon *et al.*, p. 362.

[51] *International Aspects of Anti-trust*, Part I. Hearings before the Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary, U.S. Senate, 89th Congress, 2nd Session, April 28, 1966, p. 205. M. Oliver Giscard-d'Estaing should not be confused with his brother Valéry, who was Minister of Finance just prior to this time. At the time of his testimony, Oliver Giscard-d'Estaing was Director General of the European Institute for Business Administration, Fontainebleu, France. He has also achieved the rank of Inspector of Finance within the French Civil Service.

controls through borrowing abroad. The law, however, does not restrict self-financing of these firms through retained earnings. This stand is consistent with a move toward more flexible planning; the Fifth Plan, in fact, encourages more self-financing by firms, in spite of the loss of government influence which results.[52]

To summarize, the complications created for French planning by foreign direct investment seem, upon examination, to have been more potential than actual. Further, as French membership in the European Economy Community increases French interdependence with the other member economies, the implications for French national planning raised by this new situation will greatly overshadow any complications caused by American investments.

POLITICAL DETERMINANTS AND THE TECHNOLOGY GAP

Our review of the economic determinants has failed to suggest any general framework which builds upon them to explain the policy actions described earlier. In fact, our analysis has suggested that, collectively, these strictly economic factors have played at most a minor role. In this section, we seek a better understanding of these policies by taking a broader view—one that encompasses the political context.

Since the mid-1960's, one of the major topics dominating the discussion of American-European relationships has been the "technology gap."[53] Concern over this problem has been widespread in Europe, and it has placed American direct investment and technology in a different perspective. The policymaker's view of the interrelationship between transfer of technology and foreign direct investment has undergone a radical change during the postwar period. The earlier view (frequently reflected in the policy statements reviewed above)

[52] MacLennon *et al.*, p. 167.

[53] Most of this discussion has been distressingly vague—a term searching for a phenomenon, and frequently not even finding a definition. The important parts of this discussion have now been masterfully pulled together and given a clear framework by Robert Gilpin in his book *France in the Age of the Scientific State*, Princeton, N.J., 1968. Much of the discussion which follows here draws directly on his basic conceptualization. Anyone interested in the literature should refer to his book; the subsequently published OECD reports in *The Gaps in Technology Between Member Countries* series; and Christopher Layton, *European Advanced Technology: A Programme for Integration*, London, 1969.

was an extremely positive one: the benefits to the domestic economy of new technology were unquestioned, and foreign investment was a uniquely important device for transmitting this technology.

By the mid-1960's, a significant counterview began to emerge in the context of a broader reassessment of science and technology, and their implications for the evolution of the nation-state. This view has been articulated most extensively by the French; it is, however, by no means an exclusively French concern.[54]

Robert Gilpin has recently synthesized the French views and generalized them into a most useful and interesting conceptual framework. In Gilpin's view, this new and overriding concern over technology on the part of European political leaders marks the beginning of the age of the "Scientific State" and the end of the "Industrial State." From the 19th century to the mid-20th century, industrialization was the step through which a nation-state could achieve the status of a Great Power.[55] Even the rhetoric of the 1950's reflects this: size and growth of GNP, amount of steel capacity, and so on, were the indices of Great Power status. But in the age of the Scientific State, the institutionalization of science and technology provides nations with the essential ingredient for Great Power status, as it is now conceived.[56]

Similar ideas appear in the study by the Organization for Economic Cooperation and Development on *Gaps in Technology,* but without Gilpin's conceptual framework. After reviewing the evidence, the OECD report concludes that technological gaps *have had no undesirable effects on the trade or on the economic growth* (paramount goals in the age of the Industrial State) of the countries experiencing these gaps. Nevertheless, the report suggests that member countries

[54] See, for example, the famous "industrial helotry" speech by Harold Wilson, delivered to the Council of Europe on January 23, 1967. See also earlier remarks on a European Technological Community, London *Times*, November 15, 1966, p. 1, and December 1, 1966, p. 12.

[55] Gilpin, *op. cit.*, p. 5.

