

## THE MULTI-NATIONAL CORPORATION: A CHALLENGE TO CONTEMPORARY SOCIALISM

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THE emergence of the multi-national corporation (MNC) has fundamentally changed the pattern of trade flows and international finance in the last twenty years. Worldwide enterprises such as General Motors, Imperial Chemical Industries, Royal Dutch Shell, the Bank of America, Nestlé, Siemens, Hitachi and Fiat have grown rapidly in number and power. They now account for one-eighth of all international trade flows; but in 1980 they will control one-quarter. Mobile and powerful, they can threaten, if they so choose, the sovereignty and the viability of the nation state. The régime of Allende in Chile commanded less economic power or disposable cash flow than ITT. The nine nations of the European Common Market (EEC) found in last winter's petroleum crisis that they could neither expose nor control the cross-national transfers effected by the eight largest of the MNC oil "majors". It now appears that the MNC will serve as the agent necessary to develop contemporary capitalism to the "next stage" in the concentration of international wealth and political authority. It yet remains to be determined how socialist theory and socialist movements will adjust to this fundamental development.

In the space of one generation the MNC has carved out for itself a novel role in international affairs. Financed and controlled by parent company HQs in North America, Europe, or Japan, the MNCs have ranged across the world's markets as if national frontiers, currency differentials and tariff barriers were of little consequence. Six hundred of the largest MNCs have established manufacturing affiliates or subsidiary plants in dozens of countries simultaneously. Combining total asset values worth almost one trillion dollars, these global enterprises have overcome the economic defence works of the nation state and revolutionized the dynamics of international capitalism.

Previously it had been assumed by liberals that the national economy would be fully controlled by the sovereign state. Theorists on the left shared this assumption when they committed themselves to the formula of "socialism in one country at a time." Both liberals and socialists failed to recognize the extent to which the leading export and technology industries of the advanced economy were so intricately tied to the

international trading system that it was no longer feasible to think in terms of statist autonomy. Following upon the tumultuous expansion of the MNC it is not realistic for the left to plan the collectivization of any nation's economy in *toto*. Too much of it today is in the ownership or control of foreign based MNCs.\*

The global communications and management networks of the MNC are directed more often than not from parent HQs in the skyscrapers of New York, London, Rotterdam or Tokyo. The leading MNCs have utilized their global scanning capabilities to transfer enormous values investment capital, production components and Research and Development (R and D) between the home and the host countries in which their affiliates operate. Decisions have been made by the Ford Motor Company (in Detroit) to build auto assembly plants in Belgium and France; or by the British Petroleum company (in London) or General Electric (in New York) to close down major facilities in Italy; while new production capacity has been deployed by Olivetti or by Fiat in the United States and in the Soviet Union. These deployment decisions have allowed MNCs to capture major markets, to optimize the profitability of investments, to achieve sizeable economies of scale and timing in manufacturing, and to consolidate their oligopoly grip over critical world prices.

The employment and the welfare of millions of people have been forcibly changed by the MNC's creation and transfer of wealth. Between 1971 and 1973 the leading MNCs secured windfall profits by converting billions of dollars in company reserves into German marks, Japanese yen or Swiss francs. But their action also precipitated a sequence of crises in national money markets. Their momentous transfers of short-term liquidity helped force the devaluation of the dollar (in some cases by nearly forty percent) and to erode the Bretton Woods pattern of world monetary stability. Treasurers of the MNCs anticipated sudden exchange fluctuations by selling short against the dollar in Frankfurt or borrowing heavily in francs in Zurich, thus sparing their share-holders from appreciable exchange losses. As a consequence of their respectable business of monetary speculation they undermined several governments and several national currencies. They also taught the Chancellor of the Exchequer and the oil-rich sheikhs of OPEC that monetary speculation was ethically acceptable so long as it was justified as a fiscal "sub-optimization" strategy.

Suspicion and fear of the multiple product-division and production transfers of the MNCs have become so intense that the United Nations has been asked to prepare a detailed appraisal of their growth and

\* For the sake of clarity this analysis will focus only upon the role of the MNC in the developed or advanced capitalist economy. The role played in the socialist, developing or retarded economies is so different that a wholly separate enquiry is required.

strength. The first report in 1973, *MNCs in World Development* (ST/ECA/190, henceforth cited as the *UN Report*), noted that 650 of the largest MNCs record a combined turnover worth 773 billion dollars a year. 213 of these firms do more than \$1 billion business outside the banking or financial sectors (i.e., mainly in manufacturing and extractive industries) of the capitalist economy. Their aggregate worth exceeds the value of any nation's GNP in the world except the USA and the USSR. Of the 213, 127 are American in origin and legal domicile. Of the total of 650 MNCs surveyed in the *UN Report*, 358 are American 74 are Japanese, 61 are British, 45 are German and 32 French. It is worth noting that many of the largest MNCs do more than 50% of their production in other nations' economic structures. This allows them to operate freely outside their home environment and to push for growth wherever opportunities appear most promising.

Economists on the left and on the right have been slow in adjusting to the new phenomena of multi-national corporate activity. Conservative politicians have welcomed the inflow of productive wealth, technology and sophisticated management that the MNC has brought to host countries. But they have also been disturbed by the threat that the MNC can pose to the administrative and regulatory capabilities of the nation state. The automobile and the computer industry in Britain, for example, is now dominated by the affiliates of giant American MNCs. Germany, Italy, and France experienced a comparable invasion, especially in the computer, aerospace and telecommunication industries. Across the Atlantic, Canada saw nearly 63% of its industrial and mineral assets pass into foreign control and Australia has now reached a figure of 35%.

Though the MNCs have helped boost the export and industrial performance of host economies, even the advocates of laissez-faire capitalism have grown uneasy about their free-ranging power. In all of the 23 wealthy nations that belong to OECD, conservative economists and Ministers have expressed their misgivings over the influence wielded by firms of foreign parentage. So, too, have Labour or Social Democrat critics in Canada, Britain, India, Australia or Scandinavia. Harold Wilson warned ten years ago that Britain must not become a "helot to the sophisticated apparatus of American business". Though he did little to arrest the growth of MNC influence, his counterparts in Ottawa, Paris or Tokyo attempted to introduce a few pieces of regulatory legislation. They sought to force the publication of subsidiaries' account books, to manipulate the tax liability or to restrain the labour practices of the incoming MNC. But it cannot be said that these regulatory tactics have deterred or deflected the expansionist drive of the MNC.<sup>1</sup>

There has been a rather striking failure among parties on the left to

understand the extent to which the MNC has invalidated the limits of economic nationalism. Perhaps because their expectations of the collapse of capitalism were geared to the dialectic of class strife, the Communist parties of France and Italy virtually ignored—until recent years—the threats posed by the MNC. Armed with surplus value formulae derived from Lenin's theories of monopoly capitalism and imperialist struggle, they failed to comprehend the strategic expansion of the MNC. They saw its attempt to dominate local industries but not its need to internationalize their production processes. Indeed, one Communist official, from Austria, worried by the loss of local capitalist control, warned that the

