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tain draft measures for a regional economic policy, now seems to be the suitable moment for embodying in them also forward-looking Community Programmes, as they would exert a favourable influence on medium-term economic policies at Community level.

Three-In-One: Coordination - Finance - Grants-in-Aid

It is impossible to use isolated concepts referring to parts of the Community for

- ☐ coordinating the structural farming policies of member states;
- ☐ financing individual projects through the Equalisation section of the European Equalisation and Guarantee Fund of Agriculture;
- ☐ developing a policy of grants-in-aid for farming, in order to make geographically varied and differentiated investments in member states and at Community level. Such work needs urgently the development of an Overall Concept, to which the three named

fields of action, with their different modes of operation and instruments, can be subordinated, and where they will be optimally coordinated with each other. This is a very urgent task indeed. Before long single improvement projects for farming structures will receive large sums from Community funds. Unless policies on farming structures are firmly coordinated, and in the absence of coordinating these again constructively with grants-in-aid to be given, a big risk may be run that woolly thinking which is rife in some member states in this field will intrude also into Community policies.

It is true that the first draft programmes of the Community offer some support for the proposed policy but, taken together, they do not provide a sufficient guarantee for agricultural investments intended to improve farming structures to help the viability of a common farm market, thus subordinating themselves to the needs of a growing overall economy, and to meeting the requirements of an overall economic policy.

Should American Investment in the Common Market Be Condemned or Encouraged?

*By Bernd Muldau, Hamburg *)*

In Europe, people are becoming increasingly anxious about the rapid spread of American investment activity over the last few years. This is particularly so in EEC countries. And indeed, over the past decade the activity of private American capital has been directed particularly towards the territory of the Common Market.

Immediately after the last war, American investment was extremely welcome all over Europe. Europe's run-down industry needed American capital to help start the growth process necessary for recovery. Now Europe has sufficient capital of its own to undertake the ever-increasing investment demanded by this continuous growth. America has served its turn—America must go.

But private US firms continue to increase their investment activity in Europe and within the Common Market. More and more American firms are penetrating the EEC. In 1964 2,290 firms and participations had already been established on EEC territory since the war and 3,070 in the whole of Europe. In 1964 US capital invested in the Common Market totalled \$ 5,398 million and the figure for Western Europe was \$ 11,973 million.¹ The expensive trend of Ame-

rican capital within the EEC is still continuing. It is not surprising, therefore, that the anxiety inside EEC is becoming more acute, particularly since American firms give preference to the so-called growth industries, i. e. chemicals, energy, electrics and motor vehicles.

Typical of the degree of anxiety is a statement by the President of the American Chamber of Commerce in Germany, Mr. Schoeppler: "We note with astonishment the expression 'colonisation' recently used in this connection."²

And indeed, European economists and politicians consider the reason for this growing resentment against American investment to be the fear that domestic industry may pass into foreign hands and the conviction that American investment activity will mean a tendency towards concentration. But is American investment amounting to 6-7 % of total investment in manufacturing industries in the Common Market really sufficient to merit such phrases as "passing into foreign hands" and "selling out domestic industry"? Just recently, it has been said that such arguments stem from political rather than economic motives: "Europe's increasing sensitivity vis-à-vis investment by US firms is primarily due to a political phenomenon and only in the second place to an economic one."³

* See: Bernd Muldau: "US-Investitionen in der EWG", soon to be published by Verlag Weltarchiv, Hamburg.

¹ All figures quoted below include a capital content corresponding to the nominal capital, i. e. for joint stock companies this is equal to the basic or foundation capital; for private companies and one-man firms to the owners' credit on capital account; for branches and works which are not independent, the basis taken is the endowment or working capital.

² See Frankfurter Allgemeine, No. 293, 17. 12. 1964.

³ Rainer Hellmann: "Amerika auf dem Europa-Markt — Die US-Investitionen im Gemeinsamen Markt", Baden-Baden 1966, p. 193.

The modification which American investment activity in Europe has recently undergone is significant for two reasons.

