The European Common Market: “A New Frontier” for U.S. Business Leaders or an “Economic Frankenstein”? 

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The European Common Market: 
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This talk is about how business leaders organized themselves in order to influence policy making, in the context of the massive outflow of U.S. companies’ direct investments in Western Europe that took place during the decade following the creation of the Common Market in 1958. In this context, there was a growing public debate about these European investments of U.S. multinationals. In the United States, this matter became a highly politicized object of conflict between certain parts of the government and business leaders. It is therefore an ideal lens through which to analyze the power nexus of business-government relations.

The starting point of this case study is what is today the world’s most interconnected economic axis, U.S.-E.U. relations. The European Union is the United States’ number one economic partner and vice-versa. Foreign direct investment is at the heart of this axis. Sixty percent of total U.S. foreign direct investment outflows in 2016 went to Europe.¹ What is the nature of these foreign direct investments? Foreign direct investment is the name given to the process where a firm from one country provides capital to an existing or newly-created firm in another country and takes on a certain degree of control over the management of this foreign firm. These are consequently much more durable capital flows than portfolio investment. Typically, this takes the form of an American company setting up a wholly owned manufacturing subsidiary in a European country.

In 2016, these U.S.-owned subsidiaries in Europe sold goods worth more than 3.1 trillion dollars. This means that these sales were significantly more important than total U.S. exports to the entire world, which reached 2.3 trillion dollars.² U.S. subsidiaries in Europe are thus at the center of today’s economy and it seems relevant to pay attention to their history.


The take-off of U.S. direct investments in Western Europe took place during the decade following the creation of the European Economic Community (E.E.C.), as it was then called, by six European countries in 1958.³ The reasons for U.S. companies to increase direct investment in Europe were very straightforward. First, by producing inside the Common Market companies avoided the external trade tariff levied by the European Community. Second, there was the expectation of profit from anticipated soaring growth rates along with increased living standards and demand in Europe. Third, production costs were cheaper, since wages were much lower than in the U.S.
You can see the take-off of U.S. direct investment in Europe in Graph 1. I deflated the figures to clear them of the effects of inflation. The first thing to point out is that, overall, there was a massive increase of U.S. foreign direct investment after 1950. Secondly, the relative importance of foreign direct investment in Western Europe increased dramatically, and with it (though you can’t see it in this graph), the importance of American investment in the European Community.

During those first years of the European Economic Community, there was what could be called a “Common Market fervor” among U.S. business leaders. There was a surge in publications, by the business press and also in the mainstream media, on the great promises offered by the Common Market to American companies. For instance, a pamphlet from 1958, published by the American Management Association, presenting the Common Market as a “New Frontier for American Business” just waiting to be conquered, with the imperialist undertone of taking control of this new El Dorado for businessmen. In the illustration of an article for Life Magazine from 1962, one can see Uncle Sam looking in on a flourishing European marketplace. What is interesting is that in this illustration England, Greece, Denmark, Ireland, and Norway are represented as already being part of this European Common Market, whereas this was still far from reality. There was a great expectation during those years that all other European countries would very quickly join the E.E.C. and that the United States of Europe would thus truly become the equivalent to the United States of America.
This Common Market fervor translated into rising foreign direct investment. The surge of investment by private business went hand in hand with the U.S. government’s strong and consistent support of European integration. But, after 1961, parts of the government started to push for containment of this investment. The reason was the growing deficit in the balance of payments. The deficit became a major political preoccupation in the Kennedy administration and continued to be so until the end of the Bretton Woods system in 1971.7

Why did the U.S. deficit significantly grow during this period? First and foremost, because of huge Cold War military expenditures. But also, because of the capital flowing to Western Europe, and the effects of Western Europe’s and Japan’s restored economic competitiveness. In this context, first the Kennedy administration in 1961, and then the Johnson administration from 1965 to 1968 tried to limit the deficit by curbing direct investment outflows to Western Europe. This led to direct clashes with business leaders’ interests.

