Multinational Corporations (MNC's) See Outline p. 102 f.

A Report

Knowledge of the MNC's requires research and consequently the present report has to be derivative. I depend mainly on GR for information, FF and FB for confirmation, and Latin American Liberation Theology for massive evidence of discontent.

GR Global Reach: The Power of the Multinational Corporations, by R. J. Barnet and R. E. Müller (New York: Simon and Schuster, 1974)

FF Food First: Beyond the Myth of Scarcity, by Frances Moore Lappé and Joseph Collins with Cary Fowler (Boston: Houghton Mifflin, 1977).

FB The Famine Business, by Colin Tudge (London: Faber & Faber, 1977).

GR is the result of a research project. Besides the two authors a page of acknowledgements mentions four for their original and dedicated work in preparation of the research and a long list of others who made various contributions.

FF is a thesis denying the existence of any country that could not grow all the food it needs, and attributing the famine that does exist in many countries to the distortion of their economies by domestic and foreign powers.

FB looks to the future. What are the foods whose cost in energy and nutritional value are to be chosen for world survival.

Barnet and Müller prefer to speak not of multinational corporations (MNC's) but of global corporations (GC's) and so of the global factory, the global shopping-center, and global banks, global markets, global ....

GC's are neither an American invention nor an American phenomenon. Among the earliest were Unilever (British-Dutch) and Shell (British). Non U S corporations already (1974) own more than 700 major manufacturing enterprises in the U S. While the U S GC's still have a commanding lead, still those of Western Europe and Japan have expanded into traditional U S economic preserves (eg Brazil), and the U S share of the global market is declining. Eg in world production of motor-cars in 1958 the U S share was 69.8% but in 1968 only 37.9%; in world production of TV sets in 1953 the US share was 75%, in 1973 only 24%. (GR p. 27).

By the global factory is meant the combination of widely dispersed facilities in the production of single ultimate products: so Massey-Ferguson assembles French made transmissions, Mexican made axles, British made engines, in a Detroit factory for the Canadian market. (27f).

Finance capital has been internationalized. GC's can borrow money almost anywhere in the world: their credit is reliable and the credit of local business is usually inferior.

In the 1960's the Eurodollar market was developed by dollar deposits in branches of American banks in Europe. It was the first transnational money market, estimated at $100 billion, and one of the most important innovations of modern capitalism. Since then the term, Eurodollar, has come to mean deposits of any easily negotiable currency in a bank outside the country of origin of the currency. Typical of the international bank consortium is the Orion Bank organized by Chase Manhattan, National Westminster (UK), the Royal Bank of Canada, Westdeutsche Landesbank Girozentral, Credito Italiano, and Nikko securities.

U S banks have enormously increased their foreign operations: the First New York City Bank was the first to earn $200 million in a year, and of that sum $109 million came from foreign operations. The Dow Bank is the sixth largest in Switzerland. (GR 28).

A 1973 U S Senate Finance committee reported:

"It is beyond dispute that the persons and institutions operating in these markets have the resources with which to generate international money crises of the sort that have plagued 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 the world...."

Through increasing use of <u>centralized computerized cash-management systems</u>, GC's 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 a currency is likely to weaken.

Because of their size and power they are able to attract local finance capital, particularly from poor countries, where they preempt scarce local funds which might have been available to finance locally controlled projects.

The global payroll has produced dramatic changes in labor markets. The essential strategy of the GC's is based on the international division of labor. Top management comes from rich countries; workers increasingly come from law-wage areas.

While automation continues to reduce the amount of labor relative to capital use, wage differentials are becoming more crucial in maintaining competitive margins between GC's. 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. Timex and Bulova make an increasing share of their watches in Taiwan where with RCA, Admiral, Zenith and a large number of other GC's they share a union-free labor-pool. Kodak imports its top seller, the "Instamatic," from Germany. Similarly European countries are moving to Southeast Asia: Rollei has seen that wages make 60% of the cost of a modern complex camera and that wages in Germany are six times those in Singapore..."(GR 29).

Advertising. According to the Harvard Business Review companies must understand that cultural anthropology will be an important tool of competitive marketing. The corporate manager can taylor his product and sales pitch to influence and direct the "world revolution in expectations," only when he is aware of the similarities and differences in the hopes, fears, and desires of human beings in different parts of the world. (GR 30).

... GC's are agents of change socially, culturally, and economically

... looking forward to advertizing on a communications satellite system.

Retail old needs to new customers and new needs to old customers. eg automobiles in South America.

Oligopolistic competition. It is not a matter of selling the same product for less money: that would ruin the club and is considered antisocial. So too the introducrion of radically new technology is unsporting. (GR 32).

Cost cutting is the main basis of competition: through automation; the removal of factories to low-wage areas; more attractive and convenient packaging; and more arresting advertising.

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

Time advertises the common features of its 24 million readers throughout the world. (GR 33).

Corporate expansion. This is the essential strategy for maintaining or increasing shares of the market. The alternatives for the management of a global oligopoly (GO) are 1) maintaining or better wresting an ever-larger share of the market from other club members, or 2) facing from the stock market a vote of no confidence.

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 gas supplies. The top 3 auto makers in the U S have captured well over 50% of the world auto market.

In the U S Ford, General Motors, National Biscuit, DuPont, Dow, Bayer enjoy an oligopolistic position; each makes literally hundreds of products which only a few other giants can match.

