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The American economic conquest of Europe

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UNESCO's aid budget is devoted to assisting developing countries. These aid activities receive top priority due to the recognition that science and culture are a basic element in social and economic development networks, whose success depends on the workers' level of culture and education and the quality of their vocational instruction as well as labour and management's ability to properly employ local materials and modern equipment and to absorb and exploit innovations. These problems were particularly prominent at the UN Conference on the Application of Science and Technology in less-developed Countries which was held in 1963 in cooperation with UNESCO, as well as with reference to participation in Development Decade projects.

The Economic Commission for Africa

The importance of the Economic Commission for Africa can best be understood against the background of the attempts to base development primarily on cooperation among developing countries, thus relieving them of their special relationship to the developed world. These attempts were particularly evident at the eight congress in Lagos, in early 1967. There, discussions again made it clear that not only is Africa the most backward continent, in which 90 per cent of the population has a per-capita annual income of under \$ 100, but that its annual rise in production totals approximately only 1 per cent. While the proportion of import-export in the continent's economy is fairly high, approaching 25 per cent of production, its rate of increase is extremely low, having attained

less than 3 per cent in 1966. Thus it could not ease the balance-of-payments, which remains negative throughout most of the continent and continues to discourage development.

In recognition of the situation the Conference not only studies the factors necessary to accelerate economic change. For, while its activities in the coming years will of course include an analysis of the population, its fields of employment, learning achievements and level of vocational guidance, as well as aspects of industrial, agricultural, commercial and financial planning, its primary concern is the expansion of cooperation under current conditions among the various countries on the African continent and the encouragement of the establishment of suitable sub-regional agencies which can also serve as a lever for development.

The UN Economic Commission for Africa deals constantly with problems of technical assistance and thus also with all types of development, including basic planning, the study of technological improvements, sources of natural resources and their exploitation, credit and investment terms and activities of the African Bank and of development funds. In all these fields the UN Economic Commission is in close contact with other UN development agencies, particularly the UN Conference for Trade and Development, as well as with the Organization of African Unity and its economic committees, and the other African organisations, especially those dealing with economic affairs.

Foreign Investment

The American Economic Conquest of Europe

by Professor Gustav Schachter, Boston

When we talk about conquest, we always have in front of our eyes armies marching in, taking over the existing institutions and laying a heavy hand on the local population. In this sense it is a misnomer to call the economic penetration of American business firms in Europe the "American economic conquest of Europe." Also it would be erroneous to imagine American investments in Europe as a form of neo-colonialism or a premeditated grand design to take over the brave old world. Yet, as Servan-Schreiber begins his now famous book "The American Challenge", "fifteen years hence the top world industrial power, after the United States and Soviet Russia, could be not Europe but American industry in Europe. Today, already, nine years after the Common Market was established, the organization of the European market is essentially American."¹

In 1945, at the end of World War II, Europe was practically in ashes, industry was destroyed, and most European countries suffered monetary chaos and political instability. The East-West antagonism was just beginning. The situation was so precarious that for many Western Europeans, a Communist take-over was imminent. The United States reigned supreme in the world; its industrial plant was intact and its resources compared with Europe seemed unlimited. Also, about half of the world's known gold bullion was in the United States. Europe, on the other hand, lacked in industrial plant, resources and foreign exchange in gold or convertible foreign currency (at the time only the dollar and perhaps, as an adjunct, the British pound were considered hard currencies).

¹ Jean-Jaques Servan-Schreiber, *Le Delf Americain*, Denoel, Paris 1967, p. 1.

We know now that in 1947—1948, the Marshall Plan was the main catalyst that stabilized the political and economic structure of Western Europe. Compared with our foreign expenditures today, the Marshall Plan was very small, about \$ 11 billion all together. But it implied, above all, cooperation among the participating countries. By 1952, for all practical purposes, the Marshall Plan was successfully completed. It diminished if not eliminated the problem of international dollar shortage, thus allowing Western Europe to participate again in international trade, on which it is so dependent. It brought political stability to Western Europe with governments which could sustain the thrust of Soviet Russia. It helped the American economy (even if only in an ancillary way) by increasing foreign demand thus creating more output and more demand for labor. It encouraged cooperation among Western European countries; for example, it induced the creation of the Organization of Economic Cooperation and Development, the European Economic Community and the European Free Trade Area.