My thesis is that this was a conflict between, on the one hand, the business leaders’ short-term interests of maintaining these capital investments for profit maximization and, on the other hand, the American government’s longer-term objective of maintaining its political and military hegemony in the context of the Cold War.8 For those whose priority was to limit the multinationals’ investments, the aim was to strengthen the United States’ political and military power, embodied in a strong dollar and in military presences in Western Europe, Central America, and South East Asia. In the long run, this strong political and military dominance by the United States was, of course, also in the interest of American business. But in the short term, business organizations radically opposed the Kennedy and Johnson efforts to curb their investments in Europe in the name of balance-of-payments politics. Since the U.S. government has a long history of being very protective of private business interests, it is interesting to see how this conflict played out and how business leaders organized to defend their interests.

Methodological Approaches

What are the methodological difficulties I face with this study as a historian? They are primarily related to the state of existing research.

The role of U.S. business organizations during the second-half of the twentieth century has been analyzed by a number of scholars outside the field of history. Several scholars of political economy have contributed interesting work on certain aspects of this subject matter, notably Ronald W. Cox and Daniel Skidmore-Hess, as well as neo-Gramscian political economists such as Kees Van der Pijl, who writes on transnational class formation.9 Another current in scholarship comes from corporate elite theory. Drawing on C. Wright Mills,10 sociologists such as George W. Domhoff and Mark Mizruchi have analyzed in what way and through which channels a well-organized and powerful corporate elite influenced public policy during the post-war years.11
In my own field of history, relations between organized American business and politics in the post-war years have not received much attention until fairly recently. Why is this? It has much to do with the evolution since the 1980s of different subfields in U.S. history that might be interested in relations between business and politics. While traditional political history declined after the renewal of social and cultural history approaches in the 1980s, economic history was increasingly carried out by economists, who were less interested in business-government relations. As for business history, in the aftermath of Alfred Chandler’s 1977 book, *The Visible Hand*, it became primarily concerned with the individual firm.

There has been an important turn in historical research on business and politics, starting at the turn of this century and picking up steam in recent years. Scholars in the field which is sometimes called the “new political history,” have started to conduct research on business leaders by taking into account the social, political, and cultural networks they are embedded in, thus considering them social actors who play a specific role in politics, which changes over time. Closely linked to this scholarship, there is also a new subfield that more and more historians consider themselves attached to: the history of capitalism. This scholarship aims at integrating the approaches of labor history, business history, and economic history, in order to analyze how the “shifting power relations of various social groups” effect economic change. As one author put it, the idea is “to write the history from the ‘bottom up, all the way to the top’.” While this new scholarship is extremely stimulating for my research, it does not address the transnational dimensions of the question. Thus, the impact of American business organizations on foreign policy formation after World War II, or the role of business leaders in transnational policy networks is still largely ignored by historians. This means that I can’t rely on secondary literature and thus need to conduct a fair amount of archival research.

Let me now make a few remarks on the object of my research: U.S. business organizations.

There are two particularities of U.S. business organizations, especially when compared to European ones. First, for reasons specific to American history, they are only marginally concerned with industrial relations (that is with collective bargaining with labor); their main purpose is to lobby in the political sphere on issues of public economic policy or trade. Second, there exists no single peak organization of business, but rather several major nation-wide cross-industry business organizations. In the 1960s, there were six such organizations, while some individual industries, such as pharmaceuticals and chemicals, also had particularly strong and active trade organizations. I also want to mention the large number of think tanks and public policy groups that interacted with these business organizations, and often involved a very intense participation by businessmen.

As for the social composition of the major business groups, it is no exaggeration to say that they were incredibly homogenous: they were made up almost exclusively of white men, between the ages of fifty and seventy.
Diverging Interests and Interactions between Business Organizations and Government

How did the clash between business organizations and the U.S. government emerge on the question of foreign direct investment in Western Europe? In April 1961, John F. Kennedy presented a series of tax proposals to Congress, of which several directly targeted direct investments in Europe; in order to curb the deficit, he wanted to strip U.S. companies of the very substantial tax advantages then in place on the income of their subsidiaries in Europe. Why was he willing to go against business interests? Kennedy was very worried about the balance of payments deficit. He considered the strength of the dollar to be at the heart of international power. This becomes clear in the following statements: “What really matters [...] is not nuclear weapons but the strength of the currency.” “It is this, not the force de frappe [France’s freshly acquired nuclear weapons], which makes France a factor. Britain has nuclear weapons, but the pound is weak, so everyone pushes it around.” It is of course important not to attribute this to Kennedy’s personal convictions, because in general, his administration, especially the Treasury Department, was convinced that a strong dollar was essential to American world leadership, and that in order to keep the dollar strong, the deficit had to be reduced— not by limiting military and foreign aid spending, but by targeting foreign direct investment.