On the one hand, there has been an extraordinary increase in American investments in Europe over the last few years. Taken as a whole, the volume of these investments has multiplied sevenfold from 1950 to 1964. In 1950 they stood at \$ 1,735 million for the whole of Europe; by 1964 they had grown to \$ 12,067 million. This remarkable increase has occurred mainly over the last five years. The following data will point this out: from 1950-1958 the average annual investment rate lay between \$ 300 and 400 million. In 1960, on the other hand, it passed the billion dollar mark (\$ 1,381 million) and in 1964, at \$ 1,716 million, reached its peak. The general assumption was that this investment rate would not rise further; but although the final figures for 1965 are not yet available, it is certain that the 1965 new investment figures were considerably above those for 1964.

The Shift of Emphasis towards the Common Market

The second phenomenon connected with American investment activity in Europe is the deflection of the flow of private US investment capital from the United Kingdom to the EEC countries.

Before World War II and right up until the "fifties", the United Kingdom, because of linguistic and traditional associations, was the favourite investment territory of American firms.

Thus, in 1950, Britain's share, at \$ 847 million, was 48.7 % of American investment in Europe; on the other hand, the share of the six countries which were later to become the Common Market was only \$ 637 million or 36.8 %. This ratio remained fairly constant up to 1956. Even though, in monetary terms, the figures of US participations continued to rise in the wake of the boom and the high profit rates which this entailed, the relative ratios for these territories remained the same. But from 1957 onwards a fundamental change took place. In the years thereafter Britain's share plummeted almost vertically downwards.

At the same time, investment figures in Britain expressed in monetary terms rose considerably (from \$ 1,974 million in 1957 to \$ 4,550 million in 1964), but did not increase to the same extent as did those for the Common Market. In the Common Market American investment developed in precisely the opposite way:

American Investment Expressed in Percentages of Total US Investment in Europe

Great Britain	Common Market
1961 45.9 %	1961 40.1 %
1962 42.9 %	1962 41.8 %
1963 40.5 %	1963 43.0 %
1964 38.0 %	1964 45.0 %

The Common Market's share of American investment in Europe has increased constantly. Expressed in monetary terms, the figures rose from \$ 1,680 million in 1957 to \$ 5,398 in 1964.

The reason for this deflection of the American capital flow towards the EEC was probably Britain's exclusion from the newly-established Common Market. However, the figures quoted above show that the United Kingdom continues to be of interest as a potential market for American goods, although US investors judge the Common Market territory to be more promising.

No Preferences within EEC

The next question is: which of the six EEC partners is particularly attractive for American investment? Do American investors show any preference for one or more of the EEC countries for manufacturing purposes? What is the distribution ratio of American capital within the Common Market?

At first glance the Federal German Republic appears to be the favourite receiving country, for it holds first place by percentage.

On the other hand, Italy is singled out for the highest growth rate of US investment and France heads the list of EEC members for the greatest number of new US firms and participations.

Share of the Total Volume of American Investment within the Common Market up to End-1964

(Expressed in Monetary Terms and in Percentages)

Country	Amount Invested in \$	% Share
Federal German Republic	2,077 million	38.48
France	1,437 million	26.62
Italy	845 million	15.60
Netherlands	588 million	10.90
Belgium/Luxembourg	453 million	8.40

Average Annual Growth Rate of American Investment from 1949-1964

Country	%
Italy	19.68
Federal German Republic	17.60
Netherlands	17.24
Belgium/Luxembourg	15.42
France	14.57

Number of Firms and Participations Established by US Companies since the War up to End-1964

Country	Number
France	616
Federal German Republic	489
Belgium/Luxembourg	462
Italy	432
Netherlands	291

These quantitative analyses results give no grounds in itself since this does not indicate the size of the share in the firms, the importance of the participation, market share, etc. It can, however, be used as a measure of American activity in that particular country.

These quantitative analysis results give no grounds for believing that private American investors show a clear preference for any particular EEC country.

However, when each EEC country is analysed separately, it is striking that the various policies adopted

by governments towards American investment have already caused certain reactions on the part of these American investors.

France, who has come out the most strongly against any further increase of American capital in its territory, was able to decrease its share of American investment within the Common Market from 36.98 % in 1949 to 26.62 % in 1964 in a constant downwards curve.

Italy, on the other hand, who favours and encourages US investment, particularly in certain economically undeveloped territories in the South, increased its share over the same period from 7.20 % to 15.67 % in a constant rising curve.

