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## Government, business, and academia: origins of Raymond Vernon's understanding of multinational enterprises<sup>☆</sup>

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As the senior member of the panel to honor Raymond Vernon, I was charged with “giving a retrospective on Ray’s work going back as far as [I] want to go. . . and laying the territory for the other commentaries.”

Ray’s work on multinational enterprises was shaped by his careers in government, business, and academia. One can, of course, only speculate about some of the exact links between his interests and ideas and his several careers. I will, however, indulge in such speculation by reviewing Ray’s experience and some of his early publications to search for the origins of basic ideas that made his work on multinational enterprises so creative.

Raymond Vernon (no middle name or initial) was born as Raymond Visotsky on September 1, 1913, in New York City. He completed his bachelor’s degree at the City College of New York in 1933, in the worst of the Depression, when jobs were extremely scarce. His first job was with an advertising agency. In describing his job search decades later, he told his students that he had convinced the agency to hire him on a short-term basis to let him try his hand in the rather new field of statistics. His task was to solve one particular problem the company was facing. He solved the problem, and the company kept him on.<sup>1</sup>

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<sup>☆</sup> This paper is a longer version of an address delivered in the session to honor Raymond Vernon at an annual meeting of the Academy for International Business in Charleston, SC, in November 1999.

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<sup>1</sup> It seems that he maintained a second position, at the National Bureau of Economic Research, but I have not been able to document this.

## 1. Government: The Securities and Exchange Commission

In 1935, Ray made a significant career move, taking up a position with the newly established Securities and Exchange Commission. At the same time, he worked on his PhD in economics at Columbia University at night, taking classes at universities in Washington and spending summer vacations at Columbia. He received his PhD in 1941.

One result of his studies was his first publication, *The Regulation of Stock Exchange Members*, which appeared very soon after he finished his degree.<sup>2</sup> A few years ago, he gave me a copy of this book from a stash he found in his attic, with a typically self-deprecating remark inscribed in the front: “For Lou, in recognition of his propensity to collect exotica of uncertain value.” The analysis in the book hardly seemed exotic to someone who knew Ray’s later work on multinationals. When one reads the book today, two things stand out: the high quality of the writing and the combination of economic analysis with his understanding of the behavior of business people. These characteristics marked all his later works.

Although Ray was trained as an economist, he was already questioning some of the basic behavioral assumptions on which “neo-classical economics” was built. The recommendations in the 1941 book were based on doubts that most speculators behave in ways that stabilize markets. Perhaps, the doubts were inevitable for someone who had experienced the Great Depression and who had studied the behavior of floor traders and specialists at the New York Stock Exchange. Nevertheless, at the time of Ray’s first book, many economists were willing to assume that speculation was stabilizing; today, still more insist on that assumption, in spite of the recurring bubbles and panics that suggest other kinds of behavior. Ray’s belief about speculators’ herd instincts remained with him and certainly influenced his ideas on “follow-the-leader” patterns in the spread of multinationals.<sup>3</sup>

Ray’s unwillingness to limit his analysis to the tools and assumptions of economics was evident throughout his career. In the introduction to a book he later edited in Mexico, he explicitly stated his conviction:

If our group could make any claim to expertise, that claim lays in the field of economics. Yet, throughout our studies, principles found in the study of history, political science, anthropology, and sociology kept vying with formal economics to provide an explanation of what we saw. In the end, each of us felt obliged to step outside the field of economics from time to time, even if it meant practicing in some fields of the social sciences without a proper license.<sup>4</sup>

With the outbreak of the Second World War, Ray’s fledgling publishing efforts came to a temporary halt. The military wisely decided that this former college wrestler might, as a soldier, be a hazard to friendly forces, since he had no depth perception, was night-blind, and, in fact, was to master Braille since he thought that he would eventually lose his eyesight completely. Ray was to spend the war years and a period thereafter in the Securities and Exchange Commission.

<sup>2</sup> Vernon, R., 1941. *The regulation of stock exchange members*. Columbia University Press, New York. See also Loss, L., Vernon, R., 1945. When-issued securities in law and practice. *Yale Law Rev*, September.

<sup>3</sup> See particularly Vernon, R., 1971. *Sovereignty at bay: the multinational spread of U.S. enterprises*. Basic Books, New York, p. 75.

<sup>4</sup> Vernon, R. (Ed.), 1964. *Public policy and private enterprise in Mexico*. Harvard University Press, Cambridge, p. 1.

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