In the face of the Kennedy administration’s threat to their profitable investments in Europe, business groups organized to defend their interests on three different levels. First, a massive public relations campaign was launched, especially by those organizations whose member companies were particularly involved in foreign investment in Europe. Months before the announcement of the tax measures, the National Foreign Trade Council and the Pharmaceutical Manufacturers Association anticipated that their valuable investments were in danger of becoming the object of government intervention. They started to hold press conferences and published widely distributed brochures refuting the claim that foreign direct investment was responsible for the deficit. They argued that direct investment in Europe did not replace exports, but actually encouraged them since they entailed the shipment of a whole array of specific equipment to the subsidiaries and basically created a “taste” for U.S. products in Europe. Furthermore, they claimed, these investments in the long run contributed to the American balance of payments through the returns of revenues.

A second line of action was to meet directly with government officials to discuss the planned tax measures and try to shape them to their advantage. Interestingly, the staunchly anti-labor National Association of Manufacturers was late to join the campaign to defend investments in Europe. The reason was that they were too preoccupied with Kennedy’s announcements that he would increase the minimum wage and extend unemployment benefits. Their priority was thus to prepare their struggle against what they saw as a particularly domestic labor-liberal administration. But the National Association of Manufacturers did participate in what was to become the main arena of fighting the proposed measures: the hearings held in Congress by the Committee on Ways and Means, in the early summer of 1961.
Throughout the five days that the hearings focused on the foreign direct investment proposals, fifty-one business representatives or economists closely aligned with the corporate world lined up to condemn the measures. The representatives of the business organizations dominated the hearings. There was a great consistency in their arguments: the investments in the E.E.C. were necessary to overcome trade barriers; the proposed measures would put the U.S. companies at a disadvantage with the European companies; in the long run these investments were profitable for the balance of payments position.

Only three speakers, all union representatives, supported the proposals, and their interventions were very timid. This is in line with what I have generally seen regarding the unions’ positions: all through the 1950s and 1960s, the AFL-CIO was thoroughly entrenched in anti-communist Cold War battles and only started to focus on the problem of multinationals exporting jobs to Europe and elsewhere at the beginning of the 1970s.

Overall, the hearings offered an excellent platform for the business organizations’ crusade against the Kennedy proposals. It is interesting to see what the proposals’ main architect, Treasury Secretary Fowler, thought about this. In an internal meeting with his advisers, he said “the businessmen are victims of their own propaganda on the tax bill. They really believe that they are promoting the best long-term interests of the country by investing abroad...” Despite Fowler’s ironic tone, the businessmen’s propaganda was effective. Faced with this very intense business opposition, Kennedy quickly withdrew the parts of the tax proposals that targeted foreign investment in Western Europe.

Four years later, in 1965, the question of direct investment in Europe and the balance of payments deficit again came to demand political attention. This was due to a parallel development: on the one hand, criticism in Western Europe of American multinationals’ takeover of their economy had been mounting – partly under the influence of French President De Gaulle – and this hostility would lead to Jean-Jacques Servan-Schreiber’s famous “Le défi américain”. On the other hand, pressure in the United States to reduce the balance of payments deficit, especially in the context of the rising expenditures in Vietnam, was again increasing.