[56] *Ibid.*, p. 25. J.-J. Servan-Schreiber is also concerned with achieving Great Power status for Europe through technology. This idea is clearly stated in his influential book *The American Challenge*, although it is buried in a footnote on page 111 of the English edition. In explaining why selective specialization in science-based industries, on the Swedish model, will not do, he states, "The Swedish model is rich in social potential, but Sweden has no ambitions to be a world power."

desire to control their own technology.[57] Great Power aspirations require far greater national control over science and technology than is possible if foreign firms dominate the domestic science-based industries.

If this thesis is correct, the differences in the policies toward American investment demonstrated by the three countries reflect differences in the gaps dividing the Great Power aspirations and the resources of each. This gap has been greatest for France and relatively smaller in the cases of Germany and the United Kingdom, although not altogether insignificant in either.

The United Kingdom has both a broader base in the technologically advanced industries and an easier entree to American technology in certain fields, most notably that of atomic development.[58] Germany has also had a special political relationship with the United States because of its defense problems; this relationship has negated any technological independence.[59]

In spite of these differences, an independent European technology and science has emerged as a common concern, with implications that may ultimately lead to a common policy toward foreign direct investment. As was noted earlier, France failed in 1963 to obtain support from other members of the European Economic Community in establishing a Community-level policy to control American investment. By 1965, however, the other European countries were moving much closer to the French view of the importance of science and technology—and the attendant need for action. We shall return to the implications for Community policy in the next section.

FOREIGN INVESTMENT POLICY OF THE EUROPEAN ECONOMIC COMMUNITY

No discussion of the policies of France and Germany would be complete without reference to their membership in the European

[57] Organization for Economic Cooperation and Development, *Gaps in Technology: General Report*, Paris, 1968, p. 31.

[58] Gilpin, *op. cit.*, p. 54.

[59] *Ibid.*, p. 437.

Economic Community, both because economic interdependence imposes constraints on the national policies of any member, and because the Community has the long-range goal of harmonizing all national economic policies. However, insofar as a firm policy of the Community is still being formulated, we can do little more than suggest which lines of development appear to be the most significant for the future.

On the Community level, it seems unlikely that any policy explicitly restricting American investment will be adopted. This approach, though urged by France, has never received public support from other members. However, the French have stimulated common concerns which are now receiving Community attention in two distinct ways.

First, concern for European technology has led to numerous national cooperative efforts (e.g., the Concorde) and to some efforts on the Community level (e.g., Euratom), but no comprehensive framework has yet emerged, nor is it yet clear what types of cooperation are most successful. The obstacles have been extensively analyzed and numerous proposals advanced, but nationalistic sentiments and rivalries have continued to prevent a comprehensive approach.[60]

The second policy of the Community that is evolving deals with nationalizing the industrial structure—a response similar to that taken by the United Kingdom in creating the Industrial Reorganization Corporation.[61] The Medium-Term Economic Policy Committee of the Community is formulating a policy concerning the industrial structure which aims to improve the competitiveness of firms in the countries of the Community vis-à-vis American firms, especially those with large investments in Community countries.[62]

One of the goals of the industrial-structure policy is to create larger European firms on a scale comparable to the major international firms.[63] To carry out such a policy at the Community level is an undertaking vastly more difficult than doing so within a single nation. Many other Community policies must be formulated and implemented si-

[60] Both Gilpin and Layton (1969) provide comprehensive analyses of these problems. Layton also provides an extensive review of the specific efforts at technological cooperation that have been undertaken.

[61] European Communities, *Second General Report on the Activities of the Communities* (1968), Brussels, February, 1969, p. 199.

[62] European Economic Community Commission, *Tenth General Report on the Activities of the Community*, Brussels, June, 1967, p. 179.

