THE GROWTH OF MULTINATIONAL COMPANIES - AND THEIR FINANCIAL REQUIREMENTS

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The growth of multinational companies is unquestionably the 'in' topic of modern times. Indeed, so much has been written and said on it that I approach the task of adding words of my own with some trepidation. The difficulty of encompassing so huge a subject in so short a space is such that inevitably I can touch only a few general points in this introduction. I hope that we can explore some of them in greater depth in our discussion.

The Growth of Multinational Companies

There is first the problem of definition. A dip into the literature quickly reveals that a whole new body of theory has been built around this issue alone. Intricate distinctions are made between international, multinational and transnational firms, depending on the degree of control exercised by one country, the extent to which ownership is spread, the number of countries in which operations are conducted, the number of nationalities involved in top management in the parent company and so on.

Such work is no doubt valuable, and profitable, for the academic; and from it we probably get a purist definition of multinational which limits the number of such companies to a very small total indeed - with Shell and Unilever as prototypes. But for our purposes today I think a broader view would be more appropriate. I therefore intend to define a multinational company as being one which owns or controls producing or marketing facilities in more than one country. Thus, I am including the British or Australian firm with one overseas subsidiary as well as the Fords, Chryslers, ICIs and IBMs of this world - though when I come later to the international financial markets it will be with the major companies only that I am concerned.

The "multinational company" question first achieved its prominence in Europe with the publication of Jean Jacques Servan-Schreiber's book "Le Défi Américain" in 1967/8. This may well seem strange to an audience in Australia, which has traditionally relied on foreign capital for so much of her development and which still has a substantial proportion of her manufacturing and mining output controlled abroad. But for Europeans Mr. Servan-Schreiber's book had an impact which owed at least something to its novel message, though since then of course there has been a flood of books, tracts, articles and political speeches on the subject.

In that book Servan-Schreiber argued that within 15 years the world's third greatest industrial power, after the United States and Russia, might be not Europe itself, but American industry in Europe. He drew attention to the sheer size of capital invested by US firms in Europe - already about US$14 billion in fixed assets. And, above all, he stressed the accelerating rate at which penetration by American industry was taking place. In 1965/6, for example, American investment rose by 17% in the United States, 21% in the rest of the world and 40% in the EEC.

The statistical documentation of overseas investment and of the position and power of the global corporations is still scanty. This may explain why the publication of this book led to the establishment of two widespread myths; the first that the rise of the multinational company was a new phenomenon, and the second that it was largely American-dominated. Neither of these is correct.

On the first, it is as well to remember that many of the great corporations had already become multinational during the 19th century and at the beginning of this. In 1913 for example net overseas investment earnings in the UK (at £120 million) contributed as much as 9.3% to national income. But what is new and significant is the pace at which the multinational companies have developed since about 1950. And on the second, a sense of perspective is retained by recalling that many of the biggest world companies are still European-owned and controlled. US enterprises are thought to own just over half of total overseas assets, which still leaves a sizeable proportion for other countries - about one-fifth being owned by British firms and the remainder largely by European and Japanese companies. Measuring it another way, by companies, we find that of the top 100 firms (as shown by sales) in the Fortune list in 1968, 67 were US owned and 33 owned elsewhere. Of the 33, 25 were European, 7 Japanese and 1 Australian (BHP).

What then is the overall picture? The lack of good statistics, particularly from company sources, throws us back to generalized global information compiled from government sources and to the occasional piece of private research which, as the researchers are themselves the first to admit, can only be a best guess, the nearest approximation to the truth we can get. From these the following propositons would seem to emerge.

First, <u>that the operations of multinational companies are now extremely significant as a proportion of total world business and trade.</u> Table 1 shows the extent to which in 1966 accumulated world assets are now owned by companies or others coming from countries other than those in which the assets are situated. Many of these will of course be the multinational companies. The table itself is inevitably a rough estimate, as the figures in many countries are incomplete; and it is misleading in the sense that the assets are calculated at book value, and market value will often be considerably higher. But it does at least show the scale of multinational ownership.

To give some indication of the extent to which the major companies themselves are thoroughly multinational, we can broadly say that about three-fifths of the 100 largest US firms have production facilities in six or more countries; and about half of the non-US firms are in the same position.

