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Policies for Multinational Corporations

by G. Schachter, B.C. Cohen and F.N. Schachter, Rome

Large markets beget large firms in response to the needs of expanding demand. But, at the same time, these firms may assume uncontrollable powers. The search is for a *modus vivendi* in which the many benefits derived from multinational corporations (m.n.c.) by industrialized countries are maintained while the economic and political controls remain with the nation-states.

In a sense, m.n.c. operate on *divide et impera* — the less international coordination of policies, the more the benefits the m.n.c. can amass. Only by the actual implementation of their paper policies can the Common Market countries luxuriate in technological and organizational benefits that the entry of m.n.c. sows, without the political and economic upheaval made possible in oligopolistic markets that provoke national instability ensuing from corporate policies that skirt across the legal system of enclosed nation-states. The communication revolution has dwarfed the relative size of each nation and made the m.n.c. as much of a necessity as the *national* form of business organization developed when individually owned firms could not cope with an increasingly intricate market. The m.n.c. are here to stay.

Political and Economic Power

Nations and empires rise and fall as economic and political conditions change and envelop new structures and relationships within an area or beyond the borders. It is the superstructure — i.e., the organization of a state or a society — that keeps

it going. When the political apparatus is enfeebled from inside or/and outside, the system collapses. A business enterprise under the guise of a corporation can survive indefinitely when its organization is effervescent regardless of adverse short-run financial conditions and public relations appearances. In this sense, a corporation may be a living organism with no physical entity (it is a legal form), rise continuously, expand and engulf ever more economic and political domain. The latest expression of this form of organization, the multinational corporations, control large shares of main economic sectors and as such wield enormous political and economic power that knows no frontier.

The m.n.c. can induce many positive aspects to the host countries, especially advanced industrialized nations as those of Europe. These corporations can help in a wider diffusion of methods of organization and technologies; ease transfer of capitals; and equalize costs at their minimum because of high specialization and capacity utilization. However, they do induce, sometimes consciously and sometimes indirectly, adverse effects in the host country and occasionally even in the home country.

Over the last 15 years, the institutional framework of the European Economic Community opened golden opportunities for the m.n.c. The framework was conceived with the goal of having European firms protected from the invasion of US giants through various legislative gimmicks. The Machines

Bull case, for years in the news, shows best how impediments have been circumvented by US firms who have acquired a foothold in the market through purchases of subsidiaries and through joint ventures. Between 1946–1957, 28 p.c. of the foreign entry into European host countries has been through acquisition; since 1957 this increased to 43.3 p.c.¹.

Increasing Concentration

The greatest negative impact of the multinational corporations upon the European economy has been to increase business concentration. Some observers claim that a more positive aspect of the m.n.c. has been the improvement of the balance of payments of single countries. Yet, the m.n.c. have taken over established companies in Europe often with funds borrowed on local capital markets. Thus, when these m.n.c. purchase an existing company it may be nothing more than a financial transaction with no effect on real income, employment, or balance of payments. The results of such a transaction are only to increase the level of concentration. In such a case, new rigidities are introduced into the market that bias the price structure for inflation because administrative prices become more widely spread i.e., the market moves further away from a competitive model.

This image of the m.n.c. is very similar to that of the national company that expands by take over. In textbook language this amounts to saying that a

¹ United Nations, Multinational Corporations in World Development, New York, 1973.

m.n.c. is a financial vehicle for putting together a large establishment by the merger of several smaller ones. At the national level, this type of business expansion has induced public vigilance. In the USA, the history of public concern goes back to the nineteenth century. The initial problem perceived was the economic impact of massive corporations on the nation. On the one hand, there are penalties to be paid in monopolized markets by artificially rigged prices detrimental to the consumers' interest. On the other hand, even artificially put together companies, the merged sum of smaller companies, induce a process of rationalization where large efficient units eventually do emerge to replace less efficient smaller ones.

Rationalization of Production

The dynamics of structural change can begin after the merger has taken place. The initial concentration level is higher post-merger, and no change in average unit size results from this transaction. As the corporation matures, new investment in larger units inevitably replaces less efficient smaller units if scale economies exist. Thus, the long-run impact may be positive and may even compensate for the loss of initial competitiveness in the market place. Prices may fall below the preexisting (pulverized market) price structure. Without the introduction of m.n.c., it is conceivable that a firm in an industry, while small in relationship to the national maximum feasible scale, would not have grown any larger than that size reflecting the national market.

The consequences of a take over are mainly negative if the company that is taken over does not change at all in structure or mentality. When a company such as General Electric International takes control of the French Ma-

chines Bull, in the short run there are minimal administrative and technical changes². The G.E. acquires an absolute control over electronic components production and therefore prices in France. But, if indeed, over time the G.E. International succeeds in narrowing the type of production in France and in other countries where G.E. has satellites, greater production efficiency is achieved. Cheaper computers can be produced at Machines Bull and cheaper products of the G.E. line formerly produced in France may be imported. Thus, the m.n.c. may serve to rationalize worldwide production.

Perpetuation of Monopolies

Some observers claim that the multinationals are castigated as scapegoats for the economic fluctuations and difficulties inherent in the capitalist system — the so-called cycles that occurred between 1945–1975. During the 1960s some economists claimed that the most advanced capitalist systems were no longer subject to wide economic fluctuations as a result of finely tuned monetary and fiscal policies.