[63] *Second General Report*, pp. 181–182.

multaneously to permit modification of the industrial structure; these include a European company law, a detailed Community antitrust policy, a more efficient Continental capital market, and a decision on the admission of new members to the Community.[64]

These are, of course, major obstacles to the evolution of the Community itself, and complete discussion of them is beyond our limits here. If these obstacles are surmounted, a policy of the Community regarding its industrial structure could have a most significant impact on foreign direct investment. If this policy is implemented by discrimination against existing foreign firms – through discriminatory government purchasing, for example – the postwar trend away from economic nationalism could well be reversed.[65]

SUMMARY AND CONCLUSIONS

OUR "Review of Policies" has shown none of the three countries willing to permit complete freedom of foreign direct investment in its economy, international agreements to this effect notwithstanding. The methods of restricting foreign investment have been quite different among the three. The English have abided by the letter of the agreements but have also undertaken domestic policies clearly designed as defensive measures aimed at preventing foreign investment in certain industries. The French were initially less subtle in their methods for restricting investment. Apparently, the restrictions were carried to excess, necessitating the subsequent revision of policy. With the single exception of oil, German policy has been highly unrestrictive. This policy will be tested in the future by the support and direction that Germany gives to the developing policy of the European Economic Community.

[64] European Communities, *First General Report on the Activities of the Communities* (1967), Brussels, February, 1968, pp. 193–194. Many of these points are also developed by E. M. J. A. Sassen, a member of the Commission, in his article, "Competition Policy: More than 'Anti' Trust," *European Community*, October, 1969, pp. 3–5.

[65] See the view of Commission member M. Guido Colonna di Paliano in "Industrial Policy: Problems and Outlook," *Bulletin of the European Communities*, February, 1969, pp. 5–8.

One important question raised by our study concerns the real motivation behind restrictive policies. The "Comparative Analysis" section above failed to uncover any official economic rationale solidly based on factual and theoretical economic analysis. On the contrary, the official rationale was typically devoid of factual evidence and of any solid base of sound economic theory. The general policy bias against foreign take-overs as opposed to "real" investment is a major example of bad theorizing.[66]

For an explanation, one is tempted to attribute restrictive policies to simple economic nationalism. Such an explanation now has a secure place in the corpus of economic theory, as a result of the work of Breton and Johnson.[67] Their approach suggests that domestic ownership of economic assets within a country is a collective, or public, good from which psychic income is derived by the populace or significant segments of it. Restriction of foreign direct investment can thus be interpreted as rational economic behavior. While this approach has general appeal, it seems inadequate for the cases at hand, because it does not adequately emphasize the increasing focus of these restrictive policies on the science-based industries.

The concept of the Scientific State may provide a more insightful and richer explanation. It is more insightful through its particular relevance to the three countries under discussion, given their state of economic development and their historical experience. It is also a richer explanation because it simultaneously encompasses other important contemporary phenomena peculiar to these countries—for example, their national concern with science and educational policy, and the interrelationships of these with foreign direct investment.[68]

Because of the growing common elements in these three national

[66] One might argue that new foreign firms are preferable to take-overs because a larger number of firms will reduce industrial concentration and increase competition. This, however, would be empirically inappropriate here, inasmuch as all three governments have generally been concerned to *increase* concentration of the domestically owned firms.

[67] Albert Breton, "The Economics of Nationalism," *Journal of Political Economy*, 72 (1964), pp. 376–386. H. G. Johnson, "A Theoretical Model of Economic Nationalism in New and Developing States," *Political Science Quarterly*, 80 (June, 1965), pp. 169–185.

[68] H. G. Johnson, *Comparative Cost and Commercial Policy Theory for a Developing World Economy*, Wicksell Lectures, 1968; Stockholm, 1968. See especially the second lecture.

policies, and because of the overwhelming likelihood that Britain will join the European Economic Community, attention naturally turns to the Community for the future implications of these policies.

A major implication for the future is the Community's policy regarding its industrial structure. If this policy moves to create European firms in science-based industries through overtly discriminatory and protectionist devices, it will have undesirable consequences for free trade in the Atlantic Community and for the economic benefits derived from this trade—not to mention the political friction that it would generate.

It nevertheless seems likely that, by some means, larger European firms are going to be created. Two major economic issues for the future then follow. The first of these will be a need to arrive at an international agreement defining and limiting the scope for discriminatory governmental "Buy American" or "Buy European" policies. Policies of this nature already represent substantial barriers to efficient resource allocation on the international level, and if unchecked, promise to raise even greater obstacles in the future. Further, as two-way direct investment grows, it will become more and more difficult to make ethnoeconomic distinctions.

A second consideration for the future lies in the fact that a greater number of large European firms will mean a greater number of large multinational firms. The world is a big market, but economic concentration can threaten competition in this market just as it can in national markets. To avoid this, there will be a growing need for internationally agreed upon and enforced "competition policy."

