TRANSNATIONAL CORPORATIONS: AN EXAMINATION OF THE CONSEQUENCES FOR SOCIETY

by

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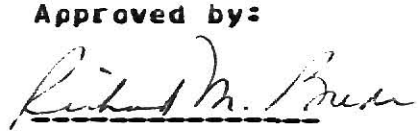

Major Professor

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INTRODUCTION AND TERMINOLOGY

The United States no longer has the leading industrial economy. Instead, the United States has become a service economy. According to the Report of the President's Commission on Industrial Competitiveness (1985:14), this change from an industrial to a service economy has developed due to our declining position in manufacturing giving rise to a trade surplus in the service sector of our economy. Japan has taken the lead but as Naisbitt (1982:56) argues "Japan is number one, but that is like a new world champion in a declining sport."

Countries of the world are growing increasingly interdependent and businesses are becoming more and more independent of centralized governments (Naisbitt, 1982:55). The United States federal government, for instance, in the past has regulated businesses but: "Over the last several years a substantial part of (the) economic regulation has been relaxed or eliminated" (Reagan, 1983:96). In fact, "Underlying the growth of world trade and investments was a progressive reduction of barriers to trade" (Reagan, 1983:51). To perceive the United States economy as being an independent entity would be naive. It would be more

appropriate to characterize it as part of a global economy. State and businesses are now dealing directly with other outside economic entities.

Another economic trend is that Countries that had previously been looked at as economically insignificant are growing economically. One indication of this is the growing importance of third world nations in the new economic order. In fact, "The twenty fastest-growing economies for the period 1970 to 1977 were all third world countries (Naisbitt, 1983:60). The growth can be understood by reflecting upon the significance of transnational corporations. The increasing role of transnational corporations shows that the possiblilities for utilizing capital appear to be increasingly global rather than nationally oriented. This has provided transnational corporations with the ability to become instrumental in influencing the economic importance of geographic areas, such as underdeveloped areas of the world.

The transnational corporations that are the subject matter of this report are those firms whose entire operation transcends national interest to function for the benefit of investors, employees, and customers; corporations such as IBM, Pfizer and Dow Chemical. These corporations view

the entire world as their market and accordingly engage in trade with whomever they desire (cf. Barnet and Muller, 1974).

Transnational corporations are a permanent structure in our society and seem to be a growing phenomena. Although there is an inclination to rebel against any structure which is so massive it is unproductive to give a lengthy discourse on dismantling them for the good of the world or to praise them for their potential. I will examine both negative and positive aspects of the emergence of present day domination by transnational corporations.

Before discussing the corporations which are involved in more than one country's economy, one must first clear up the terminology. The terms most used in discussing these massive corporations are either "Global Corporations" (Barnet and Muller, 1974), "Multinational Corporations" (Berman, 1981), or "Transnational Corporations" (Committee of Economic Development, 1981).

Barnet and Muller (1974) are correct in arguing that the term multinational corporations misrepresents what the corporations want to portray and what they actually are. They argue that it creates an illusion that the nation-state actually controls and owns the corporation. Barnet and Muller (1974:15) point out that the corporations operating

on a world scale "are making daily business decisions which have more impact than those of most soverign governments on where people live; what work, if any, they will do; what they will eat, drink, and wear; what sorts of knowledge schools and universities will encourage; and what kind of society their children will inherit". It is not a combination of many nations that are dictating the lifestyle of people, but instead the corporation.

The term "Global Corporations", which Barnet and Muller use as an alternative to "multinational corporations", also creates an illusion that these corporations are not harnessed by any nation-state. There are rules that the corporation must follow when doing business within or outside the host country. Corporations have to face governments that often claim "supreme competence to govern within their respective jurisdictions" (Eells, 1972:59). The term "Global Corporation", also implies the involvement in every national economy simultaneously. Eells (1972:58) argues terms such as global corporations "...are somewhat pretentious".