**"interlocking of capital and the establishment of co-operation with foreign organizations [i.e., MNCs] must not be tied to conditions which endanger either the property or the independence of Austrian factories."**<sup>2</sup>

The dilemmas placed by the MNC before the socialist movement can no longer be ignored. Parties on the left in the OECD countries have narrowly planned upon capturing the "commanding heights" or the territorially based structures of the national economy. This might now prove to be a costly mistake. Unless the socialist parties can synchronize their take-over of all MNCs that specialize in cross-national production they might wreck the international sector of their own economy. Were the left to take office in one country at a time they would surely smash their own productive and out-going affiliates (like ICI or Rhone-Poulenc) or in-coming subsidiaries managed from Tokyo or New York. It is not so much the legal issues or the capital-ownership difficulties that need deter left parties from grappling with the MNCs that so largely determine economic growth patterns and the nation's export earnings. It is the potential mobility of the MNC that must worry the left. American affiliates in the UK account for nearly one-quarter of Britain's balance of payments. Were they to be expropriated, nationalized or simply scared away, the freedom of manoeuvre remaining to a socialist government in London would be drastically curtailed.

It will later be noted that MNCs have concentrated their deployment *only* in those strategic sectors of the host economy that are programmed to the iron-clad laws of comparative advantage in international trade. None are to be found in the profitless, in the ageing or in the labour-intensive industries that are nationalized—usually without protest—by conservative or liberal *régimes*. By contrast, Olivetti in Scotland, Ford in Cologne, Matsushita in Ireland and the Banque de Paris in Rome could not easily be held hostage by a determined socialist government once it came to power. These major affiliates could either relocate their capital assets and their firm-specific technology to a more "favourable

investment climate" (in Spain, or Greece or Belgium). Or they could utilize the subtle procedures of transfer pricing to undermine *dirigiste* controls. In doing so they would negate any socialist designs to re-schedule production planning, capital outflows or full employment.

A fundamental paradox will have to be resolved by left movements as the capitalist system moves further toward a pattern of international inter-dependence. The desired or the "acceptable" limits of socialism in any country will no longer be determined by trade union militancy or by electoral mobilization. Nationalist planning and one-country socialism will become increasingly untenable. Unless the total system of international trade is changed outright, no single régime can dare seize the MNC organs that figure so largely in its ability to compete in world trade.

The logic of the situation can be simply stated. Automobile, petrochemical, electronics and computer industries cannot survive by simply servicing the domestic market. Nor, were they to be nationalized, could they compete with MNC subsidiaries in financing expensive R & D, or in tapping Euro-dollar resources or in deploying production overseas. Each of these vital activities depends upon a global management in order to realize economies of scale and a full mobility of capital resources. Were they ever to be deprived of their foreign plant as a result of the nationalization of the parent company, Volkswagen, Rio Tinto Zinc or Unilever would be worthless and shrunken entities. They would be forced to rely upon exporting home-finished products—unlike their multi-divisional MNC competitors—in a world disfigured by tariff barriers, import surcharges and aggressive trade wars. Their residual worth to a socialist régime would be short-lived and of parochial value.

The gravity of **this** argument can be measured by evaluating the export trade of the advanced economies of Europe. British, Dutch and Swiss MNCs earn four or five times more through manufacturing overseas than can be gained by marketing home-based exports. Uninational firms like the British Aircraft Corporation, British Leyland Motors and International Computers Ltd. are puny competitors to their MNC rivals. They are inadequately capitalized, they have penetrated too few foreign markets and they have had to pay high licencing fees to tap into the MNCs' worldwide technology base.

At first sight, therefore, it appears that any left party can acquire industrial power or implement collectivist planning only up to the point that the MNCs have chosen to leave the means of production and distribution under local control. Any encroachment beyond that point will drive a socialist régime into forcible confrontations with either the out-going or the in-coming affiliates of the MNC. Judging from the recent failure of the Italian Government to arrest the investment

withdrawals of General Electric or British Petroleum, there is little reason to believe that a socialist government could prevail in such a confrontation of bargaining power. In the less developed countries (the LDCs) it is still feasible to nationalize the mining and drilling facilities of the MNCs in extractive or raw materials industries. In the OECD world, to which this analysis must limit itself, the options for socialist action are considerably reduced. For IBM, ITT or Bayer to relocate its physical and financial assets is so painless that host governments have cause to tremble.

Conventional wisdom holds today that the "acceptable" limits of socialism must be determined by the MNCs' requirements to manoeuvre across the fast-changing conditions of international competition. Nationalist sentiment and pride of ownership are no longer viable constraints. No wonder then that the managers of British Petroleum (49% of which is owned by the UK government) have argued that the extraction of oil and gas from the North Sea must be preserved from national controls. Were the Labour government to nationalize North Sea fields, they have claimed, BP's rigs on the North Slope of Alaska and its extensive retail outlets in the American midwest might be put in jeopardy. Worse, its multi-national ability to "swap" crude shipments with Mobil in Japan, to enter refinery joint ventures with Gulf in Kuwait, or to observe oligopoly pricing rules would be impaired worldwide. Instead of earning billions of dollars (on Britain's behalf) nationalization would reduce BP to the minor league status of such non-MNC oil companies as ENI in Italy or Gelsenberg in West Germany.

Strikingly, not a single socialist party in the OECD countries has determined what should best be done with the MNC. In some countries (e.g. Germany or Holland), the trade unions have demanded that MNCs must concede the right to collective bargaining or to co-determination councils. In others (e.g., France and Japan), the left has called for the control of some in-coming MNC affiliates but not necessarily of the out-going units implanted overseas. Given the expansion of MNC activities in the Soviet Union (by Fiat, Mercedes-Benz or Renault), or their "turnkey contracts" in East Europe (i.e. contracts to build manufacturing facilities that are then turned over to the host country intact), it may be that the European left can conceive of no viable formula. Before so cynical a conclusion is reached, however, it might be wise to take a closer look at the MNC and at the novel form of free trade imperialism that it has promoted.

