From *Global Reach* ch. 2: The Global Shopping Center

27 Global corporations are neither an American invention or an American phenomenon

Among earliest Unilever (British-Dutch) and Shell (British)

Non-US corporations already own more than 700 major manufacturing enterprises in the US

US still has a commanding lead

but global corps of West Europe and Japan have expanded in traditional US econom9c preserves (eg Brazil)

US share declining

motor-car % of world production in US: 1953 69.8%, 1968 37.9%

television sets: US 1953 75%, 1973 25%; made in USA only a few black and white sets

27f Global xfactory: widely dispersed productive facilities can be integrated into production of single ultimate products

Massey-Ferguson assembles French made transmissions, Mexican made axles, British made engines in a Detroit factory for the Canadian market

28 Internationalization of finance capital

Global corps can borrow money almost anywhere in the world

In the 1960's the Eurodollar market was developed, now estimated at $100 billion: the first transnational money market was one of the most important innovations of modern capitalism

International bank consortium: the Orion Bank which was organized by Chase Manhattan, National Westminster (UK), The Royal Bank of Canada, Westdeutsche Landesbank Girozentral, Credito Italiano, Nikko Securities

US banks have enormously increased their foreign operations

National City Bank, first to earn $200 million ina year, earned $109 million in its foreign operations

The Dow Bank is now the sixth largest in Switzerland

29 A 1973 US Senate finance committee:

"It x is beyond dispute that the persons andx institutions operating in these markets have the resources with which to generate international money crises of the sort that have plagued the major central banks in recent years... $268 billion, all managed by private persons and traded in private markets virtually uncontrolled by official institutions anywhere... more than twice the total of all international reserves held by all central banks and international monetary institutions in xthe world....

29 Through increasing use of centralized computerized cash-management systems, global corps are in a unique position to play the world capital and currency markets, arranging where possible to make early payments where currencies are on the rise and delay their payments where currency is likely to weaken

Because of their size and power they are able to attract local finance capital, particularly from poor countries. Their attractvieness as an investment has the effect of preempting scarce local funds which might have been available to finance locally controlled projects.

The introduction of a global payroll has produced dramatic changes in world labor markets. The essential strategy of the global corp is based on the international division of labor. Top management continues to be recruited from rich countries; workers increasingly come from low-wage areas. For a world corporation it is an ideal combination.

While automation continues to reduce the amount of labor relative to capital use in the manufacturing process, wage differentials are becoming more critical in maintaining competitive profit margins as between global corporations themselves. A few years ago only labor-intensive industries would go abroad looking for cheap help. Today Fairchild Camera, Texas Instruments, and Motorola have settled in Hong Kong to take advantage of the $1 a day seven day week conditions there. Timex and Bulova make an increasing share of their watches in Taiwan, where they share a union-free labor-pool with RCA, Admiral, Zenith and a large number of other corps. Kodak imports its top seller, the "Instamatic," from Germany. Polaroid is now the only major camera being manufactured in the US. European companies are also moving to Southeast Asia. Rollei, having figured that wages make 60% of the modern complex camera and that wages in Germany are six times higher than in Singapore....

30 The video-recorder developed by CBS and other US companies is being licensed to Europe and the Far East. US companies will produce it on foreign soil, probably.

Advertising: Harvard Business Review: companies must understand that "Cultural anthropology will be an important tool of competitive marketing". Only when the corporate manager is aware of the similarities and differences in the hopes fears and desires of human beings in different parts of the world can he taylor his product and sales pitch to influence and direct the "world revolution of human expectations"

31 As Pfizer'S John J Powers puts it, global corporations are "agents of change socially, economically, and culturally."

Advertise on a communications satellite system.

Retail old needs to new customers and new needs to old customers. The Rising middle class in Latin America is a key target for established products such as automobiles.

32 Oligopolistic competition is not by selling the same for less money; except rarely that is antisocial; would ruin the whole club. Similarly the products offered are more or less identical; introducing radically new technology is unsporting.

33 Competition is in the less volatile areas of cost cutting through automation and the removal of factories to low-wage areas, more attractive and convenient pachaging and more arresting advertising.

The make-believe-reality ratio is escalated in the marketing of new products. General Foods: different foods for young, middle-aged, and older dogs.

An internationally placed advertisement for Time:

"Time's 24 million readers (throughout the world) are apt to have more in common with each other than with many of their own countrymen. High income, good education, responsible positions in business, government, the professions. The readers constitute an international community of the affluent and the influential....

34 Corporate expansion is the essential strategy for maintaining or increasing market shares... For the managgement of global oligopolies, the alternatives are to maintain, or preferably to wrest, an ever-larger share of the market from other club members or to face a vote of no confidence from the stock market.

34 Almost by definition, a company with sufficient resources to integrate its activities on a global scale is an oligopoly.

IBM controls about 40% of the world computer market. Seven oil companies control over 2/3 of the world's oil and natural gas supplies. The top 3 US auto makers have captured well over 50% of the world auto market. Ford, General Motors, National Biscuit, DuPont, Dow, Bayer enjoy an oligopolistic position in the US market. Each makes literally hundreds of products which only a few other giants can match. In the underveloped
de countries the oligopolistic position of a few companies is even more dramatic. In Chile for example in the later 1960's 22 global firms controlled over 50% of seven crucial industries and all but 3 were oligopolies or monopolies.

In the business world, as in government bureaucracy, invention is the mother of necessity. When corporations push technology in the inexorable pursuit of growth, it is not a matter of choice; it is a law of life. The plan to integrate the world into a Global Factory, a Global Money Market, and
d Global Shopping Center was virtually inescapable one the integrating technologies of the past generation were devleoped. When top executives discovered that they could manage a world enterprise divided into coordinated "profit centers" in the comfort of a Boeing 707, the rise of the corporate jet set was assured.

35 Indeed, the spectacular growth of the global corporation
v and international air trafel are simultaneous phenomena of the early 1960's. Today the top managers of these corporations are in constant motion... One of main functions of the executive vice-president for executre development of Exxon.. is to route the top 250 executives on their continuing odyssey across the earth.. It appears that only the Strategic Air Command takes greater care to keep some its top brass air borne at all times.

The communication satellite makes it possible for the top executive to think globally in the comfort of his office. Telephone connections to Santiago or Peking are excellent... Corporate executives in underdeveloped countires often have the frustrating experience of being able to hear the boss in
N new York perfectly but not the customer at the other end of a barely functioning local phone.

.. We were able to set up a network between the US and Europe and by use of facsimile equipment could transmit not only messages but drawings as well

36 The political power of g c's stems in large part from the valuable information flow which they can generate on a worldwide basis. The economic analyst of Ford.. maintains a complete library on key national officials in the countries where Ford operates.. He tries.. to get into the skin of financial bureaucrats to decide when or whether they will devalue the local currency. He claims to have predicted key currency decisions in 69 out of 75 monetary cr~~x~~ises.

The advanced computer now makes it~~s~~ possible to handle enormous ~~xx~~quantities of information from widely differing places. It is a key tool for global programming.

~~x~~ In the same way the sheer availability of a global market has led to the development of techniques for maximum profitability. Tax havens have magical powers to~~x~~ save millions of dollars in corpora~~x~~te income taxes. A gold plaque engraved with the corporate name on the wall of a sleepy palm-shaded office can pass as the real home of an important part of world wide operations.

37 .. two fundamental tenets of the modern business faith: the cult of bigness and the science of centralization.

At each stage of the industrial revolution, bigness has served the growth of business as both~~x~~ ideology and weapon.

The corner grocery store became ~~xx~~ uneconomic with the advent of the chain store but customers had to be conv~~x~~inced that the chains were not just a convenience but also an advance in civilizatio~~xxx~~tion. Similarly the global corps with their wholesale attack on the ~~x~~ way nation~~x~~ states do business will have to battle about how corporations and nations should behave and what ~~xxxx~~ power each should wield.

But even the most sacrosanct ideas and habit that have stood in the way of economic growth have had a poor survival record. When.. the fledgling capitalists of the Middle Ages discovered that charging int~~x~~erest was too profitable to be a sin, the Church modified its attitude towards ~~xxxxxxxx~~ usury, and the modern banking industry was born. The struggle for political legitimacy is the most important /38/ task that faces the ~~x~~ global corporation,and the development of a compelling ideology is its most important product.

39 By the late 1960's U. S. based companies controlled two thirds of the ph~~x~~otographic film paper, farm-~~x~~machinery, and

telecommunications industries of France. In Europe as a whole U S based firms produced 80% of the computers, 95% of the integrated circuits, 50% of the semiconductors, and 15% of consumer electronic products. While the controlled less than 5% of Europe's business as a whole, they were well on their way to controlling the most advanced and dynamic sectors of European economies, leaving laundries, restaurants, and utilities to the natives.

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The European governments launched a counter-attack: the government-inspired merger. In England the Industrial Reorganization corporation fostered mergers (sometimes putting up large blocks of government capital) in more than twenty industries. Similarly in France, Germany, Italy and Austria. The partnership of government and big business has reached new heights in Japan. The great trading corporations and official ministries are so intertwined that only a sophisticated legal mind can tell where one leaves off and the other begins. Indeed U S business literature employs the code term, "Japan Inc.", to describe the complex competition from the East.

<u>40</u> U S business is now asking Washington to step up official support to counter the advantages that national governments afford its foreign competitors.

The result of the American Challenge (Servan-Schreiber) may well be a profoundly important organizational trade-off: the rest of the world imports the global corporation and the U S imports the corporate state.

<u>41</u> To put it most simply, each part of the global enterprise does what it does best and cheapest. Each contributes that part to the total enterprise which top management determines to be most rational. It makes sense for General Electric to ship components to Singapore where they can be assembled for 30 cents an hour rather than produce them in the Ashland MA plant for $3.40 an hour. Between 1957 and 1967 G E built 61 plants overseas. A number of the moves followed closely upon strikes and other labor difficulties, which government authorities in Singapore and Hong Kong can arrange to avoid for their corporate guests.