By 1958, only ten years after the introduction of the Marshall Plan, and only 13 years after the end of the war, most West European currencies were fully convertible, and the rate of growth of output in European countries (England not included) was about double that of the United States. This also brought about a sharp reversal from the dollar shortage of the late 1940's to the dollar glut of the late 1950's and 1960's, caused in part by the vigorous European economic expansion. Europe increased its exports and it attracted American capital and tourists.

The Pattern of US Investment in Europe

For the last 10 years, that is, since 1957—1958, American investment in Europe increased both in size and in scope. The pattern of American investment in Europe is best presented by Servan-Schreiber in the book mentioned before. He notes that the Department of Commerce of the United States found shocking that in 1966—compared with 1965—American investment has increased by about 17 per cent in the United States, by 21 per cent in the rest of the world, and by 40 per cent in the Common Market. In other words, the European countries became the most important location for American investment.² These investments, however, affected the United States balance of payment only slightly. In 1965, for instance, 55 per cent of American investments were financed on the European markets; 35 per cent came either through the respective European government subsidies or through plough back of American firms in Europe, and only 10 per cent were financed directly from the United States.³ Today, total investment in Europe by American firms amounts to about \$ 14 billion (i. e., more than global outlays of the Marshall Plan) and this represents only plant and equipment. But, since 1959, America has in-

² Servan-Schreiber, *op. cit.*, p. 24.

³ *Ibid.*, pp. 26-7.

vested \$ 10 billion in Europe—about one-third of all United States investment abroad—and, of the six thousand new enterprises created by America in the world, half were created in Europe.

European Fears

While Europeans see many short run beneficial effects of American investment in Europe, they still fear that the American penetration

□ preempts European firms from obtaining funds in European capital market because the strong demand of American firms;

□ induces great inflationary pressures—while American firms created some extra employment (for example, in southern Italy), they also offer larger salaries than their European counterpart;

□ means much lower prices than European firms can afford because American firms are more efficient and

□ makes Europe vulnerable to American business cycles and government regulations.

In general American firms are more profitable than European firms in Europe. In the 1960's profitability of European firms declined while that of American firms in Europe improved. No wonder Europeans are hurt when they hear that, "... there is no American imperialism, there is no American political push to conquer Europe, but they make more money with their money. They put their money and their brains to better use than we do. We think that it is only a question of dollars—(but)—90 per cent of the dollars invested in Europe are European dollars. We have earned them but lend them to the Americans because they can make more money with them. The reason for American dominance in Europe is that the route from invention to production is shorter than ours."⁴

The Reasons for American Success

Why do American firms do better than European firms in Europe? It seems that it is not a matter of lack of capital; most of the capital, 90 per cent of it, comes from Europe. The answer seems to be that Europe is frozen in a successful first industrial revolution, 150 years ago. The new revolution, however, is based not only on machines, new sources of energy, new kinds of raw materials and markets. America does not challenge Europe in investment, in traditional machinery, or in sources of raw materials but it challenges it in the use of technology, size of firm, efficient organization, research and development, and the educational process.

About a quarter of a century ago, a European-American economist, Joseph Schumpeter, advanced the idea that the main source of growth is innovation which will induce investment. As a corollary he mentioned that a change in the form of organization for a more efficient one, does itself constitute an application of

⁴ *Haagse Post* in *Atlas*, March 1968, p. 22.

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innovation. In fact, innovation implies a change in organizational set up because it means a change in technological structure. It is not enough that technology is available, it must be used, that is, inventions by themselves are meaningless if they are not applied. Europe, however, has a strong tradition of a paternalistic form of enterprise organization not much different than the form of organization that prevailed in the company towns of 19th century United States. The adaptation to new techniques is consequently slower in Europe than the United States.