In February 1965, the Johnson administration announced a “voluntary balance of payments program,” aimed at curbing direct investments in Europe. How did business leaders react to this? In general, not much action was taken against this program, as it was not seen as particularly restrictive. There was, however, the worry that the voluntary program might set a precedent and would eventually become mandatory. In this context of a looming threat of controls of foreign direct investment linked to balance of payments policies, business organizations began to restructure. They set up special departments on the question of direct investment and the balance of payments. And, what is especially remarkable, they began to increasingly rely on economists to try and give their positions more scientific credibility. The U.S. Council for International Business even decided, in 1966, to let go of its public relations expert in order to hire a full-time professional economist. This was in part a reaction to the government’s increasing use of economists’ studies to make the claim that foreign direct investment did have an impact on the balance of payments.
In parallel to the voluntary balance of payments program, the State Department launched a major campaign with a double aim: reduce European criticism of U.S. investment and strengthen government-business transatlantic networks. The way in which this was done is very interesting, as it established a pattern. For this, the government relied on an organization – the Atlantic Council of the United States – that had been created as part of the Atlantic Unity movement. The Atlantic Unity movement had its origins in the Cold War context of the 1950s and was closely linked to U.S. intelligence officers and NATO, and from the beginning it included the participation of businessmen. At the time, there were ten major private groupings with the aim of promoting Atlantic unity, among which the Bilderberg group is perhaps the best known. In 1965, the Atlantic Council of the U.S. (which still exists) and its European counterpart, the Atlantic Institute, were charged with creating transnational government-business unity around the issue of U.S. multinationals in Europe. The Atlantic Council had been in a deep financial crisis when the State Department decided to invest it with a new purpose: to conduct a large-scale program called “The Climate for American Business in Europe.” The financing of this program came through the Ford Foundation, at the request of the government.

Starting in March 1965, the Atlantic Council of the United States embarked on an intense collaboration with the government, but also with major American business groups. It produced an in-depth study based on a survey of business leaders in the United States and Europe, and organized a major conference at the training center of General Electric in Crotonville on the Hudson River in December 1965. The conference brought together ninety U.S. and European CEOs with leading government officials, to address the dual problem of the balance of payments deficit and European hostility towards American direct investments. This was just the beginning of an intense connection between the Atlantic Unity Movement and business leaders, a connection that was promoted by the State Department, supported by the Ford Foundation, and that established a transnational network of political leaders, businessmen, former or current army officials and – again – economists. Over the following years, several other transatlantic conferences on business issues were organized; reports were drafted, monographs were published, a Committee for Atlantic Economic Cooperation was set up with U.S. and European CEOs. As one of the directors of the Atlantic Council of the United States pointed out, what counted was not the actual reports that were published, but: “the (eighteen-month to two-year) process of producing a final report [during which] government and business leaders created permanent relationships, and backchannel networks of continuing communication that lasted for decades.”

Ongoing Government-Business Opposition

What came out of this public-private transatlantic campaign? The actions of the Atlantic Council of the United States did not produce any consensus on the question of direct investment control and the balance of payments deficit. As an early report of the Atlantic Council of the U.S. remarked: “The business leaders’ lack of awareness of America’s total
foreign policy, regarding national goals and objectives in Europe, seems to be reflected in suggested solutions on the economic side which would hurt our actions on the political-military side.”35 The opposition between business organizations’ short-term interests and the U.S. government’s long-term Cold War objectives thus continued to make a shared position on balance of payment measures impossible.

On the problem of European opposition to American multinational companies, there was however a specific outcome from the Atlantic Council of the U.S. campaign. At the Crotonville conference, the idea emerged that there existed a gap between the United States and Western Europe in advanced technology, and that it should be bridged. This “technological gap” idea was taken up in multiple conferences, meetings, and in the press. It led the Johnson administration to establish a special committee to issue a report on the technological gap, calling for the United States to help European companies acquire the technological know-how they lacked.36

This position, largely supported by the Departments of State and Commerce, was criticized by the Department of Treasury. Treasury officials pointed out that it was absurd for the U.S. government to help the Common Market countries bridge their technological gap. This policy would ultimately lead to the Common Market strengthening its own high-tech industries, such as aircraft, electronics, and nuclear power, eventually excluding U.S. exports. This in turn would increase the balance of payments deficit. F. Lisle Widman, head of monetary affairs in Treasury, made this point in a note in April 1967, in which he argued that the U.S. government actually profited from the existence of a technological gap with Europe. And he added: “I would remind State that this is merely a foretaste of what can be expected from the economic Frankenstein which is being created in the EEC.”37