ITT has a world payroll of 425,000 employees in 70 countries. The body is international but the brain is in New York. As a <u>Fortune</u> magazine portrait of the company noted: Gineen eliminated much of the autonomy of ITT's operating managers and replaced it with a control system tautly run from New York headquarters. From what was once described as a kind of holding company in which at one point managers were literally instructed to ignore New York directives and "just send earnings back home" ITT became a tightly organized central organization.

42 The degree of centralization varies of course, depending upon the particular industry, but advanced industrial operations like automobile and computer production which scan the planet for the cheapest sources of raw materials and labor are highly ~~xxxxxxxxx~~ centralized. Renault makes various components in Rumania Spain Argentina which are ~~xx~~ assembled in the same car in a number of plants around the world. This means that decisions about ~~xxxxx~~ how much is to be made and when, where, and at what price it is to be shipped must be made at the central headquarters.

Stephen Hymer: "A ~~xxx~~ few key cities -- New York, London, and Paris --- are already on their way to becoming the kind of global centers where top decisions are made and great amounts of capital can be raised." Other cities such as Montreal, Toronto, Buenos ~~xxxx~~ Aires, and Singapore are "at the middle level of power, while at the bottom of the pyramid are the operations centers (Akron, Gary, San Juan, Monterey) which make things in strict accordance with plans developed in the global cities.

The science of centralization is largely of the sophisticated control of communications. Hymer: "At the bottom of the pyramid communications are broken horizontally so there is no direct interaction betweeen operations centers -- what communication there is must pass through higher power centers." IBM has demonstrated a sophisticated computer system under which g c's will be able to monitor on a 24-hour-a-day basis various

43 aspects of the corporation's global activities: sales, purchases, cash flow, credit lines, inventories, etc. Information flows to headquarters ~~and~~ then is relayed in what the demonstrator called controlled access to managers around the world. The higher the manager's rank, the more of the big picture he is allowed to see.

43 .. public relations vice-presidents like to talk about global companies as a collection of coordinate operations across the globe with each taking a heavy share of responsibility for the whole. The fact is that only certaink kinds of ~~xxxxx~~ decxision are ever decentralized. In general, moves are being made to decentralize operations within plants at the same time that the global control of individual plants ~~xxxxxx~~ by the world headquarters is being centralized.

"You control a company if you control its capital expenditure, its products, and in great detail its operating budgets," a former senior executive of Ford's British subsidiary at Dagenham,
44 England complained... "All these are controlled by Americans over here, and ultimately by Detroit. The amount of paper flowing to Detroit and back is unbelievable."

.. despite the current ideology of management which speaks in terms of personal responsibxility and participation, the logic of the planetary enterprise will make each operation increasingly dependent on the world headquarters

.. a decentralizing ideology masks a centralizxxxing reality. The factors which create this situation include an integration of multinational operations, an increasxing speed of technological change, and the ~~rpa~~ rapid development of global technixques, strategies, and information collection.

All this raises what indeed is shaping up as the supreme political issue of our time: whether it is really "rational" to attempt to organize the planet through centralizing technologies into ever larger pyramidal structures.

ch. 3: Personal Identity and Corporate Image

45 There is subtle connection between the quest for personal identity and institutional legitimacy. As in any major institution... the career planning of those who make it to the top influences the character, image, and style of the global
46 corporation. At the same time, the organizational needs of the corpxoration are met by a selection process which propels a certain social character into the executive suite and relegates others to the outer offices.

47 In marketing an ideology to justify their world management

47 role, the men who run the global corporations make the same basic claim (as the commissars): superior management skills. But because corporations are not officially recognized as governments, the ideology of the world managers clashes with some important established notions. That there is a distinction between the private economic sphere and the public political sphere is an important piece of conventional wisdom. Private profit seekers can fish in the one but not in the other, so the prevailing myth goes, the state can intervene in the private sphere to regulate, subsidize, or punish, but it is scandalous when an oil company or ITT acts like a government and makes public policy. To defend themselves against their enemies, foreign and domestic, the global cc's are seeking to establish one overriding point: they can create an integrated world in which every body gains, but only if "obsolete" governments leave them alone.

54 Despite his futuristic rhetoric, the World Manager is at heart an eighteenth-century man. Like that of the Encyclopedists, his religion is rationalism. One of the lasting benefits of international business, says Jacques Maisonrouge, is that it "has introduced rationality into international and human relations" and has reduced "the emotional and haphazard elements of life." The most dangerous myths of modern man, as the World Managers see it, are what Maisonrouge names "national prejudices and fears."

55 .. for Maisonrouge the enemy is irrational nationalism.

It is not the nation-state itself that is irrational, Maisonrouge maintains, but the "basically nineteenth century viewpoint" which still dominates the nation state. In the name of outmoded myth, governments are interfering with the free flow of capital and technology. In a world that cries for global integration and management, governments are behaving irrationally because they are tied to territories, and in trying to protect those territories they pursue such uneconomic goals as pride, prestige, and power for its own sake. Like the mercantilists, the World Managers believe in "world peace through world trade"...

55 The global corporation and the world economy it is working to build are the modern embodiment of Adam Smith's invisible hand.

The new globalists firmly believe that the magic of the best, market is the fairest, and freeest regulator of human affairs, provided it is helped and not hindered by politicians.

56 eg against capital export controls

The g c is the ideal instrument for integrating the planet, the World Managers contend, because it is the only human organization that has managed to free itself of nationalism.

The essence of the new corporate ideology and the new corporate strategy is not internationalism but anti_nationalism.

57 The lack of parent-government influence would simplify the conduct of international business because there would be no extraterritoriality problem.

The cultivation of distance between the anational corporation and the U S government reflects the growing realization of corporate leaders that the character of U S hegemony is changing... there is a growing sense in corporate boardrooms that as a result of dramatic transformations in world politics and the world economy, the U S government is no longer able to promoxte and protect corporate interests with traditional m9ilitary strategies. More important, there is also a growing realization that the government in Washington may not perceive its interests to be the same as those of the gc's.

58 Nationalism, Business International warns, is not merely a problem x for gc's in underdeveloped countries: "... the truth is that some of the most serious probxlems for them are created by the governments of the parent companies."

"It is a sad fact of life" Bank America's President A. W. Clausen laments "that there is no such thing as a uniform global market." National, cultural, and racial differences create "marketing probxlems."

"Body by Fisher" becomes in Japanese "Corpse by Fisher."

59/ The reason that there are nationalistic obstacles in the path of the global corporation, the Chief Executives Roundtable concluded, is that "the international corporation threatens the nation-state's very existence."

Those who guide the nation-states are fearful that if the world economy is made more efficient and national borders are not allowed to impede the most efficient use of land, capital, labor, ideas, then the nation-state will have no reason to exist.

.. the nation-state has succeeded in attracting from organized religion the basic religious impulses of man. If the g c is to survive it must, in effect, establish its own religion.

.. the frontal attack on the nation-state has been replaced by a subtler campaign against borders, cultural differences, protectionism, and "the fears of those people that attack the international corporations, [which are] deeply embedded in their psyches."

60 The g c's appeal for a loyalty that transcends the nation-state rests on two fundamental claims. The first is that the planetary enterprise is the key to peace.

61 Social and political conflict can be reduced to managerial problems and solved through technology. The gc's possess a high proportion of the technology, the managerial talent, and private capital required for the solution of the economic and social problems of this planet. They can tackle development of the resources of the sea, economic development of poor countries, new housing everywhere, the protection of the human environment, the training of people for skilled managerial and technical
62 work, and the creation of jobs for underprivileged people. In other words everything that governments are supposed to do -- and cannot.

Working far from home base executives in a multinational company headquarters soon find themselves exploring the global dimension, instead of thinking only in narrower national terms. And once that happens, they have become 'detribalized' international career men.

63 ... in most firms.. all key managerial jobs in the parent company are filled with nationals of the parent-company country.

Statistically there are few invitations extended to non-Americans to join the parent company's board in New York or Chicago.

64 Global corporations much prefer to give the appearance of international ownership by selling small blocks of stock to widely dispersed foreign holders.

65 "World peace through world trade" is an attractive slogan on a planet that spends $200 billion a year on armaments to protect a population most of whom earn less than $100 a year.

66 Even the most powerful nation cannot defeand its territory against nuclear attack, maintain an old-fashioned empire, solve its most pressing internal problems -- unemployment, inflation, uxrban decay -- pr stem the decline in socixal services. Quality of Life became a cliché in the U S just when everyone noted its absence.

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68 Heilbroner: Economic success does not guarantee social harmony. Barbara Ward: Nor does it guarantee ecological harmony.

69 An admiring visitor in Sao Paulo asked a local industrialist whether there was much crime. He was told: "We are not that civilized yet."

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Internal conxradictions in g c. They lament the deterioration of the work ethic in America. Yet they preach that hard work is simply a temporarily xx unautomated task.

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Again, asvertizing campaigns celebrating lives of leisure, ease, and consumption have done nothing to strenthen the work ethic.

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The traditional capitalist celebration of the in_dividual and the x development of the corporate "team"

between the celebration of "people's capitalism" and the reality that the controlling shares are managed by banks, corporatxx ions, insurance companies, pension funds, foundations, and a few fami empIires like the Rockefellers, Du Ponts, and Mellons

, ly

between the celebration of competition and the phenomenal

70/ rise of/ mergers, market sharing, and oligopolistic concentration

betweemn glittering promises of social engineering and disappointing performance

between a rugged individualism which scorns governemtn ,, and the call for partnership and even rescue for the Lockheeds and Penn Cantrals.

g c's opposed to expansion of socialism but quite pxrepared for a limited coexxistence once socialism is firmly established

Three counter movements regarded by g c's as mortal enemies.

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First, the demand for qualitative crieria for distinguishing xxxxx social development from antisocial growth. ádvocates of zero-growth. efficiency defined quantitatively is ax doubtful criterion of human development

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71 Second the anticonsumption movement. Is the flood of goods associated with advanced industrial societies necessary or desirable for advancing human happiness. Distinguish life-enhancing and life-destroying consumption.

71 The Consumption Ethic is now far more important to success of the Global Shopping Center than the Work Ethic. As long as people in Singapore like to work, it doesn't matter if people in Massachsetts don't, but the global system will fall apart if both stop expanding their consumption. "Who needs it?" may indeed be the most revolutionary slogan of the past three hundred years.