The degree of ownership by overseas companies of Australian assets in manufacturing industry alone was last analysed in a a 1966 publication by the Department of Trade and Industry, "The Directory of Overseas Investment in Australian Manufacturing Industry" (data relating mainly to 1965). This showed that 872 manufacturing firms in Australia had an equity interest owned overseas. 60 of these had less than 25% owned overseas; 64 between 25% and 50%; 169 between 50% and 75%; 73 between 75% and 100%; and as many as 506 were 100% owned abroad. Total assets of all these firms amounted to A$6,086,697,000, of which A$4,730,803,000 were apportioned to the overseas associates.

Second, <u>foreign investment has been taking place on an increasingly rapid scale.</u> Table 2 gives some indication of the extent to which it has been growing, using American investment as the example not only because it has been by far the fastest-growing, but also because it is much the best documented.

Indeed, since 1950 some 3,000 US corporations have established subsidiaries abroad, with sales more than double the total of US exports. By no means all of these can be household names. We thus get a picture of two types of multinational company - the giants, established in many parts of the world, and a host of smaller companies, many of whom have undertaken their overseas expansion comparatively recently.

Thirdly, <u>multinational companies are tending to grow much faster than the average.</u> Their output in overseas countries is growing at twice the rate of world gross national product. This partly reflects the fact that they are so often concentrated in the most advanced, technological industries.

Fourth, these trends are likely to continue just as strongly in the years ahead. It is precisely because, among other things, the multinational companies are in the growth fields that some experts have predicted that by the end of the century some 200 to 300 giants will dominate world output. This is perhaps an extreme view and, one hopes, an exaggeration. But there is no doubt that, with the advantages of scale and mass-production in a world where markets have grown steadily closer together on the one hand, and with the immense costs of modern technology and of exploiting these advantages on the other; with the forces of competition from the big and efficient pacesetters forcing others to rationalize or go bust; and with the pressures that the great corporations can apply on suppliers and on market outlets; with all these things there seems no doubt that the multinational companies will continue to grow in numbers and influence steadily throughout the coming decades.

The Growth of International Banking and Financial Institutions.

It is worth noting the parallel development on the banking and financial side of institutions and consortia on an international scale to service these corporations. Over the past three or four years the growth on this front has been very marked indeed.

The spread of the American banks overseas, whether directly or in consortia, is perhaps the most obvious illustration of this. The First National City Bank of New York, for example, now has some 300 branches and subsidiary offices in more than 50 countries. And in the square mile of the City of London we have witnessed an invasion by American banks in the last five years almost equal to the penetration of American corporations in Europe itself - from a base of 12 in 1963 to well over 30 today.

The British banks have been no less active, both in rationalizing and in expanding abroad. The British clearing banks for example have been reorganizing, like your own in Australia, through a process of major mergers in the late 60's - now six instead of the eleven a few years ago; and they have been developing new offshoots to tap the comparatively new international money markets. The British overseas banks have been changing their direction and strengthening their networks through mergers; through links with American banks and British clearing banks; and through a new emphasis on Europe and the Eurocurrency markets as distinct from their traditional concentration on developing countries. And the British merchant banks too, like my own, have been greatly expanding their international activities, both directly by setting up subsidiaries of their own, or through joint ventures with local interests or international consortia.

All of these banks have also been involved in organizing consortia for different specialist purposes. To give but one example there are now ten consortia established in London largely to provide medium-term (2 to 5 year) loans in the Eurodollar market, and all but the Midland and International Banks Limited (MAIBL) have come into existence within the last three years alone. And so one could go on multiplying illustrations of one kind or another. Each of these developments really requires a separate paper.

Australia has perhaps felt the impact of these developments more than most. Indeed the number and pattern of different links between Australia and overseas banks, much of it also of very recent origin, is already bewildering, and most lists are out of date almost before they have been compiled. On the last count however something like 85 foreign trading and investment banks are known to be represented in Australia, either with their own offices or through joint operations with local institutions.