Although the different terms are often used interchangeably, I propose that the term which best represents what they are is the term "transnational

corporation". I recognize that the corporations are affected by some of the rules of the nations in which they are actively involved, however, they transcend nation-states and often succesfully avoid scrutiny and responsibilty for the consequences of their actions (Livingston, 1970:320). According to Clinard and Yeager (1980:316), in discussing the forture 500 which are primarily transnational corporations, most people believe the penalties imposed on transnationals are "far too lenient...(and)...civil and criminal actions frequently are not used, and monetary penalties are ludicrously small relative to the corporations' assets, sales and profits, because of statutory limitations".

According to the Committee for Economic Development (1981:15), the United Nations also "tends to favor the term transnational...on the grounds that it is more descriptive of the concept of a parent firm based in one country" but "operating...in a number of foreign countries...The term" also "more accurately reflects the quality of "domination" inherent in the parent-subsidiary relationship..."

The nomenclature differs but the same phenomena is usually being discussed when any of these terms are

used. I will use the term "Transnational Corporations", since what the term is describing is an entity that has risen above and transcends any nation or nations. The term includes those corporations "which own or control production or service facilities outside the countries in which they are based."(Reiffers, 1982:20)

Having established an appropriate name for the phenomena to be discussed, the next two sections will consider the arguments for and against the transnational corporation.

ARGUMENTS FOR TRANSNATIONAL CORPORATIONS

The Invisible Hand

The transnational corporations would have us believe that their legitimacy originates from the ideas of Adam Smith. Barnet and Muller (1974:55) recognize that "the global corporations and the world economy it is working to build are the modern embodiment of Adam Smith's invisible hand." Adam Smith, "the prophet of capitalism", (Barnet and Muller, 1974:228) saw wealth for society established in markets and the larger the market

the more beneficial for society. These markets not only benefit the individual who enters them but also benefit society. Smith felt that the only thing that would hinder the growth of society would be something to hinder this "invisible hand". Although the large corporation did not exist in Smith's day, the ideas of their existence are within Smith's rationale.

It would follow from Adam Smith's argument that the world will become one economic unit with competition being its driving force, since all would have equal access to the market. This argument also emphasizes that profit seeking in a regime of competition is the way by which business, willing or unknowingly, maximizes social welfare.

When using Adam Smith as the justifying force of transnationals a contradiction exists. The basis of Smith's ideas make the assumption that all have equal access to the market, however, this is not the case with formations of monopolies and shared monopolies by the transnational corporations. Control over the market fits in better as an extension of Weber's ideas on rationalization. Bureacracy becomes the rationalizing force for efficient means to achieve desired ends.

Transnationals as a Force of Development

Transnational corporations want to be perceived as the leading force of the global development process. The argument is that they are a source of needed capital for less developed countries and will create employment opportunities. Also, less developed countries need to acquire the necessary technology to develop. The corporations may be the impetus for the transfer of technology.

Corporations may find it necessary for people in these less developed regions to have a higher standard of living to afford what they are producing. Creating wealth for a country creates the opportunity for corporations to have a larger market to sell to. Developing these countries may be a short-term loss to corporations but it may be a long-term gain.

Peacemakers

Another way the transnationals may be looked upon favorably is when looking for a solution for world

conflict. Governments are limited to what they can do because some actions they take can disrupt the national economy. Transnationals, unlike governments have it in them to integrate the planet and build world order. Corporations are businesses and nuclear war may not be profitable to corporations, thus it appears that they would work to prevent it.

One of the major functions of the state is national security. If the corporations were in control there would not be a threat of war because it is in no one's best interest. The transnational corporation seems to be a way for "peace in the world". Since this is a major concern of the world at present, this aspect needs to be looked at more as an alternative to things such as a defense budget, nuclear capabilities, etc. All countries will have an interest in each other when the planet becomes integrated and war would be in no country's or industry's interest.

Formerly, powerful nations dealt with countries who did not agree with their policies by using force. Major powers are now finding it more difficult to enforce their policies upon less powerful nations (Naisbitt, 1982). Force worked when the United States ran the world but the

realization now is that we do not. There must be a change in dealing with world problems other than this method. The transnationals could be a vehicle to steer us from force to negotiate problems.