In the underdeveloped countries (UDC's) the oligopolistic position is even more dramatic. Eg in Chile in the later 1960's 22 global firms controlled over 50% of seven crucial industries and all but 3 were oligopolies or monopolies.

In business as in government bureaucracy, invention is the mother of necessity. The global shopping center, the global money market, the global factory were inevitable once the technologies were invented (centralized computerized cash-management systems, world telephone communications, jet travel, TV advertising, growth by merger and cross-subsidization, etc.). GR 34

Further illustrations, GR 35.

The political power of the GC's largely results from their ability to generate a valuable flow of information on a world wide 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 and whether they will devalue the local currency. He claims to have predicted key currency decisions in 69 out of 75 monetary crises.

Global programming rests on the advanced computer that can handle enormous quantities of information.

Maximum profitability results from techniques that exploit the global market and the tax havens available. GR 36.

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

The chain store overcame the corner grocery store because it was bigger; it had to persuade people that it was not merely more convenient but also an advance in civilization. The struggle for political legitimacy is the most important task that faces the global corporation and the development of a compelling ideology its most important product. GR 37.

Bigness. At the end of the 1960's U S based companies controlled 2/3 of the photographic film paper, farm-machinery, and telecommunications industries in France. In Europe as a whole U S based firms produced 80% of the computers, 95% of the integrated circuits, 50% of the semiconductors, 15% of consumer electronic products. Though they controlled less than 5% of Europe's business as a whole, they were on their way to controlling the most advanced and dynamic sectors of European economies, leaving utilities, restaurants, and laudries to the natives.

The European governments launched a counter-attack. In England the Industrial Reorganization Corporation fostered mergers in more than twenty industries. Similarly in France, Germany, Italy and Austria. The partnership of government and business in Japan is so intertwined that only a sophisticated legal mind can separate them. Commonly they are referred to as Japan, Inc. GR 39.

U S business is now asking Washington for support to counterbalance the support other countries give their giants. The result may be a trade-off: the rest of the world imports the GC and the U S imports the corporate state. GR 40.

Centralization. Each part of the GC does what it does best and cheapest. Each contributes that part to the GE (global enterprise) that top management determines to be most rational.

Eg for General Electric to ship components to Singapore where they can be assembled by wages of 30 cents an hour rather then in the Ashland plant where wages are $3.40 an hour. Between 1957 and 1967 G E built 61 plants overseas. In a number of cases the move followed on strikes or other labor difficulties; such troubles the authorities in Singapore and Hong Kong arrange to avoid for their corporate guests.

ITT has a world payroll of 425,000 employees in 70 countries. A Fortune portrait of the company noted that Gineen eliminated much of the autonomy of ITT's operating managers and replaced it with a control system tautly run from New York headquarters. At one time the company had been described as a kind of holding company in which managers were instructed to ignore N Y orders and just send the money back home. GR 41.

The degree of centralization varies but advanced industrial operations (automobiles, computers) scan the planet for the cheapest sources of raw materials and of labor, are highly centralized. REnault makes various components in Rumania, Spain, Argentina; central headquarters has to determine what is to be produced, when, where, how much and whither it is to be shipped for assembly.

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

The science of centralization is largely the sophisticated control of communications. Hymer: "At the bottom of the pyramid communications are broken horizontally so there is no direct interaction between operations centers -- what communication there is must pass through higher power centers." IBM has demonstrated a system that enables GC's to monitor on a 24-hour-a-day basis such global activities as sales, purchases, cash flow, credit lines, inventories, etc. Information flows to headquarters then it is relayed to managers around the world. The higher the manager's rank, the more he sees of the big picture. GR 42.

Despite talk by public relations executives about decentralization, in fact only certain kinds of decisions are ever decentralized. In general, moves are being made to decentralize operations within plants, while the global control of individual plants by the world headquarters is being centralized. GR 43.

The supreme political issue of our time: is it really rational to attempt to organize the planet through centralizing technologies into ever larger pyramidal structures? GR 44.

GR ch 6: The Global Corporations and the Underdeveloped World

Comparative Tables

1. Increasing U S dependence on imports of strategic materials.
2. Competition with other advanced nations for the natural resources of the UDC's.
3. Increasing dependence on imported energy sources: in the U S; in other advanced nations.
4. Differential hourly wage rates in selected industries: UDC's vs. U S.
5. Estimated unemployment levels in selected Latin American and Asian Nations.
6. Increase in manufactured exports from UDC's. GR 126-28.

Such tables alone do not explain the expansion of the GC's. Students of the new science of marketing research in business schools began to seek a theoretical explanation of how oligopolies gain 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 Product Life Cycle. Its four phases may be illustrated by recounting in simplified form the story of the U S television industry. GR 129.

The development of the invention of TV was over by the end of the 1920's, but R & D for mass production and mass marketing cost millions. 100% of all sets were manufactured in the U S in 1948 but profits were low because R & D are expensive and peak demand for an unfamiliar product was not yet reached.

By the mid 1950's the <u>first phase</u> was drawing to a close. Mass production and marketing techniques had been perfected, profits were high. But the pioneers' patents began to expire, their marketing techniques became known, new entrepreneurs entered the market at a fraction of the original cost. Oligopoly profits declined and cost-cutting latecomers' profits were high.

