Review Essay

The History of Foreign Investment in the United States, 1914–45. *By Mira Wilkins.* Cambridge: Harvard University Press, 2004. xxvi + 980 pp. Tables, figures, appendix, bibliography, notes, index. Cloth, $95.00. ISBN: 0-674-01308-5.

Reviewed by Steven Tolliday

In nearly a thousand pages, Mira Wilkins chronicles an aspect of the interwar U.S. economy that, in her own final, measured assessment, played only a subordinate role and had only a "small" influence on its overall macroeconomic development. The research is awesome (particularly since Wilkins did not simply direct a team of researchers but dug out most of the nitty-gritty herself), and the presentation encyclopedic and daunting. Anyone who has worked in this field will marvel at the mastery of detail, and in these days of depressingly sloppy publishing standards, it is refreshing to find a volume where fact-checking and proofreading are unimpeachable, and where, in a book that refers to over two thousand company names, every name (as far as I can tell) is spelled correctly and the shifting vagaries of corporate nomenclature are invariably tracked accurately. Readers who have experienced the jolting realization that they need to go back to the records once more to ascertain these irritating details—("I know what the company was known as: but what *exactly* was its name?")—can find the answers here! Thank you, Professor Wilkins. All of this is magnificent. But is it necessary? Is the significance of the subject proportionate to the effort involved and the scale of the research reported?

If this were a "free-standing" book, there might be some doubt. But this volume has to be seen as the second part of a trilogy of works in which Wilkins will eventually analyze the entire history of foreign investment in the United States, from its beginnings to the present day. Accordingly, it is framed and written on a scale and according to an architecture that she has already used to deal with the pre-1914 history, and which she will use again in the post-1945 study. This approach to the earlier period was highly productive, fleshing out, for example, the vital role of free-standing companies, and it provided a basis to define the complex territories of portfolio and direct investment in a fluid and fast-moving world where historians had floundered in defining their terms and ascertaining dimensions. Similarly, the rock-solid stability of Wilkins's method will surely pay dividends in bringing to heel the new features and rapid reversals of post-1945 developments. However, in this volume on the interwar period, when

foreign investment passed through a much less spectacular period of stasis and retrenchment, at times it seems as though Wilkins is using a hammer to crack a nut. In fact, however, like the whales and whaling chapters in *Moby Dick* or the developmental slow movements of a Schubert symphony, the true value of this volume can only be properly appreciated in the context of the larger master design,.

The story is fairly simple. It begins with a dramatic development. Before 1914, the United States was the world's greatest debtor nation. Inward investment dwarfed outward flows, and U.S. development had depended heavily on foreign investment (particularly portfolio investment [FPI]), which amounted to about 20 percent of the gross national product (GNP). The railroads in particular had depended on foreign investors, and Europeans had crowded into the liquidity and confidence of U.S. companies and stock markets. But the First World War gave the United States the opportunity to reduce or eliminate its massive overhang of foreign investment. European belligerents needed dollars to fund their imports for the war effort, and they could get them by liquidating their ownership of U.S. assets, especially portfolio investments, often driven by pressure from their home governments. In a buoyant economy, there were plenty of willing and able American buyers. In terms of direct investment (FDI), although capital import ceased, the established investments generally thrived and prospered for their owners. The great exception was the almost total expropriation of German-owned assets in the United States. Overall, about half of all foreign investment was liquidated or lost during the war. The United States moved from being the world's largest debtor nation to become the largest creditor nation.

Thereafter, in broad macroeconomic terms, to be frank, not a lot happened. The total value of foreign investment in the United States did not regain 1914 levels until 1939, and by then it was only about 8 percent of a much larger economy, rather than the prewar 20 percent. Portfolio investment dwindled relatively over the period as a whole, and direct investment increased gradually (except from 1929 to 1933), though the share of portfolio investment in total foreign investment fell only from 75 percent to 60 percent before the Second World War. The United Kingdom remained by far the largest investor country drawing on its established base, even though flows of new investment from the United Kingdom now gravitated toward the Empire, while Canada displaced the struggling European economies as the second most important source of foreign funds.

Wilkins is particularly good at showing the persistent insularity and nationalism of U.S. policies toward inward investors. Despite U.S. absolute strength as a creditor nation, fears of "dependency" remained strong. Hence, in key sectors such as radio and cables, shipping, oil, banking, and landholding, the U.S. government consistently discriminated against foreign

interests with an "America First" agenda, using hostile legislation, tariffs, or "reciprocity clauses" that effectively locked out European investors unless they could demonstrate an "open door" for U.S. trade and investment in their own territories (including, crucially for Britain, the Empire). Many of the policies introduced in this period became embedded in U.S. public policy for decades to come.

