
Economic Perspective

REVIEW: THE COSTS AND BENEFITS OF MULTINATIONALS IN SCOTLAND

by Jim Malley, Department of Political Economy, University of Glasgow*

The significance of the foreign owned manufacturing sector in the Scottish economy is fully acknowledged. Current estimates put manufacturing employment at around 81,000 people, representing approximately 17% of employment in this sector. However, an aspect which is not so well understood concerns the wider cost and benefit implications that Foreign direct investment (Fdi) has for the Scottish economy. The importance of such implications is paramount in trying to determine to what extent and under what circumstances Fdi can advance Scotland's welfare and, furthermore, how policy can best be formulated to accomplish this goal.

This general lack of understanding is reflected in two of the most recent publications on the role of Multinationals in Scotland - **Multinationals in Retreat: The Scottish Experience** by Neil Hood and Stephen Young (Edinburgh University Press), 1982 and a collection of essays edited by Stephen Maxwell - **Scotland, Multinationals and the Third World**, (Mainstream Publishing), 1982. For their part, Hood and Young state,

"The theoretical work on the assessment of gains and losses from foreign investment is largely undeveloped, remains at a high level of abstraction and is ambiguous in its predictions."

Likewise in Maxwell's book, in an article entitled "Multinationals in Scotland and the Third World" John Firn states,

".....but in practice the modern MNC poses a real difficulty for research and has proved exceedingly difficult to apply modern or indeed traditional, theories and models to it, and thus to construct realistic policy measures to guide its development."

In fact, apart from Firn's self-confessed lack of understanding as to which theoretical approach to adopt with regard to the MNE, this collection of essays represents at best a series of superficial sketches of multinational activity which have little bearing upon the complex dynamics underlying their behaviour. The essays range from discussion of Scotland's historical role as a base for multinational operations to the role of import

*The views expressed are those of the author and not necessarily those of the Fraser of Allander Institute.

substituting industrialisation in the Third World. In addition, there is a review of the Multinational role in the world economy, strategies for labour union action against the MNE and a few case studies thrown in for good measure. The main problem with this book is that it covers a myriad of complex questions, isolating and oversimplifying them so that the end result is a volume of very limited value which sheds little new light on key issues. Perhaps the book should be seen as a piece of documentary journalism rather than the more profound academic study that is implied by the introduction on the book flap.

Nevertheless, as the aforementioned quotes by Hood, Young and Firt suggest, there are difficult conceptual and technical problems in developing a theoretical framework in which to analyse the impacts of Fdi. Alternatives, such as the differential and the case study approaches prove to be highly inadequate in terms of interpretation of results and very limited as far as further developments are concerned. The differential approach, used by Hood and Young to review the Scottish experience, is largely a categorising exercise where all the evidence (benefits and costs) is reviewed and then divided into broad impact categories, for comparative purposes in each example considered. They separate the possible positive and negative impacts of Fdi into: resource transfer effects, trade and balance of payments effects, competitive and anticompetitive effects and sovereignty and autonomy effects. One of the main drawbacks with this approach is that it is a very labour intensive, time consuming process which invariably leads to a lack of decisiveness as to the impact of Fdi. Inevitably, Hood and Young's conclusions under these categories in the Scottish case too often amount to: "there is as yet little evidence," "open verdict," "neither is there evidence one way or the other," etc. Despite this, Hood and Young do suspect intuitively that the overall net impact of Fdi is positive, no doubt due to the overwhelming employment evidence. Furthermore, as Hood and Young acknowledge, even if some measure of costs and benefits can be ascertained, there is no benchmark with which to compare it. In other words, this approach does not enable the researcher to ascertain what might have happened in the absence of Fdi.

The case study approach, on the other hand, while proving invaluable in understanding the underlying causes of change in the foreign sector, has the serious drawback of not being able to take into account the wider implications of changes in Fdi. In addition, the researcher is in constant danger of getting lost in the labyrinth of complexities which surround the MNE at this level. Hood and Young tend to fall into this trap, stating,

".....it is not possible to provide a formal or comprehensive set of explanations for large scale job losses which occurred in the recent past"

which is later followed by,

"It should be clear from the issues examined in this book that it would be futile to expect any policy initiation to insulate Scotland from the processes of change in the MNE sector".

The above statement is true with regard to the inability of UK central or regional policy to affect those aspects of MNE behaviour determined by its European or global strategies. But surely, as the case study approach does suggest, there are recurring explanatory variables which do change within the Scottish context, do effect Multinational behaviour in Scotland and can therefore be influenced by either macro and/or industrial policy. The component lacking in the Hood and Young case studies was any attempt to quantify the significance of each of the explanatory variables that they cite as determining multinational disinvestment. If statistical verification was attempted either directly, or via suitable proxies, it is highly likely that the key variables, such as lack of credit, exchange rate instability, discriminatory taxation and trade restrictions (all of which are cited by Hood and Young) would have a high degree of explanatory power. Of course, the degree of significance would vary between industry, nature of the firms' activities, etc, but the point is that some useful generalisation could be made, with an eye towards control via policy.

However, the essential ingredient which is still missing in both the case study and the differential approach is that there is no theoretical framework in which to examine the overall net costs and benefits. In order to arrive at a net measure the researcher must be able to estimate what would have happened in the absence of Fdi eg net costs or benefits equal the impact effect of changes in Fdi minus what was assumed to happen in the absence of Fdi. In order to incorporate the assumption as to the alternative to Fdi, a macro-model type framework is necessary. There is sufficient data in the Scottish case to use statistical methods to change key structural assumptions in order to simulate the dynamic impacts of changes in Fdi such as multiplier and accelerator effects, and also to examine the trade-off between short run and long run gains and losses. Key impact changes of great interest to the researcher and/or policymaker which could be analysed include employment, output, balance of trade, wage rates, etc. The added advantage of this approach is that it provides a framework in which the differential and case study approaches can be incorporated. It is true that this approach is always constrained by data availability and its inability to quantify socio-economic and political variables. However, the latter can still be dealt with in a qualitative manner and, furthermore, suitable proxies can often be found in order to quantify previously non-measurable factors. Overall, the advantage of attempting such a macro approach to the impacts of Fdi is that it provides a systematic analytical framework within which the key questions and policy issues can be addressed as well as providing direct estimates of costs and benefits, rather than the indirect and intuitive speculations yielded by the piecemeal studies reviewed above.