

COMMENTARY ON MCKAY AND HARDER

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I

I approach my role as a discussant in your conference more as an interloper seeking enlightenment than as an "expert" in either the business developments of turn-of-the-century Tsarist Russia or post-World War II German reconstruction. My specific field of interest is not business history but rather international business and finance. My role, therefore, is somewhat difficult in that I am hardly able to comment intelligently about the historical matters assembled with such great virtuosity by McKay and Harder. Because of this fundamental inadequacy on my part, therefore, I have decided to comment on the papers from a somewhat different viewpoint. I shall try to look at the subjects from the perspective of my own field and with particular attention to the relevance of these studies to questions arising today in international business.

II

My primary interest in Professor McKay's account of the trials of the Briansk Ironworks Company is one mentioned by McKay himself: What does the experience of this company with foreign investors suggest about relations today between such investors and host countries, especially where the host country is less developed. McKay concludes his thorough and fascinating study by stating, "One suspects that this pattern of state support for local businessmen counterbalancing the advantages of foreign businessmen has [been], is, and will be fairly common in relatively backward yet independent nations." Perhaps so, but insofar as the pattern relates to American business interests in less-developed nations, the conclusion is certainly open to substantial doubt.

The reason for my skepticism is the fundamentally different form of American participation today in foreign investment. By far the largest proportion of U.S. investment in developed as well as less-developed countries is direct investment. That is, the investments are made, frequently in the form of plant and equipment, such that control remains in

American hands. At least since the 1920's, relatively little U.S. investment has been undertaken in portfolio form. This observation is especially true for investments in less-developed countries. In most cases thus far, U.S. firms have even been reluctant to allow any foreign participation in their foreign operations.

This emphasis on control contrasts sharply, it seems to me, with the French position in Russia vis-a-vis both Briansk and the Russian government. While the French apparently did have extensive direct investments in the Russian steel industry, their participation in Briansk, at least at the outset, was largely through short-term loans and bonds. In addition to this investment, French investors undoubtedly held large amounts of securities of other Russian companies as well as of the government itself. In fact, it appears in McKay's account that the French supplied the major secondary market for Russian securities.

If this heavy French portfolio involvement in Russia was, in fact, the case, then it is also clear that French financiers and perhaps the French government had a strong vested interest in maintaining at least the appearance of a sound Russian financial position. This inherent interest gave Witte considerably more leverage in dealing with the unhappy French than would be typical of a less-developed country's government with the Americans. To be sure, Witte was extremely shrewd in his financial maneuvers, but he also had a not unsubstantial degree of power from which to deal. Contrast this power with the apparent more limited pressures on French direct investors in other segments of the steel industry.

American investment participation in less-developed countries is rarely as a minority partner in a joint enterprise. If the host government wishes to preserve the benefits to be derived from foreign investments, its power in negotiating with the U.S. firm is circumscribed. Only when the costs to the host country of the investment appear, for one reason or another, to exceed these benefits do governments respond strongly. The reaction might take the form of forcing firms to increase native employment or financial participation, or it might involve divestiture proceedings and, in some cases, expropriation. Frequently, such moves themselves entail implicit costs when further foreign direct investment is curtailed or existing investments are repatriated. State support for local businessmen, of the type practiced by Witte,

might still be possible in some circumstances, but it's not likely to be an important feature of governmental operations in less-developed areas. Frankly, it appears to have been the exception to the rule even in Tsarist Russia.

III

Professor Harder's paper dealing with postwar developments in economic policies related to business in Germany was also most intriguing. At the same time, however, it was also the type of historical treatment that I find very difficult to constructively criticize from my own somewhat limited perspective. Harder's topical area is extremely broad, and he inescapably "paints" with a wide brush. There are no formal or informal hypotheses and no data. His conclusions, while perhaps appealing in many cases, are essentially conjectural.

I suspect the major difficulty that a non-historian has with a paper such as Harder's is the absence of an analytical basis from which to draw meaningful conclusions. One would like to know, for example, measurable effects of the specific policies directed toward export expansion or toward increased investment expenditures. Harder's closest approximation to this type of analysis involved Germany's antitrust efforts, and there Harder could state with some confidence that "legislation is largely window-dressing and is not intended to prevent the evident concentration of business." On other issues, however, one is left with the uncomfortable feeling that the relative importance of various policies toward business remains unknown.

My criticism of Harder's paper should not be interpreted as a plea for "relevance," because one can readily understand the desire of historians to be free of that particular constraint. However, to paraphrase Harder, there is a need to reduce the gap "stretching between the theorist-analyst on the one hand, and the historians on the other." From an outsider's viewpoint, an obvious place exists for the historian-analyst.