Both of these issues will require the attention of economists. The threat of economic nationalism is still with us, but it now appears with a new impetus and a new rationale in the age of the Scientific State. The Scientific State, like the Industrial State before it, has a tremendous potential for benefiting mankind through the systematic application of new scientific knowledge according to comparative advantage. But this potential may well be lost if the Scientific State reverts to the narrowly nationalistic pattern that characterized the early development of the Industrial State.

COMMENTS

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Although the title of Severn's paper, "Investment and Financial Behavior of American Direct Investors in Manufacturing," is a fairly accurate description of the content of his paper, his intention in analyzing the behavior of foreign investors is to appraise the impact of American direct investment on certain items in the balance of payments of the United States. By his methods, he finds that domestic economic circumstances and policies have negligible effects on direct-investment outflows. This conclusion is warranted on the basis of his analysis, but his work cannot be used to estimate the over-all effect of direct investment on the balance of payments.

Other than capital outflows and remitted earnings, Severn's paper ignores all effects of direct investment on the balance of payments. There is no reason to believe that the secondary effects of direct investment—for example, multiplier effects on income in the host country, changes in the demand by subsidiaries for capital goods produced in the United States, the substitution of goods produced by subsidiaries for exports from the United States, changes in the demand for parts and components imported from the United States, and even changes in exports to the United States of goods produced by subsidiaries—are negligible, or that their net effect on the balance of payments is very small. In addition, subsidiaries might provide information about other American products not produced by subsidiaries, and by this means increase exports from the United States. Although, at present, we do not know the magnitudes of these effects, I feel that Severn's approach to the appraisal of the impact of direct foreign investment on the balance of payments is incomplete and, moreover, addresses itself to analyzing an aspect of foreign direct investment that could have but little effect on the balance of payments.

Certainly the view of the U.S. government in changing the voluntary controls on direct investment to mandatory controls was that potential future inflows could be sacrificed to reduce present outflows.

We do not know whether the government view has been warranted, but Severn's analysis cannot yield the information we need to appraise the costs of the government's action.

Severn's paper is divided into two parts: in the first, he estimates a model of investment and financial behavior of multinational firms. His intention here is to assess the importance of various factors within an individual firm as determinants of the firm's division of expenditures between foreign and domestic investment. Because he views payments of dividends to stockholders as competing with other possible uses of the firm's funds, he also estimates the determinants of variations in dividends. In yet another equation, he estimates the determinants of the relative allocation of firm funds between domestic and foreign uses.

Severn's main interest is in determining whether firms will use their internally generated funds for domestic, or for foreign, investment expenditures. Correctly, he views the firm's managers as dividing their investment funds between foreign and domestic uses, depending on where the marginal efficiency of investment is higher. However, his proxy variable for the marginal efficiency of investment is the change in the firm's sales in each location. Changes in sales represent, at most, only the changes in the demand factors that the firm faces in each location, totally ignoring the cost conditions which, together with the demand conditions faced by the firm, determine the marginal efficiency of investment. These cost conditions are unlikely to remain constant during the annual periods which Severn takes as his short run. Possibly, one could argue that cost conditions are relatively homogeneous within the United States and that change in sales is a good proxy for the marginal efficiency of investment in different locations. Among countries, though, a large body of statistics indicates that costs of production, including wages and the prices of raw materials, differ greatly. Furthermore, because of the unavailability of certain specialized factors of production in some countries, production of certain products may be impossible. Is it reasonable to assume, then, that the marginal efficiency of investment can be measured by sales changes alone, or by adding lagged sales changes to the model to take account of more long-run effects? I think not. Furthermore, Severn's model assumes that the firm's output is sold in *either* the foreign or the domestic market exclusively, and that output produced in a given area is sold in that area. Exports are not a part of his model, and their omission appears to be inconsistent with the view that firms maximize worldwide profits.