### I. *The MNC and Contemporary Imperialism*

The motives that drive various types of MNCs into foreign economies have been investigated by Marxist scholars (such as Ernest Mandel

and André Gorz), by economic nationalists looking to Europe as an industrial "third force" (such as Servan-Schreiber and Christopher Layton), and by innumerable professors of business or economics (Raymond Vernon, Jack Behrman and Charles Kindleberger, to name only three).<sup>3</sup> The conventional conclusions of the MNC literature have been summarized by a notable creator of liberal mythology, Arthur Schlesinger. In his foreword to the best seller of M. Servan-Schreiber, *Le Défi Américain*, he explained the triumph of the American MNC in Europe:

"The secret does not lie, as de Gaulle (and Lenin) would insist, in the pressure of surplus American capital for investment outlets abroad; M. Servan-Schreiber argues that nine-tenths of American investment in Europe is financed out of European resources. Nor does it lie in American plans for political dominion; M. Servan-Schreiber rejects conspiratorial explanations. Nor does it lie in American scientific and technological superiority. . . . The disparity lies rather, M. Servan-Schreiber contends, in the 'art of organization'—in the mobilization of intelligence and talent to conquer not only invention but development, production and marketing. . . . American industry spills out across the world primarily because of the energy released by the American system. . . ." (p. ix).

The sentiments aroused in 1967 by *Le Défi Américain* have quietened down in the wake of devaluation alarms and the energy crisis. MNCs of European origin have successfully emulated and competed with the expansion strategies of their American rivals. After the dollar weakened on the world's money markets in 1971, the American practice of cheaply taking over European companies or of implanting local subsidiaries appreciably slowed down. No longer can it be said, as M. Servan-Schreiber had prophesied in 1967, that:

"Fifteen years from now it is quite possible that the world's third greatest industrial power, just after the United States and Russia, will not be Europe, but American *industry* in Europe. Already, in the ninth year [1967] of the Common Market, this European market is basically American in *organization*."<sup>4</sup>

Powerful forces drive the giant MNCs to build a major position for themselves in the affluent and technologically advanced economies of the world. If they are to maintain a dynamic growth they must straddle more and more frontiers. In their relentless pursuit to improve their multi-product marketing, their economies of technology and scale, and their profitable specialization in component manufacture, they must enter all advanced economies simultaneously.<sup>5</sup> It is through such strategic scanning and manoeuvring that they can administer world prices, promote their product differentiation and reinforce their oligopolistic control over the export sectors of the penetrated economy. Conservative economists notwithstanding, it is difficult to believe that their "wealth input" (as the MNC managers put it) and the pursuit of

corporate profit is co-incident with or co-equal to the host country's best interests. Though business elites may welcome the enrichment that the MNC can bring them, they also regret to some extent the ensuing loss of political sovereignty. Like socialism in one country advocates, though for different reasons, they believe that control over the leading or export sectors will still remain in the host economy.

The resentment generated by alien MNCs is occasionally of grave concern to government officials and small business interests. Political criticism has been levelled in most capitalist countries against the dominant position taken by MNC affiliates of American, European or Japanese parentage. The subversive behaviour of ITT, in offering the US Government \$1 million to assist in the early overthrow of the Allende régime in Chile, revived widespread fears of the MNC and its wealth-generating activities. Radical and nationalist critics argued that only a chance exposure in the Washington press had uncovered the ITT subversion proposal; but that many other conspiracies involving MNC banks, defence firms or insurance syndicates would surface one day in Rome, Paris or Moscow. Naturally, the MNC managers claim to be bound by a "code of good citizenship" in their overseas business roles but critics on the left insist that they can only serve imperialist or colonizing interests. With good reasons the left believes that the massive entry of MNCs into the capital-intensive or science-based sectors of a host economy will generate both political conflict and a sharper inequality in wealth distribution. The market domination secured by RCA, Royal Dutch Shell, SKF or Mitsubishi may thrill business journalists and evangelical industrialists but they acutely disturb liberal politicians, bourgeois nationalists, trade union bureaucrats and the small business men who resent the sympathetic treatment that their own government often extends to the powerful MNC. That the MNC will enlarge corporate profits for the parent company rather than for the welfare of the host economy is believed alike by left critics and right-wing patriots.

Three distinctive arguments have been advanced by the MNCs' most determined critics. First, it has been alleged that the gigantic scale of the MNCs' operations, especially in the oil, chemicals and automobile industries, is acutely menacing. The power of GM, Ford, Exxon, GE and Dupont in Britain or West Germany affects millions of jobs and their export capabilities. The deflection of investment capital or production runs from either country on the part of any six towering MNCs could imperil that nation's trade balances or inflation policy overnight. The factor of size is especially vital to the MNC. It allows the firm to bargain on a basis of equality with other giant oligopolists and to match their market innovation and expansion cycles at their own convenient pace. It is not surprising that the average turnover of

the larger MNCs should exceed \$1 billion a year; or that their **intra-affiliate transfers** can account for **25** or **30%** of the export trade of either a home or a host government. Small firms (like Plessy or Elliot Automation) or uninational firms (such as Machines Bull or Montedison) cannot afford the product differentiation or the capital **deployment practices** of the MNC. They are caught in the technology bind of contemporary capitalism: without worldwide economies of scale they cannot finance vast R&D and investment programmes; but without such programmes they will never become large enough to operate multi-nationally.<sup>6</sup>

Second, it is argued that the MNCs tend to concentrate their holdings in those few industries where high-technology or extensive sums of capital are of critical importance (such as micro-circuitry, nuclear engineering, aerospace, insurance, banking and computer leasing). Though they employ relatively few people these sectors determine the growth curves, the profitability rates, the technological accomplishments and the labour productivity of a "post industrial" society. Whether they choose consumer products, nuclear reactors or syndicate banking, the MNCs' concentration upon the "commanding heights" of the capitalist economy allows a small number of firms to wield a disproportionate influence over its international trade.<sup>7</sup>

The third accusation of the critics of the MNC is of the closest concern to this analysis. It has been claimed that the power amassed by the MNC depletes the economic authority and the political sovereignty of the nation state. For example, the movement of \$6 billion in MNC funds from New York to Frankfurt or Zurich early in 1973 helped spread inflation across the Atlantic, thus forcing Europe to pay for the last remaining costs of the war against Vietnam. As a result, unemployment began to increase, welfare and public sector expenditures were cut, and tariff protections were raised to shelter prized national industries. Only the MNC treasurers controlled the massive blocs of capital that could suddenly be moved from one currency to another. Only the MNCs knew how to convert their tax liabilities into a devalued currency while converting forward reserves and accounts receivable into harder denominations. MNC managers, who customarily advertise their virtue as "good citizens" of the world business community, realized windfall gains from these speculative exercises. As in a zero-sum game, however, whatever they gained the nation state had to lose in investment and employment opportunities.

Capitalist governments can rarely triumph in a confrontation with the mobility and oligopoly capacities of the MNC.<sup>8</sup> As the interdependence and competitiveness of national economies grows apace, however, the collisions will become more frequent and intense. In that case the discretionary power of the MNC can only expand. But as the

opportunity to exploit oligopoly and mobility advantages in world trade become more highly prized, the MNC will insist that it should be released from all national or collectivist controls. When it is finally shorn of its power to regulate the profitable, the science-based and the export sectors of its economy, the state will be left with few functions to perform other than to service the infra-structure requirements of the MNC. It will be charged with pacifying the work force, maintaining an orderly market mechanism and a reliable subsidy for the hopeless industries (such as coal, railways and docks) that the MNC prefers to leave under statist control.