These warnings grew more influential in the Johnson administration when the balance of payments deficit worsened at the end of the year. In order to deal with the increasing economic power of the Common Market without calling into question growing military expenditures and the need to maintain a strong dollar, the only solution seemed to be to curb direct investments in continental Europe. On New Year’s Day 1968, a new balance of payments program was announced, including a complete moratorium on direct investment in continental Europe.38

Business organizations’ reaction to the mandatory controls was - unsurprisingly - hostile. However, the line pursued by the major business organizations was to acknowledge that an outright call for ending the controls would have no chance in the context of the costs of the Vietnam War, so all that could be hoped for was to water down the measure. After Nixon’s election in the fall of that same year, the strategies of the large business organizations focused on direct interaction with the government.

In the spring of 1969, a resolution was passed in Congress for a quick termination of the controls and hearings were held.39 It is significant that the only major business organization that actively participated was the Chamber of Commerce of the United States.40 The National Foreign Trade Council representatives, for instance, during the same days that the hearings were held, did not show up on Capitol Hill but preferred to directly meet with leading members of the Nixon administration to discuss a transitional program
for the termination of the controls. This certainly indicated an increased proximity between the Council and the administration. In the midst of the hearings, on April 4, 1969, Nixon issued a new balance of payments program, which significantly lightened the controls on direct investment in Europe. It was directly inspired by the recommendations made to him by the major business organizations. The hearings ended without any further action being taken on the resolution.

It is interesting to see who was behind the pro-business resolution put forward in Congress by the Californian Democrat John V. Tunney. The archives of the Manufacturing Chemists Association reveal that this powerful business association had actually met with Tunney already in December 1968 and played a crucial role in bringing the resolution into existence. To further Tunney’s influence, they invited him to speak at a luncheon the association organized for chemical industry leaders on March 3, 1969, with members of the government and Congress. The Manufacturing Chemists Association then actively participated in the hearings. Its own president, the retired U.S. general George H. Decker, was a witness. But the Association also coached some of its board members to participate in the hearings in the name of their own company.

After the substantial easing of the controls in April 1969, representatives of business associations continued to regularly call for a lifting of the controls. But the minutes of these groups’ meetings show that this was purely declaratory, aimed at legitimizing their role as the representatives of business interests. In general, they seem to have been satisfied with the lightened version of the program and did not lead any major campaigns against the controls until they were finally abandoned in January 1974.

Concluding Remarks

This research on the conflict between government and business leaders on the question of direct investments in the Common Market has allowed me to identify different strategies and interfaces between business organizations and the government.

What we have seen is that business groups relied on a wide array of interventions with the government:
- Traditional public relations methods (pamphlets, press conferences, etc.)
- Hearings in Congress, where business organizations testified openly, in the name of the association, but also actively coached business leaders who presented themselves in the name of their company, as we have just seen, and relied on expert testimony by economists.
- Official meetings with members of the government.
- But there were also personal contacts, which are of course much more difficult to trace.

One revealing example of this is this telephone log of Secretary of Commerce A.B. Trowbridge, on a typical month in 1967. It is evidence of the many personal calls he made to business leaders.
- Revolving door politics. The Kennedy, Johnson and Nixon administrations were filled with businessmen. And former government officials went on to play important roles in business organizations.
- And finally, social ties. Numerous conferences and meetings were organized by business associations with representatives from government and the Congress, which always included important social events. One example of this is the meeting of the Business Council on May 7 and 8, 1971, at the Homestead Hotel in Hot Springs, Virginia. One hundred and twenty-four businessmen participated in the meeting, accompanied by their wives, who did not take part in the official program. Also present were the Secretary of Treasury, the Secretary of Commerce, and the Vice President (Agnew), and several other leading officials of the Nixon administration. This is the program of social events for Saturday May 8, 1971:

**Business Council, Homestead, Hot Springs V.A.**

Saturday, May 8th
7:30 a.m. Buffet Breakfast - Men Only
10:30 a.m. Ladies’ Coffee Hour
12:30 p.m. Buffet
(Main Dining Room and Casino open for luncheon)
1:30 p.m. Men’s Tennis Tournament - Continued
1:30 p.m. Men’s Golf Tournament
7:00 p.m. Reception and Dinner – Black Tie
Speaker: The Vice President

As you can see, there was an absolute segregation between men and women. Although it is, of course, difficult to pinpoint the exact degree of influence between government and businessmen, these golf and tennis tournaments most certainly provided an ideal forum for intense exchanges.

