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Development Policy and the Multinationals

The general downturn in development aid contributions in 1970 has reinforced a trend which had been observed earlier already — the rise in the proportion of direct investment. About 40 p.c. of all development aid in the past decade took the form of direct investment. In the coming years this proportion is to rise to 50 p.c. and perhaps even 60 p.c. It may be asked whether all concerned, apart from the investing companies, really know what they are doing. That the multinational combines which are thus constantly expanding yield definite benefits for the national economies involved is still quite unproven — even for the industrialised countries.

The production volume of the foreign subsidiaries of international corporations in the OECD-states has been estimated to be already twice as large as the exports from these countries. What a great impact the international enterprises have meanwhile come to make on the export trade can be gauged from the fact that as much as a quarter of all US exports goes to subsidiaries abroad. True, the commerce in merchandise still predominates in most states. But there is increasing evidence of the new trend: Internationally linked enterprises are in the ascendant and may soon hold sway over international economic relations.

National economic policy cannot come to grips with these developments. As the

international groups gain in importance, financial policy inversely loses effectiveness. The current efforts to curb the flight to tax havens show this clearly. Double taxation agreements are so far the only remedy holding out any promise of success, but there are states in the world with which it is not easy to conclude them.

Monetary and foreign exchange policies must also be restructured to fit in with this recent trend in the world economy. At least half the speculative influx of money into the Federal Republic of Germany in 1969 was, according to US estimates, due to transactions by internationally interlocking enterprises. It cannot therefore be definitely ruled out that the decision to alter the parity of the currency was extorted by abuse of their economic power.

Income and social policies are also given a new dimension by thrusting multinational combines. The establishment of branches in low-wage countries narrows down the scope for national wage policies and endangers the security of the workers' jobs. Besides, income and social policy is utterly at variance with development policy in that development policy favours the shifting of labour-intensive types of productions to the developing countries while in the interests of income and social policy these very same industries are defended by a pronounced protectionism.

Whether the young nations of Asia, Africa and Latin America are really being helped by playing the host to increasing numbers of subsidiaries of multinational groups is not yet certain either. Other drawbacks may appear beside the political uncertainties also confronting industrialised countries. The multinational combines are inclined to leave the decision-making centres in industrial countries, and as distances from these centres increase, so does the level of activity tend to diminish. Existing income differentials and dependences are consequently preserved rather than reduced. It can probably be taken for granted that the investments will yield a profit, but it does not follow that they must therefore be beneficial from the standpoint of the host country. The example of Canada, often already referred to as a "branch country", is not encouraging.

The only certain beneficiaries of the present external economic situation are thus the multinational combines themselves. Their contribution to world production will continue to increase rapidly and their influence will grow; for their world-embracing activities are carried out in a political vacuum.

Internationally interlocking enterprises cannot be subjected to the requisite control unless the trade unions and the economic policy makers "internationalise" themselves in a similar way to the combines.

Manfred Holthus