## *II. Public Versus Private Power*

The principal constraints faced by the MNC stem from the consequences of its own success. Had it not succeeded so well in revolutionizing the thrust of international trade, and had it not acquired such an unprecedented mobility of resources, it would have generated less criticism and abuse. The enviable profits and the ubiquitous influence of the MNC are too visible to be ignored. Even the bureaucrats and bankers who determine EEC policy in Brussels have come to recognize that *laissez passer* will no longer do. The Gaullist vision of a *Europe des patries* has been replaced by the vertical integration and the frontier-crossings of the MNC. The realities of the new Europe are to be found not in agricultural price supports and tariff waivers but in the network of petroleum and chemical pipe lines across the continent that are owned by a handful of monolithic MNCs.

Today the MNC is viewed with either suspicion or envy by the managers of power in both the public and the private sectors of the capitalist state. As local nationals, the managers cannot relocate their public revenues or their venture capital to a nearby economy. No matter how faltering may be their return on investments or their productivity ratings, they are locked in by the frontiers of the national economy. If they resent the incoming MNC they have no choice but to combat its bargaining manoeuvres. Even if they need to repair a short-term imbalance of payments they must accede to the MNC's transfer of funds, licence fees and dividend payments. It is not often that they dare summon the formal authority of the state to shut out, or close down, or curb the transfer arrangements of powerful affiliates. Were the state managers ever to do so firmly the MNCs would merely announce that a favourable climate for investment could better be found elsewhere.<sup>9</sup>

The economic logic of the MNC is impressive in concept, in its profitability and in its mode of operation. By contrast, the political logic of the nation state is static and parochial. Bourgeois nationalism has been so obsessed in the era of Cold War with military budgets and

the salving of political pride, it seems, that little attention has been given to the fading sovereignty or to the permeable autonomy of the "free market" nation state.<sup>10</sup>

The most dramatic consequence stemming from the spread of MNCs is the increasing division of labour between national economies—rather than between firms. The MNCs' global transfers have helped destroy both the mechanism and the justification for economic nationalism. They have overpowered the defence works of the industrial state by seizing control over its finance and technology capital. This has left the European states dependent upon the MNCs' promotion of their most cherished export firms in order to finance their costly fuel imports and to stem the crush of two-digit inflation. The effects produced by the MNCs' implanting of wholly-owned affiliates in the export and growth sectors have been remarkable. In Belgium, for example, the MNCs provide 30% of the nation's exports (as against 24% in the UK), 18% of its industrial employment and 70% of the new jobs created between 1964–8. It is thus of little concern whether Belgians elect a left or a right-leaning coalition government.

Protectionist responses to this new pattern are pointlessly deplored. There is little hope that a world trade revolution or that a united socialist Europe will emerge in the near future. In his provocative work, *The Left against Europe?* (New Left Review, 1972), Tom Nairn provides a timely and apposite quotation from Isaac Deutscher:

**"The nation-state decays and disintegrates whether people are aware of it or not. . . . Like any organism that has outlived its day, the nation-state can prolong its existence only by intensifying all the processes of its own degeneration."**

There are only two important choices that can still be made by national political elites. Should they encourage deflation and the threat of unemployment; or should they relax exchange and investment controls and welcome the inflationary pressures generated by the MNC and the international economy? Since both choices are unpalatable, governments have come to regard the MNC as a disruptive—if not a politically irresponsible—agent of change. Large firms have been reluctantly bought out by MNC conglomerates (such as ITT or British-American Tobacco); or their local affiliates have suddenly been closed down on orders from overseas HQ (as happened to Remington Rand in France or Raytheon in Sicily) before the host government could even be warned. In a competitive world market, ripe with inflation, few governments can pretend to control the actions of the MNC. They therefore enjoy no option but to live with its imperious mobility.<sup>11</sup>

In coping with the MNC it is obvious that home and host governments must move with caution. In some countries, including the USA,

the value of the MNCs' turnover exceeds by 400% the total value of the nation's export trade. In others, the capital or the technology supplied by the MNC are well-nigh irreplaceable. No uni-national enterprise could hope to duplicate the research patents or the vertically-integrated assemblies of Siemens, Ciba-Geigy, or Texas Instruments. Thus host governments cannot lightly resort to nationalization or to legislative controls to regulate the actions of the MNC. At all costs the MNC needs to preserve its freedom of action, to relocate component or assembly schedules from one country to another, to reassign its management cadres or to redeploy its cash reserves. ICI achieved a phenomenal growth by doubling its turnover and its new plant outside the UK; Volvo and Volkswagen, appalled by the inflation of wage levels at home, put their capital into new installations in the Western hemisphere; Matsushita and Bayer are desperately following suit to prepare against the day when their exports to the USA are saddled with high tariff and import surcharges. In the face of such pressures what can governments do but collaborate with the MNC entrepreneurs?<sup>12</sup>

At this stage it might be useful to consider the two arguments that are customarily cited to justify the claims of entrepreneurial capital in general and of the MNC in particular. Both arguments are based upon conservative interpretations of economic theory.

The first posits that an optimum efficiency in world trade will only be attained after a full-scale equalization of factor costs has been implemented on a global basis. In other words, countries that are fitted to specialize in one industry (such as aerospace or computers) must concentrate their energies where best they can and stay away—as must their neighbours and rivals—from what they cannot do cheaply or well. A "natural" division of labour must distribute work between free market economies. Its outcomes will be freely determined by the laws of comparative advantage. The belief in the equalization of factor costs, as a transnational imperative, assumes that all (or most) nations will follow the dictates of global market forces. Following this thought, the UK would abandon its tariff-protected and government-subsidized computer industry. It should concede that a leading MNC, like IBM or Honeywell, will always deploy a superior technology or sell better and cheaper machines. In fact, as globally integrated firms, both Honeywell and IBM have built huge plants in Scotland to revive respect for economic doctrine—and also to drive British and European competition out of the UK market.<sup>13</sup>

The second argument closely resembles the first. This posits that consumers must be free to follow their own purchasing preferences regardless of the consequences to the national economy. If consumer sovereignty is to prevail, it is argued, consumers must be allowed to buy cheap German cars, Japanese television sets or British turbo-

generators. They must not be forced to buy a domestic product that is cheaper simply because discrimination against foreign goods has overlaid them with heavy import taxes. In catering to mass tastes the MNC claims that it knows better than government authorities what customers really want. Moreover, the MNC takes great start-up risks when it establishes new plant or expensive new product lines. It cannot afford to be penalized by host governments or protectionist trade groups, such as EEC. Even if protection is invoked for the laudable cause of boosting local employment or balancing an excessive payments outflow, this will eventually impede the equalization of factor costs (by protecting domestic industry) and cheat consumers of the satisfaction of buying yet another saturation-advertised detergent product.<sup>14</sup>