<u>Phase two</u> began with the development of the export market principally in Europe. The pioneers took their production, marketing, and managerial knowledge with them to Europe at little additional cost, increased their share of the whole market while their share in the U S market was declining, enjoyed relatively higher profits and so were able to invest in advertising and market manipulation (the crucial investments for staying on top). Meanwhile the latecomers lacked the specific knowledge and contacts needed to sell TV sets to Germans Italians Frenchmen.

<u>Phase three</u> began when the latecomers began exporting to Europe and the Europeans set up their own production of TV's. The pioneers set up their own plants in Europe thereby saving the costs of transportation and winning the favorable treatment from governments enriched by production within their own frontiers. Investment overseas accelerated at a dramatic rate and overseas profits became crucial to the worldwide profit picture. Conflicts became sharper as U S companies were buying up their European competitors. Some of them closed their U S plants and used European plants to export to other countries. U S unions reacted strongly but the pioneers had recaptured a larger share of the world market and their profits were higher.

<u>Phase four</u> in the mid 1960's the Japanese entered the market. With their low consumption level and wage level and the licences they had acquired to use U S patents, they could equal or surpass U S factories in productivity and quality. The pioneers responded by moving their factories to "export platforms" in the lowest wage-areas in the world --

Hong Kong, Taiwan, Singapore, and the northern Mexican border area -- whence cheaply produced TV sets, cameras, computers, calculators, stereos, watches, etc., could be shipped to the U S and elsewhere at competitive prices.

So the underdeveloped world assumed a critical role in the global factory.

The driving force behind global oligopoly is the necessity of growing in order to maintain or increase one's share of the market. GR 131f

Characteristics and Weaknesses of Underdeveloped Lands.

One person in ten thousand is wealthy, lives within high walls in a house surrounded by gardens with a Cadillac in the driveway. Not far away hundreds are sleeping in the streets. Beyond, tens of thousands are jammed in huts without electricity or plumbing. Outside the city most of the population wrests a bare subsistence on small plots, many of them owned by the wealthy within their high walls. GR 133.

Read GR 134, description.

What the UND'S lack is capital stock: the tangible and expensive infrastructures that enable modern industrial societies to function and to create more wealth -- roads,communications systems, schools, machines, factories. But capital stock 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, it ceases to be a 'static' society and begins the process of'growth'. GR 134.

The essential ingredient in 'growth' is knowledge. It is the introduction of new ways of organizing work -- a hoe instead of bare hands, a tractor instead of a hoe -- that increase human productivity and generate savings that can be used to promote further increases in productivity in the future.

Such savings economists call "finance capital" when they are actually invested for the purpose of maintaining and creating more wealth. Intrinsically finance capital consists in pieces of paper -- bank notes, stock certificates, bankbooks --

which represent the surplus generated by wealth-producing activities in the past. Whether it will in fact produce more wealth, more important whether it will create wealth-producing structures -- ie factories -- depends on what those that control that finance capital decide to do with it. If a country is poor in wealth-producing structures (capital stock), it is because those that controlled wealth in that country decided to invest their finance capital in something else or elsewhere.

Max Weber Spirit of Capitalism pp 48-50

In many UDC's the finance capital generated there was not used to develop local infrastructures (schools, factories, etc.) but was siphoned off to the developed world -- first as plunder, then in the more respectable form of dividends, royalties, and technical fees -- where it was used to finance the amenities of London, Paris, and more important the industrial expansion of affluent societies. Most of the capital left in the 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.

Thus because power over the 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 result was a process of wealth depletion which has resulted inevitably in lower consumption for the local population. The net outflow of finance capital from the UDC's weakened their capacity to develop knowledge to produce wealth, and this further decreased their bargaining power. GR 133.

NB 133 The poor are not poor because they are "lesser breeds without the law." The cradles of civilization -- China, Egypt, the Mayan and Incan empires of Latin America, 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 barbarian armies.

When we speak of the superiority of the West in knowledge, we mean not only its superior technology to create machines, but also the technology to create and communicate a set of values that puts the creation of wealth at its center. The capacity of the advanced nations to spread to the "backward" 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 countries disciples in the science of enrichment gave the industrial nations enormous bargaining power.

The industrialist 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 UDC's. Thus over the past 25 years (GR 136), until the 1979's, because of the falling relative price of certain essential raw materials, the countries of the UDC's 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 is an important reason why the "gap" between rich and poor nations has continued to grow.

A prime characteristic of every UDC is the massive failure of the systems that solve or manage major social problems in developed countries. Systems for providing sanitation and pure water do not work well or do 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 the systems that would solve some other major problems.

The lack of bargaining power in the UDC's is due to three institutional weaknesses. The first is... antiquated government structures. GR 137.

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, a Pakistan, or a Mexico than they can in Germany.

A second source of institutional weakness in UDC's is... the lack of a strong labor movement.

A third source... the lack of competition from local business. GR 138.

Formerly in the U S, family businesses either sold out to national firms, or were put out of business by them, or went public to obtain sufficient finance capital to be able to compete, so now in the UDC's similar alternatives obtain.

Of the 717 new manufacturing subsidiaries in Latin America established (in 1970) by the top 187 U S based GC's, 331 or 46% were established by buying out existing local firms. GR 139.

The sources of global power: pp. 140-47.

Ownership of patents.