In the second part of his paper, within the context of his model of behavior of the firm, Severn uses the results of his estimating techniques to measure the impact of macroeconomic policy on the balance of payments of the United States. He finds that domestic economic policy has a negligible net effect on direct-investment outflows. A recession in the United States causes a large decrease in net outflows during the recession year and an increase in the next year. His results are not surprising: multinational firms undertake investment in order to maximize long-run worldwide profits. If a recession limits the ability of these firms to finance foreign investments, they will either increase their capital outflows in the following year or will attempt to finance their foreign expansion by borrowing abroad. This latter action is entirely ignored in Severn's model, and almost entirely ignored in his paper. Does not the maximization of worldwide profits of the firm imply that firms will utilize foreign borrowing as a source of funds if they are cheaper or, as in the case of the present restrictions on capital outflows, if they are sometimes the only means by which multinational firms can expand abroad.

Severn's data cover the period 1961–66. The voluntary restraint program was begun in 1965 and was extended in 1966. Thus, during two years of this six-year period, the U.S. government was urging firms to finance any expansion of their productive capacity abroad by foreign borrowing. Firms not only had a rational basis for borrowing abroad when it was cheaper for them to do so, but, in 1965 and 1966, they had fewer choices and were often forced to expand their foreign capacity by this means.

In one version of his model, Severn does include a dummy variable for 1966. This variable takes a positive sign, but it is not significant. The positive sign implies that foreign-investment expenditures increased in response to the restraint program. Although the positive coefficient could be attributed to errors in the data, Severn believes that it is indicative of the actual behavior of firms, reported in their annual reports (the source of his data), these errant firms successfully concealing their behavior from the U.S. government. An article in the *Wall Street Journal* suggested that part of the errors-and-omissions item in the balance of payments represented capital exports by American firms. This appears to be possible. However, I doubt that these same firms would then reveal large capital exports in their annual reports to their stockholders.

At present, we have very little empirical information about the determinants of foreign investment. Severn has attempted to fill this gap in our knowledge by developing and estimating a model of the international firm's investment behavior. His paper provides a useful beginning. After reading it, other authors will be better able to understand the international firm. However, I submit that much additional work needs to be done before we shall be able to estimate the balance-of-payments effects of foreign investment.

Gillespie examines the policies of three important host countries of American foreign investment, namely, England, France and Germany, to obtain an understanding of the economic determinants of these countries' policies toward foreign investment. His objective is a valuable one: if we knew the economic conditions that determined policy, we would be better equipped to predict policy changes and to appraise the appropriateness of specific policies.

The main body of his paper is a review of the policies of England, France and Germany toward direct foreign investment during the post-World War II period. He cites the laws regulating foreign investment in each of these countries and briefly recounts how they were interpreted for specific American foreign investments that provoked public debate and controversy. Gillespie is aware that this approach leads him to ignore many potential investments that were immediately rejected and others that were not undertaken because the American investor withdrew his request in anticipation of its being rejected. However, Gillespie is not aware that his approach also fails to analyze the total investment climate in any of these countries resulting from the existence of rules and regulations which restrict the activities of foreign investors. We do not know how many American firms did not request the privilege of investing in England, France, or Germany because they anticipated that they would not be able to operate freely in these countries.

Gillespie compares the quantitative changes in foreign investment in the three countries during the 1958–68 period. He believes that the policies of each of these countries should have determined, to some degree, the capital flows received by each country during this period. Undoubtedly this is true; however, American firms should also have responded to other conditions prevailing in these countries before undertaking foreign investments—considering primarily their incentive to maximize worldwide profits. We cannot tell from these data what factors motivate American firms to invest in each of these countries, and the relative strength of these factors.

However, Gillespie's principal concern is not with why investment takes place but with the economic determinants of host-country policies toward foreign investment. He concludes that economic conditions, specifically balance-of-payments problems and internal economic planning, have had only a minor role in determining the policies toward foreign investment of these three countries. Although this is a possible conclusion based upon the experience in the countries under discussion, it does not convince me. He reasons that since Britain is a significant foreign investor herself, she will never use balance-of-payments conditions as a basis for restricting foreign investment. This conclusion implies that Britain will not restrict foreign-investment activities, as she will always be conscious of her own role as a foreign investor.

