virtually all claims. Indeed, the authors argue that a complete compensation adjustment should also account for (i) the receipt of tax subsidies on compensation for lost wages and (ii) the fraction of gross compensation that is paid to attorneys. The authors show that compensation calculated in this way would not differ greatly from what the claimants in their sample actually received.

These are only a small subset of the findings presented in *Suing for Medical Malpractice*; however, they amply illustrate the way in which this study challenges the reader to move beyond the rhetoric of malpractice reform. The authors note that their results must stand the test of replication – especially given their small sample size. Nevertheless, *Suing for Medical Malpractice* is a timely contribution that is both rigorous and readable. It deserves the attention of researchers and policymakers, alike.

Reference

Bureau of National Affairs, Inc., 1993, Clinton administration description of President's health care reform plan, American Health Security Act of 1993, dated Sept. 7, 1993, obtained by BNA Sept. 10, 1993 (Washington, DC).

Thomas M. Selden[1]
Agency for Health Care Policy Research,
Rockville, MD 20852, USA

Robert Z. Aliber, The Multinational Paradigm (The MIT Press, Cambridge, MA, 1993) pp. 282, $27.50 (cloth).

Andy Warhol once commented that, in time, everyone would be famous for 15 minutes. Perhaps this is why Robert Aliber has referred to the framework presented in his new book as 'the Andy Warhol theory' of direct foreign investment. Aliber argues that national economic growth rate differences create an important basis for the pattern of multinational corporate investment activity across countries and over time. In the years since the industrial revolution different countries have, in turn, enjoyed relatively brief periods of economic growth: Great Britain in the middle of the 19th century; Germany in the closing third; the U.S. in the years before World War I and in the 1920s; Japan in the 1950s and 60s. Rapid growth brings with it high real interest rates and profits that attract foreign direct investors. The fastest

[1]The author is one leave from Department of Economics, Syracuse University. The views expressed in this review are those of the author and no official endorsement by the Department of Health and Human Services or the Agency for Health Care Policy Research is intended or should be inferred.

growing home firms increase productivity as they install new plant and equipment and add new, younger workers. As a country's growth rate declines, its real interest rate also declines, capital flows diminish or reverse and the national currency depreciates. Home firms age, but seek to maintain their growth by exporting and investing in higher interest countries. If the logic of Aliber's argument plays out as an historical process, eventually every country would have a turn as a major host for multinational investment, followed by a lengthier period as a source country.

Researchers interested in foreign direct investment (FDI) have not focused much, over the last three decades, on macro-economic explanations for the activities of multinational corporations (MNCs). Several generations of doctoral students have been educated to define FDI research questions in terms of industrial organization economics and the Coasian theory of the firm. Interest and profit rate explanations for FDI flows seemed to hearken to an earlier day when economists made little distinction between foreign portfolio investment and strategic control over assets abroad. These older theories could not explain why MNCs would incur the extra costs, relative to local firms, of managing foreign operations instead of trading or licensing. Contemporary mainstream theorists explain FDI as a consequence of entrepreneurs' efforts to exploit national factor cost advantages and market opportunities, while fully appropriating the rents from firm-specific intangible assets. MNCs organize across national borders to reduce the risk of haggling or losing control over the assets. Many such assets can not be easily sold in markets, in any case, because they partially or entirely consist of information, organizational programs and team-embedded techniques.

Aliber expresses discomfort with this explanation, in part because it fails to make a distinction in kind between domestic and international firms. As an alternative, he offers an extension of the 'exchange risk' approach that he has advocated in earlier work. This approach attributes international direct investment flows to changes in real exchange rates and to differences in the q ratios of companies headquartered in different countries. Real exchange rates influence national competitiveness, and therefore affect the relative shares of aggregate plant and equipment investments that take place in countries. Q ratios influence the division of ownership or productive assets between local entrepreneurs and foreigners. The q ratio measures the relationship between a firm's market value and its book value. Firm's q ratios increase when their anticipated profits increase, and when the interest rates used to discount those profits decrease. Aliber argues that this is why firms from low interest countries face incentives to acquire assets in high interest countries: their managers perceive a higher net present value from the assets' income streams than do potential local owners. The distinction between Aliber's theory and mainstream theory, then, lies in his hypothesis that home- and host-country-specific forces, proxied by differences between internal and market real

interest and exchange rates, drive FDI.

Aliber's view has the potential to generate considerable interest among the small, but growing number of international business scholars interested in country sources of MNC's competitive advantages. His framework also points the way toward a theory of FDI that incorporates macro-economic factors in a manner consistent with the field's current understanding of firm-level factors' effects. Randall Morck and Bernard Yeung, for example, have published empirical evidence that multinationality increases intangible assets' positive effects on firms' q ratios, but that multinationality in itself has no effect (e.g., 1991).

The author does not, however, position his work as a contribution to the field, but rather, as an alternative to theories that rely on firm-specific advantage as a basis for explaining FDI. He also uses it as a basis to dismiss the academic and practitioner literatures on international strategy as characterized by 'a number of clichés', that can lead MNCs' managers to underestimate the macro-economic constraints on their discretion. 'The core of the strategic decision for the managers of the multinational firm', Aliber writes, 'involves developing forecasts of changes in the external environment so the managers can then position the firm's productive, financial and managerial resources to respond to those changes before the firm's competitors do so' (p. 245).

Approximately two thirds of the book discuss the implications of this view for several functional areas of managerial practice in MNCs. Chapters on financial management, production and marketing, and firm/host state relations use a one-dimensional model of organizational centralization vs. decentralization that seems to freely borrow from frameworks that have been used to study MNCs' strategies since the 1960s. Since the mid-1970s, international strategy research and prescriptive work has centred on complex, multidimensional models that readily encompass Aliber's typology as a special case. Business strategists or instructors who turn to the book as a guide to practice may take an interest in some of the mechanical details presented in this discussion, particularly in the chapter on finance. But readers may wish to take Aliber's negative assessment of the strategy field as a whole with a grain of salt, as the book provides no evidence that the author relied on more than hearsay to arrive at it. The references recognize neither early nor recent contributors to the field. No references appear to any works published in any field since 1980.

This is not to suggest that the business strategy and post-1980 economics literatures definitely explain FDI or managerial processes in MNCs. But researchers in these areas increasingly define the 'core of the strategic decision' by asking questions that Aliber's perspective needlessly precludes. These questions concern how collectivities learn and innovate, and how to structure incentives to manage and sustain these processes. Learning and

innovation create intangible assets that form the basis of competitive advantages, and may be examined as both country- and firm-specific phenomena (see, for example, Nelson, 1993). Similarly, FDI and multinational management are complex phenomena that involve causal factors at multiple levels of analysis. *The Multinational Paradigm* would be more useful to researchers in these fields if it paid less attention to managerial technique and provided more details concerning the mechanisms that link causes of competitive advantage at the firm and country levels of analysis. Hopefully, FDI and international management rsearchers will understand and incorporate Aliber's contribution, despite his own efforts to distance himself from existing research in these fields.

References

Nelson, Richard R., ed., 1993, National innovation systems: a comparative analysis (Oxford University Press, Oxford, UK and New York City, USA).

Morck, Randall and Bernard Yeung, 1991, Why investors value multinationality, Journal of Business 64, no. 2, 165–187.

Thomas P. Murtha
University of Michigan, Ann Arbor, MI, USA