The thrust of these two arguments can quickly be grasped. Both presume that the free play of market forces will promote a cross-national division of labour, an optimum utilization of resources and the fullest regard for consumer preferences. Conservative economists and corporate executives have urged that the MNC will provide the best vehicle to implement these axioms of international trade. Unfortunately, they tend to overlook critical imperfections in the working of the capitalist economic order:

1. Even if governments withheld all subsidies, tariff charges and regulatory controls the oligopoly structure prevailing among MNC-intensive industries will thwart market competition. Barclays Bank, Philips, Union Carbide or Petrofina can exploit their oligopoly position in several host economies simultaneously. If they wish, they can often ignore or bend the requirements of a local market in order to delay the introduction of new technologies or to manipulate oligopoly price competition. The imperfect competition in which MNCs thrive thus invalidates the "laws" of comparative advantage and of factor equalization that pietists perceive in the international market place.

2. The welfare needs of a host economy cannot always be subordinated to the dictates of conservative economic doctrine. Even if it is strongly inadvisable for the UK to subsidize its computer firms or for the Japanese to protect their aerospace industry, **infra-structure** requirements frequently oblige political elites to **modify** the MNCs' most lucrative deals. Moreover, there are grave risks in relying on the vertical integration or the imported technology of a foreign oligopoly. Many nations are not ready to sacrifice their pride and future growth prospects so that MNCs can freely move in (or out of) their economy in pursuit of further corporate profit. That an MNC, such as Nestlé or Chrysler, will implement the best division of labour or allocation of resources is doubted even by Ministers of trade or of finance with corporate careers of their own on the side.

3. The myth of consumer sovereignty is hard to dispel. Radical

critics or liberal economists have assaulted the myth either from the perspective of controlled supply or of manipulated demand. Their findings appeared to be over-stated until this year, when the MNC oil "majors" revealed the killings to be made in the exploitation of tied-up franchises, refinery processes and administered prices. As in other oligopoly industries, the producers (other than the OPEC sheikhs) determined where they wanted to locate and price their goods; but it was the managers of public power who had to protect consumer interests against the MNC.<sup>15</sup>

4. The welfare utilities of capitalist society cannot be left to the tender mercies of market forces, no matter how competitive or oligopolist they might be. In all industrial economies consumer-electors look to the state managers to curb inflation, to guarantee full employment, to protect new industries or to balance the nation's payments. In most countries centrist governments have foresworn the dogmas of private enterprise to police business activities and to protect the economic infrastructure from outright piracy or fraud. However, the opening of national frontiers to any MNC, indiscriminately, threatens to waste scarce resources, to squander hard currency, to impair employment opportunities and to stifle home-based R & D. Not one instance can be cited of an advanced capitalist state that has yet dared to deal with the threats posed by the MNC in an aggressive or resolute manner.<sup>16</sup>

5. The managers of public power are held accountable, at least in theory, to representative government and political processes. The managers of the private powers incorporated in the MNC are not. There are many occasions on which the retention of national economic controls will be preferable to the free floating benefits that *might* be imported by the MNC. But by surrendering its regulatory authority to control the MNCs' behaviour the capitalist state can only increase its dependence upon their resource and marketing decisions. Neither the economic wealth nor the political stability of the EEC will be secure if the MNCs continue to expand at the rate of nearly 20% a year—as the EEC now estimates—and if the Japanese should increase their \$250 million holdings to \$8 billion within ten years.<sup>17</sup>

### *III. The MNC and the Nation State*

The phenomenal expansion of the MNC has aggravated the political anxieties of the advanced industrial economies which it has penetrated. In an era of runaway inflation and towering payments deficits the MNCs' lack of political accountability has begun to appear highly menacing. So far no major attempt has been made to cope with this problem; or to reconcile the divergent interests of uni-national states and multi-national enterprises. Nor have convincing solutions been proposed to repair the breach.<sup>18</sup> That the breach is widening and will

widen further is accepted by all parties. The cause is obvious. The MNC has become a powerful actor in international affairs. As the MNC banking consortia in the City of London discovered, the logic of inflation and credit manoeuvre is especially distasteful to those political elites that fail to share in the expansion of monetary benefits or commercial paper.

The ability of any economy to seal itself off from foreign competition and penetration has greatly decreased in recent years. National governments have tried valiantly—but ineffectually—to insist that they and not the MNCs should serve as the arbiters of interdependence.<sup>19</sup> The MNC is accountable to its parent shareholders and directors, most of whom reside in a foreign environment and all of whom are anxious about minimizing tax liabilities, repatriating dividends and increasing patent royalties. On the other hand, the nation state is supposed to be attuned to local needs and to the popular determination of policy priorities. Its claim to pre-eminence is difficult to contest—and even more difficult to implement.

Parliamentary régimes, apolitical trade unions and social democrats are extremely apprehensive about applying sanctions against the MNC distributors of industrial wealth. First of all, their sanctions might be counter-productive. If popular protest should ever intensify and if restrictive legislation should be called for, the MNCs could either relocate their component production and R & D to another country; or they could deflect their new investments and short-term funds to a more hospitable business climate. This could be done in a rapid and covert manner. By borrowing short and lending long, or by utilizing "leads and lags" in intra-affiliate payments, the MNC can evade capital export controls and import restrictions. By channelling cash reserves through tax havens and the \$100 billion Euro-market the MNC can utilize transfer pricing strategies that could knock any uni-national or nationalized competitor out of its key international markets.<sup>20</sup>

Second, were parliamentary régimes to abuse the MNC as poor corporate citizens, sharper criticism might be directed against all corporations, indigenous or foreign. Were this to occur, a collectivist drive to regulate oligopoly activity might gain popularity and the resentment generated by the MNC might be turned against other forms of corporate capitalism. At this point the MNCs would be tempted to cast the economy out of the pale of the free market world, as they did to the Allende régime, or they might engineer a counter-revolutionary change in order to protect their affiliates' local investments.

These conflict potentials are not marginal to or easily removed by the capitalist state. Nor are they likely to disappear with the passage of time. The political imperative to defend its economic autonomy and

legal sovereignty is vital to any state, no matter how left or right-leaning its government might be. On the other hand, the huge investment power, the technology imports and the employment opportunities brought by the MNC cannot be under-estimated or ignored. As the **asymmetry** increases between the power of the MNC and the state, the latter will perceive that it can no longer compete in specialized and demanding markets without the assistance and the willing compliance of the MNC.