The completely contrary attitudes and policies adopted by these two Common Market countries shows that within EEC individual countries hold absolutely different views about the value and use of private capital export.

But before considering government policies in the various EEC countries vis-à-vis American investment, and before discussing their pros and cons, we must deal with the question of the causes for the rise in American investment activity.

The Reasons why Investment Activity is Increasing

It is impossible to state one clear-cut reason for the intense American activity within the Common Market for there is a whole series of motives behind this. These motives derive, in part, from macro-economic factors upon the participant economies or otherwise from the structure of certain branches of these economies. Motives non-economic in origin—political, cultural or even personal preferences—may also play a part.

Taking the macro-economic issue first, it immediately becomes clear how much the attraction of EEC countries for American investment has been intensified since the creation of this Common Market. There are two main reasons for this:

- a) the greater profitability of large-scale production (this, of necessity appeals only to large-scale capital and does not affect less well capitalised firms), together with goods business conditions and high growth rates;
- b) the fear of US companies that when the EEC has built up joint external tariffs they will be excluded from this European market.

These facts are so obvious that it is almost superfluous to mention them. They are certainly not basically responsible for the high volume of American investment.

American investors will be even more willing to invest if there are not only good prospects of profitability but if higher profits can be obtained than in America. This means that the propensity to invest becomes greater as the difference between rates of earnings in the USA and in the EEC swings in favour of EEC. As a measure of these rates of earnings we can take either the average macro-economic growth rates of the economies in question or the percentage profits on invested capital after deduction of tax.

From 1957-1963 the growth rates for these two territories were 3.0 % p.a. for the USA and 5.1 % p.a. for EEC. The estimated average rates for 1964-1970 are 3.5 % for the USA and 5.0 % for EEC.

The percentage earnings on invested capital after deduction of tax averaged 5.3 % for the USA between 1958 and 1963; but in the Common Market the figures were considerably higher: France 9.8 %, Italy 10.9 %, Federal German Republic 11.8 % and Belgium 13.1 %.

Thus, the EEC average was well over 10 % and was almost twice the average percentage of after-tax profit on invested capital in the USA.

However, the fact that these profit and growth rates are relatively high (and, by comparison, very much higher) creates only a desire to invest. There must be other incentives too, for example, the opportunity to realise these plans based on the degree of employment and the competitive situation. It is lack of labour—particularly of qualified, skilled labour—which decides potential American investors to buy up existing firms which have available a trained staff and a ready-made distribution network. However, it is essential that the European firm be prepared to sell.

The different financial strengths of American and Common Market firms benefit the Americans and "this often has the effect of an external distortion of exchange rates. It is easier for American firms to finance their European investments from earnings in the US, the EEC or with funds raised on capital markets. The main thing is, they find it cheap to buy up European firms. For years European shares have been undervalued and this low valuation has its effect when the ownership of large parcels of shares or of whole firms changes. However, this undervaluation only mirrors the lack of capitalisation from which European firms suffer. This will not be changed by altering the exchange rate. Of course, the purchasing power of the dollar and of European currencies

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do not always coincide with official rates. But no one in Europe could seriously wish for the dollar to be devalued solely in order to inhibit American investment or the purchase of firms by Americans. A lower dollar parity would point up more than ever the lead which numerous branches of industry in America have over Europe".⁴

Passing to the motives behind this investment, as influenced by structural factors in individual branches of the economy, the main sectors to be mentioned are petroleum and motor vehicle construction. For many years the United States has played a dominant role in these sectors in Europe. New investment in these branches is mainly due to constantly expanding demand. Recently the Americans have been able to gain a similar advantage vis-à-vis domestic manufacturers in the electronics sector. In this field it was their obvious technical superiority which created the conditions for heavier investment.

A further incentive for American investors is the fact that the European consumer market is becoming increasingly "Americanised". Certain particularly outstanding products and, more fundamentally, certain American habits of consumption, have penetrated the consciousness of the European consumer through American literature, films and plays. This stimulation of an already existing, but latent, demand creates a further incentive to investment.

The close political and military alliance between the countries of Western Europe is also a positive factor in deciding American investors. Politically stable conditions, in the American sense, are considered a guarantee that their interests in Europe will be respected.