Finally, it is perhaps just worth noting the ambition of Japanese banks to develop on an international level, servicing multinational clients and participating more fully in the international money and capital markets. I refer to the establishment just over a year ago of the Banque Europenne de Tokyo in Paris, and the plans now to set up the Associated International Bank and the Japan International Bank. It is, of course, very early days yet, and these banks are unlikely to make a major impact until a much greater degree of liberalization in Japan's trading arrangements and of control over foreign exchange and capital investments overseas has occurred. But if we are looking to the picture by the end of the 70's we must expect these banks to be playing an increasing part in raising international finance for multinational companies.

Financing Multinational Companies - The Question of Control.

So much for the growth of multinational companies, and the financial institutions which service them. I turn now to their financial requirements.

A multinational company has many advantages. It is large and is therefore able to call on immense resources, both managerial and financial. It can maximise the benefits of economies of scale on the production side and mass markets on the selling side. It can switch its resources more swiftly from one market to another or one product to another as circumstances require.

But its potential lead over national counterparts is greatest in the financial field. It can raise funds more easily when credit is generally tight, either because it has a top-line credit rating which enables it to be first in the queue or because it can turn more readily to those financial capitals where funds are most available. It can lessen the impact of taxation or of high interest rates in particular areas, to some extent at least, by shifting funds within the group to its own best advantage. And by internal manipulation of payment flows from one subsidiary to another it can often offset foreign exchange or other risks more cheaply than the firm based in one country but with a substantial business in imports or exports.

In order to maximise these advantages, most companies exercise a strong central control over their financial strategy, with a corresponding diminution in the financial independence of local subsidiaries. The degree obviously varies from company to company, but the policy is fairly uniform. A striking example of the implications of this was given in a recent study (The Strategy of Multinational Enterprise - Brooke and Remmers) of some 80 multinational manufacturing companies and 30 banks operating in the United States and Europe. The research revealed a marked upsurge in the amount of debt raised locally in the UK., mainly of short-term nature (i.e. through clearing bank overdraft facilities) in 1965/6 by the British subsidiaries of the foreign-controlled companies in the sample. This occurred because the subsidiaries were under instruction to pay very substantial dividends in these years, sometimes including transfer of reserves, to the parent company, and to refinance their needs by such local debt. The reason, clearly, was the fear or expectation by most of the head offices of these companies of a change in the parity of sterling within the near future. Similarly where companies had large transfers of raw materials or semi-finished products between an overseas subsidiary and the British subsidiary, instructions were given to accelerate or delay payment as appropriate, again to hedge against the currency risk.

These examples demonstrate that there are two elements in the control problem. There is first the implications for national governments of such decisions, taken by international companies outside the UK but deeply affecting their own economies (in this case through the impact on the balance of payments flows which was the primary concern of the British Government at that time). This is a subject which I can only briefly touch upon here - and which I shall do later in the paper. There is secondly the implications for the company itself, its local subsidiaries and its financial advisers. What the examples showed quite clearly was that in both cases the fundamental decisions were taken at the head office of the parent company. This means that a high degree of specialist knowledge is required at headquarters. Ford, for example, employ an economist whose sole task it is to predict changes of parity around the world. We must expect more direct employment of highly-skilled, international expertise <u>within</u> the company as the multinational companies themselves become more numerous and their operations more extensive.

It does not follow however that the local subsidiaries will have less need of specialist financial staff or of local financial institutions to service them. The strategy may be settled centrally; the advice and the actual handling of an operation will often be required locally. Fiscal and legal requirements, levels of interest rates, the state of markets and therefore the current possibilities of raising short, medium or long-term capital - all vary so much from country to country and fluctuate so quickly over time that the demands for local assistance in these matters by the multinational companies will also expand rather than diminish. And for the banks and the financial institutions, the implication is not that its services are mainly required in the financial capital in which the multinational company's headquarters and therefore its decision-makers are located. The implication is rather that that institution must have an equally wideworld network, so that it can provide the necessary assistance in each capital as necessary for its client. In other words, the multinational company's requirements are such that the banks and financial institutions themselves have been forced to become multinational to an extent which they might not otherwise have done, and with a speed which we might not otherwise have seen.