Although national economic planning could provide a basis for restricting foreign investment, Gillespie concludes that this factor did not motivate France, the principal planning nation of the three, to limit foreign investment. Britain, which has a somewhat less planned economy than France, did not find that foreign investors had goals that were inconsistent with the British planning goals. In short, neither balance-of-payments problems nor economic-planning goals motivated Britain, France, or Germany to regulate foreign investment.

What, then, provided the incentive for regulations? Gillespie cites nationalism as the principal factor. In his view, these three countries and the European Economic Community are very much concerned with developing their own large firms, which will successfully compete with the already significant and large American firms. If this is correct and the Europeans are successful, American firms can expect more competition from European producers and greater restrictions on their expansion in Europe. American firms would do well to study Gillespie's conclusions and appraise their impact on company activities.

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Severn's study is essentially an extension to foreign direct investment of a theory of corporate investment decision-making that has been applied to domestic investment. By treating the international firm's decision in a noncompartmentalized way, he has been able to develop a testable model of the financial behavior of direct investors abroad that is analytically appealing and that promises to predict well. I think we are going to see much more work following the lines set out in this paper; and a reevaluation of other approaches is in order.

On the one hand, the variety of residual-fund theories that relate foreign investment too closely to the earnings of foreign subsidiaries, or even treat those earnings as wholly reserved for foreign investment, are refuted. Indeed, earnings of the foreign subsidiary seem to have more effect on *domestic* investment of the firm, and on investment of the firm as a whole. There seems to be even less reluctance to go outside for funds to finance investment opportunities abroad than for those at home.

On the other hand, the usual approach of comparing the marginal efficiency of investment (MEI) with the cost of funds, as applied to cyclical expansion, would seem to be supported by Severn's findings. For example, considering that, over the period covered, the investment boom was abroad rather than at home, and given a Lintner dividend function, the share of external finance of subsidiaries both from the parent and from local sources abroad increases. (Sources-of-funds data for direct investment in European manufacturing show a rising role of external finance during this period, even before the imposition of direct-investment controls.)

If I interpret Severn's model correctly, considering the period *since* 1966, we would say that the shift rightward of the domestic MEI schedule (relative to foreign-investment opportunities) would lead to a shift in the mix of foreign subsidiaries' borrowing toward borrowing abroad (as well as some reduction in investment abroad) even in the absence of controls over direct investment. It will be interesting to see how well the model works with 1967–69 data. Is it not likely that foreign and domestic investment behave more like substitutes under these conditions, even though they did not do so during Severn's period—that is, 1961–66?

Next, I want to draw attention to two aspects of the foreign-investment decision that are slighted in this model but which, I think, could easily and fruitfully be explicitly incorporated. Severn regards increases in sales as more permanent (or less transitory) when sales have been growing steadily for some time in the past. I wonder whether some of the greater so-called permanence of the demand for foreign investment, as compared with domestic investment, may not be explained by the greater oligopoly power of the subsidiaries in their overseas markets vis-à-vis the parent in the domestic market. The relative substitutability of domestic investment and the danger of spoiling the domestic market are, of course, the central concern here.

In a longer-run model, domestic and foreign investment may well be more directly substitutable, in that domestic investment plus exports is the alternative to new foreign direct investment. (From the point of view of national welfare—that is the next area for a seminal paper—the domestic-investment alternative is probably preferable.)

Second (and last), a word on leverage. In this model, leverage turns out to be more helpful in explaining foreign investment than domestic investment. Why? I am not satisfied with the typical cost-of-capital approach (see, e.g., p. 393). Nor can it be attributed merely to the surge of foreign investment in the last decade: the debt-equity ratio of (European manufacturing) subsidiaries vis-à-vis parents was greater even before that. (The 1957 Census showed a 1:1 debt-equity ratio for manufacturing subsidiaries versus a 1:2 ratio for the parent corporation.) Here again, we return to the risks of devaluation (and confiscation) and to the use of local debt as an offset. Or are there nontransitory institutional factors, differing tax structures, and personal preferences that make it cheaper, or more attractive, for foreign direct investors to borrow abroad than at home?

Gillespie's paper is essentially a review of the official policies of the United Kingdom, France, and Germany toward direct foreign investment, and an attempt to measure the effects of those policies on the actual stocks and flows of direct investment from the United States to those countries over the last decade.