Most of the UDC's have decided to industrialize, and so the diffusion of the ideology of the consuming society is built into the model of their development. They become dependent on outside technology, finance capital, and marketing techniques. Thereby they sacrifice the buildup of their own technological capacity, which is a long and difficult process. They opt for the possibility of a quick boom that foreign investment can bring.

There is an obvious price. The nation's technology becomes subject to foreign control. In Turkey, India, the United Arab Republics, Pakistan, and Trinidad... more than 89% of all outstanding patents were owned by foreigners. In Chile foreign ownership of patents increased from 65% in 1937 to 95% in 1967. In Colombia 60% of all patents in drug, synthetic fibres, and chemical industries are owned by foreign based GC's. (In the U S the top 30 industrials own 49.7% of all patents in their respective industries: Concentrated control of technology is a classic device for eliminating effective competition.) GR 140.

Finance capital

The same cumulative rhythm is felt in finance capital. Subsidiaries of GC's are able to borrow from local banks and financial institutions on better terms than local businesses. Especially when credit is in short supply, and that is typical in the UDC's, it is simply good business to loan to Ford or Pfizer than to the local laundry or sugar mill. During the credit squeeze in Argentina in 1971 when local credit was reduced 20%, local firms had to cut their borrowing 42%, but the GC's increased theirs 20% over the previous period. More and more, scarce savings are under the control of some GC bank, and in Bolivia such banks control 50% of private savings.

There are further reasons. Banks and corporations do not treat one another as strangers. They are not entirely separate entities. The relationship between local subsidiaries of GC's and local subsiiaries of New York and Boston banks is touchingly close. Preferred rates for the local subsidiaries of its worldwide customers.

The companies are only too glad to help the banks in return. Eg the global clients of the First National Bank in 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 obtain the best economic intelligence in the country -- often much better than the information in the hands of the Argentine government. GR 141.

Overlapping ownership of global corporations and global banks obviously makes them interested in helping one another. GC's and GB's have expanded together according to similar patterns and at a roughly similar rate. What is good for GC's is good for GB's and vice versa.

In the UDC's the scarcity of finance capital becomes a "foreign exchange bottle-neck." Foreign firms repatriate a substantial portion of their earnings. Local wealth holders worried by the instability of their economy channel their money outside the country. But the country depends on foreign technology, which creates a great need for foriegn exchange, which typically is in shorter supply than savings.

The power of U S banks over UND's: five U S banks (Chase Manhattan, Chemical, First National City, Manufacturers Hanover, and Morgan Guaranty) cut off short-term credit to Chile after Allende came to power. Before the change, U S banks supplied 70.4% of the short term credit needs of Chile in the US. Loans that totalled $220 million in previous years were down to $35 million in 1972. GR 142.

Communications.

This is the third source of GC's power. Their extraordinary competitive edge in using the technology of market manipulation to shape tastes, goals, values of the workers, suppliers, governments officials, and of course customers. The GC must not only sell concepts along with its crackers: it must constantly sell and resell itself.

The technology of the market place is concentrated in the advertising agencies. The rise of the GC and the GB has been accompanied by the globalization of Madison Avenue. In 1954 the top 30 adver tising agencies derived a little over 5% of earnings from overseas campaigns. In 1972 the world billings of the same firms had increased sevenfold almost, and 1/3 of the $7 billion in total billings came from outside the U S. In 1972 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 advertizing firms by exploiting economies of scale. The local firms without a history of investment in new techniques must start from scratch, and in poor countries the high investment needed is hard to find.

In 1968 43%, in 1970 54% of the major advertising agencies were U S-owned or -affiliated. GR 143.

Especially in countries where illit eracy is high, the most effective media are TV and radio. CBS distributes its broadcasts in 100 countries. Its news-film service is now (in 1968) received by satellite in 95% of the free world households. The leading TV shows are distributed 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 ½ 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 around the world. GR 144.

Further tit bits, GR 145-7.

GR ch 7: Engines of Development?

For 40% to 60% of the world's populations the Decade of Development (1960's) brought rising unemployment, decreasing purchasing power, lower consumption. Striking increase in incomes of richest 5%, shrinking share of poorest 40%. The Brazilian and Mexican miracles no exception.

GC's and poor countries have conflicting interests (world or local development), priorities (stockholder, poor), needs (theoretical benefit, facts).

GR ch 9: The Latin Americanization of the United States

Growth of GC's

The dualistic structure of the U S economy investigated by Averitt and presented by Galbraith:

Robert T. Averitt, The Dual Economy: The Dynamics of American Industrial Structure, New York: Norton, 1968.

John Kenneth Galbraith, Economics and the Public Purpose, Boston: Houghton Mifflin, 1973. GR 442.

As in the UDC's, so in the U S its 500 top C's have greatly increased their position of dominance. In manufacturing and mining the % of U S workers for the top 500 was 44.5% in 1955, but 72% in 1970. In the same period the 500's manufacturing and mining assets rose from 40% to 70%. In the industrial and mining sectors of the whole economy the top 9 C's accounted for 15% of total assets and sales.

Accelerated concentration has been sustained by an ongoing process of merger. Between 1953 and 1968 there were 14,000 mergers of manufacturing C's in the U S; the acquiring C's obtained $66 billion of new assets. The top 100 C's accounted for only 333 of these mergers, but acquired $23 billion of new assets or 35% of all merged assets in the period.

The rate of mergers keeps increasing: in 1965 1,496 firms disappeared through mergers. Almost 60% of the $23 billion were acquired in the last four years (1965-68).