A key to world peace does not lie strictly in harmonous relations between the nation-state and transnationals. Since nation-states don't necessarily represent the masses there also needs to be a similar cohesion between the people and the corporation. A triadic relationship must develop. The interest of the masses needs to be incorporated into this new world order and thus positively contribute to the future of peace. One approach towards this integration would be the development of a world-wide union so that workers are represented in the transnational corporation superstructure. UAW President Douglas Fraser argues that "... all workers of the world are going to have multinational corporations, then you are going to have some kind of corresponding unit for the labor movement".

The transnationals have been involved with many positive projects in the world. Although transnationals do not undertake the task of collecting and analyzeing extensive data as to the benefits they provide (Micou,

1985:8), examples include such things as Pfizer Inc. establishing a system in Gambia for distributing pharmaceuticals and improving health care, Champion International Corporation subsidizing meals for Brazilian workers, Union Carbide building and equiping a technical college in Zimbabwe, Ford Motor Co. S.A. building 128 schools in Mexico, and so on (Micou, 1985:11). If the corporations become as socially beneficial as they are capable of becoming their existence will be justified and legitimized. Leland S. Prussia, Chairman of Bank of America, has said that "Enlightened self-interest dictates a simultaneous interest in the health and improvement of the society, there are no healthy, stable markets and no prospects for sound business growth. Social investment is equivalent, in the long term, to investment in a market development, a sine quo non for a foward-looking, self-interested enterprise."

To summarize the perspecive of world peace though world trade Naisbitt argues (1983) "...If we get sufficiently interlaced economically, we will most probably not bomb each other off the face of the planet. For example, I suggest that we are so economically interwined with Japan that if we have any problems with Japan today, we are going to work them out. I think the same will be true globally. We should welcome increased trade with the Soviet Union,

all the developed nations, and the third world, as world trade moves us closer to world peace."

These arguments presents the transnational corporation in a favorable light, and seek to justify their existence, but there are equally plausible arguments against the transnationals. This optimistic attitude ignores such things as friction between the transnational corporation, the nation-state, and other groups or individuals. What may occur instead is world war instead of world peace.

ARGUMENTS AGAINST TRANSNATIONAL CORPORATIONS

Monopolization: The Invisible Fist

According to the editors of Monthly Review (1973:484) "a monopoly by definition impedes the free flow of capital into projected high-profit situations... (The transnationals) have reached the monopolistic stage and (have) spread into both new industries and new geographical areas." This occurance of "economic concentration and oligopoly...are organizational strategies and weapons in the quest for power and control on the part of corporate giants bent upon eliminating competition, securing higher rates of return, and wielding greater power and influence over

the environment" (Ajami, 1972:110).

According to "The Theory of Natural Monopoly" (Sharkey, 1982), in any competition there will be a loser which will be absorbed by the winner. Eventually a monopoly occurs. Monopolies also occur because of corporations having dominant patent rights, as in the case of the International Shoe Machinery Corporation (Weiss, 1967:88). As Weiss points out (1967:332) "in the process of producing too little at too high a price, a monopolist increases his own income at the expense of the rest...(and) it is unfair for one person to gain at the expense of another because he occupies a strategic position in the economy." Dowd (1979:31) goes on to argue that monopoly formation is unstoppable because "...a competitive economy is quite generally incompatible with modern technology, both on business and economic grounds." He goes on to dismiss the ideas of Adam Smith's "invisible hand" with the concept of an "invisible fist". The "invisible fist" forces the markets to become closed to some, for whatever reason, forming the monopolies. Although all transnationals are not monopolies or oligopolies this argument shows the corporate future to be dominated by monopolization.

