

Multinationals and Global Capitalism: From the Nineteenth to the Twenty-First Century. By *Geoffrey Jones*. New York: Oxford University Press, 2005. xi + 340 pp. Index, bibliography, appendix, figures, tables. Cloth, \$124.50; paper, \$44.50. ISBN: cloth, 0-199-27209-3; paper, 0-199-27210-7.

Reviewed by Franco Amatori

Geoffrey Jones's work constitutes a sort of historical encyclopedia on multinationals, offering a vision of this type of firm as one of the main characters in the globalization story. Jones manages to squeeze a treasure trove of invaluable information into a relatively small container, masterfully blending consideration of the issues into his narrative. In fact, he had accomplished this feat earlier, with the publication in 1996 of *The Evolution of International Business*. This later work is a substantially revised edition (for example, the bibliography contains more than 200 hundred new sources) that emphasizes first and foremost the debate on the word of the day: globalization.

At the beginning of the nineteenth century, there were only a few multinationals (defined as firms that controlled operations or income-generating assets in more than one country). Nowadays, there are close to 60,000 of these companies worldwide, and they oversee more than 800,000 branches. What moves entrepreneurs to overcome the "liability of foreignness" and both the disadvantages of distance and the difficulties posed by political, geographic, economic, and cultural differences? Jones considers various theories but soon shows his clear preference for John Dunning's eclectic paradigm, with its emphasis on the advantages of ownership, location, and internalization. The first, ownership, provides access both to new products and processes and to superior management and organizational techniques, facilitates a privileged entrée to finance and raw materials, and offers the capacity to exploit economies of scale. The second, location, is based on considerations of factors such as tariffs and other barriers to trade, the nature of the host country market (size, income levels, rates of growth), and differences in labor costs. As regards pursuing the path of do-it-yourself internalization, disadvantages such as bounded rationality, opportunism, and asset-specificity can be significantly reduced. The company that opts to internalize finds itself able to better

utilize multinational transactions in intermediate goods or intangible assets such as patents, brands, and tacit know-how, which are essential tools for competition. Hierarchy also reveals itself to be more efficient than market exchange when there are special needs in commercialization.

The history of multinationals largely coincides with the rise of globalization, which is certainly a nonlinear process. On the eve of World War I, a remarkably integrated global economy had materialized, driven by entrepreneurs and firms. But in the subsequent thirty years, political and economic shocks progressively dismantled this first global economy. Multinationals started to focus more on national markets and they formed cartels as a way of controlling fluctuations. Reconstruction of the global economy began between the 1950s and the 1970s, but this development was slowed by the huge presence of the Communist bloc and by the resistance of one of the main generators of the “economic miracle”—Japan—to accepting multinationals within its borders. Still, by the 1980s, multinationals had become the driving force behind the global integration of capital and commodity markets. By the beginning of this century, two-fifths of world trade was intrafirm. Thus, even though multinationals’ investments were spread unevenly around the world, their influence surpassed the weight they had achieved in 1914.

Over the course of their long history, multinationals have played a critical role in almost every economic endeavor: in the global search for raw materials and foodstuffs; in the international diffusion of manufacturing know-how, processes, and products; in the services (trading and shipping companies, banks, and utilities), where they facilitated the expansion of world trade and constructed the infrastructure of the first global economy. While engaging in these activities, multinationals had to contend with a circular trend in government policies. Before the 1930s, governments were noticeably open to the expansion of these firms, but this attitude was followed by five decades of restrictions imposed by the nation-states, which considered the control of multinationals privileged terrain, necessary for affirming their sovereignty. Over the past twenty-five years, governments have found themselves with few alternatives to privatization and thus have had to accept multinationals if they wanted to avoid being cut off from the latest technologies and organizational skills.

Multinationals have used various strategies to enter into and expand within foreign markets, often combining greenfield investments and acquisitions. Nor have these policies always enabled them to overcome the “liability of foreignness,” and numerous failures have been recorded. Those who succeeded usually did so by growing incrementally in their host economies. Over time, in many cases the affiliates became enterprises in their own right, transforming themselves into a sort of “hybrid,” with features of both their parents and their local environments.

In any case, the task of building organizations that were more efficient than markets, endowed with the right blend of central control and local flexibility, was not easy or without moments of friction. Often, path dependencies—political or technological—were a serious obstacle. In general, the organizations assumed a great variety of forms, and diversity was the norm. With the exception of a few corporate giants, most multinationals count only a few hundred employees.

Multinationals still tend to be concentrated in a small number of host economies, mainly in the so-called triad comprising the United States, Europe, and Japan. Issues related to the influence of nationality on multinationals and the relation between multinationals and nations continue to be controversial. A firm’s gains do not always coincide with the well-being of its country of origin. Jones concludes on a problematic note: the lesson we can draw from history is that multinationals are not the panacea for economic growth. Even though they have contributed to the creation of an enormous amount of wealth, the impact of their actions has not always benefited their host economies. In this respect, local government plays a decisive role. Certainly, on the eve of the twenty-first century, multinationals and the outcome of their activities (i.e., globalization) have yet to deliver to us a safe and well-balanced world.

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