Of the 14000 mergers only 199 were challenged in the courts and only 48 were required to divest themselves of anything. GR 230.

In the service sector focus is on those that earn the most money (not those that employ the most people) and so on banks, insurance, other financial institutions, communications and transport industries.

As in the UDC's so in the US the control of ideology through the mass media was as important a part of their power as finance and technology.

The typical American spends $3\frac{1}{2}$ hours a day watching TV and $2\frac{1}{2}$ listening to radio. The industry estimates that 87% of the population are exposed to TV and 90% to radio. Since a network's franchises are their most valuable property yet cost next to nothing (a few million in legal fees to obtain or retain the fifteen stations it may own and the 200 odd it affiliates), profits are enormous. The profits have been used to expand into many unrelated areas (Steinway piano, Rinehart & Winston, Hertz car rentals, Cushman & Wakefield real estate).

It is estimated that each viewer sees 40,000 commercials each year. In 1968 advertisers spent $3 billion on advertising. Since 1945 advertising revenues have jumped from $3 billion to $20 billion. About 30% of the business is handled by the ten largest agencies, which nearly doubled in size in the 1960's. GR 231

The average newspaper devotes 60% of its space to advertising. The marketing function of newspapers is more important than the communication function to newspaper owners. So the crucial determinant is the size of the market rather than the content of the paper. The bigger the readership, the more advertising revenue it commands. So most cities cannot afford more than one daily newspaper. Less than 15% of cities with a daily paper have more than one, and half the dailies are owned by chains. 75% of all newspaper news is supplied by the two wire services (AP & UPI). GR 232.

BANKS

Nine of the ten top US C's in terms of assets are banks. Of the 13000 banks in the US the top four (Bank of America, Chase Manhattan, First National City Bank of NY, and manufacturers Hanover Trust) had in 1970 16% of all banking assets. The top 50 had 48%. The top four were increasing their assets from 1965 to 1970 at a rate twice as high as that in the previous decade. As in the control of technology and mass media, so in finance concentration has proceeded at an exponential rate.

Banks have certain advantages over other C's in their ability to use cross-subsidization. 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 60's are now retrenching somewhat in the City and expanding their activities elsewhere. Likewise they are more flexible in dealing with regimes of all political ~~xx~~ views. As the world economy becomes more integrated, even the most militant communists' need for hard currency encourages them not to offend international bankers.

The increasing control by the banking sector of non-banking sectors has involved three major strategies: enormous holdings of industrial stocks, interlocking directorates, cross-subsidization.

First is the use of the enormous holdings of industrial stocks which banks either own or else manage in trust accounts. In 1971 they owned $577 billion and managed $336 billion in corporate securities. GR 233.

Also in 1971 the trust departments of banks held 22% of all outstanding voting shares publicly held by U S C's; for more than 80% of these shares the bank had sole investment responsibility.

Economists generally agree and managements are acutely aware that a shareholder in possession of 5% of a publicly held corporation cannot safely be ignored. C's seek to establish close contact with such holders and regularly consult them on any major corporate decision (a proposed merger, a new stock issue, any pending decision which may affect the C's operations). C managers listen to the shareholder's views for he may sell off large blocks of stock, cause a decline in its value, hurt the reputation of management, perhaps the value of stock options. It is much easier to enlist the support of a 5% holder than to recruit 5,000 small investors. So institutional investors dominate annual shareholders meetings when fundamental issues of policy are put to a vote.

The top 49 banks have a 5% or greater share in 147 industrials, in 17 of the top transportation companies; 29 of the top 50 life insurance companies; 5 of the top utilities. GR 234.

Further details, GR 235.

Public authorities do not have regular access to information on the interactiion of crucial institutions necessary to understand how the U S economy works.

The second strategy is interlocking directorates.

Adolphe Berle. "Our Problem of Financial Power," The Washington Post, Aug. 11, 1968:"As trustees these banks are large stockholders. As suppliers of credit they have the influence of lenders. With interlocking directorates they can influenc the decision-making function of the operating corporate managers."

The third strategy is cross-subsidization.

In the last ten years banks have systematically used their power over the banking sector to enter, and eventually to dominate unrelated fields such as insurance and equipment leasing. GR 236.

The One Bank Holding Act of 1956, designed to reaffirm control of banks, contained a loophole permitting nonbanking corporations to own both banks and non-related industries.

The First National City Bank took the lead 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 passion for growth but also because their foreign competitors were thinking and acting in this way (in France, Britain, Germany).

In 1969 new legislation, intended to close the loophole, exclude conglomerates from taking over banks, but left the banks free to expand into other closely related financial activities So Bank of America runs Bankamericards, Inter-Bank runs Master Charge (a consortium of the Rockerfeller-Morgan controlled New York Banks) thereby enabled to sell loans at 18% interest without taking up any of a bank officer's time. Leasing arrangements are now responsible for what is probably the most significant and rapid growth in the power of banks over non-banking activities: eg they finance both the seller and the buyer of airplanes; between 1971 and 1974 about $15 billion in sales have been financed by such arrangements. GR 237 f.

GR distinguishes the operations of banks 1) in the nonregulated and 2) in the regulated sectors of industry.