We might note also one other important factor, the existence of the base company. Located in a low-tax or low-risk country, this can often be used to maximise group profits by siphoning off profits from subsidiaries in high-tax countries or helping to finance group needs by raising funds in a cheaper and more cost-effective way than would otherwise be possible. Such base companies are often used, of course, as the medium for raising funds on the Euromoney and Eurocapital markets.

Their Financial Requirements.

What then are their financial requirements as such? Broadly speaking, simply to raise whatever additional working or long-term capital is required over and above that generated by the company's own activities, in the right amounts and for the right periods, and at the cheapest available net rates taking into account also the need to minimise exchange risks.

The Brooke-Remmers study suggested that the vast bulk of the funds employed by subsidiaries to finance their various needs came from local sources. Cash flow (retained earnings and depreciation allowances) provided on average just over 60 per cent. Local external finance (funds raised through the sale of securities, borrowings from local financial institutions or other organizations, grants from government or other public authorities, increases in trade credit, etc.) accounted for over a further 20 per cent. Only about 18 per cent of funds came from foreign sources, that is, from outside the subsidiaries' own countries (i.e. from the parent company, the international financial markets, other subsidiaries in other countries and so on).

It is, incidentally, worth noting that US-owned parent or affiliated companies supplied a much smaller proportion of the subsidiaries' local needs from its own capital than did non-US parent companies. They also took a much higher outflow of capital in the form of dividends from the local country (3½ times the inflow of funds for US-owned subsidiaries during the period 1960-67 compared with only 1½ times for non US-owned subsidiaries). It was this factor which led to the widely publicised criticism in "Le Défi Américain" that European capital itself was largely financing the American invasion. (Servan-Schreiber used as his illustration an analysis of the sources the Americans had used to finance their $4 billion investment in Europe in 1965. Only 10 per cent had come from direct dollar transfers from the US. The remainder had come from European sources - 55 per cent in loans from the Eurodollar market (though much of this was in fact American in origin) and direct credits from European countries, and 35 per cent in subsidies from European governments and internal financing from local earnings to meet all their investment needs; and for the US-owned subsidiaries in the rest of Europe the pattern was almost the same, 98 per cent of all needs).

We can see therefore that, as with single-nation manufacturing

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companies, internal cash flows remain the main source of funds. Local sources of outside capital come next (though these may be gradually routed by the company for use outside the country concerned). And international sources of finance still come bottom of the queue. Indeed, the Brooke-Remmers study showed that had it not been for the payment of dividends to the parent company, the foreign subsidiaries in the UK in the sample would have had more than enough from internal cash flows and local sources of capital alone (111 per cent).

However, the proportion of finance provided by internal cash flows has been steadily diminishing in recent years, and with the wage inflation currently being experienced in most countries, the ever-escalating costs and the tendency to higher corporate tax levels, one must expect this trend to continue. Correspondingly, and given the present high levels of demand for capital, international sources of finance are likely to loom larger and larger in the mind and books of the corporate treasurer. After looking briefly at local sources of outside capital, I intend therefore to concentrate my remarks on these international sources.

Outside Finance Raised Locally.

Short-term bank credit accounted for by far the greater part of the outside finance raised within the host country. Where this was not available (perhaps because of a local credit squeeze or because of restrictions by the authorities), or where it was thought to be too expensive, then funds from the parent company or another subsidiary would be supplied instead. (Some indication of the extent to which short-term credit rates still vary (and medium-term too for good measure) is given in Table 3. But as international financial barriers are lowered, and particularly as the multinational companies' activities themselves cause individual money market rates to adjust more speedily to each other, a more uniform world-wide level of interest rates must be expected).

Turning to the longer-term finance raised within the host country here, there are profound differences between the different domestic capital markets, the types of finance that can be raised, the tax complications, the funds that are available through Government subsidies and so on. It will also be true that at any point in time one new issue market will be lively while in another it is almost impossible to bring an issue to the market at all. In London the past year has been an especially trying one and even now such issues as there have been have on the whole had a poor response. So the pattern varies, and only expert on-the-spot advice can guide the company to the right solution for any particular moment.