Third, the anti-hierarchy movement. Proceeds from a variety of political, moral, scientific, of aesthetic grounds. The worldwide attack on pyramidal authority structures of all kinds, from the Catholic church to the university campus, creates a menacing climate for the g c's, which rest their claims on the centralized, rationalized and hierarchic structure of the planetary corporation.

72 Ch 4: Corporate Diplomacy and National Loyalty

73 "England, Holland, and the other great trading powers of the 17th and 18th centuries were delegating political power to their foreign merchants, when they permitted those merchants to engage -- collectively and under the corporate aegis -- in foreign trade. In Henry Maitland's phase these were the "companies that made war."

.. the market mentality in the laisser-faire climate of the Industrial Revolution radically changed the relationship of public and private government because it radically changed the very purposes of government. The market economy created a new type of society under which the market mechanism became determinative for the life of the body social.

In a society that measures itself by the criteria of profits and product and believes in social regulation by fear of hunger and love of gain, the line between public and private will always be blurred, for the functions of state and corporation overlap.... In the premarket mentality the motive of gain existed, but it was specific to merchants, as was valor to the knight, piety to the priest, and pride to the craftsman. The notion of making the motive of gain universal never entered the heads of our ancestors.

75 It is familiar folklore accepted by Marxists and capitalists alike that the interests of U S based g c's and the interests of the U S government are substantially identical.

76 One reason for the complexity of the relationship is that neither the nation-state nor the corporation is a monolithic entity. Within the national government there are differences in outlook and approach among the Treasury department, the Commerce department, and the Defense department about what constitutes "the national interest" in particular cases and what part global c's should play in overall U S strategy.

It is equally clear that not all global c's have the same interests vis-a-vis the U S government or follow the same strategy. Whether a company is already well established overseas or is about to embark on a big foreign investment program, whether it is in mining or manufacturing, whether it operates in "safe" developed countries or "unsafe" underdeveloped countries are all factors that will determine its political outlook. Moreover a company may have one relationship with the U S government in the latter's role as chief architect of the world monetary system, another in its role as manager of the U S economy, another in its role as the world's greatest military power. Thus for the g c the U S government is both a nuisance and a necessity. For the government the corporation is a source of national power and a frustrator of national policy.

77 Both Adam Smith and Karl Marx believed that a crucial characteristic of capital was that it was international.

Parochial territorial loyalties give way to economic rationality

International companies have traditionally taken a relaxed view of patriotism.

78 Because large companies have an inherent drive toward ever expanding growth, they simply cannot afford to tie themselves to any territory.

78 During the 25 years when the U S was the most powerful nation on earth, the tighter and more notorious were the links between Washington, Wall Street, and Detroit, the better it was for U S companies.

78-79 Details illustrative of foregoing.

79 The scene has changed. The U S is still the most powerful nation , but it can no longer run the world either throough its economic power or its military might.

82 The aborted attempt by ITT to prevent election of Alende
86 last three lines and 87 on domination 16th century style.
89 The goal of corporate diplomacy (g c's dealing with foreign governments) is nothing less than the replacement of national loyalty with corporate loyalty. If they are to succeed in integrating the planet, loyalty to global enterprise must take precedence over all other political loyalties.

"Consumer democacy is more important than political democracy" the Council of the Americas suggests as a good slogan for its corporate members.

90 Indeed the ambassadors from IBM, Chase, and Sears are now trying to co-opt the national impulse for their own purposes. Global companies actively try to promote themselves as spokesmen for the national economy. In Brazil, U S businessmen.. organize national businessmen through the creation of the "Businessmen's Council Brazil-USA," which has become the chief spokesman of the entire private sector, domestic and foreign, in Brazil.

92 (various devices and plans) all are symptomatic of the effort to establish a feeling of community within the corporation. The middle class employee no longer has an alternative community in which he can find a sense of belonging. The national government is too large and unwieldy to provide this satisfaction; and local governments are too ineffectual to cater to such deep-seated needs... Thus there has emerged a new kind of citizenship. It is not the same as our traditional view of citizenship.

93 Almost everyone... has a vision of a perfect state which will liberate him and restrain his enemies. Outline of World Managers ideals and ideas.

96 When the executives call themselves "peacemongers" they are perfectly sincere. It is in their interest that the game of nations be transformed from a military duel which no one can win and which threatens all their dreams..

97 The principal lesson of Vietnam, as g c's see it, is that a military policy that leads to economic weakness needs updating.

99 Vietnamization is now a worldwide policy. Local troops are hired with American tax dollars to carry out the police function once performed by US soldiers.

126-128 Comparative Tables

1 Increasing U S dependence on imports of strategic materials

2 Competition with other advanced nations for the natural resources of the underdeveloped nations

3 Increasing dependency on imported energy sources: U S / other advanced nations

4 Differential hourly wage rates in selected industries underdeveloped nations vs U S

5 Estimated unemployment levels in selecgted Latin American and Asian nations.

6 Increase in manufactured exports from underdeveloped cpuntries.

129 Harvard's Edward Mason... discovered that the growing power of the oligopolistic firms to ride over competitors and the anti-trust division alike demanded a much more dynamic model of corporate behavior than Alfred Marshall's classic but static "representative firm. Students of the new science of marketing research in business schools then began to seek a theoretical explanation of how oligopolies achieve market power, deal with competition, maintain or increase their share of the market, and achieve essential economies of scale through bigness. A major explanation that emerged was the theory of the Product Life Cycle.

It is imortant to understand how g c's takes advantage of basic investments already made in research, packaging, communications, and marketing-know-how to expand operations into new geographical areas at substantial savings. Thus the quest for global profit maximization is pushing the world's largest corporations ever more into Asia, Africa, and Latin America. We can ~~explain how~~ illustrate how the Product Life Cycle Theory helps to explain the expansion of the g c's into the underdeveloped countries by recounting (in simplified form) the story of the U S television industry.

In 1948 100% of all television sets were manufactured in the U S. By the time the first sets were marketed after the war, the industry had already invested millions in R & D. Most of these costs were not related to the invention as such but to postinvention costs for adapting the investion to mass production and a mass market (invention itself developed by end of 1920's).

130 A major portion of such costs go into exploring the marxxxket and increasing the market. In this first phase the Product Life Cycle xxxxx profits are relatively low because such costs are high and peak demand demand for an unfamiliar product has yet to be reached.

By the mid-1950's the first phase was drawing to a close. TV had become a necessity of life. As mass-production and mass-xx marketing techiques were perfected, costs dropped progressively. Profits were high. In short this was the brief happy childhood of the industry pioneers.

x As some of the pioneers' patents began to expire and their marketing techniques became known, less adventurous extrepreneurs.. entered the TV business by imitating the pioneers' technology at a fraction of the original cost. A TV set is cheaper than a research lab.x They cut into the pioneersx' exclusive hold on the market. Oligopoly profits declined. Cost-cutting latecomers' profits rose.

Phase two, the adolescence of the industry, which began in the middle 1950's, was marked by the development of the export market, principally in Europe. The pioneers could take their production, marketing, and managerial knowledge and apply it in Europe at little additional cost. So they were able to increase their share in the global market while their share in the U S market was declining. This competitive edge gave them relatively higher profits to invest in further
131 advertosomg amd market manipulation, which are the crucial investments for staying on top. For a few years the latecomers wouldx be barred from these new markets, because they lacked the specific knowledge and contacts needed to sell TV sets to Frenchmen, Germans, and Italians.

Phase three, the onset of middle age, began when the late-comers began exporting to Europe, and theEuropeans began their own production of XX TV's. The pioneers accrodingly set up their production plants in Europex. This meant not only savings in transportation but also more favorable treatment from the loxcal governments which were savedx the cost of importing. Investment overseas accelerated at a draxmatic rate, and overseas profits became crucial to the worxldwide profit picture.
At the same time, the conflicts associated with this expansion

became sharper. U S companies were buying up European competitors and exercising increasing power over the local economies. They were a cause of concern to the local governemnts, part-
132 / icularly in Europe. / Some companies began closing their U S high cost plants and using their overseas factories to export to other countries. This brought a strong reaction from the U S labor unions, but despite their problems the pioneers had recaptured a larger share of the world market and hence their profits were higher.

132 Phase four. In the middle of the 1960's a new generation of latecomers challenged the pioneers. The Japanese had licensing arrangements with the pioneers and had rights to their technology. Japan had a relatively low consumption level and hence wages were low and a high rate of productivity (thanks to the licensing). Hence at substantially lower costs the Japanese could equal or surpass U S factories in producicitivity and quality. Sony, Toyota, Nikon, Mitsubishi became household words in the U S.

The response of the pioneers was to try to recapture the U S market cutting production costs. Their strategy was to create in the lowest wage-areas in the world, such as Hong Kong, Taiwan, Singapore, and the U S - Mexican border area, what have been called export platforms from which cheaply produced TV sets (and cameras, computers, calculators, stereo's, watches, etc.) could be shipped to the U S at competitive prices. Thus in Phase Four the underdeveloped world assumes a critical
133 / role / in the Global factory

The driving force behind global oligopoly competition is the necessity to grow in order to maintain or increase market shares.

133-39 Characteristics and Weaknesses of Underdeveloped Lands

every / One out of / ten thousand persons with high walls, a garden, and a Cadillac in the dirveway. A few blocks away hundreds are sleeping in the streets which they share with beggars, chewing-gum hawkers, prostitutes, and shoe-shine boys. Around the corner tens of thousands are jammed in huts without electricity or plumbing. Outside the city most of the population

scratches out a bare subsistence pn small plots, many owned by
134 / the few who lived behind the / high walls. Even where the soil is rich and the climate agreeable most people go to sleep hungry. The stock market is booming but babies die and children with distended bellies and spindly legs are everywhere. There areluxurious restaurants and stinking open sewers. The capital boasts late model computers and receives jumbo jets every day, but more than half of the people cannot read. Government offices are major employers of those who can, but the creaky bureaucracy is a joke except to the long line of suppliants who come seeking medical help or a job. For suppliants with money the lines shorten miraculously.