In the nonregulated sector banks played a crucial role in supporting company management by facilitating its campaign of growth by acquisition. Senator Patman summarized:

> 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 takeover bids. Thus Gulf and Western, one of the most aggressive conglomerates of the 1950's and 1960's (92 acquisitions involving almost $1 billion in 11 years) expanded hand and glove with Chase Manhattan. Friendly representatives of Chase made funds available and provided advice and services that assisted Gulf and Western in its acquisitions. In return, in addition to the customary business charges for Gulf and Western's accounts and loans,

241: .. the network of personal and business affiliations and contacts and the mutually supportive character of so much of the business system. 93

Chase secured banking business generated by the newly developed conglomerate that formerly had gone to other banks, and was recipient of advance information on proposed future acquisition.

Indeed the accelerating increase in power of the banks is a direct result on the feverish pace of global corporate expansion. In the last ten years banks have grown in large measure because the dynamic industries have high cash-flow requirements. Following their clients overseas, the largest banks have formed consortia to cap their control of the Eurodollar market. Outside financing has become crucial as the need for additional capital becomes more acute if they are to compete with Japanese and European GC's. German and Japanese banks directly control major industries in their own countries. Oligopolistic competition may well encourage similar developments in the U S.

The bank is as interested, as the company's own management, in promoting corporate policies that will produce growth so that its holdings will appreciate and its loans will be repaid. GR 239f.

241 A different picture emerges when we turn to the regulated sector of the U S economy. The relevant industries -- power companies, airlines, radio and television, railroads, telephone companies -- represent essential services of the society, the social structure on which all other economic growth depends. Their common characteristic is that they are heavily subsidized by government, and cannot be permitted to go out of business however great their financial losses.

Penn Central, GR 243

Lockheed, GR 244

Con Ed of N Y, 243 f.

The end of ch 9 introduces ch 10: Global Corporation and the Public Interest.

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 GC's... The reason for this is that our public legal and political institutions have not kept pace with the extraordinary changes in the private productive system. GR 252.

.. the business-government interlock has been so strong that controlling the misuse of corporate power has been something less than an obsession. The dominant role of big business in both parties, the financial holdings of certain key members in Congress, the ownership of the mass media, the industry-government shuttle in the agencies, the ideology of salvation-through-growth-and-profits...

GR ch 10: The managerial dilemma of the nation state.

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

The essential strategy of the managerial revolution in industry is... cross-subsidization: the use of power and resources in one profit center to start or to expand another. It is an on-going process: A develops B; A and B develop C and D; A, B, C, & D...

When the system becomes global, the parent company can shift profits through transfer pricing, "profit-loan swaps," and other accounting miracles on a world wide scale, cross-subsidizing its various operations with the profits of others.

some of

Centralized planning for a centralized system of profit maximization leads inevitably to economic concentration, because only by expanding or at least maintaining its share of the market can an oligopolistic firm hope to compete successfully with the 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 Averitt has termed a "dual economy."

The center economy comprising a few hundred firms controls over 69% of the productive and financial resources of the country and employs the bulk of organized labor. The peripheral economy is made up of thousands of smaller firms dependent on the giants for their survival; and their workers normally do not belong to unions. Averitt has verified empirically what Galbraith and others have noted about the unequal division in the U S between thousands of vulnerable smaller entrepreneurs and a few unsinkable giants. GR 255.

Large corporations plan centrally and act globally; nation states do not. It is this difference that puts government at a disadvantage in trying to keep up with and control the GC's.. The ease with which the GC's conceal or distort information vital for the management of the economy is creating the same sort of administrative nightmare that UDC's have lived with for years. GR 256

p. 442: what Frank Tamagna regards as "convergence of U S MNC's and MNB's into an integrated U S economy 'in exile.'"

In recent years the U S has tried with some success to solve its balance of payments problem by pushing agricultural exports. The effect, of course, has been to drive up the price of bread and meat at the supermarket and thus to cut the purchasing power of Americans. GR 257.

.. the speed-up of the globalization process around 1966 has made the American economy to an unprecedented degree dependent on economic activity outside the U S.

U S C's became increasingly dependent upon overseas "export platforms" for the production of consumer goods for the U S.

The 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 GC's were being integrated into a global intracorporate market system replacing the traditional concept of the independent market.

Overnight transfers of high cash reserves from one country to another by GC's and GB's, and the use of unregulated international money markets, were making it extremely difficult for the US and other countries to control their domestic money supply.

At a turning-point somewhere between 1965 and 1968 the interrelated process of concentration and globalization was accelerating fast enough to change the behavior of our domestic economy. GR 258. Details GR 442 f.

The nine N Y banks which control more than 50% of offshore dollars had in 1965 at their overseas branches less than 30% of their domestic deposits; in 1972 this figure had advanced to 66%.

More than 20% of all corporate profits is derived from abroad. For many American firms that percentage makes the difference between profit and loss. GR 259.

According to a Department of Commerce report, between 1966 and 1970, the growth rate in employment in U S based GC's was an annual 5.7% in overseas but only 2.7% in domestic factories. At the same time the capacity of the U S manufacturing sector as a whole was declining at a rate six times that of the 1950's. It is questionable whether the Federal gov't will be able to develop an effective employment policy, when more than a quarter of the worker and managerial energies of the leading firms are located outside the country. GR 260.

GR 442: "convergence of US MNC's & MNB's into an integrated US economy 'in exile.'" (Quote from Frank Tamagna).