At the present time there is a vague supposition among conservative politicians and the liberal mass media that no nation should intervene against **another's** MNCs lest a full-scale retaliatory war should be triggered. Moreover, it is widely believed that:

**"The instrumentality of multinational business is man's best hope for achieving political unity on this shrinking planet."<sup>21</sup>**

This reflects the elitist and managerial views that prevail among parliamentary regimes. It is basically believed that giant corporations are politically neutral in their quest for profit; and that their cadres of trained managers are wiser than national electorates or elected governments in harnessing national resources to the engine of world trade. It is assumed, too, that free competition will equalize factor costs, that oligopoly equilibrium will provide a reliable mode of market planning (as in the oil industry), and that mass societies will gear their living standards to the productivity ratings that they can attain in the international market place.

The first glimpses of scepticism have begun to emerge in the wake of the ITT scandal and of the hostility generated by the MNC oil companies. For example, Professor Raymond Vernon of the Harvard Business School has suggested that if the MNCs were to flourish unchecked by state power, governments would "be obliged to convert issues they had once thought domestic into issues of international concern." He added that:

**"the basic asymmetry between multinational enterprises and national governments may be tolerable up to a point, but beyond that point there is need to re-establish balance. . . . [There must be MNC] accountability to some body, charged with weighing the activities of the multinational enterprise against a set of social yardsticks that are multinational in scope. . . . If this does not happen some of the apocalyptic projections of the future of the multinational enterprise will grow more plausible."<sup>22</sup>**

At this time no state or grouping of states has yet learned to cope with the challenge offered by the MNC. There is no sign that EEC will ever correct the asymmetry that Professor Vernon fears. Nor is it likely that international capitalism possesses the self-righting mechanism

needed to avoid domestic strife and trade warfare. Thomas Jefferson noted of the business leaders of 1800 that:

**"Merchants have no country. The mere spot they stand on does not constitute so strong an attachment as that from which they draw their gains."**

It is from this perspective that a new critique must be built on the left. The MNC must be correctly seen as the logical "next step" in the maturation of international capitalism. It contains within its network of tentacles the greatest contradiction that has so far emerged in a world of economically insecure and intensely competitive nation states. Locked into a zero-sum struggle with the managers of state power, the MNC is not likely to forfeit its global capital or to wither away before the onslaught of economic nationalism. It is more likely to succeed in pitting one state against another than to succumb to the puny weapons—of tariff barriers, capital controls and export subsidies—that capitalist states can mobilize against it. As the late Steve Hymer put it, fragile nation states will surely fragment long before the mobile and flexible MNC falls to pieces.

There is no apparent or straight-forward resolution that the left can devise in dealing with the MNC. Certainly, the dogmatism must be avoided that is all too frequently found in socialist literature. It is courageous but not necessarily realistic to insist that:

**"the growth of the multi-nationals must be stopped; the surplus value which feeds [their] growth must be directed to national enterprises instead. If this cannot be done under capitalism as Canada's experience strongly suggests that it cannot, a further answer follows: national independence and capitalism are not compatible, whereas national independence and socialism are."<sup>13</sup>**

A brief review of two industrial factors—the level of skills and the export earnings of advanced economies—suggests that since neither can be raised rapidly this prescription is fundamentally erroneous. Unless the deeply rooted patterns of world trade are revolutionized in *toto*, it will pay no socialist régime to resort to the nationalization or the forced feeding of its national enterprises. It would simply impose upon them the fate of Rolls Royce. Dismal as the conclusion appears, the fact remains that an industrialized economy depends upon its technology and its capital-intensive industries to maintain a growth momentum and aggregate national income. It can safely resort to the collectivization of the primary sectors (such as agriculture, coal, steel and transport—all of which operate within national boundaries, and often without profit) and it can intervene heavily in the service sectors, too. But it is likely that the key export units will be stifled if they are forced to operate exclusively within the domestic milieu.

This is to suggest that a new formula of technological change must be

articulated by those on the left who still look for socialism in one country—or at least, one at a time. The choices available are daunting and complex. If Telefunken, Pechiney, Courtaulds and Montecatini Edison are to be nationalized outright they will probably lose control of their foreign subsidiaries, forfeit the benefits of transfer pricing, renounce the cross-national economies of integrated production and scale, lose valuable sales to their former oligopoly competitors, and thus abandon the revenues required to finance their formidably expensive R & D programmes. Alternatively, if they remain in private hands—somewhat like BP, ICI or ICL, which are in part owned by the UK Government—then they will surely export investment funds, jobs and new product lines to those capitalist countries in which their affiliates are not constrained by socialist priorities or collectivist planning.

The gravity of this choice must be everywhere apparent. No society in the advanced industrial world could afford to rely upon the home-based export trade that would remain once its in-coming and out-going affiliates had passed into socialist control. Even if a drastic redistribution of domestic income took place, the earnings available to the home community might fall by 50% or more. New R & D would have to be acquired (e.g., in aerospace or nuclear generators) from the foreign MNCs that lead the technology race. Worse yet, employment might have to be expanded by sub-contracting (like Taiwan or Hong Kong) to foreign firms that had acquired both the capital and the market position needed to enlarge their assembly runs. Hungary, Rumania and Poland might yet follow this dubious pattern. They are sliding toward the affluence of a "post-industrial society" by sub-contracting with such warmly welcomed visitors as Krupp, Saint Gobain, International Harvester and Pirelli.

"Damned if you do, Fleeced if you don't" is the MNC view toward nationalization and socialist control outside the third world. (Within the third world their views are altogether different, as they are within the Soviet bloc, too; for the sake of clarity, both areas have been excluded from this analysis.) It would admirably suit the purposes of Dow Chemical Hoescht or Sumitomo if its British or French competitors were to be nationalized. Though a few of their own affiliates might be hurt, too, they could partly regain through added patent fees and licences what they had lost to a newly socialist régime in sequestered production investments. Alternatively, were the régime to nationalize everything *except* the MNC sectors, the MNC managers could bargain from strength with a new government of the left. In addition, they could threaten the currency values, the anti-inflation controls and the full employment policy of a socialist régime—unless, of course, they were bought off with the tax favours and the labour "discipline" that Yugoslavia now offers to its MNC guests.

Regrettably, the conclusion of this essay must be somewhat inconclusive. Socialism in one country (at a time) is no longer a viable strategy for an advanced economy. In his effective debunking of left-wing nationalism, *The Left Against Europe?*, Tom Nairn raised the question of what should be done in a system in which "capitalist forces of production long ago outstripped the confines of nation-states . . . and inter-imperialist conflicts". Should the MNC sectors, that are based upon international finance-capital, be allowed to build their own monopolist enclave or "off-shore island" (as he put it), in the midst of a socializing economy? Or should a left régime deprive itself of the powerful "invisible export" gains that the MNCs in the City of London bring to the UK economy by collectivizing such powerful bastions of finance-capital?