It was through these multiple channels that business leaders tried to influence U.S. government policies in the matter of foreign direct investment in Europe. They largely succeeded. As we have seen, there were factions within the corporate elite, for instance between conservative business groups and more “corporate liberal” ones. What is also important to keep in mind, though, is that government was not a neutral entity on which these associations exerted their influence. The borders between government and business leaders were fluid; there was a large overlap between government and business. And the government was also active: it intervened to try and shape business leaders’ positions and even their organizational structures, as we have seen with the Atlantic Unity movement. I think that my research on a concrete and specific historical process in this way enters into
dialogue with the ongoing discussion in state theory concerning the degree of autonomy of the state, in relation to the capitalist class. 47
ENDNOTES


2 Ibid.


7 The Bretton Woods system was the monetary system created in 1944 to govern international currency relations and which was founded on the United States’ commitment to convert international dollar holdings to gold at a fixed rate (35 dollars per ounce). The Nixon administration’s announcement, in August 1971, that it would no longer guarantee this convertibility of U.S. dollars to gold effectively terminated the Bretton Woods system.


15 This expression, coined by Louis Hyman, is quoted in Richard R. John, "Introduction...", 2017, p. 13.

16 Collective bargaining was often conducted at the level of the firm, but in certain sectors, business organizations do play an important role.


18 The Chamber of Commerce of the United States and the National Association of Manufacturers were the largest and historically most conservative business organizations; the U.S. Council for International Business (then called U.S. Council of the International Chamber of Commerce) and the National Foreign Trade Council specifically aimed at representing American companies’ international interests; and finally the Business Council and its off-shoot the Committee for Economic Development, which positioned themselves in an advisory role to the government.


20 The Kennedy administration also targeted subsidiaries in tax haven countries, specifically in Switzerland. In order to avoid taxation, many multinationals had set up their European headquarters in Switzerland, and ran all of their subsidiaries’ profits through this Swiss holding company.

21 Although he used the general category of “developed countries,” John F. Kennedy’s proposal and Secretary of Treasury Douglas Dillon’s explications in Congress demonstrated that it was specifically investments in Western Europe that were targeted. See “Message from the President of the United States Relative to our Federal Tax System,” 20 April 1961; and Statement by Hon. Douglas Dillon, Secretary of the Treasury, before the Committee on Ways and Means of the House of Representatives, 3 May 1961, *President’s Tax Message along with Principal Statement, detailed explanation and supporting exhibits and documents*, Washington: U.S. Government Printing Office, 1961, pp. 1-17 and pp. 20-43.


25 “Informal Notes on the Secretary’s Staff Meeting”, 23 May 1962, National Archives and Records Administration (N.A.R.A.), RG 56, 138, box 10, p. 4.

26 Some regulations concerning the tax havens remained in place, but multinational companies found ways to circumvent them.


40 A representative of the National Association of Manufacturers, George Hagedorn, spoke at the hearings but did not play an active role – tellingly he started his testimony by
saying: “I was thinking of asking to be excused because I had nothing additional to say...”, *Hearings...* (1969), p. 274.

41 See Minutes of Meeting of the Board of Directors of the National Foreign Trade Council, 22 April 1969, H.L., acc. 2345, series II, box 4.


44 Minutes of the Washington Advisory Committee of the Manufacturing Chemists Association, 3 February 1969, C.I.A.


47 The theoretical concept of “relative autonomy” of the state from the dominant centers of economic power, developed by Marxist state theorists such as Ralph Miliband and Nicos Poulantzas, has led to a series of publications that discuss this concept, among which the work by Bob Jessop. See Bob Jessop, *State Theory: Putting the Capitalist State in Its Place* (Cambridge: Polity Press, 1990).