Wilkins is wonderfully clear headed about definitions and distinctions in the confusing world of categorizing foreign investment. Throughout the book, she maintains extremely clear and workable distinctions between inward and outward flows of portfolio and direct investment, and she tracks the separate and asymmetrical courses of these flows. Yet she is also able to handle the complex ways in which the flows mingled and interacted, particularly as the United States became *both* a recipient and a source of foreign investment. She defines this as the emergence of patterns of "cosmopolitan finance" that prevailed particularly during the 1920s. The flows were mutable and interconnected, even while they were distinct and not reducible to each other. In her Table 4.3 (p. 191), she provides a priceless pedagogical tool for organizing thoughts on these matters. American companies, for example, invested in foreign subsidiaries (outward FDI), which in turn invested in the United States (inward FDI); U.S. portfolio investors invested in securities of European companies (outward FPI), which then carried out either or both portfolio and direct investment in the United States (inward FPI and FDI); European portfolio investors bought shares in U.S. companies (inward FPI), which then carried out direct investments abroad (outward FDI); or U.S. banks abroad (outward FDI) played a major role in raising funds from abroad for investment in American securities (inward FPI)—to mention only the most common of "blending" combinations.

During the 1920s, these flows and counterflows led to a proliferation of corporate pyramids and international financial alliances that operated in unregulated and often speculative markets. This situation grew out of the vast U.S. demand for capital in the 1920s that, for a brief while, appeared to portend the re-creation of the pre-1914 global economy. But this was an illusion. The flows were overwhelmingly dependent on the overheated U.S. economy, rather than representing the outcome of broader global growth, and, as Wilkins shows, much of it was a "jungle" of opportunism and even of fraud, perpetrated by figures like Clarence Hatry or Ivar Kreuger, whose comeuppance helped bring about the collapse of these practices, producing chaos at the end of the 1920s. Nevertheless, Wilkins rejects the view that has surfaced periodically since the Great Crash that "foreign selling" was the decisive trigger: it simply lacked the critical mass and volume of trades to play such a role.

Again, contrary to some expectations, Wilkins shows that reduced international trade in the 1930s did *not* reduce levels of foreign investment in the 1930s. In fact, weak European economies created pressures for investors to seek a (relatively) safe haven in U.S. portfolio investment. This "golden avalanche" became the target of isolationists, who feared that foreign capital contaminated the U.S. economy and enmeshed it in the destabilizing problems affecting the rest of the world. "Hot money" and international bankers became the villains of the piece, but the emotional response revealed little understanding of how these capital markets worked, as international bankers bore no relation either to the inward flows of FPI or to its scale, and they posed no real threat.

More complex and more interesting issues arose out of the history of FDI in the 1930s. The course of FDI itself was actually unspectacular and rather mundane, largely confined to a dozen industries in which it was well established and absent from the key New Deal growth sectors of steel, autos, and electric equipment. Yet, in the sensitive climate of these years, it became a target of fears, intensifying the level of antiforeign rhetoric in public policy, which was spearheaded by isolationist politicians. It also brought an unlikely convergence between isolationists and antitrust New Dealers, who launched a crusade to track down covert "control" of American industry through camouflaged foreign investment and secret international cartels, most notably through the forum of Thurman Arnold's Temporary National Economic Committee, (TNEC), which looked into these matters from 1938 to 1941. The committee's investigation did reveal small, but significant, efforts by I.G. Farben and other German companies to pursue covert foreign investment by "cloaking" their ownership of U.S.-based companies in order to protect their investments in the event of future conflict with the United States. In so doing, they hoped to avoid any repetition of the liquidation of German investments during and after the First World War. But, in a sense, the revelations of "cloaking" were a sideshow. The real revelation of the TNEC's and related investigations was that the actual external "controls" over U.S. industry were not exercised through *ownership*, but rather through secret cartels and invisible pacts that were drawn up in order to control and share patents and technologies, which were often leveraged, for instance, into market-sharing or price-maintenance arrangements. In particular, the German chemical industry exercised a dominant, and at times controlling, influence over the interwar U.S. chemical industry—despite having only a marginal ownership position (even when "camouflage" was taken into account)—by using joint ventures, patent sharing, and a network of informal agreements based on their significant technical advantage over American producers in these critical sectors. The German chemical story is one of the highlights of the book, and it reveals the host of ways whereby ownership might be only one of much wider patterns of "control."