Nationalist slogans are prominent, but the basic industries are in the hands of foreigners. The houses behind the high walls are filled with imported cameras, TV's, tape recorders, and fine furniture imported from the U S or Europe, but the major family investment is likely to be a Swiss bank account. There appear to be three groups in the country distinguishable by what they consume. A tiny group live on a scale that would make a Rockefeller squirm. A second group, still relatively small in number, live much like the affluent in the U S -- the same cars, the same Scotch, the same household appliances. The vast majority eat picturesque native foods like black beans, rice, and lentil soup -- in small quantities. The first two groups are strong believers in individual development for themselves and their families, but they see no solution for the growing plight of the third group. So they fear them, and their walls grow higher. For the third group disease, filth, and sudden death are constant companions, but there is an air of resignation about them. Life has always been full of pain and uncertainty and it always will be. The only development they see is the the same journey from cradle to early grave that their fathers and grandfathers took.

There is a certain fatalism surrounding the standard terminology of economics. It is said that poor countries are poor because they lack capital stock: that is, they lack the tangible and expensive infrastructures that enable modern developed societies

to function and to create more wealth -- roads, communications systems, schools, machines, and factories. But capital stock unlike mushrooms does not grow wild. It is the result of specific human decisions about investment taken in the past. When a primitive society begins to produce more than it consumes,
135 it ceases to be what economists call a "static' society and begins the process of "growth."

The essential ingredient in this process is knowledge. It is the introduction of new ways oforganizing work -- i.e., a hoe instead of one's bare hands, a tractor instead of a hoe -- that increases human productivity and generates savings that can be used to promote further increases in productivity in the future. Economists like to call these savings "finance capital", when they are actually invested for the purpose of maintaining and creating more wealth. The essential characteristic of finance capital is that it is made up of intrinsically worthless pieces of paper such as bank notes, stock certificate, and bankbooks which represent the surplus generated by wealth-producing activities in the past. Whether it will in fact produce more wealth for a country, or more important whether it will create wealth producing structures -- ie factories -- depends upon what those who control that finance capital decide to do with it. If a country is poor in wealth-producing structures (capital stock), it is because whoever controlled wealth in that country decided to invest their finance capital in something else or somewhere else.

The finance capital generated by the natural wealth of many countries of the underdeveloped was not used to develop local factories, schools, and other structures for generating more wealth but was siphoned off to the developed world -- first as plunder, then in the more respectable forms of dividends, royalties, and technical fees -- where it was used to finance the amenities of London and Paris and, more important, the industrial expansion of affluent societies. Most of the capital
the left in poor countries was in the control of a small local elite closely tied to foreign capitalists who knew how to consume it in lavish living and where to invest it abroad for a good return.

135 Thus because power over thxe national wealth was largely in the hands of foreigners, the finance capital generated by past wealth-producing activities was not used to maintain, much less to expand the local economy. The ~~xxxxxxx~~ result was a process of wexalth depletion which has resulted inevitably in lower consumption for the local population. The net outflow of finance capital from the underdeveloped societies weakened their capacity to develop knowledge to produce wealth,x and this further decreased their bargaining power.

NB 133 The poor are not poor bexcause they are "lesser breeds without the law." The cradles of civilixzation -- China, Egypt, the Mayan and Incan empires of Latin America, and the kingdoms of North Africa --were flowering at a time when the remote ancestors of the managers of the Western world were roaming Europe in baxrbarian armies.

136 When we talk about the knowledge superiority of the West. we mean not only its superior technology tox create machines, but also the technology to create and communicate a set of values that puts the creation of wealth at ~~xhx~~ its center. The capacity of the advanced nations to spread to the "bakward" nations the ideological foundations of modern capitalism -- man's mission to conquer nature, the work ethic, the whip of economic necessity, the invisible hand -- and to make the elites of poor counttres disciples in the science of enrixchment gave the industrial nations enormous bargaining power.

The industrialized nations... have used their technological
and marketing superiority to obtain terms of trade which, not
surprisingly, favor them at the expense of their weaker trading
partners in the underdeveloped world. Thus over the pasxt 25
137 years, until the 1970's, because of the falling relative
price of certain essential raw materials, the countries of
the underdeveloped world have had to exchange an ever-increasing
amount of such raw materials to get the finished goods and
technological expertise they need. This steady worsening of the
terms of trade between the rich countxries and the poor is an
important reason why the "gap" between them has continued to
grow.

137 A prime characteristic of every underdeveloped society is the massive failure of the systems that solve or manage the major social problems in developed countries. Thus the systems for providing pure water or sanitation do not work well or may not even exist. Schools for diffusing the essential knowledge needed to create wealth are absent. The system for raising and distributing food is inadequate. Competent structures for providing employment do not exist. The government typically lacks the power to collect adequate taxes and to invest adequate finance capital in these systems tha will solve some other major problems.

The lack of bargaining power of underdeveloped countries is due to three major institutional weaknesses. The first is ... antiquated government structures.

138 A casual comparison of the efficient German regulatory bureaucracy with the chaotic formalism of a typical Latin American counterpart gives some clue as to why corporations can wrest greater concessions (and greater profits) in a Colombia or a Pakistan or a Mexico than they can in Germany.

A second source of institutional weakness in underdeveloped countries is the lack of a strong labor movement.

A third source of institutional weakness... is the lack of competition from local buisness.

139 As formerly in the U S family enterprises either went public to raise sufficient finance capital to be able to compete against national corporations, or sold out to them, or were put out of business by them, so now in the u c's local capitalists owning national businesses are faced with identical alternatives.

Of the 717 new manufacturing subsidiaries established in Latic America by the top 187 U S based g c's, 331 or 46% were established by buying out existing local firms.

The sources of global power pp. 140-147

140 Ownership of patents.

Most u c's have decided to industrialize. Thus they become dependent on outside technology, finance capital, and marketing techniques, and the diffusion of the ideology of the consuming society is built into the model of their development. Thereby it sacrifices the buildup of its own technological capacity (a long and difficult process) for the possibility of a quick boom that foreign investment can bring. But there is an obvious price. The nation's technology becomes subject to foreign control. In India, Turkey, the United Arab Republic, Pakistan, and Trinidad...more than 89% of all outstanding patents were owned by foreigners. Studies prepared by the Chilean government showed that foreign ownership of Chilean patents increased by 65% in 1937 to 95% in 1967. In Colombia 10% of all patent holders in drug, synthetic fibre, and chemical industries own 60% of all patents and these 10% are foreign based g c's. (In the U S the top 30 industrials own 40.7% of all patents in their respective industries). Concentrated control of technology is a classic devicefor eliminating effective competition.

140 Finance Capital

The same cumulative rhythm is felt in finance capital. Subsidiaries of g c's are able to borrow from local banks and financial institutions on better terms than local businesses. They are preferred customers because their credit is backed
141/ by worldwide financial resources. When savings are in short supply (typically so in u c's) it is simply good business to lend to Ford or Pfizer rather than to the local laundry or sugar mill. During Argentina's 1971 credit squeeze when available credit was reduced 20%, local firms had to cut their borrowings 42%, but the g c's increased their borrowing 20% over the prior period. More and more scarce savings are under the control of a local branch of some g c such as Bank of America, Chase Manhattan, First National City Bank of N Y. In Bolivia such banks control close to 50% of private savings. Obviously they will prefer lending to a subsidiary of a g c than to local grocers and farmers.

There are other reasons. Banks and corporations are not entirely separate entities. Global corporations and global banks do not treat each other as strangers... The relationship between local subsidiaries of g c's and local branches of New York and Boston banks is touchingly close.... In Argentina ... the First National City Bank of N Y, which makes about 80% of its loans to U S companies, charges a preferred rate to local subsidiaries of its worldwide customers, who in some cases are charged the equivalent of a negative interest rate (30% interest where inflation is 60%).

141 The companies are only too glad to help the banks in return. For instance, the global clients of the First National Bank of Boston are asked to send the bank detailed monthly reports on their plans for the coming quarter and once a year a five-year projection of their expansion plans. By putting all such information together, the Boston bank can acquire the best economic
142 intelligence in the country -- often much better than the information in the hands of the Argentine government. The interest of global banks and global corporations with overlapping ownership and management is obviously to help each other and, as has been shown.., global companies and global banks have expanded together according to similar patterns and at a roughly similar rate. What is good for global corporations is good for global banks, and vice versa.

The power of global banks over the economies of underdeveloped countries is due primarily to the scarcity of finance capital... A complication from the standpoint of poor countries is what economists call the "foreign exchange bottleneck". Foreign firms repatriate a substantial portion of their earnings, and in addition local wealth holders worried by the instability of the economy have a tendency to channel their money outside the country. Because of the dependence of the local economy upon foreign technology, there is a great need for foreign exchange, which, typically, is in even shorter supply than savings.

U S banks can exert considerable power over underdeveloped countires that are poor in foreign exchange because they control the faucets from which dollars flow. Thus five U S banks (Chase Manhattan, Chemical, First National City, manufacturers Hanover, and Morgan Guaranty) completely cut off short-term credit to Chile after Allende came to power. Before the change in government, U S banks supplied 70.4% of all Chile's short-term credit needs (mostly 90 day loans financing import of essentials from U S). Loans that totalled $220 million in previous years were down to $35 million in 1972.

142 The third source of power of the g c's in u c's is their
143 control over communications -- i e /143/ their extraordinary competitive edge in using the technology of market manipulation to shape the tastes, goals, and values of the workers, suppliers, gpvernment officials, and of course customers on whom their own economic success depends. The g c must not only sell concepts along ~~xx~~ with its crackers: it must contually sell and resell itself.