Naturally this does not complete the list of potential grounds for investment. But even an outline of the main incentives makes the rapid increase of American capital export to EEC countries more understandable, particularly when we consider that the traditional large foreign markets, such as South America and Canada, are already over-saturated with American investment in the profitable growth sectors. In addition, since about 1958 there have been increasing signs of anti-Americanism in South America (e.g. in Bolivia,

Chile and in Central America). This is another reason why American investors find the Common Market particularly attractive.

Official Government Policies in EEC and the United States

If we are to describe the basic attitude of individual Common Market countries towards American investment, it must be established immediately that the partners do not agree amongst themselves; on the contrary, the individual governments adopt totally different attitudes.

The attitude of the Federal German Republic towards American investment is not basically negative. But neither does it favour this to the same extent as in the "fifties". For the time being it is merely keeping a careful watch upon how American investment develops. This is clear from the "Decree relating to the Implementation of the Law on External Trade", paragraph 57 of which requires the registration of investments from abroad.

France—the country least in favour of American investment—has gone considerably further. As early as 1959 it was laid down in Directive 669, dated 21st January, 1959, that foreign investment had to be sanctioned. "Applications will be dealt with on their merits ... In cases of particular importance the decision will be taken by the Minister of Finance in person. Applications to participate in the capital of companies whose product is of importance for French nationalised industry or for firms concerned with armament manufacture will be given particularly careful consideration. Applications to acquire majority participations in such companies will not be entertained".⁵

On the whole, Italy welcomes American investment. Direct investment, in particular in the economically still undeveloped areas of Southern Italy and Sicily, is encouraged and promoted by official bodies. For instance, entrepreneurs who select such a locality for their operations are given special settlement credits and granted certain tax benefits and similar facilities.

Up till 1964 the Netherlands had adopted a policy similar to Italy's. Dutch municipalities which became

⁴ Rainer Hellmann: "Amerika auf dem Europa-Markt — Die US-Investitionen im Gemeinsamen Markt", *idem*, p. 198 f.

⁵ Market Information Service of the Federal Office for Information on External Trade, Cologne, May 1965, Ed. III, No. 31, Current No. 1 f.



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the home of a foreign firm granted such investors tax benefits, plus additional loans and financial aid. This attitude has now changed. According to a recent statement by the Dutch Minister for Economic Affairs, this is to be stopped. At the same time it was announced that the State Office for Industrial Planning in New York was to be closed down. This Office has played an important role in the foundation of 169 independent and 93 joint foundations or participations in the Netherlands. Closing-down date was announced as 1st October, 1965. However, business in hand was to be dealt with.⁶

Belgium and Luxembourg still have a positive attitude to American investment in their territories. Even if there is wider discussion about penetration by American companies, no restrictive measures have yet been introduced by the Government.

Even in America, opinions differ among responsible persons in ministries and on the Federal Reserve Board as to the value and significance of their investments abroad. However, anxieties about the high rate of export of private capital have gained ground, mainly because of the high and constant deficit in the balance of payments—due to the burden of military expenditure and development aid. The United States has therefore renounced its policy favouring investment abroad which was previously considered to be "an extension not only of America's economic, but of its political influence"⁷ and in February 1965 "Directives for the Restriction of Capital Export" were issued in collaboration with industry. These provide that American firms which are planning to invest abroad must submit their plans quarterly to the Department of Commerce; they are not, however, dependent upon approval. It can be said that "even in their revised form, dated December 1965, these directives are very mild. For both in 1965 and 1966 they permitted industry to invest 35% more abroad than the average over the years 1962-1964, which were taken as the base years."⁸

It is clear from the differing and extremely contradictory attitudes of individual governments that when discussing American investment there are as many arguments in favour of encouraging US investment as there are reasons on the other side for restricting it, and that in reaching any economics-based decision about encouraging or discouraging such investment,

⁶ See Market Information Service of the Federal Office for Information on External Trade, *idem*, p. 6 f.

⁷ F. J. Weale: "Americans in Europe". In: *Die Zeit*, 28. 6. 63, No. 26.