Imperialism and Dependency

The development of transnational corporations can be interpreted in the light of Marx's ideas on the latter stages of capitalism. Overproduction is a continued threat to corporations. To avoid a stagnation due to saturation of the market place the relocation of capital become inevitable. This according to Kindleberger (1973:474) leads to "neo-imperialism". Neo-imperialism, which in this context is an economic phenomena, although it overlaps into the political arena, involving incursion and eventual domination of nation-states. This is where the transnational corporation comes in - as a monopoly or oligopoly - having the ability to restrict
growth of supply and maintain a price structure necessary to benefit the owners.

Transnational corporations penetrate underdeveloped countries because of low taxes, cheap labor, cheap resources, and cheap products. Then they see which country is willing to give up the most to the transnational corporation. What happens is that it creates jobs for the people in the state

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The transnational corporations are not technically monopolies, but are virtual monopolies.

for a while, but the corporation uses what it wants and soon departs for more profitable locations. According to Bornshier, Chase-Dunn, and Rubinson, (1984)"the effects of direct foreign investment and foreign aid has been to increase economic inequality within countries." This inequality would lead to possible internal instability creating an environment that could lead to revolution and civil war.

The transnationals "have had an adverse effect on distribution of income and on employment levels in underdeveloped countries around the world" (Barnet and Muller, 1974:152; see also Chase-Dunn and Rubinson, 1978).

Barnet and Muller (1974:162) recognize that "the proposition that developed and undeveloped countries will get rich together is, at best,...half true." They note that investors and banks invest in the transnational corporations rather than local entrepreneurs and transnationals later buy up local firms and industries. This shifts the wealth from people within the country to the people within the corporation. Also, the money made by corporations is leaving the undeveloped countries. For example, transnationals in Latin America have taken out 79 percent of their profits (Barnet and Muller, 1974:13).

The argument that corporations also contribute to development by the transfer of technology needs to be questioned. Corporations are not anxious to make available the newest technology to potential competitors. Instead, they keep control of the technology, making undeveloped countries dependent on them (Dos Santos, 1970; Barnet and Muller, 1974).

This technological dependence enhances the power corporations have in undeveloped countries. Corporations usually provide obsolete technology and overcharge for it. In addition, this technology latter destroys employment opportunities in the poor country because the technology that is transported to these countries are "capital-intensive and labor saving" (Barnet and Muller, 1974:169).

Incidents where corporations are viewed as exploitive continues, compounded by such events as the accident at Union Carbide plant in Bhopal, India. Hostility has also been reinforced by third-world leaders, pressure groups, and companies. The Multinational Monitor published by Ralph Nader (June 1984) argues "It's time to monitor the multinationals. They are everywhere. Shutting down plants and fleeing to low wage havens. Violating workers' rights. Ignoring health and environmental

responsibilities. Undermining third-world development. Aided and abetted by favorable government policies, while avoiding taxes..."

Corporate Loyalty

Transnational corporations have allegiance to no one. Rather, countries may have an allegiance to corporations since the corporations seem to own the world. Presently corporations have in some cases become more economically powerful than nation-states. For example "General Motors has a larger annual product than Switzerland or Pakistan, Standard Oil (New Jersey) has a larger annual product than Norway and Denmark, (and) Ford Motors has a larger annual product than Austria or Yugoslovia" (Shepard, 1981:481).

No matter the size of the transnational corporation they do not owe allegiance to the host country. The main interest to the transnationals is to have profits in production and sales, not achieving the host-country goals. Although, many of the day to day decisions are made by subsidiary level employees who are host country nationals (President's Task Force on International Private Enterprise, 1981), policies are made at a higher level.

Corporations are demanding employees' loyalty, since they provide the income and benefits for the individual employed. According to Straver (1978:364-365) "a company provide(s)... products (motivating/maintenace factors) that its clients (employees) want, at a profit in social/ monetary terms (employee organizational loyalty and contribution to profitable operation)". In June 1985, USA Today emphasized this trend of corporations demanding loyalty. A worker in a coke plant was caught drinking a Pepsi by his supervisor. He was fined and disciplined. This is the type of loyalty corporations want and demand since the corporations are located all over the world and supply personal income. It's easily understood that the people in the corporations would care more about the corporation than the country they happen to be presently working (Barnet and Muller, 1974).