Investment. For every dollar invested in the U S, U S firms were investing 9 cents for plant and equipment overseas in 1957; in the mid-1960's they were investing 25 cents. GR 260.

... since the mid-1960's, the late-model gov't machinery in Washington has lagged far behind the new economic realities. In large part government is losing power 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. GR 261.

The FRB does not know how many Eurodollars there are, who holds them, or when or how they might enter the U S economy. It lacks an adequate administrative staff even to raise such questions.

.. so too the SEC is crippled in making a determination about the financial reliability of the operations of US c's outside the U S.

.. the IRS is easily confounded by the skilled use of exotica and complexity in intracorporate dealings.

Regulatory agencies lack not only the budgets and staff needed to police c's adequately but, more important, lack the time and perspective needed to understand the real nature of their problems. GR 262.

There is a general failure to grasp the fact that the changes which are occurring in the world economy are truly systemic. Hence inadequate analyses and patchwork policies. GR 263.

Accounting. The lag crippling gov'ts.. 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, profits into losses. R and D in tax avoidance.. in international business.. are at least five years ahead of gov't research in 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.

Various testimonies. GR 264.

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 DAvis of rent-a-car states flatly that in today's business world "it is unprofitable to be honest." GR 264.

At the time of writing the price of a seat on the Chicago Mercantile Exchange in 1960 was $3000, in 1972-4 $115,000 New York Stock Exchange in 1960 was $500,000, in 1972-74 $92,000 GR 265.

A double information gap for those managing the U S economy: missing information and distorted information.

A recent RAnd corporation study concluded: Department of Commerce balance-of-payments statements on foreign trade and foreign-earned income "are totally unreliable" because of the widespread use of transfer pricing and of the importance of intra-corporate transactions.. in the U S economy.

The significant decline in the cost of processing a unit of information.. will mean an increase both in numbers and size of national and multinational corporations. GR 267.

Gov't policy making assumes that the market controls: the allocation and distribution of resources, the setting of social priorities, and the development of needed goods and services.

Up to the 1960's the Keynesian tools worked reasonably well.

But by the mid-1960's the economy was responding less and less in the predicted manner. When the gov't offered incentives to increase investment, employment, supply of goods, output did not increase at the anticipated rate. When the FRB raised interest rates or reduced the money supply, the anticipated decrease of demand or of inflation did not occur. The reason was that market imperfections, instead of being occasional and correctable, were becoming stubborn and systemic. GR 268.

Oligopolists can frustrate gov't controls: attempts to stimulate the economy can be met not by increasing output but by raising prices and increasing profits; attempt to slow down the economy by tight money and increasing interest rates can be met by passing on to the consumer the increased cost of raising capital. The consumer has nowhere else to go. GR 269.

The concentrated power of a few hundred industrial and banking giants has undercut the effectiveness of the principal tools of Keynesian monetary and fiscal policy. The British economist, Thomas Balogh, put it this way:

"The socalled Keynesian synthesis, which for a time swept the academic board, was soon accomplished by Keynes's liberal disciples. With but marginal modifications that neo-classical theory of social harmony and income distribution was reconnected to the newly erected macroeconomic edifice, in which the autonomy of the market, with its assurance of full employment and optimal resource allocation, was simply replaced by the twin Deus ex machina of the Treasury and the Central Bank.

At the precise 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 assumed that demand could be effectively controlled by adjustment of the interest rate... But the pattern of oligopolistic competition for ever-greater shares 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 its power to "pass on" its cost increases to consumers who have no alterantive. GR 270.

George Budzeika of the N Y FRB:

"On the whole N Y City banks in the past two decades have shown that it is very difficult to control large banks whenever demand for credit is heavy. The growth and profit of these banks -- their very viability -- depend on their ability to satisfy the credit demands of their customers. .. they are strongly motivated to find loopholes in control measures and to press credit expansion to a greater extent than may be deemed advisable by monetary authorities." GR 271.

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 has gone to purchase national security: the military and space 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, and transportation and metal industries -- all oligopolies -- the effect of gov't spending is to accelerate the process of concentration that has made the U S a dual economy. The benefits of gov't spending go overwhelmingly to the "center" industries, and the result is .. a playing out of the law of uneven development. Pentagon cheques do not go to Appalachia or other depressed areas where wages are low and jobs are scarce. As a general rule... they go to the industries with the highest profits, the highest wages, and the least unemployment. The result is excess demand in the very regions that most easily pass on increased costs to consumers (ultimately the taxpayer) and inadequate demand to the rest of the economy.

In the Keynesian state concerned politicians are expected to effect modest relocations of income by using the taxes of the rich for welfare payments to the poor. They are not expected to shift the burden of running the government from the rich to the middle class.

But there is abundant evidence that this is precisely what has happened... In 1958 the annual corporate tax contribution (not counting social security contributions) was 25.2% of federal revenues. In 1973 it had declined to 15%... Income is being reallocated in such a way by the tax system as to subsidize corporations at the expense of other tax payers. GR 273.

Congressman VAnik has documented the extent of corposate welfarism under our tax laws:

in 1969 the top hundred C's paid 26.9%, all ~~below~~ lower C's paid 44%
in 1969 of 17 oil companies 10 paid less than 10%
in 1970 " " 7 paid less than 10%
the timber industry pays effective rates between 10% and 20%
in 1969 U S Steel on $2.5 billion income paid 2.1%
tax subsidies to oil industry: percentage depletion allowance, fast write-offs for intangible drilling and development costs, and foreign tax credit
the timber industry capital-gains tax subsidy, designed to encourage investment in reforestation, has left 52 million acres of private forest land in need of reforestation. The tax savings in 1965 were more $140 million. GR274.