The technology of the market place is concentrated in the advertising agencies. The rise of the g c and the g bank has been accompanied by the globalization of Madison Avenue. In 1954 the top 30 advertising agencies derived a little over 5% from overseas campaigns. In 1972 the world billings of these same firms had increased almost sevenfold, and one third of the $7 billion in total world billisngs came from outside the U S. (By 1971 J Walter Thompson was earning 52% of its profits outside the U S and McCann-Erickson 61%) The big U S firms enjoy a decisive advantage in competition with local advertising firms by exploiting economies of scale. Like the TV manufacturers they can extend tried-and-true techniques developed and paid for in the U S market into the foreign market at little extra cost. (The advertising campaign has a product life cycle too.) The local firms without a history of investment in new techniques must start from scratch, and in poor countries the high investment needed to make presentations to local potential clients is not easy to find... In the four countries of Latin America where most of the investment of U S based g c's is concentrated, Mexico Brazil Argentina and Venezuela, 54% of the major advertising agencmies in 1970 were U S -owned or -affiliated, up from 43% in 1968.

144 The most effective ~~x~~ single medium for spxreading an advertising message is TV and radio, especially in countires where illiteracy is high. Columbia Broadcasting System dostrxibutes its programs to 100 countries. Its news-film service is now 1968 received by satellite in 95% of the free worlds households. The leading TV shows are distriibuted throughout the continent. Hawaii Five-O was dubbed in six languages and sold in 47 countries. Bonanza is seen in 60 countries with an estimated weekly audience of 350 million. In 1970 and 1971 CBS and nBC sold more than half a billion dollars worth of cultural

emissions overseas. in 1968 ABC had controlling interest in 16 foreign countries that operated 67 TV stations in 27 countries aroumnd the world.

145 Because U S companies have already met most of the costs of their programs, they have a great advantage over local companies. So in Peru 40%, in Costa Rica 85%, in Bolivia 50% of TV programs are packaged by foreign corporations.

If a series suffers a quick demise in the U S, its owners can still recover production costs in Latin America by peddling it in Latin America with a high-ratings series, since all series are sold in "packkages."

When Brazil passed a law against foreign ownership of TV stations, Time-Life neatly circumvented it by signing a technicxal-assistance ~~paxtx~~ contract with two Brazilian networks with tie-in clauses that required them to take a certain mumber of Time-Life produced programs.

Latin American affiliates' business agreements with ABC Worldvision surrender to ABC the power to choose both programs and sponsors for their peak hours... ABC can sell Batman to an advertiser and then place Batman along with a designated commercial in any country where the advertiser wants it to appear.

146 Global corporations are of course the most lavsih advertisers In Peru channel 5 earned 63% of all TV advertising in the country derived more than 11% of all its revenue from two g c's: Procter & Gamble and Colgate Palmolive (P & G spends more on advertising than on its global payroll).

Besides TV, books, perioxdicals, magazines, funnies.

147 Over the last decade g c's have been increasing their hold on weak economies at an exponential rate.

ch 7: Engines of Development?

149 A succession of studies by the U N and other international agencies established the statistics of global poverty: For 40% to 60% of the world's population the Decade of Development (the 1960's) brought ~~ss~~ rising unemployment, decreases in purchasing power, and thus lower consumption.. In a World Bank survey of poor countries there is reported a striking in ~~z~~ the incomes of the richest 5% while the share of the poorest 40% shrinks.

149 In the "Mexican miracle" a similar contrast: in theearly 1950's the richest 20% had ten times the income of the poorest 20%; in the mid 1960's the rich rich received 17 times the income of the bottomx.

In Mexico city the richest 20% lived on 62.5% of the area's income, while the poorest 20% attempted survival on 1.3% of the income.

In the Brazilian miracle the richest 5% increased their share of the national income from 27.8% to 36.8%.

151 The evidence of the 1960's is now in. It is an unhappy fact that the development track pursued by the global corporations in those years contributed more to the exacerbation of world poverty, world unemployment, and world inequality than to their solution.

The dismal xreality is that g c's and poor countries have different, indeed conflicting, interests, priorities, andx needs. This is a reality that many officials of u c's, lacking alternative development strategies, prefer not to face.

Interests: The primary interest of the g c is worldwide profit maximization. The interest of the u c is that its own needs be met out of its resources.

Priorities: thexx priority of the g c is theirp pxrimary allegiance to the stockholder. X As they say, they are neither charities nor welfare organizations.

Needs: they claim to meet the needs of the whole world; but it does not work out that way.

153 The x practice of g c's in Latin America is to finance 83% of their LAm investment locally either from reinvested savings or from local LAm savings. In Chile and thx Argentina 78% of U S based g c's operations were financed our of local capital.

In the manufacturing sector 38% of U S g subsidiaries operations were financed out of reinvested earnings and classified as foreign capital. They may be thought of as local savings, but they are not available to the urgent development needs of the country in which they wereearned

Between 1960 and 1970 U S g c's were reported taking 79% of their net earnings out of Latin Am. It is good business to take out of an unstaxble economy one's earnings, but it is xix conflict with the x real needs of the country.

Growth of g c's

442 The dualistic structure of the American economy discussed:
Robert T. Averitt, The Dual Economy: The Dynamics of American Industrial Structure, New York: Norton, 1968.
John Kenneth Galbraith, Economics and the Public PXurpose, Boston: Houghlin Mifflin, 1973.

230 Just as they did in the underdeveloped world, during the course of the last generation the top 500 corporations have dramatically increased their position of dominance in the American economy. In 1955, 44.5% of all Americans working in manufacturing and mining worked for the top 500 c's; by 1970, the figure had risen to 72%. In the same period the top 500 had increased their share of all manufacturing and mining assets in the country from $ 40% to 70%. The top 9 c's in the industrial and mining sectors accounted for 15% of total assets and sales in the country.

The rhythm of accelerated concentration is sustained by the perpetual process of merger. Between 1953 and 1968 there were over 14,000 mergers of manufacturing c's in the U S, in which the acquiring c's obtained $66 billion of new assets. The top 100 corporations accounted only 333 of these mergers, but in the process they acquired $23 billion of new assets, or roughly 35% of all merged assets during the period.

In the late 1960's the merger of industrial giants proceeded at an exponential rate. Alxmost 60% of the $23 billion of new assets were acquired in the last four years. In 1965 for example 1,496 domestic firms disappeared through merger.

231 Of all the mergers between 1950 and 1967 /231/ only 199 were challenged. Almost half of these were small firms of less that $1 million in sales. The gov't won 90 of these challenges, and in only 48 out of 14,000 mergers were the companies required to divest themselves of anything.

If in the service sector we focus on those that earn the most money (as opposed to those that employ the most people), namely, banks, insurance, other financial institutions, communications, and transport industries.

231 In the u c's the control of ideology through the mass media was as important a part of their power as their control of finance and technology. The same mutually suppoxrting use of these three elements of corporate power can be seen in the U S with some of the same effects.

The typical American spends $3\frac{1}{2}$ hours a day watching TV and $2\frac{1}{2}$ hours listening to radio. The inxdustry estimates that 87% of the population are exposed to TV and 90% to radio. Because the network's franchises, its most valuable property, cost next to nothing (a few million dollars in legal fees to obtain or obtain the 15 stations it is allowed to own and the 200 odd affiliate stations), profits are enormous. The networks have used these profits to finance their expansion into many unrelated areas. CBS owns Steinway piano, ; Holt ~~Rhm~~ Rinehart & Winston publishers; and formerly the N Y Yankees. ~~NBCxownsxRandomxHousex~~ RCA, NBC's parent, owns Random House, Hertz car rentals, and Cushman & Wakefield real estate.

232 As the editors of Look and Life discovered, they are increasingly replacing books and magazines as the primary source of news and entertainment. About 96% of the entertainment to which 87% of the population is exposed is produced by the three networks. About 75% of the country looks to the networks as its primary source of news.

~~Inx1968~~
It is estimated that each viexwer each year sees 40,000 commercials. In 1968 advertisers spend \$3 billion on television. Total advertising revenues in all media have jumped since 1945 from \$3 billion to \$20 billion. About 30% of the advertising business is handled by the ten largest agencies, which nearly doubled in size in the 1960's.

The average newspaper devotes 60% of its space to advertising. The marketing function of newspapers is more important to those that finance them than the communication function. So the simze of the market rather than the quality of the content is the crucial dterminant whether a newspaper will live or die. The bigger the readership, the more advertising revenue it commands. In rational economic terms most cities cannot afford more than one newspaper. Thus less than 15% of the cities (1500 odd) in the U S with a daily paper have more than one, and at least half of the dailies are owned by

chains. 75% of all newspaper news is supplied by the two wire services (Associated Press and United Press Internatinnal).
233 Nine of the ten top comapnies in the U S in terms of assets are global banks. Of 13,000 banks in the U S the top four -- the Bank of America, Chase Manhattan, the First National City Bank of N Y. and manufacturers Hanover Trust -- had in 1970 over 16% pf all bank assets. The top 50 had 48%. More important the top four had increased their rate of expansion dramatically. From 1965 to 1970 they were increasing their share of total bank assets at roughly twice the rate during the previous ten years. As in the control of technology and mass media, the concentration of power in the finance sector has proceeded at an exponential rate.

Banks have certain advantages over other corporations in their ability to use cross-subsidization. The most mobile of business enterprises they can change the focus of their activities from country to country as financial conditions change. The top U S banks that invaded London during the Eurodollar boom of the 1960's are now retrenching somewhat in the City and expanding their activities elsewhere. Similarly they are more flexible in dealing with regimes of all political views. As the world economy becomes more integrated, even the most militant communists, who also need hard currency, cannot afford to offend the international bankers.

The process by which banks have expanded their control of nonbanking sectors in the U S has involved three major strategies. First is the use of their enormous holdings of industrial stocks which they own or else manage for customers in trust accounts. In 1971 banks owned $577 billion in corporate securities in their own portfolios and had control of an additional $336 billion in trust funds. Together almost one trillion
234 In 1971 the trust departments of banks held 22% of all the outstanding voting shares publicly held by U S c's; for more than 80% of these shares the bank had "sole investment responsibility (they could at will buy and sell shares and vote the stock at shareholders meetings.