The War Makers

Another argument depicting transnationals as the vehicle for world conflict is that war may be to the benefit of transnational corporations. War creates more needs, weapons, missiles, and coffins..., and it may calm malcontent people by giving them something to do. The

transnational may, in turn, be the impetus for world conflict.

Transnationals, in many instances, have been the cause for political instability. For example, "domestic businees leaders may resent the intrusion of competitors who bid up wages, interest rates, the price factory sites and the like, and sell competitive goods more cheaply...(This conflict may create a situation where)...foreigners may combine with the reactionary political forces of the country (e.g. ITT in Chile), complementing one political group and coming into open conflict with others." (Kindleberger, 1984:11)

Corporate loyalty is a potential problem since the nations have armies and not corporations. With corporate policy affecting world affairs, the nation-states become answers to the problems that may be caused by the corporation. This means there needs to be an understanding and cohesion between the plans of the nation-state and the corporation. This cohesion and understanding may be already embedded in the politics of government. Although it seems the transnationals have the economic power and the nation-state has the military power, this may not be the case. The relations between the transnationals and the nation-state are touchy because they seem to act in

opposition but in reality they do not.

The Corporation and the State

"The government at all levels represents the interest of many... but it represents most and best the interest of the most powerful" (Dowd, 1979:33). Corporations may already informally be forcing the nation-states they are involved with to also be loyal to the transnational corporation.

Who does the nation-state, in fact, represent? Much of the lobbying done, for example in the United States, is financed by powerful corporations. Recently, the Reagan administration passed legislation admitting external countries and corporations to engage in lobbying efforts. The interest of the American people may become less significant with the powerful corporations making their views known. Although the function of the state and corporation has been similar in many ways the behavior of both state and corporation is strongly influenced by economic goals. The United States relations with the South African government is one example where economics become a priority. Policy implication towards South Africa have to take into consideration the supply of key resourses,

such as chromium, manganese, platinum, and diamonds, that are essential to America's defense and economy (Welling, 1984:47-51).

The U.S. based corporation is not an instrument of the government nor is the State Department a puppet of the corporation. They do not always have the same interest, but the transnational corporation is a source of national power and pride, even though the transnational corporations often frustrate national policies of the governments of the world.

The nation-state's actions often are seen as a hindrance to the development of transnational corporations. Federal intervention, wars between governments, taxes and regulations do not benefit the corporations but force transnational corporations to involve themselves in politics to look out for their own interest. For example, it was not in International Telephone and Telegraph's interest to let the Chilean government nationalize all its assets. Controlling politics comes from controlling the means of creating wealth in the world (i.e. the FCC Commissioner is a former CBS President and the Secretary of Energy is an executive from the Gas Industry). Corporations make major decisions throughout the world. The activities of

nation-states often create obstacles that hinder the market (Barnet and Muller, 1974). Loyalties collide and an ongoing conflict insues between loyalty to the dollar or loyalty to one's nation. Individuals who make up the transnational have to compromise their position in the nation-state or to their income supplier. This conflict between corporate loyalty and national loyalty give rise to the previous question of the potential for world peace.

DISCUSSION AND CONCLUSION

There are many areas of conflict and inconsistencies in both of the previous positions. The pro transnational position would have as its backbone a capitalistic orientation. The "free-enterprise" system lets the corporations grow. The formation of monopolies or oligopolies due to mergers and bankruptcies of smaller businesses will create problems. Mergers "increase concentration and have adverse effect on competition. (Other considerations include the possibility that) takeover(s) can crowd productive business projects out of capital markets, (and) it can create incentives (for corporations)...to concentrate on short-term performance (instead of)...long-term corporate investment"

(Reagon, 1985:199). A monopoly coming into existence is not compatible with a capitalistic approach.