As far as the possibilities relating to local capital market themselves are concerned the most important factor is however the limited extent to which they can be used for multinational companies. In most countries there remain substantial controls over the limits allowed to overseas controlled companies to make use of these markets. Indeed if anything the recent tendency has been for these controls to be intensified rather than relaxed, reflecting the perfectly legitimate and understandable desire of national governments not to allow companies in which the control remained overseas to absorb too much of the limited supply of domestic resources (as for example in the Australian Government's 1969 guidelines).

International Markets.

For all the foregoing reasons the international financial markets are likely to become even more significant for the multinational companies than they are at present. For the present, and for some time ahead, this still basically means the Euromoney and the Eurobond markets. Though the divisions between the two are in some respects becoming a little less sharp, we can include within the former short-term and medium-term (2 to 5 years and occasionally longer) loans, and within the latter all longer term issues. The features of each of these markets are such that they can only be adequately treated in separate treatises. I can only draw attention to one or two outstanding points here.

The first is the rapidity with which the markets as a whole have grown, particularly since the US Interest Equalisation Tax in 1963, and the size which it has now attained. Table 4 gives some indication of the growth in the Eurodollar market and Table 5 of the Eurobond market, (the latter is exceptionally difficult to estimate accurately, and other studies have suggested slightly different statistics. But the general pattern is the same).

The second is that it is primarily a blue-chip market, particularly in the longer- term loans. Eurobonds are almost exclusively the preserve of the better-known multinationals (except of course for issues for Governments and other public authorities). The earlier American multinational predominance is now diminished and this is now a truly international market in terms of borrowers as well as lenders. A selection for the recent crop of issues demonstrates this perfectly. In August there were four; \$15 million City of Oslo 9 per cent 5-year notes at 99 yield 9.25 per cent to maturity; \$20 million Hamersley Iron Finance N.V. 9½ per cent 15-year bonds at 97, yielding 9.89 per cent; DM-100 million Ireland 8½ per cent 15-year bonds at 99¼ per cent yielding 8.59 per cent; and DM-100 million Kingdom of Denmark 8½ per cent 15-year bonds at 99, yielding 8.62 per cent. In September there have been amongst others \$50 million for Esso Overseas Finance N.V.; \$12 million for Cabot International Finance Corporation; DM 80 million for the Industrial Bank of Japan; DM 100 million Caisse Nationale des Telecommunications; and further \$20 million for Courtaulds N.V. (managed in fact by my own bank, following a previous Eurobond issue for the company in dollars). I might add that Hill Samuel itself had a \$20 million issue earlier this year, largely to assist the expansion of our international banking activities.

The third feature of this market is its immense diversity, and the continual ingenuity applied to match the needs of borrowers and lenders. From the original straight fixed issues, we now have the convertible bonds and the straight bonds with warrants attached, and I have no doubt that other new mixed will emerge before long. The growth of the 2-5 year medium-term credit was itself an illustration of this flexibility, and already we have seen in that facility the development of the floating rate note.

The diversity is also shown in the extent to which, where very large sums are involved, a whole range of different mixes are brought together, incorporating both bonds and medium-term loans, both public issues and private placings, different types of currency and a multinational spread of banks and underwriters. The ENEL (Italian National Electric Energy Agency) operation earlier this year is a good example of this type of situation. Banks from many countries participated as co-managers, and operation involved a US\$300 million medium-term private placement and a US\$125 million floating rate bond. Another illustration was the complicated US\$246.4 million Eurodollar loan deal for Bougainville Copper Pty. Ltd. in the summer of 1969, which involved a 34 member world banking consortium split into two separate syndicates, with a small equity consideration also added in.

Fourth, is the sensitivity of the market, not only in finding new attractions for lenders by the methods I have just described but also by the way in which different currencies are tapped at different times. Table 5 demonstrates the ebb and flow of currencies since 1963, reflecting the supply and demand situation at different times, the economic fortunes of the countries concerned and so on. The prominence of the deutschemark in the last two years is very marked, demonstrating how West Germany is currently in the classic situation of a provider of international funds - substantial balance of payments surplus, strong currency, continuing large inflow of funds, etc. It is possible to envisage other currencies at various points in the future similarly achieving a position of substance (perhaps the yen in 5-10 years' time?).