234 Economists generally agree, and managements are acutely aware, that a shareholder in control of 5% of a publicly held corporation cannot safely be ignored. Corporations seek to establish close contact with such shareholders (almost invariably large institutional investors). Corporate management regularly consults them on any major corpoate decision, such as a proposed merger, a new stock issue proposal, or any pending decision which may seriously affect the company's operations. Corporate managers listen to the bankers' answers since they have the power to sell off large blocks of stock and cause a decline in its value, thereby hurting the reputation of the managementand, perhaps more importantly, the value of its stock options. It is much easier to enlish the support of a 5% sharehlder than to recruit 5,000 small investors. Institutixonal investors dominate annual shareholders meetings on the relatively raxre occasions when fundamental issues of corporate policy are put to a vote.

The top 49 banks have a 5% or greater share in 147 industrials; in 17 of the top 50 transportation companies; 29 of the top 50 life insurance companies; 5 of thetop public utilities.

235 Further details on these imprtant relationsh8ips.

236 Public authorities do not have the regular access to the information on the interaction of xx crucial institutions necessary to understand the present U S economy and how it works.

237 The second strategy: interlocking directorates.

In 1914 Louis Brandeis branded the practcie of interlocking directorates as the root of all evxils since no man can serve two masters.

Adolphe Berle, perhaps the most influential analyst of the American corporation describes how interlocking directorates enhance thex power of banks: "As trustees these banks are large stockholders. As Suppliers of credit, they have the influence of lenders. With interlocking directorates, they potentially can influence the decision-making function of the operating corporate managers.

The third strategy: cross-subsidixzation.

In the last ten years the largest banks have systematically used their power over the banking sector to enter, and eventually to dominate unrelated fields such as insurance and equipment leasing

237 From the New x Deal to the mid sixties banks were effectively prohibited by law not only from dabbling in the stock market but also from venturing x into virtually any other new financial pastures. The Bnk Bank holding act of 1956 was designed to reaffirm control of banks, but it contained a rather obvious loophole that permitting nonbanking conporations to own both banks and non-related industries.

238 .. the one-bank holding company has been used tox establish the banking conglomerate in which a single corporation controls travel services, insurance, commercial paper, consumer credit, credit cards, leasing of inxdustrial equipment, data processing, and certain types of mutual funds.

The First National City Bank, which took the leading in founding a one-bank holding company, Citicorp, and the other banking giants that followed expanded their activities in this direction -- not only because of their passixon for growth but also because their foreign competitors were thinking and acting in this way (in France, Britain, and Germany).

The one-bank holding company permits banks to transcend legal and financial restrictions tjat pertain to banks and to cross geographical borders otherwise barred to them. The siz of the bankxing giants permits them to achieve certain economies of scalex with x which in effect pay for their expansion. E. g., went into data processing because they had unused time on their own compuxters. in 1969 new legislation was passed supposedly to close the loopholes that had enabled banks to escape much intended regulation; but as it finally emerged from Congress, the new law perfectly suited thex interesxts of the large commercial banks. While it helped prevent the takeover of banks by nonbanking conglomerates, it ratified the right of banks to expand into other closely related financial activities. Thus Americans hold over 56 million Bankamericards, owned by the Bank of America, or Marter Charge cards owned by Inter-Bank, a consortium of the Rodkerfeller-Morgan controlled New York banks. For the banks this is a way of selling 18% loans without taking up a bank officer's time. Leasing arrangements are now rexsponsible for what is probably the most rapid and significant growth in the power of banks over
239 nonbanking activities. Banks are consolidating their hold over

by fixnancing both thex seller and the buyer of the same equipment, the aircraft manufacturers and the airlines. Between 1971 and 1974 about $15 billion in sales have been financed through such arrangements. The leasing of equipment is thus one more device for accelerating the diversified growth of banks. "Tomorrow Citicorp will be bigger and in more places" the company promises.

239 GR rejectsx the Marxist view based on the prophecies of Hilferding and Lenin: banks dominate industry because industrialists and bankers are in conflict.

GR distinguishes between the nonregulated and the regulated sectors of industry.

In the nonregulated sector banks played a crucial role in supporting company management by facilitating its acqxuisition campaign. Senator Wright Patman's summary follows:

> One of the favorite pastimes of concentrated financial power is promoting concentration in nonfinancial industries. There is substantial evidence that the major commercial banks have been actively fueling the conglomerate movement. A 1971 congressional report, for example, found that major banks financed acquisitions, furnished key personnel to conglomerates, and were even willing to clean out stock from their trust departments to aid in takeokver bids. Thus Gult and Western, one of the most aggressive congloxmerates of the 1950's and 1960's (92 Acquisitions involving almost a billion dollars in eleven years) expanded hand in glove with Chase Manhattan. Friendly represeantatives of Chase made funds available and provided advice and services that ~~xxxxxx~~ assisted Gulf and Western in its acquisitions, In return, in addition to the customary business charges for Gulf and Westerns accounts and loans, Chase secured banking business generated by the newly developing conglomerate that formerly had goxne to other banks, and was recipient of advance information on proposed future acquisition.

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Indeed, the acceleratixxng increase in the power of banks is a direct result of the feverish pace of global corporate expansion. Banks have grown in large measure in he last ten years because the dynamic inxdustries have high cash-flow requirements. Following their clients overseas, the largest banks have formed consortia to cap their control of the Eurodollar market.

241 ... outside financing for U S based global corporations

has now become most crucial as the need for additional capital to keep pace with Japanese and European competitors becomes more acute. German and Japanese banks directly conxtrol major industries in their countries. Oligopolistic competition may well encourage similar developments in the U S.

241 The bank is as interested as the corporation's own management in promoting corporate policies that will produce growth os that its holdings will appreciate and its loans will be repaid.

When we turn to the regulated sector of the U S economy a different picture emerges... These industries -- power companies, airlines, radio and television, railxroads, telephone companies -- represent essential services of the society, the social structure on which all other economic growth depends. The one characteristic of these companies is that they all heavily subsidized by government. They cannot be permitted to go out of service however great their financial losses.

The power of banks over the transportation sector and how that pxower is used has recently been illustrated by the Penn Central debacle. The Patman subcommittee notes that "a number of financial institutions played a major and perhaps dominant role in the management of the Penn central and its predecessors."

... It is characteristic of regulated industries that they incxur much greater debt than other firms dare incur. The reason that they are such good customers for banks is that they are
243 // stable. Their // growth rates are steady andp predictable, their stocks have high yields, and they cannot be permitted to go out of business. It is the near-certain prospect of government rescue that makes low-risK social structure investment attractive for banks. ...even bankruptcy does not mean the end of a railroad, airline, or major military contractor or a default on its loans. If necessary the Federal government will keep it in operation and eventually satisfy its customers.

The arrangment.. might be termed bankers' socialism. A good illustratinn of how it works is seen in the case of the 1971 Lockheed loan. In 1969 Lockheed, then a number one defense contractor, xxx borrowed $400 million from a consortium of 24 banks. In 1970, while working on the L-1011 Airbus, the company ran into such serious financial difficulty that bankrupcy seemed imminent. Sixx representatives of the major banks that had lent the $400 million met in March of that year with the Deputy Secretary of Defense David Packard to negotiate their rescue. The eesult was $250 million loan guarantee, which the Nixon administration propposed and the Congress narrowly passed in August 1971, by which the ~~Nixxxxxxxxxxxxxxxxxx~~ U S taxpayer relieved the rescuing banks of all risk. Despite its inefficiency and mismanagmement Lockheed was subsidized by the U S taxpayer because of its size...24000 jobs, $2,500 million in outstanding contracts, $240 million advanced by airlines. (It was argued that the collapse of Lockheed would lead to the collapse of TWA). A number of the same banksx that had loaned so much money to Lockheed had also loaned money to major airlines threatened by a Lockheed bankrupcy.

If we turn our attention to the public utilities, we see the same combination of huge external debt owed to banks and the heavy represenxxtation of bankers on the board of directors that we ~~xxx~~ saw in the Penn Central case. Consolidated Edison of New Yorkk, the pxower company that services the New York x
244 // area, operates // under a board of directors of some of the the country'sx largest banks and insurance companies. Sixx of the ten largest shareholders are commerxcial banks. (Indeed according to Senator Lee Metcalf's investigations, x Chase Manhattan is among the top ten holders of 42 utilities, Morgan Guaranty Trust of 41 utilities, Hanover Trust of 31 utilities

More than 50$% of the xtotal capitalization of Con Ed of N Y is in long-term debt financing. Because it is a regulated monopoly it need fear no competition, Its custoxmers have nowhere else to go... Con Ed reduced the amoxunt spent on plant additions when expansion of service was clearly needed but increased its payments to the holders of its long-term debt by about 9% a year (By 1969 93% of its annual income was paid to banks and other holders of stocks and bonds).

241 According to "Edward S. Herman, profxessor of finance at the Wharton School,... 'What impresses me most in examining intercorporate relationships is not centralized control, banker or otherwise, but the network of affiliations and contacts and the mutually x supportive character of so much of the business system... One can deduce that activities carried out by substantial business firms, no matter how odious, will not be subject to open criticism by important men who are part of the corporate-banking network.

244 There is strong evidencein the case of Con Ed as in the case of the Penn Central, that putting bankers in charge of public utilities is no way to run either a power company ~~af~~ or a railroad.

246 Ever greater concentration of economic powxer through cross-subsidization across sectors and geographical frontiers is now a crucial dynamic of the world political economy. The acceleration of this process by which a small number of large economic units emplxoy their advantages to acquire ever greater market shares appears inescapable as long as corporate executxives and government management think as they do now. One reason why concentration is proceeding at an exponentialx rate is the rapid erosion of ~~xx~~ sources of national power that might have been expected to restrain this ~~x~~ expansionary process.

247 The answer is structural weaxkness in major institutions of our national life... The U S is ~~beginning~~ looking more and more like an underdeveloped country.

249 .. a list of some of the major corporate contributors to the Nixon campaign.

250 From the start regulatory agencies have been dominated by the industries they were supposed to reguxlate.

ICC FCC FPC

251 Bankers are even better represented in government than utility lawyers.

252 Although the blurring of private and public interexsts is an old story, a new dimension must now be added. Even if the U S government were run by a thousand Wright Patmans, it would still lack the power to control effectively the activities of global corporations.... The reason for this is that our public legal and political instixtutions have not kept pace with the extraordinary changes in the private producxtive system.