⁸ Frederik H. Rosenstiel: "American Industry Penetrates Overseas". In: *Frankfurter Allgemeine*, Frankfurt, 9/10. 6. 1966, Nr. 132.

everything depends, in the event, upon the current trade situation in the countries involved and what economic aims they have set themselves.

The Pros and Cons

We shall therefore catalogue below the most common arguments used on both sides in the current discussion.

The most telling argument for any investment—whether private or public, domestic or foreign—is the fact that investment is necessary in order to obtain economic growth. Seen from this point of view, American investment is making a contribution to the growth of national income in the EEC countries. No one denies this; however, inside the Common Market it is very widely held that domestic EEC capital is sufficient to make whatever investment is necessary to ensure proper economic growth.

In defence of American investment, it is often said that the new American firms crowding into the European market create greater competition amongst suppliers. Since most of the US firms are more advanced technically than are European firms, they force their European contractors to rationalise and to introduce modern techniques. All such changes on the supply side are definitely to the advantage of the European consumer—whether because the quality of products is improved, because prices fall, ranges are increased or the like. However, these effects of American investment are only so noticeable when such investment takes the form of new firms—in the true sense. But when existing European firms already having a significant share of the market pass into American hands, relatively little difference is felt on the supply side, since it is only this extra urge to expand which creates competitive pressure.

On the asset side, it is often said that US participations open up new markets by introducing new products. Although it can scarcely be disputed that this has put pressure upon the supply side, it is still unclear whether it is advantageous or disadvantageous for the economy of the Common Market. The decisive factor in reaching such a judgment will be the benefits to the overall economy to be derived from such new products—whether in the field of capital or of consumer goods; i.e., this is a decision where priorities need to be determined for overall economic requirements. Obviously no judgment can be made, except from case to case and on the basis of concrete examples.

The desirability of American investment in still undeveloped EEC territories has already been men-



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tioned. Because of the very low profit returns in such areas, there is insufficient incentive for investment by domestic industry.

The attitude of government and municipal representatives who hope for American investment in such areas can be summed up roughly as follows: rather American investment than no investment.

On the other hand, there is still a long list of arguments and grounds favouring the restriction of US investment in the EEC.

The most frequently expressed apprehensions—the fear of industry passing into foreign hands and the assertion that US firms will force concentration upon us—have already been stated at the beginning of this article. Whilst the fear that industry may pass into foreign hands is of political origin, it can be said of the second accusation that US firms are aggravating a concentration movement which was started by the formation of the Common Market and which, therefore, was already in existence. According to Schumpeter—who said that, in certain circumstances, a monopoly organisation can serve a market better and more cheaply than would be possible under free competition, provided it can make considerable cuts in marginal costs—this is not necessarily a disadvantage. We are probably too much bound up in a neo-liberalistic way of thinking to be able to pass judgment on this.

The most serious accusation made against American firms is that they prefer to enter the so-called growth

industries. In these industries the marginal effectiveness of capital is especially high and the rate of profitability good. This circumstance also makes EEC firms more eager to invest. On the other hand, domestic entrepreneurs are aware of the high technical ability of US competitors, particularly in these industries. They fear the superiority of American firms and would be glad to be rid of this competition. So it is not surprising that the warning about industry passing into foreign hands stems from precisely such people, who are also increasing pressure upon their governments to restrict US investment by administrative means.

As long as the market is in a state of full, or even over-employment, the constantly rising flow of dollars into the Common Market could easily have undesirable monetary results upon these economies. This excess of dollars must be considered as a so-called "special" source of funds which, in the form of a "surplus reserve", increases the capacity of the banking system to create money and can be only imperfectly manipulated by the credit policy instruments available to central banks. Thus, in this sector, US investment can have an inflationary effect, even if it must be added that this effect can be partially offset by the "imported" technical progress introduced by the American funds.

Effect upon the Economy

If, in conclusion, we consider what are the economic consequences of this situation for EEC, it will be seen that, whilst we cannot say that industry is indeed passing into foreign hands, in certain sectors of industry—for instance, petroleum and electronics—US firms already dominate the market. This takes on a more serious aspect when we consider that the major part of all other sectors of the economy is largely dependent upon these two for their technical development.