Fifth, the market has all the attractions of a truly international and free market able to respond to the pressures of supply and demand with-out restrictions. But it also has certain dangers which we should at least acknowledge, even though one hopes that they will never reach reality. (a) There is no lender of last resort, so that in the event of a major failure by one of the banks involved in the market there could be a serious crisis of confidence. Let me say at once that I believe this possibility to be remote, and if it did occur I suspect that the various monetary authorities, in their own interests, would scratch together an emergency solution. But no such code of emergency action exists at present. (b) An inability by a company to meet its loan or interest obligations could similarly create severe difficulties, though less serious, for the markets. In the absence of any other policing mechanism we are now seeing the financial institutions themselves exercising tighter control by the insertion of covenants of one sort of another into the loan agreements of medium-term loans as well as of bonds. (c) Various of the agreements now made contain obligations on the banks to provide loans in Eurocurrencies at some specified point in the future. There can be no certainty however, that the market will not dry up from time to time, or that the supply will be sufficient to meet all obligations. What then? If such a hurdle is ever reached, no doubt the omnipresent ingenuity of the operators in the market would find a way around it.

Sixth, there are signs that, given the ever-increasing demands for capital, the bond market itself will be unlikely to meet all the longer-term needs, and so the short and medium-term bank lending sector will assume increasing prominence for fixed as well as working capital. It will therefore, be very important for companies to have as their financial advisers those which can provide the bridging loans through their commercial banking arms as well as the bonds through their investment banking channels; and which will be in the best position to advise when, and sometimes even if, the funding operation should take place. I might add that such is the ingenuity of the market that straightforward Eurodollar lending is not the only medium for meeting short-term needs. We have seen earlier this year the introduction of Eurocommercial paper, and this month the use of the traditional acceptance credit machinery to finance the local working capital requirements of American companies by means of the Eurodollar - this last innovation by my own bank. Both of these are a further demonstration of the fact that the leadership of the Euromarkets is still very much focussed on London.

Future Prospects.

Finally, what are the prospects ahead? It would be a bold man indeed who would commit himself to detailed predictions in such a complex and volatile situation as this one. How many of us ten years ago would have foreseen the enormous growth of the Eurodollar market, for example, depending as it did on the introduction of Interest Equalisation Tax in 1963, some years after the forecast would have been made?

But it is a perennially fascinating subject, and so I will venture to dip at least a toe into the ocean with a few broad thoughts.

1. The only certainty would seem to be that there will be no let-up in the ever-increasing world demand for capital. The enormous appetite of modern technology in the advanced economies, the cost of exploiting the mineral and other natural resources in countries like your own, the needs of the developing countries, the fact that there is already a downward trend in the extent to which companies car finance expansion from their own resources (in the US the proportion of internal funds to total funds has dropped from 67 per cent to 57 per cent in the decade up to around 1968; in Britain from 70 per cent to around 40 per cent; and the pattern is the same in most European countries) - all these suggest that demand will continue to outrun supply. So however successful governments are in slowing the pace of inflation in the short-term, it seems unlikely that world interest rates will return in the 1970's, for any long periods at a stretch at least, to the historical averages of the 50's and early 60's. And the multinational ccrporations will continue to take a bigger slice of the cake.

2. We must expect a further rationalisation of the international financial community to cope with these demands. Bigger consortia, not only in terms of the international link-ups but also in terms of additions to the range of services offered (often through specialist subsidiaries) will become the feature of the seventies.

3. The complexity of the relationship between the multinational giants and national governments will become a major problem in the seventies. It will be one that businessmen and bankers cannot afford to neglect.

On the one hand there will be pressures on Governments to exercise greater control over corporations. Will Fords actually be allowed to shut down a major subsidiary in one country of Europe if it wishes to do so in order to concentrate production in a more efficient subsidiary somewhere else? What form of sanction can a Government apply to prevent it from doing so? And will Governments wish to tighten their control over payment flows, over company pricing policies which deliberately differentiate between two local subsidiaries, and so on, when they see the decisions of multinational corporate headquarters in these respects wholly undermining their ability to regulate their own economies? (Cp the examples given earlier of the situation with regard to overseas-owned subsidiaries in Britain prior to devaluation).