253 .. the ~~x~~ business-government interlock has been so strong that controlling the misuse of corporate power has been something less than an obsession.x The dominant rolxe of big business in both political parties, the financial holdings of certain key members of Congress, the ownership of the mass media, the industry-government shuttle in the regulatory agencies, and, most important, the ideology prevailing throughout the society of salvation through profits and growth all help to expalin why the government of the world's mightiest nation musters so little power to protect the interests of its ~~xxx~~ people.

10. The Global Corporation and the Public Interest: The Managerial Dilemma of the Nation State.

254 .. by the late 1960's the U S was experiencing "infxlationary recession,, campus disorders.. frequent power shortages, creaky and bankrupt railroads, erratic mails"-- all familiar landscape in underdeveloped countries, but disquieting to behold in the world's leading expoxrter of managerial know-how.

255 The Senate Finance Committee report on g c's:
"The coordination of MNCE operations requires planning and systematization of control of a high order. In the largest and most sophxisticated MNC's, planning and subsequent monitoring of plan fulfillment have reached a scope and a level of detail that, ironically, resemble x more than superficaillxy the national planning procedures of Commxmunist countries."

The essential strategy of the managerial revolution in industry us... cross-subsidixzation -- i e the use of power and resources developed in one "profit center" to start or to expand another. The cross-subsidization strategy is used within the U S by electronics firms to conquer the bread market and by banks
256 // to become buyers and leasers of aircraft. When the // system becomes global, the parent company can shift profits through transfer pricing, "profit-loan swaps," and other accounting miracles on a worldwide scale , cross-subsidizing its various operations with the profits of others. Centralized planning for a centralized system of pmxx profit maximization leads inevitably to economic concentration, because only by x expanding or at leasy maintaining its share of the market can an oligopolistic firm hope to compete successfully with thex other giants. Where a small number of such firms pursue similar strategies for growth by extending their control more and more into new industries, new products, and new geographic regions, the result is what Robert Averxitt has termed a "dual economy."... The "center" economy, comprising a few hundred firms, controls over 60% of thex productive and financial resources of the country and employs thex bulk of organized labor. The "periphery" economy is made xf up of thousands of smaller firms dependent on the giants for their survival, and whose workers do not normally belong to unions. Averitt has verified empirically what Galbraith and others have noted about the unequal division xf in the U S

thousands of
economy between vulnerable smaller entrepreneurs and a few unsinkable giants.

256 Large corporations plan centrally and act globaklly, and nation states do not. It is this difference that puts governmmment at a disadvantage in trying to keep up with thx and control the activities of g c's.... The ease with x which g c's can conceal or distort information vital for the management of the economy is crxeating the same sort of administrative nightmare that underdeveloped countries have lived with for years.

257 Milton Friedman.. compares the managers of the public sector to the circus clown who instead of bringing the stool to the piano brakes his back pushing the piano to the stool. The parable xmakes the point that governments distort their own domestic economies in order to solve their ix balance-of-payments problems. In recent years the U S has tried with some success to solve its balance-of-payment problems by pushing agricultural exports. The effect, of course, was to drive up the price of bread and meat at the supermarket and thus to cut the purchasing power of Americans.

258 .. the speed-up of the globalization process around 1966 has made the x Amierican economy dependent upon economic activity outxside the U S to an unprecedented degree. U S corporations became increasingly dependent upon overseas plat "export platforms" for producing consumer goods for the U S market. The glabal dramatic rise in consumption in other advanced industrial countries was creating global demand in excess of finite supplies of natural resources. An ever greater percentage of U S global corporations was being inxtegrated into a glxobal intracorporate system replacing the traditional concept of an independent market. Overnight xxx transfers of high cash reserves from one country to another by global banks and corporations and the use of unregulated international money markets were making it extremely difficult for the U S and other advanced nations to control their domestic money suppply. At a turning-point somewhere between 1965 and 1968 the interrelated process of concentration and globalization was accelerating fast enough to change the behaviorx of our domestic economy.

259 In 1965 foreign dollar deposits (for the nine New York banks which control more than 50% of all offshore dollars) at their overseas branches well less than 30%x of their domestic holds but by 1972 this figurex had advanced to 66%.

259 More than 20% of all corporate profits is derived from abroad.

260 In 1957, U S companies were investing about 9 cents for new plant and equipment overseas for every dollar invested at home. Again in the mid-1960's there was an abrupt upward shift, so that by 1971 they were placing 25 cents abroad for every dollar of new investment for plant and equipment in the domestic economy.

261 When so many/Indicators/different/register register changes in the same period, it strongly suggests that something important has happened.

.. since the mid-1960's in particular, the late-model government machinery in Washington has lagged far behind the new economic realities. In large part government is losing the relatively little power it has had to regulate with reasonable effectiveness because it does not know what it is regulating. What once were laws in such areas as tax, banking, securities, and controls now are looked upon in the sophisticated corporate world as little more than shoals to be avoided by careful steering.

262 Since Woodrow Wilson's New Freedom... banking laws have been designed to protect U S borrowers from unsound banks. But it is possible for global banks to avoid many of these provisions by lending to U S global corporations from the estimated $100 billion Eurodollar pool. The Federal Reserve Board does not know now many Eurodollars there are, who holds them, or when or how they might enter the U S economy. It lacks an adequaxte administrative staff even to raise such questixons.

.. so too the SEC is crippled in making a determination about the financial reliability of the operations of U S corporations outside the U S.

.. the IRS is also easily confounded by the skilled use of exotica and complexity in intracorporate dealings, A company such as Sears Roebuck can make worldwide investments by means of its own offshore bank. The interest payment is a cost item rather than a xprofit item as a dividend would be. Hence the company can take a deducation for what otherwise would be taxable income.x

Regulatory agencies lack not only the buxdgets and staff necessary to police corporations adequately, but, perhaps more important, lack the time and perspective to understand the real nature of their problems. There is a general failure to grasp

//263// the fact that the changes which are occurring in the world economy are truly systemic. Hence inadequate analysis and patchwork policies. A symptom of this difficuxlty is the weekly crisis. One week there is an energy crisis. Two ~~mt~~ weeks later someone discovers an employment crisis.

The institutional lag that cripples governments in their efforts to prevent MNC's from circumventing the spirit of tax, security and banking laws is due in no small measure to the technological breakthroughs in the accounting industry. The space-age alchemists have discovered the incantations that turn banks into nonbanks, dividends into interest, and profits into losses. R and D in tax avoidance conducted in programs of international business at institutions of higher learning such as N Y university and Columbia is at least five years ahead of government research on loophole closing.

Skilled obfuscation is now an essential accounting tool. The challenge is to create a tidy world for investors, regulatory agencies, and tax collectors to scrutinize, which may have little or no resemblance to what an old-fashioned bookkeeper might have called the real world. Indeed it is often desirable to create a different world for each.

When the 1960's investors dexcided that growthx potential rather than dividends was what made a stock worth buying, the alchemixsts were ~~xxxxx~~ able to supply instant earnings by switching deprexciation schedules, inventory calculations, and the timing and characterization of foreign remittances. Thus the Senate Finance committee notes: "In many cases profits,
264 // interest, and cash //264// remittances of other types from affiliates to parents were stepped up well past 'normal' rates in order to dress up the parents' annual reports at year-end in 1970"

Leonard Spacek, former chairman of Arthur Andersen & Co. thinks that the magic words "generally accepted accounting principles" on corporate financial statements are a "fiction."

David Norr of the American Institute of Certified Public Accountants agrees. "Accounting today perxmits a shaping of results to obtain a desired end. Accounting as a ~~mx~~ mirror of activity is dead."

Accountants are hired miracle workers. If there was not a market for financial alchemy in the corporate world, accountants would still be trying to mirror economic history instead of rewriting it.

The head of a major drug company has a maxim that captures the new attitude of the executive suite: "One good accountant is worth a thousand salesmen."

.. honesty is an expensive policy. Warren Avis the rent-a-car entrepreneur.. states flatly that in today's business world "it is unprofitable to be honest."

265 The price of a seat on the i e at present writing
Chicago Mercantile Exchange in 1960, $3000, in 1972-4, $115,000
New York Stock Exchange in 1960, $500,000, in 1972-74, $92,000

266 For those charged with managing the U S economy, both the domestic concentration of power and globalization of the U S greatest corporations have created an information gap of two different sorts: 1) missing information; 2) distorted information

267 As a recent Rand corporation study concluded, because of the widespead use of transfer pricing and the importance of intra-corporate transactions in the U S economy, Department of Commerce balance-of-oayments statistics on foreign trade and foreign-earned income are "totally unreliable."

The significant decline in cost of processing a unit of information... will mean an increase in both numbers and size of national and multinational corporations. Thus access to information is becoming ever more crucial to the management of both the large corporation and the modern industrial state.

The (economic) theory on which governmental policy-making is based assumes that the market fulfills certain crucial public functions... These include allocation and distribution of resouces,
268 the setting of social priorities, and the development of needed goods and services.

Until the 1960's... the Keynsian tools worked rather well...

But then something happened. By the mid-1960's the economy was responding less and less to Keynsian policies in the predicted way. When the Federal Government offered tax credits and other incentives to increase investment and hence employment and the supply of goods, output did not increase at the anticipated rate. Similarly when the Fed Res Board raised interest rates or tried to curtail money supply, which theoretically would cut demand and reduce the inflation rate, the aniticipated did not happen. The reason was that market "imperfections", instead of being occasional and correctable,.. were becoming stubborn and systemic.

269 Oligopolists can x frustrate government attempts to crxeate moxre jobs by stimulating demand because, instead of producing more as the gov hopes, they can keep their output constant and take advantage of the increase x inx demand to raise their prices. On the other hand when the managers of the economy wish to reduce inflationary pressures through tight money policies, oligopolists can ignore these policies too by passing on to the consumer the increased costs of raising capital. There is mounting evidence that this is exactly xhxx how the oligopolies that dominate industry and banking are behaving... The consumer pays the modern oligopoly firms what economists call an "admin-
270 // istered price" because he // has no place else to go for xhxx the products that have come to be regarded as necessities of modernx xix civilization.