The EEC created an enlarged market for old and new products. Europe, however, did not take advantage of this market, but America did. Europe did not take advantage because enterprises in each European country jealously guard their firms, at a scale which does not correspond to the needs of the new enlarged market; a scale which does not allow for sufficient research and development to take advantage of the new technology. The respective governments condone nationalistic enterprises and sustain the growth of traditional firms. In the United States, the Government subsidizes research and development for new products and new techniques. European firms show neither the ability nor the willingness to engage in research.

Europe Lacks Human Capital

But even if European enterprises were willing to invest in research for development of new techniques and products, they would be handicapped by the lack of human capital. About half of the people between the age of 20 and 24 go to college in the United States, 24 per cent in Soviet Russia, but only 16 per cent in France and about 7 per cent in Italy and Germany.⁵ The organization of universities is very poor in terms of fulfilling the needs of industries. European Universities maintain the same kind of centralized organization as they did 400 years ago. The rules are laid down by the respective Ministry of Education aimed to give the student a solid liberal arts or law education. Not enough emphasis is put on the creation of engineers, physicists, economists, etc. Universities in this sense respond to the needs of 400 years ago; to have an enlightened elite who will then govern the rest of the population.

It appears that the students of Europe are more aware of the inefficiency of the higher education system than policy makers of their respective countries. For the last months, the press was full of reports of student sit-ins, strikes, rioting in Spain, France, Italy, Germany—in almost every West European country. It should be recognized that the problem is tremendous and impossible to solve within one year or even within a decade. Larger investments and much training for future educators are needed. In addition, attractive incentives must be provided to retain

⁵ Servan-Schreiber, *op. cit.*, p. 86.

scientists and educators lest they be lured by more attractive offers in the United States.

A problem which could be more easily solved is the organization of enterprises. The Common Market, as it stands now, is nothing more than a customs union. True, resources, capital and labor can theoretically move freely, but enterprises so far did not put their resources together to be able to compete with their giant American counterparts. In other words, the European Common Market needs European firms, not French, Dutch or Italian firms. It needs uniform corporation laws and fiscal and monetary policies. Of course, this would bring about a diminishing in national sovereignty, but the choice is between a French, Italian or German market overwhelmed by the American enterprise or a European market with European enterprises. There is no other choice. While there is a great deal of unhappiness on the extreme left and on the extreme right of these countries, it is generally well understood that, as things stand now, Europe cannot do without American enterprises. Nevertheless, Europe needs to create industrial enterprises on a large scale and specialize in those techniques and those products in which it may gain comparative advantage. Europe needs to establish a federal European system which would set uniform rules for enterprises and trade intercourse.

Europe Must Abandon Its Frozen Attitude

This transformation may mean a new source of confidence for Europe but it may update a system which is long obsolete. For the United States, it might mean to find a new healthy economic partner as it was envisioned by the Marshall Plan twenty years ago. The interest of the United States lies in those factors which would sustain economic growth in any part of the world and especially in Europe. The underdeveloped world with a per capita income varying from \$ 40 to about \$ 300 does not represent potential partners in trade and development for the United States. Only those countries or regions who take full advantage of technological know-how, who reorganize their markets and their enterprises and who push for that kind and substance of education demanded by the new technological revolution, can give America both a challenge and a hope. It would be presumptuous to call Europe underdeveloped; but, if Europe persists in its frozen attitude towards nationalism, centralization of decision-making (both at the university level and for enterprises), and little attention to research and development, then, resources which are available in Europe, such as capital and labor, will continue to be used even more intensively by the United States enterprises. In the process, European national firms would be annihilated not because of the greed for conquest of American enterprises but because American firms showed themselves more capable of taking advantage of an established market with established resources than their European counterparts. An open question remains: will Europe respond to the challenge?