The course of events may lead that way. Others take the opposite and more hopeful view, arguing that the needs of international business will combine with the visions of our more forward-looking Governments to force through the necessary changes in the international framework in which we operate. The point here is that, as in the recent past when progress has still been much too slow, it will be the pressures of the multinationals which will force the more reluctant politicians to take the necessary steps. The Eurobond market's growth clearly demonstrates both the power and the needs of the multinational corporation. It arose despite, and not just because of, the restrictions placed on capital flows following Interest Equalisation Tax and other measures of the 1960's. But if nations had been able to dismantle their barriers and broaden their horizons in the way that the big corporations have done, the enormous potential of the international markets would now be more nearly realised.

In Europe for example, if we look ahead to what could, within a decade or two, be the optimum, can we dare to foresee a unified European industrial market approaching some 300 million people, with most of the steps to monetary and fiscal unification completed? If so, we could hope for a capital market significantly greater than what it would be if this framework is not achieved; tapping many new sources of funds; and incidentally in a much better position to supply the Australasian economies with some of the funds they need.

But this is looking a long way ahead. It assumes the clearing of many major hurdles. For the immediate future we must anticipate a world in which national restrictions on capital flows remain very much a part of the environment in which we have to operate.

The difficulties of achieving progress are well illustrated in an area in which my own bank has specialised, namely that of industrial mergers. For years lip-service has been paid to the need to rationalize European industry so that is is in a position to co-operate with the major American corporations. But the problems of achieving fully integrated European mergers are such that none has yet been successfully completed. There are so many difficulties of a technical nature - taxation, exchange control and company law complications, anti-trust problems, the different requirements of the different capital markets and hence the impossibility of reaching a solution equitable to all shareholders - that even when the will was present the means were not. And so the existing "mergers" Agfa Gevaert, Dunlop-Pirelli, and so on, have had to be arranged through complex and unsatisfactory joint holding companies or some other form of mutual control

4. We can also, I think, foresee more and more energy applied to

tapping the potentially new sources of capital over the next decade. At present we have highly developed short, medium and long-term capital markets in the US and the UK. In Continental Europe the domestic capital markets are still extremely narrow, in terms both of the sources of capital available and also of the types offered - there is a heavy concentration on fixed interest stock as compared with equities. I have just indicated how I believe that, with an integrated European Economic Community of ten or more nations, the potential in Europe could be realized.

Then there is the potential for a similar development here in Australasia. Your own demands for capital will be such that it is unlikely that Australia will be a net exporter of capital for many years. Nevertheless, we have already seen the first signs of Australian participation in major overseas ventures, as your mineral resources are further developed and your industries reach new levels of prosperity, for Australia too the flows of capital will become substantially a two-way process.

At some stage the yen will clearly become an international currency too, as the Japanese economy matures, her tariff barriers are dismantled and her exchange controls are liberalized. And perhaps we can foresee the Asian dollar market ultimately growing in size and stature to complement the Eurodollar market itself.

The task of the banks and financial institutions must be to develop these markets so that the funds can be channelled on a world-wide level to where they can most profitably be used.

5. But if we assume an increasing flow of funds, moving more and more across national barriers, absorbed as a result of the rationalization of industry by fewer and fewer companies - all multinational corporations, what of the problem of corporate and financial control? Some of the corporations themselves are perhaps beginning to give the answer, by having quotations on all the leading stock exchanges. A new breed of "international equity", extended to a much wider range of companies, would at least ensure some spread of multinational ownership, if not of multinational management control.

Conclusion.

What of the implications for Australia? I have no intention, prior to my first visit, to prognosticate in detail on that part of my subject. I am coming to learn. But as one surveys the range of financial institutions now present in Australia, there can be no doubt of the international recognition that this continent offers many of the most valuable outlets for the limited supply of free capital in the decade ahead. Let us hope that between us we can satisfy the requirements of your companies, local and multinational, in ways that also meet your national aspirations.

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QUOTATIONS

...... speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation.

- J.M. Keynes, General Theory, 1936

Australians have a tendency to marvel at advances in Europe and America and do nothing to make them a reality here.

- "Atlas" newspaper, Sydney 1846.

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