The question is difficult to answer in the short term. A socialist government in London that abandoned the UK's leading position in the Euro-dollar market, where the MNCs transact their usurious business, would be reduced to stark penury. Large segments of the population would be forced to surrender the security of their life styles were this nationalization to go through; and the most dynamic sectors of the UK's export industries would weaken in the markets of "free trade imperialism" in which the nation's aggregate income is earned. On the other hand, if the City and the MNC oligopolies were not nationalized, the national thrust of British socialism would soon be blunted.

Tom Nairn ignores these critical short-term difficulties by urging that Britain could resolve the dilemma in the longer run by entering EEC. "For the revolutionary left entry into the Common Market," he believes, would increase "the chances of effective political opposition to capitalism because it weakens the traditional hegemony of the ruling class . . . ; [it would] increase the tempo of revolutionary politics, and further diminish the role of social democracy".<sup>24</sup> But his advocacy, certainly in the short run, would not remove the two-edged threat posed by the MNC. And it is in the short run, as the Allende régime discovered, that the destiny of socialist movements is largely determined.<sup>25</sup>

There is no easy formula, therefore, to answer the question that Lenin asked while still in exile: What then is to be done? The nationalization of the MNC could cripple the national survival of a left régime. But the failure to nationalize the MNC banks, oil "majors" and technology leaders would reduce socialist policy to a mere reformism. For a national movement to pit its strength against the world market strength of the MNC would lead to disaster. But to leave the MNC to its own devices would lead only to the dismembering of socialism in one country. This is the material circumstance of industrial technology that must force the left to articulate a new strategy.

## NOTES

My preliminary attempts to evaluate the clash between the MNC and the capitalist state appear in James Kurth and Steven Rosen (eds.), *Testing Theories of Imperialism* (Lexington, Mass.: D. C. Heath, 1974); and in the *Yale Review*, Vol. LIX, No. 2 (December 1969).

The delayed and blunted perception of the MNC on the part of the Communist parties of Europe can be gauged from the reports submitted to a conference of Party representatives held in London in 1971: *The International Firms and the European Working Class* (London, The Communist Party of Great Britain, n.d.), p. 8.

Ernest Mandel, *Europe versus America? Contradictions of Imperialism* (London, New Left Books, 1970); André Gorz, *Strategy for Labor: A Radical Proposal* (Boston, Beacon, 1964); Jean-Jacques Servan-Schreiber, *The American Challenge* (New York, Atheneum, 1968); Christopher Layton, *Industry and Europe* (London, Political and Economic Planning, No. 531, October 1971); Raymond Vernon, *Sovereignty at Bay* (New York: Basic Books, 1971); Jack N. Behrman, *National Interests and the Multinational Enterprise* (New Jersey, Prentice-Hall, 1970); and Charles P. Kindleberger (ed.), *The International Corporation* (Cambridge, M.I.T. Press, 1970).

4. Op. cit., p. 9. It should be noted that a modest start has been made by EEC to curb MNC activities by imposing anti-trust constraints against the chemical dye giants, against Continental Can and against various joint venture and marketing arrangements. But most of these constraints are very limited in effectiveness.

5. 23,282 affiliate companies of American MNCs were listed in 1966 and 65% of them were located in developed market economies. In a different calculation (for 1968-9) this figure was put at 74.7%. The concentration of affiliates of British MNCs in the richest markets was 68.2%, while the German, Swiss and Swedish MNCs recorded about 83%. *U.N. Report*, pp. 143-7.

The factor of organizational "size" is a determinant of the oligopoly interests of the MNC. The companies that play a mammoth role in the home market are those that also exert the largest influence in host economies overseas. The firms that appear at the head of the *Fortune* listing of the Top 500 corporations in America or of *The Times* 1,000 in Britain are the same as those (with a few remarkable exceptions) that set the pace in many of the export and growth sectors of other countries' economies. Several attempts have been made to explain why giant companies at home are quick to expand their operations overseas. Among the more interesting are Robin Murray, "The Internationalization of Capital and the Nation State," *New Left Review*, No. 67 (May-June 1971), pp. 84-109; and Stephen Hymer and Robert Rowthorn, "MNCs and International Oligopoly: The Non-American Challenge," in Charles P. Kindleberger (ed.), *The International Corporation* (Cambridge, M.I.T. Press, 1970).

The heavy concentration of MNC investment in manufacturing and petroleum industries is emphasized throughout the *U.N. Report* (pp. 10-15 and Tables XIII-XVIII); these industries absorb 75% of MNC investments in most developed or "mature" economies. Admittedly, the combined investments of the incoming MNCs rarely surpass 5% of the host country's gross domestic product (GDP). But the careful selection in the location and concentration of this capital allows foreign affiliates to dominate Japanese aerospace, British automobiles, French engineering, German lease-financing, Belgian electronics, or Italian oil refineries. The motives of the MNC in pursuing this pattern of concentration are examined in John M. Stopford and Louis T. Wells, *Managing the Multinational Enterprise*, and