The last generation of the U S economy has been marked by a galloping dependence upon fossil fuels and paper packaging. Industry planning has been devoted to removing any inhibiitions we may have against the extravagant depletion of our national resources. Thirteen years later gasoline is in short supply... the market failed in its job of resource allocation... where the concentration of corporation and political influence has negated the social function of the market.

Again, it is anomal ous that corporate taxes decrease while pollution increases.. Taxes are supposed to pay for the social costs of production, but the negation of the market through concentration, transfer pricing, and other accounting miracles means that gov'ts are increasing ly powerless to recover the social costs of p roduction through taxes. GR 275.

Transfer pricing, widely used, creates a private economy.

Prices are set according to the requirements of global profit maximization; to a great degree they are insulated against real market pressures. One former Treasury official told us: "Prices in an economic sense do not exist. The price charged is simply a matter of relative power."

As concentration effectively negates the power of the domestic market, so transfer pricing negates the power of the international market by distorting the relation between the international and the domestic market.

When large percentages of total exports are underpriced and imports are overpriced because central planners wish to shift income out of the U S, the prices give misleading signals. Alternatively, income is transferred into the U S by the reverse procedure. Such transactions can be disguised by the use of tax havens as intermediaries. GR 276.

The aggravation of the balance-of-payments problem results when U S firms undervalue exports, for then the U S economy gets back less in resources than it gives. GR 278.

Tax minimization is the principal use of transfer pricing.

Here the use of accountants to stagemanage the multiple layers of reality is particularly effective in keeping the tax collector confused. Some firms.. employ five different sets of books in their foreign subsidiaries. Set one is to keep 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. GR 279.

Tax havens, GR 281-83.

Eurodollars: Between 1964-68 US C's built up large deposits in their branch operations in Europe. The term has been extended to denote any easily negotiable currency deposited anywh ere but in the country of its origin.

GC's control anywhere between $100 and $268 billion dollars. This sum is anywh ere between 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 money movement of global corporations and banks, has become a central banker's nightmare. "This huge creation of private international liquidity.. is the instrument that permits the rapid shifting of funds. " In p rofessor Houthakker's view the Eurodollar market "almost certainly contributes to the inflationary pressure that no nation has succeeded in keeping under control." Because the Eurodollar market is relatively unpoliced and regularly violates the first principle of conservative banking -- never borrow short to lend long -- it is courting a liquidity crisis not equalled since the Great War. Sudden withdrawals by 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." GR 286 f.

GR ch 11: The Obsolescence of American Labor

Relocating production in Mexico, Taiwan, BRazil, the Philippines, is an irresistible way to cut costs. In producing office machinery a company pays its U S workers 10 times what it pays workers in Taiwan or Korea and 6 times what it pays them in Mexico. In the last few years more than 50,000 jobs have been created along the Mexican border; exports from the area back to the U S climbed from $7 million in 1966 to $350 million in 1972. In 1972 imports from Taiwan to the U S market amounted to $1.3 billion. GR 307 f.

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 corporate power, are mobile; workers by and large are not. 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. GR 308.

Management finds that its power to close an entire operation in a community and to move all but the workers out of the country produces a marvellously obliging labor force. The threat of a retaliatory closing has caused workers to moderate their demands and at times to give a no-strike pledge. The threat has been carried out often enough for it not to be empty: Dunlop-Pirelli closed a plant near Milan, moved across the border to Switzerland, and there proceeded to rehire Italian workers as low-wage migrant labor. GR 309.

Other devices: global headquarters for global considerations may order a layoff, even though locally all is proceeding in first class fashion. Multiple sourcing: the same component produced at each of several plants: practiced by Chrysler, British Leyland, Goodyear, Michelin, Volkswagen, et Al. When a Ford plant in England went on strike, the company obtained the die needed for a crucial component, flew it to Germany, and had production running within five days. GR 310-12.

OUTLINE OF PP. 75 - 102

C. GC's in the U S A

Reflections

Implicit in the foregoing account of GC's in general, GC's in the UDC's, and GC's in the U S, there is a more comprehensive view that may be described as follows:

There exists an aggregate of central economies,
each consisting of a relatively small set of GC's,
operating through transnational financial markets and banks,
producing in lowest wage-areas,
and selling wherever the highest prices may be administered.

Central: opp. to "peripheral, cf. p. 94.
Transnational: not controlled nationally or internationally
Lowest wage-areas: Taiwan, Korea, Hong Kong, Singapore,..
Administered Prices: set by sellers for buyers who have nowhere else to go.

GC's centralized
at head office in global cities (N Y, London, Paris...)
connected by satellite telephone to subsidiaries, by jet flights,
integrated through advanced computers that handle enormous quantities of data and offer computerized-cash-management systems
deciding what is to be produced, how much, where, at what price, where to be sold, at what price

GC's empowered
by internal growth
by mergers and take-overs, by exploitation of gov't subsidized corp.
by patents
by finance capital and supportive banking
by advertising

GC's liberated
by modern accounting
by transfer pricing (intracorporate operations)
by impotence of ignorance (in UDC's, in US)
by cross-subsidization