Thus the Common Market economy is in a position where it is forced to catch up on considerable arrears in forward-looking areas of technology. Whether it will be able to do so must be questioned, in view of the mass of new knowledge which space research offers—almost as a by-product to US industry. The only alternatives for the Common Market economy are to press on with its own research in these subjects at great expense or to come to terms with its technical dependence upon US firms and with their presence upon EEC soil. Were US firms to be banished from the Common Market, the only other possibility would be to contract expensive licencing arrangements with the US or to import American goods. This solution could hardly be satisfactory in the long run.

Because of their greater potential for financing investments in the Common Market compared with domestic firms, American firms also have an economic advantage. The reason for this is not only the difference in size and capitalisation of US firms compared with those in the EEC, but also the low valuation placed upon public companies in the Common Market and the gap between the monetary and purchasing-power parities of the dollar and EEC currencies. Because of this, it would be desirable for

a joint economic policy to be adopted within EEC so as to diminish existing differences. Even if it is impossible to avoid some change in exchange rates due to the devaluation of the dollar, at least existing tax benefits could be removed by adopting a common EEC tax policy, thus ensuring that competition does not become still further distorted.

All in all, it is time for the EEC member countries to make a decisive move away from individual economic policies and towards a policy which enhances the position of the Common Market as an economic unit, thus enabling it to exploit to the full the trading potential of the Common Market and its economic opportunities.

Rourkela—An Example of Co-operative Development Aid

*By Klaus Röh, Brussels *)*

"The Observer", London, reported last February to its readers on the Indian steel scenery the following: "The story of the three foreign steelworks in India is like an anecdote about a Russian, an Englishman and a German. At Bhilai, the Russians started with a roar of self-congratulation and are now a bit behind the times. The British at Durgapur were modest and their achievements are still modest. The Germans at Rourkela began in notorious muddle ... and are now far and away the winners." This is certainly a compliment to the achievements of the Rourkela steelworks for its now attained productivity and high profits. One should, however, not forget the many difficulties and shortcomings which the project had to face during its planning and construction phase. Mr. Klaus Röh has for one year personally studied the problems at the spot. His findings will shortly be published in a German monograph "Rourkela als Testfall".

Rourkela has repeatedly been described as a "test case" of German development aid. With a capital investment of nearly two thousand million German Marks in the first stage, these steelworks constitute the largest foreign project in which Germany dominantly participates. To carry out such a project in a developing country such as India—and above this in one of its most underdeveloped areas—inevitably raises some important problems. This becomes particularly clear in the light of the poor infra-structure and of co-ordination that is required in carrying out an undertaking which at one time involved the employment of nearly 50,000 people.

Yet, the Rourkela project cannot be regarded as a test case within the meaning of a laboratory experiment which was started after deliberately laying down specific requirements. On the contrary: Rourkela is rather an "involuntary test", and this means an attempt dragging into it those who earlier had been nothing more but observers or merely been involved on its fringe.

A Dilemma between Planning and Reality

If the aims of the original intentions were to be put in a few—expost ideal-tinted—words, it could be said: Rourkela was to be the model for creating in a smooth and efficient way the start for an industrial

nucleus. In co-operation between the Indian authorities and private German enterprise steelworks were to be built which right from the beginning would, as national property, be exclusively or almost exclusively be operated by Indian experts; which with the setting up of most efficient and modern plants would be able to meet an essential part of India's steel requirements and thus relieve a vulnerable part of the deficit in the Indian balance of trade.

However, the facts turned out to be completely different. Two of them were significant: the target of building steelworks with a capacity of one million tons of crude steel (or 720,000 tons of rolled steel, respectively) was, contrary to the plans, not reached within three and a half years but only after five and a half; building cost amounted not to DM 1,100 million but may, in comparable investment figures, have been around 1,700 million; and it has to be taken into account that total investments, extending to all by-projects (such as ore-mines, workers' housing etc.) which were not included in the original plans, reached nearly DM 2,000 million.

Difficulties during the Construction and Running-in Period

It would go too far to describe here all the innumerable obstacles and difficulties impeding the construction work. At times they were so great that the German experts had serious doubts whether the project could be brought to a satisfactory completion.

*) See Klaus Röh: "Rourkela als Testfall für die Errichtung von Industrieprojekten in Entwicklungsländern" will be published by Verlag Weltarchiv GmbH, Hamburg.