In contrast to the German case, British FDI paid a serious penalty for being too conspicuous in the 1930s. Perhaps surprisingly, isolationists were often fiercely aggressive toward British FDI in the late 1930s and early war years, and Wilkins shows how these political and economic currents came to color the whole history of lend-lease. In the run-up to the outbreak of war, the British desperately needed ways to pay for wartime supplies from the United States, and they needed dollars for that purpose. U.S. neutrality laws insisted that belligerents could purchase such goods only for cash, and this resulted in close scrutiny of British assets in the United States. Figures like Secretary of the Treasury Henry Morgenthau Jr. adamantly held to the position that the United States should not consider loans for these purposes until, or unless, the United Kingdom first liquidated all its U.S. assets. From the start of the war, the British government was forced to buy out U.K. portfolio investors and sell off their assets in order to generate funds. When President Roosevelt began to develop the idea of lend-lease to assist a struggling Britain, he felt it necessary to press Britain to give up its FDI in return, an attitude that Churchill described as resembling that of "a sheriff collecting the last asset of a hopeless debtor." Isolationists declared their unwillingness to lend Britain funds to defend the wealth and privileges of its ruling class, and during 1939–41 the fabric manufacturer, Samuel Courtaulds and Co., Ltd., was forced to put its American subsidiary, American Viscose, the largest single U.K. direct investment in the United States at the time, symbolically on the block ("sold down the river" in the opinion of the unhappy Courtaulds directors). Such sales lacked economic logic. They were "distress sales" that did not realize much cash, and a subsidiary severed from the umbilical link to its parent could become almost worthless. Even before Pearl Harbor, the British government had found creative ways to obviate most of these pressures; once America entered the war, they faded away, and further major liquidations of FDI were avoided. However, the grudging origins of lend-lease continued to cast a shadow that resurfaced once hostilities ended.

These important themes and stories, however, have to be dug out of the craggy rocks of the book's structure. Wilkins narrates detailed histories of business and government responses to the onset of the two wars, charting the interaction of politics and economics at crucial junctures. But the rest of the book is based on detailed sectoral surveys of portfolio and direct-investment behavior during the various subperiods. This is hard sledding. Sectoral chronicling makes sense as a way of presenting a massive amount of data, but it precludes highlighting and singling out themes and combining material across sectors. Issues with multiple dimensions tend to be treated one dimensionally, and exciting, complex stories are sliced up into snippets. The reader has to put in a lot of effort to pursue developments by company, country of origin, or analytical issue. This

can be done, but an opportunity may have been missed to make these matters more focused and more vivid.

Beyond this, Wilkins determinedly tracks flows, patterns, dimensions, and structures. I was disappointed to find that there was no attempt either to evaluate the business performance of this investment or to investigate a whole range of prominent issues about foreign investment that figure in the literature on multinationals. In terms of FDI, the book adds little to our understanding of why investment took place in specific sectors and what it achieved. How, for example, does this story contribute to an assessment of the usefulness of Dunning's paradigm for the development of multinational corporations, with its emphasis on the centrality of ownership advantages? What were the contributions of foreign companies in terms of technology transfer, marketing approaches, product development, and management methods? My reading is that Wilkins's material adds question marks to simplistic assumptions that FDI is driven by the realization of "advantages" accruing to foreign investors. For example, the ownership and technical advantages of certain German sectors produced minimal FDI, while many FDI firms were persistently unsuccessful. At times the coverage is frustrating. For example, the performance of Lever Bros. in the 1930s was probably the single most outstanding success of FDI in the period, representing a remarkable episode in its own right. Yet in this massive book the company is glossed over in a short paragraph. Geoffrey Jones, in his study of Dunlop, and Donald Coleman in his book on Courtaulds, for example, look at factors affecting corporate choices and performance in FDI. Wilkins deals with the issues of measuring "control," but she does not address what that control meant in terms of strategy and capabilities. Certain big themes, some raised by Wilkins herself in her first volume, cry out to be isolated and pursued for specific comment. Why, for example, did the powerful position of the free-standing companies that she identified before the First World War collapse to such an extent in this period? Why is there no systematic treatment of patterns of divestiture? The answers to these questions are indeed contained in the book, but the material has to be dug out from scattered locations and pondered.

"In sum" (a phrase that I often encountered with relief and appreciation as I navigated these pages), this book is a remarkable achievement, especially when set in its proper context as the middle volume of a sustained structured trilogy. But I wish that Wilkins had worked her material harder and had teased out more of the implications, and that some of the subnarratives and themes had been given more animated treatment. The full benefit of the book will probably only come when Wilkins completes publication of more reflective articles on her material, and, of course, when the third volume, the giant final cornerstone, is added to the trilogy.

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