My principal over-all reaction to the paper is that he has given far too much consideration to the *stated* national policies (to the neglect of other likely determinants) and too little consideration to the data and to quantitative analyses. In general, I believe it is more fruitful to pay greater attention to what economic (and political) units *do* than to what they *say*. And this is especially true in the present case, since, unlike the author, I do not see much influence of stated policy goals on actual flows of direct foreign investment to these three countries. It is not demonstrated, for example, that Gaullist rhetoric and indicative planning in France have significantly inhibited the flow of direct foreign investment to France. Nor are other hypotheses formulated, much less tested.

1. Gillespie concludes that "the impact of the more restrictive policy is clearly seen in the steady decline of France's share of American direct investment in the EEC countries after 1963 . . ." and presumably through 1967 (since 1968 was France's year of "relevance"). But this is not so clear or impressive to me.

Between 1959 and 1965 (the apex year for French stated restrictions) France's share of direct-investment flows was in the (trendless) range of 21 per cent to 28 per cent of the total of such flows to the European Economic Community. The drop from that range to 12 per cent and 16 per cent in 1966 and 1967, respectively, can be attributed to a variety of factors other than stated policy toward direct foreign investment. Among those factors worth considering are the following: (*a*) short-run balance-of-payments problems in the United States (as well as in France) during a sharp cyclical expansion, with resultant cost-of-capital effects. For example, direct foreign investment by the United States (hereafter referred to as DI) may have shifted from France to Germany because pressures to finance DI abroad increased, and finance was cheaper and more available in Germany than in France; (*b*) shifts in investment opportunities toward Germany from France due to disparate rates of growth of the economies or to differences in current and expected returns.

Moreover, it should be noted that the absolute amount of direct-investment flows from the United States to France was twice as high in 1966/67 as it was in 1958/59. (True, they were three times as high in 1963–65.) In reading this paper, one is led to forget that a boom in foreign direct investment was occurring throughout Europe. The data on stocks (Table 2) reveal little change in France's position vis-à-vis the European Economic Community; it is the relative decline in the share of the United Kingdom that impresses. But here one is likely to attribute that shift to the evolution of the Common Market rather than to controls over DI flows.

In short, the role of national policy on direct investment can only be reasonably isolated in a model that at least accounts for the principal causal factors.

2. A study of policy alone, it seems to me, could be more helpful to the extent that it treated specific cases and did so quantitatively. In the case of France, Gillespie stresses that the specific targets of the investment controls were take-overs and the protection of particular sectors, e.g., electronics. But the role of these types of direct investment in total direct investment in France is not (perhaps cannot be) explored. Nor is it at all clear to me that (as Gillespie assures us) it is "not possible to differentiate the economic effects" of take-overs from new corporate investment overseas.

The two types of investment have different effects on the use of real resources in the host country, even if only in the short run; and there are surely differences in the effects on the structure of industry, unless the opening up of a new unit overseas is ruled out as an alternative form of direct investment. The volume (as well as the composition) of investment in the host country will be different if take-over is substituted for new foreign direct investment. There will also be differences in the number of firms, as when entry into the banking system is permitted via merger rather than requiring the establishment of a new branch.

There are also differences in the economic effects on the investing country when it expands overseas investment by the take-over route instead of the new-investment path. Take-overs slur the distinction between foreign portfolio and direct investment; while having the "control" element associated with direct investment, they share the "financial" (rather than "real") asset attribute of portfolio investment. Of course, in the long run, the origins of the subsidiary become irrelevant. But that is not to say that the short-run distinction is unimportant.

3. One final matter: I fear that Gillespie attributes too much aggregate effectiveness to direct-investment controls of the United States. On the basis of sources-of-funds data (rather than preliminary balance-of-payments data), one cannot conclude that American direct investment in Europe has declined at all through 1968. What one sees is a shift toward external financing of such investment—from sources at home to sources abroad. Again it is the *structural,* like the sectoral, aspects that tend to be slighted in the paper, though they are probably just the areas where the effects of the controls are most significant.

Note that I do not claim that the controls have had no effects. I do claim, however, that the effects were seldom the advertised or intended ones, and, in any case, can hardly be determined outside of a reasonably complete model of the investment process.