The concentratxed power of a few hundred industrial and banking giants has undercut the effectiveness of the principal tools of Keynsian monetary and fiscal policy. The British economist Thomas Balogh puts it this way:
e
"The so-called Keynsian synthesis which for a time swept the academic board was soon accomplished by Keynxxxes('s liberal disciples. With but marginal modifications that neo-classical xxhxxix theory of social harmony and income distribution was reconnected to the newly erected macroeconomic edifice, in which the autonomy of the market economy, with its assurance of full employment and optimal resource allocation, was simply replaced by the twin deus exmm machina of the Treasury and the Central Bank.

"At the xprecise time when markets were being dominated increasingly by national and international oligopoly power, theoretical orthodoxy ensured that the very problem to which this would give rise would be ignored or dismissed."

Take monetary policy. The Keynesian model axssumed that demand could be effectively controlled through adjustment of thexx interest rate... But the pattern of oligopolistic competition for ever-greater shaxxres of the market and its accompanying grow-or-die ideology now mean that the corporation will continue to borrow regardless of the cost of credit simply because of their power to "pass on" thexcostxto their cost increases to consumers who have no alternative.

271 George Budzeika of N Y Fed Res Banxk:

"On the whole New York City Bank behavior in the past two decades has shown that it is very difxficult to control large banks whenever demand for credit is heavy. The growth and profits of these banks -- their very viability -- depend on their ability to satisfy the credit demands of their custoxmers.
272 // These banks therefore // are strongly motivated to find loopholes in control measures and to press credit expansion to ~~xxxxxxxx~~ a greater extent than may be deemed advisable by monetary authorities."

The ability of large banks to insulate themselves through internatixonal dealings and other techniques from the intended effects of tight money policies means, Budzeika contends, that "the only way to restrain [them] efficiently is to reduce the overall liquidity of the banking system." But that is a drastic remedy with serious side effects.

Fiscal policy is the other Keynesian managerial remedy.

In the last generation almost 80% of total Federal revenues have gone to purchase national security: the military and space
273 budgets, atomic energy, veterans' payments, interest on old war debts, etc. Since the sellers of national security turn out to be the leading electronics, energy, tranxsportation, and metals industries -- all oligopolies -- the effect of govt spending is to accelerate the process of concentration that has made the U S a dual economy. The benefits of ovt spending go overwhelmingly to the "center" industries, and the result is a playing out of what Stephen Hymer calls a "law of uneven develooment." Pentagon checks do not go to Appalachia or other depressed ~~xx~~ areas where wages are low and jobs are scarce. As a general rule they go, as Professor Barry Bluestone has testixfied before the Joint Economic Committee, to the industries with the highest profits, the highest wages, and the least unemployment. Thus the result is "excess demand" in the very sectors of the economy that can most easily pass on increased costs to the consumer (ultiamtely the taxpayer) and inadequate demand in the rest of the economy: another visious circle the uneven impacts of economic policy ~~xxxxxxxxxxxxxxxxx~~ produce unintended effects and further intensify the process of dualism in the U S economy.

273 The principal tool of Keynesian fiscal policy is the tax law. It isx implicitly assumed that managers of thex economy are relatively free to raise or lower taxes at will and that if rates are progressive, changes in the tax law will have a reasonable equal impact on people all across the society, rich and poor alike. In the Keynesian state, concerned politicians are expected to mxodest relocations of income by using the taxes of the rich for welfare payments to the poor. They are not expected however to shift the burden of running the government from the rich to the middle class. If thathappens something is wrong.

There is abundant evidence that this is precisely what has happened. Corporate income as a percentage of total income earned in the U S has remained relatively constant in the last five years. But the corprations in these same years have x been paying a significantly reduced share of xtotal taxes. In the year 1958 the annual corporate tax contribution (not including social security contributions) was 25.2% of federal revenues. By 1973 it had declined to less than 15%x. In these years federal
274 // expenditure has not gone down. Instead, the slack // in corporate tax revenues has been picked up by individual tax payers. Income is being reallocated by the tax system in such a way as to subsidize corporations at the expense of other tax payers.

Congressman Vanik has documented the extent of corporate welfarism under our tax laws... In 1969 the top 100 gixxants paid at the rate of 26.9%, but all corporations below the top 100 paid at the average rateof 44%.

Out of 17 oil companies studied... 10 paid less than 10% in 1969 and 7 paid less than 10% in 1970.

The timber industry giants pay effective rates of 10 to20%

U S Steel paid an effective rate of 2.1% on a quarter billion dollar income in 1969.

The well-publicized tax subsidies tothe petroleum industry include the percentage depletion allowance, fast write-offs for intangible drilling and development x cosxts, and the Foreign Tax Credit.

.. the timber industry capital-gains tax subsidy... was designed to encourage investment in reforestation, but Vanik points out that there are over 52 million acres ofprivate forest land in needx of reforestation. The timber companies it appears have not been spending their considerable tax savings (in 1965 more than $140 million) on planting more trees.

The oil shortage and the paper scarcity symbolize the dimensions of the managerial crisis. The last generation of
275 // the U S economy // has been marked by a galloping dependence upon fossil fuets and paper pachaging. Industry planning has been devoted to removing any inhibitions we may have against the extravagant depletion of our national resources. In 1960... the petroleum industry launched what Charles J Guzzo, senior vice-president of Gulf, called the greatest sales attack of all time to increase demand.

Thirteen years later, gasoline is in short supply and the critical shortage reverberates through the whole economy. What happened? The market failed to do its job of resource allocation because of an inherent failure... Here is one case where the concentration of corporation and political influence has negated the social function of the market as resource allocator.

If we return to the matter of taxes we shall see another. Were the invisible hand attached to a rational brain, we would not see corporate taxes going down during the same period in which corporate pollution of the environment is going up... Taxes are supposed to pay the social costs of production... but the negation of the market through concentration, transfer pricing, and other accounting miracles means that governments
276 // are // increasingly powerless to recover the social costs of production through taxes.

277 The widespread use of transfer pricing... is designed ... to create what amounts to a private economy. Prices are set according to the requirements of global profit maximization; they are thus insulated to varying degrees from real market pressures. "Prices in an economic sense," one former Treasury official told us, "do not exist. The price charged is simply a matter of relative power." Just as concentration effectively negates the operation of the domestic market, so too transfer pricing distorts the interaction of the international market and the domestic market. When larged percentages of total exports are underpriced and imports are overpriced because the central planners in headquarters wish to shift income out of the U S, the prices of course represent misleading signals. Another possibility is to transfer income into the U S by the reverse procedure. These transactions can be disguised through the use of offshore tax havens.

278 When U S firms undervalue exports, the American ecoxnomy must x give up more in resources than it gets back in foreign exchange; this means aggravation of the balance-of-payments problem.

279 But a principxal use in the global enterprise is tax-minization. Here the use of accountants to stage-manage the multipxle layers of reality is particuxlarly effective in keeping the tax collector confused. Some firms... employ five different sets of books in their foreign subsidiaries. Set one is to keep
280 track of costs of production; set two is for the local tax collector; set three is for the IRS; set four is for worldwide accounting purposes; set five for currency transactions.

281-83 Tax havens

284 Between 1964-68, U S corporations built up large deposits in their x branch operations in Europe. (These offshore deposits are known as Eurodollars. Most are in Europe, but the term applies equally... to any accumulation of a readily convertible money anywhere but in the country of its origin).

286 Global corporations control between $160 and $268 billion in liquid assets. This is anywhere from one and a half to two times the total world reserves in the hands of governments.

The Eurodollar market, now a prime instrument for the moxney movement of global corporations and banks, has become a central x bankers nightmare. This "xhuge creation of private international liquidity... is the instruemnt that permits the rapid shifting of funds. In professor Houthakker's view the Eurodollar market "almost certainly contributes powerfully to the inflationary pressures that no nation has succeeded in keeping under control." Because the Eurodollar market is relatively unpoxliced and regularly violates the first principle
287 of conservative banking -- never borrow short to lend long -- it is courting a liquidity crisis not equalled since the Great War. Sudden withdrawals byxx major depositors... or significant defaults in a world business decline could cause a global panic.

Thus the integration of the world economy, notwithstanding its benefits, has further undermined the use of monetary policy for controlling inflation. "We have learned," the editors of Fortune noted in the beginning of 1974, "that the more a country becomes part of a worldwide market, the more it loses control over events."

11. The Obsolescence of American Labor

307 Relocating production in Mexico, Taiwan, Brazil, or the Philippines is anx irresistible way to cut costs. In the office machinery field, a company must pay its U S workers about tenx times what it pays its workers in Taiwan or Korea and about six times what it pays in Mexico. In the last fexw years more than 50,000 jobs have been created along the Mexican border,
308 and exports from the area back to the United STates climbed from $7 million in 1966 to $350 million in 1972. During the latter year imports from Taiwan to the U S market amounted to 1.3 billion dollars.

Corporate organization on a global scale is a highly effective weapon for undercutting the power of organized labor everywhere. Capital, technology, and market-place ideology, the bases of orporate ppwer, are mobile; workers by and large are not. The ~~ability of invertment from one country to another erodes the~~ ability of corporations to open and close plants rapidly and to shift their investment from one place to another erodes the basis of organized labor's bargaining leverage, the strike.
309 Management finds that its power to close an entire operation in a community and to transfer everything but the workers out of the country produces a marvellously obliging labor force. The threat, rexal or imagined, of retaliatory plant closings has caused unions to moderate their demands and in a number of cases to give no strixke pledges. There have been enough cases in which g c's have used their superiod mobility to defeat unions to make the threat credible. Dunlop pirelli, to give one example, closed its Milan-area plant and moved it across the Swiss border, where it proceeded to xixx rehire Italian workers as low wage migrant labor.

Other devices. A layoff, dictated by global considerations by headquarters. "Multiple sourcing: the same component produced at each of several plants; pracxtised by Chrysler, British Leyland, Goodyear, Michelin, Volkswagen, et al. When Ford in Britain was faced with a strike at a plant in England that was its sole source for a crucial component, the company reclaimed the die used in the manufacture from the struck plant and it flown within five days to a German plant. Cf. 310-12.