The competition between corporate giants has created a situation where it is more benificial to the corporation if they unite by "either cartel arrangements or in a permanent invasion of each others' market via the route of foreign exchange" (Magdoff, 1973:465). The belief that through world trade all countries will prosper, also needs to be questioned. Countries that have started off a "step behind" become peripheralized. They cannot compete with the already established and can only sit back and be exploited (Emmanuel, 1972; Chase-Dunn, 1975; Kukreja and Abramowitz, 1987). "Technological dependence, (for instance), is a critical factor perpetuating the position of the developing nations at the bottom of the world development ladder" (Degley and Wittkopf, 1981:93). The countries dependent on these economic "trailblazers", such as the United States based transnationals, are "the explanation for uneven development in the world economy"(Chase-Dunn, 1975:735). The market is not open to all which make the basis for its existence a contradiction.

The efficiency claim for the justification of

transnationals also needs to be evaluated. Greater efficiency can be achieved using these transnational corporations, but today we find the cost for this can penetrate our morality. The most glaring incidence of efficiency turning into immorality occured in the 1940's. The Interessen Gemeinschaft Farben (I.G. Farben) corporation found efficiency at I.G. Auschwitz. I.G. Farben joined with the Nazis and made people part of the disposable parts of their synthetic rubber plant (Borkin, 1978). Other incidents include overthrow of governments, for example International Telephone and Telegraph's active involvement in the overthrow of the Chilean government (Barnet and Muller, 1974), and the support of dictators, such as the oil companies' support of the Shah of Iran (Eitzen, 1986:33). These examples establish an important question that needs to be scrutinized; Is there a trade-off for morality when corporations strive for efficiency?

The proponents of transnationals see things in a different light. One can't deny that the transnationals in the capitalist tradition are reflective of the flexibility found within the contradictions of capitalism. The nature of capitalism has kept pure monopolies from developing. Governments have passed antimonopoly legislation making it illegal to "monopolize...any part of interstate commerce"

(Weiss, 1967:13). This legislation; the Sherman Act, the Clayton Antitrust Act, and the Federal Trade Commission Act, prohibits certain actions likely to lead to monopolies.

Apparent monopolies and oligopolies have formed as in the case of U.S.Steel (Weiss, 1967:140), and the oil industry (Barnet and Muller, 1974:197). The impact of monopolies is compounded when the companies become vertically integrated and the transactions that are conceived are within the larger superstructure of the corporation. This leads one to believe that forces of production within capitalism make capitalism less capitalistic in a classical sense.

Writings on transnational corporations either argue they are the best or worst thing that ever happened to the world. We need to get away from polarization. Maybe the transnationals can be looked at as neither good or bad. The major argument against these corporations is the ideological one of how can a corporation that is selfish and greedy with corporate profit as its only goal benefit society?

Since the transnationals seem to have the capabilities for integrating the world they also must realize that success of the transnational should reflect success of

the world. As corporations grow they will change world politics from a contest among states into a bigger game with a different focus. Transnational corporations might end up being the vehicle to shift industrial production to poorer parts of the world, transfer technology from advanced to less developed countries, and promote economic integration. The possibilities of adverse effects are also glaring. They may, instead, exploit less developed areas of the world, create situations for world conflict, and compromise morality for productivity. Monitoring the transnational corporations is a way to put off condemning or glorifying this growing phenomena of the transnational corporations.

The transational corporation's past dictates that its present and future needs to be monitored. The argument for the transnatinal existence are mostly founded on ideas of their potential. The argument against the corporations effect on the world has facts to back it up. There is no resolving the debate of their place in society until some organization is formed to harness the corporations. This organization must have power and be representative of society and not the corporations.

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Abstract

Positive and negative arguments concerning activities of transnational corporations and their effects on the world economy and the economics of third-world countries are examined. Effects of transnational corporations on peace, dependency, monopolization, corporate loyalty, and the state are considered. This paper does not take a side in the debate of the good or evil of the transnational corporation. It is an "objective" look at transnational corporations that avoids the tendency to polarize the justification of their existence or destruction.