- in Raymond Vernon, *Sovereignty at Bay* (New York, Basic Books, 1972 and 1971).
8. A valuable criticism of the literature on oligopoly theory and MNC expansion appears in Theodore H. Moran, "Foreign Expansion as an 'Institutional Necessity' for US Corporate Capitalism: The Search for a Radical Model," *World Politics*, Vol. 25, No. 3 (April 1973), pp. 369–86. The emphasis upon economies of scale, market control and extensions of the "product life cycle" theory explains, in Moran's view, the new form of industrial imperialism practised by the MNC.
  9. The conflict between the de Gaulle régime and General Motors in 1962 deterred Ford from entering France until the Gaullists decided to revise their restrictionist policy. In the meantime, Ford located new assembly plants in Belgium and expanded their installations in West Germany. It also took the decision to build the Pinto engine in Britain, and then cancel it, but it made little effort to consult the British government or trade unions while doing so. The Ford managers knew that they could relocate major projects out of the UK without trouble; and that British authorities could not go to Detroit to protest.
  10. Relations between states and MNCs vary greatly. A review of recent studies and of the testimony given before Congressional and business groups appears in Hugh Stephenson, *The Coming Clash: the Impact of MNCs on National States* (New York, Saturday Review Press, 1972). The author fails to note Professor Kindleberger's awesome conclusion that "the nation state is just about through as an economic unit", in *American Business Abroad* (New Haven, Yale University Press, 1969, p. 207). Both authors note that MNCs are growing at a rate of 10% or more each year while few national economies expand at even 5% annually.
  11. A strenuous defence of contemporary nationalism is attempted in David P. Calleo and Benjamin Rowland, *America and the World Political Economy* (Bloomington, Indiana University Press, 1973). They argue that nationalism is the only force that can satisfy "the psychological hunger for identity in a bewildering world" of economic turmoil and environmental catastrophe. For all of its imperfections, therefore, the bourgeois state is the only agency that can still pretend to a popular control over the surge of market forces and oligopoly capital.
  12. That social and political elites are likely to collude with corporate interests, rather than to constrain them, is convincingly argued in Ralph Miliband, *The State in Capitalist Society* (London, Weidenfeld and Nicolson, 1969). Since many Cabinet Ministers have quit the conservative or Social Democrat governments of Europe, Japan, and North America to join the directors Board of prominent MNCs, their reluctance to sell out national interests to foreign capital should not be taken too seriously.
  13. A similar "rationalization" planned by Olivetti in the 1960s required the closing of its Underwood subsidiary in Connecticut and the relocation of its manufacture of portable typewriters to Barcelona. Its new plant in Pennsylvania produced expensive desk-top calculators and electric typewriters while manual machines were made for the US market in Glasgow. Nine plants in Italy specialized in manufacturing just one or two product lines; and the Glasgow factory (which exported 80% of its products instead of supplying the UK market) was greatly enlarged. An identical regard for differentials in labour productivity and wage rates has been shown by Singer. Its cheaper sewing machines are mass produced in Italy or the UK, largely for export; only a few top-of-the-line products are still manufactured in its American home base.
  14. Neil H. Jacoby, the Dean of the U.C.L.A. Business School, provides a determined defence of the MNC in *Corporate Power and Social Responsibility: A Blueprint for the Future* (London and New York, Macmillan, 1973). In applauding the contribution that the MNCs can make to the equalization of factor costs he insists that they are:

"leading Europe toward a more egalitarian, homogenous and democratic society. . . . Ultimately, they may facilitate the joining of all Europe in an enduring political and economic union. . . an achievement that eluded Caesar, Charlemagne and Napoleon" (p. 108).

A more sceptical view is revealed in Anthony Sampson, *The Sovereign State: The Secret History of ITT* (London, Hodder & Stoughton, 1973). He cites significant examples of how an MNC can interfere in the policy decisions of elected governments to protect a monopolist market (e.g., in defence contracts) and to reverse the equalization of mass consumer benefits. Nor need one believe that ITT is unique in corrupting public managers or private marketers. It is merely the first that has been energetically exposed.

15. The US Senate was appalled to learn that ARAMCO, though owned by four US oil 'majors', instantly obeyed Saudi Arabia's order to cut off oil supplies to the Sixth Fleet in the autumn of 1973—even before it alerted the Pentagon. When the Senate criticized the oil MNCs for rigging Western markets it still could not bring itself to tax their windfall profit margins. The emphasis placed by "the technostructure" on growth and oligopoly control, rather than on national interests and short-run profits, is usually attributed to J. K. Galbraith, *The New Industrial State* (Boston, Houghton Mifflin, 1967).
16. The concentration of giant firms among MNCs makes it difficult for any state to curb their investment plans or outflows. One study for the US Government, *The MNC: Studies on U.S. Foreign Investment*, Vol. 2 (Washington, US Department of Commerce, April 1973) revealed that 250 to 300 US-based MNCs account for over 70% of all foreign investments; practically all are to be found on the *Fortune* list of the 500 largest US companies. Another study, by EEC, showed that three-quarters of the affiliates in the nine EEC countries are branches of giant MNCs. Thus 29% of the largest companies in Belgium and 47% in West Germany are MNC affiliates; in Italy they tend to be four times larger than the average Italian company. See *European Community*, January 1974, pp. 16–19.
17. The EEC estimates that American MNCs have already invested \$80 billion in the nine member states and that they will rapidly increase their capital each year: (a) because they earn a higher rate of return overseas than at home; (b) because their expansion is financed largely from local borrowing, retained earnings and accelerated depreciation; and (c) because the economies of Europe—many of which, like Italy and the UK, face formidable inflation ~~plus~~ payments deficits—have little strength left to fight the MNC managers. See *Vision*, March 1974, pp. 73–5; and *The U.N. Report*, Table XXXVII.
18. *The U.N. Report* (pp. 75–105) lists many of the proposed remedies and solutions that have appeared in the academic literature or that have actually been attempted. At most the proposals would be of marginal effectiveness in controlling MNC operations. A set of recommendations is also given in Jacoby, op. cit., pp. 119–21. In the superficial analysis that passes as "corporate social responsibility" he urges MNCs to be "good citizens" and nation states to "liberalize" their trade policies.
19. Two different approaches to the development of interdependence in the world order can be found in Johan Galtung, "A Structural Theory of Imperialism", *Journal of Peace Research*, No. 2, 1971; and David Osterberg and Fouad Ajami, "The MNC: expanding the frontiers of world politics", *Journal of Conflict Research*, Vol. 15, No. 4, December 1971, pp. 457–70. Both review the claim that the MNC can serve better than the nation state as an agent of economic integration; for different reasons, both dispute the claim.
20. Michael Brooke and Lee Remmers, *The Strategy of Multi-National Enterprise* (London, Longmans, 1970) review the performance of the MNC in many different host economies. They describe the range of instruments available to MNC treasurers in redeploying financial resources, the gains that can be sought through

transfer pricing and the additional market leverage that can be applied through cross-affiliate pricing strategy.

21. Jacoby, *op. cit.*, p. 122.
22. Vernon, *op. cit.*, p. 284.
23. H. L. Robinson, "The Downfall of the Dollar", *Socialist Register*, 1973, p. 443. An equally assertive and unrealistic prescription appears in Michael Barratt Brown, *Europe: Time to Leave and How to Go* (London, Spokesman), Pamphlet No. 34 (n.d.). In his concluding section, on Alternatives to the EEC, he insists that a socialist Britain should "establish a state monopoly of foreign trade with power to monitor all transfer prices . . . and to discriminate among imports and exports according to social priorities rather than the dictates of the giant companies" (p. 14).
24. Nairn, *op. cit.*, p. 154. In urging that socialists should repudiate the parochialism of a "moribund nationalism" to enter EEC he aptly quotes **Marx** from the text on *Free Trade*: "One may declare oneself an enemy of the constitutional régime without declaring oneself a friend of the ancient regime. . . ."
25. Ralph Miliband makes the point in his analysis of "The Coup in Chile", *The Socialist Register*, 1973, that short run changes are terribly susceptible to subversion unless they are moved by a drastic sense of urgency and commitment. In Chile, with its income largely derived from extractive industries, this prescription is highly relevant. In an advanced industrial economy dependent upon the imperialism of free trade it could lead, within a few weeks, to chaos and economic collapse.