Yet, over the last twelve months, western Europe has been in a state of panic over the signs of growing rates of unemployment, decline in industrial production and retraction of world trade. While the m.n.c. stand nothing to gain from diminished economic activity, they do contribute to the magnitude of cyclical national experiences. One may recall that the collapse of a single corporate giant in Austria, *Kredit Anstalt* and one in USA, *Insul*, triggered the worldwide panic and financial disaster of the early 1930s. The manipulation of the energy crisis by the major m.n. oil companies, concerned only with short-run

returns (1973/74 profit growth rates of between 50 to 500 p.c.), did not permit an efficient or equitable organization of the international oil market. For the longer run this stabilized administrative monopolistic prices of OPEC countries, raising prices of petroleum products to such heights as to cripple the auto industry on both sides of the Atlantic with a chain reaction of effects not yet fully evolved.

On the other hand, it was in the OPEC interest to deal with monopolistic oil firms. The OPEC countries can more easily maintain a structure of rigged prices dealing with a small number of distributing companies. If there were a larger number of refining and distributing firms then the surplus production that occurred at that time might well have resulted in falling gasoline, fuel oil and other products prices. This did not happen. The small number of producing and distributing companies were held hostage by the OPEC countries. This suggests that the m.n.c. can enhance a monopolistic position that they themselves did not originate. In this particular case, the monopolistic oil companies perpetuated the monopoly of the countries that have the raw materials natural monopoly.

Lack of National Loyalty

Moreover, the international operations of the m.n.c. indirectly have adverse effects upon the home market. The m.n. oil c., while by and large US owned firms, affect the US petroleum products market less than the European market. The US is 85 p.c. petroleum self-sufficient while Europe is hardly 30 p.c. self-sufficient. Nevertheless, the impact on the US petroleum products price pattern over the last year was similar to that of Europe because the marginal 15 p.c. demand for petroleum products forced US prices to

² Actually, G.E. took control over Machines Bull after a fierce battle with the French Government in 1964.

world levels. As a direct consequence, the US consumer has been more hit than his European counterpart by the artificial scarcity policies of m.n.c.

Indeed, the m.n.c. by their very nature have no regional or national loyalty. As expected, their main goal is to maximize short-run profits that often results in head-on conflict with the goals of nation-states. General Motors could discontinue production in its German plants, even though unemployment is on the rise in Germany, while expanding investment and production in Australia where the economy is booming. In both countries, G.M.'s actions would be counterproductive to national public policies that aim to be anticyclical but do not affect G.M. This company's worldwide investment and production plans are a function of worldwide demand for its products and not necessarily a function of credit or other incentives and curbs in Germany or Australia. Actually in 1962 in France Remington RAND did not hesitate to discharge 800 of its 1,200 workers even though its investment was subsidized by the French Government in line with the goals of national planning³. During the 1960s, Celanese, Raytheon, Rheem and Union Carbide got a foothold in Sicily with the help of the Italian Government. All southern investments are subsidized by the Government but these m.n.c. lasted only through the gestation period, thus hampering government programs and the entire development process⁴.

The performance of m.n.c. can also unstabilize financial markets. Over the last three years, their dealings and hedging in various European currencies contributed to several currency crises. The collapse of the Sindona Empire (Franklin Bank) is a case in point. Also, when European countries institute differentiated credit restrictions, as happened over the last two years, the m.n.c. could borrow in the country with the most favorable conditions. This however makes a shamble of national countercyclical monetary policies.

Conclusions

Perhaps, the solution lies in having *multinational* economic policies. Keynesian theory, developed in the wake of the 1930 disaster, considered each nation state a closed economy. The m.n.c. for better or worse helped in opening these economies making national Keynesian policies inoperative. This process, of course, is widely recognized by economists and European policy makers (and perhaps to a larger extent by their American counterparts). Yet, even in the closely knit European Common Market such policies exist only on paper with no power of enforcement.

The dangers created by the uncontrolled m.n.c. are by far greater than those of national uncontrolled monopolies. Nationally, liberalization of tariff policies may curb somewhat oligopolistic situations that take advantage of short-run supply scarcity for products with in-

elastic demand. No such controls are applicable to m.n.c. whose operations are above and beyond national policies. Short run scarcities can be and often are exploited to the fullest extent to the detriment of the world's consumers.

To enhance the stability and control of European markets, the *national* governmental structure must be transformed into an operating *multinational* European structure. The Common Market, at its inception, aimed just at such a transformation. Indeed, policies were formulated to cope with the international flow of funds and corporate control. But, we must recall that single European nations still have their own *national* fiscal and monetary policies as well as *national* planning and corporate laws. Therefore, the aimed transformation has yet not occurred. For this reason, the m.n.c. can take advantage of diversified national conditions and operate by and large unhampered by single nations' rules. This is why economic and financial planning of single nations are ineffective. The Common Market in this sense is just a customs union with some mutual assistance programs but not a single cohesive market. At present, it would be too much to expect a short-run transformation but the need is there and the general awareness of this need to have multinational policies for m.n.c.

³ Christopher Layton, *Investimenti attraverso l'Atlantico*, Il Mulino, Bologna 1967, pp. 37-38.

⁴ Douglas F. Lamont, *Managing Foreign Investment in Southern Italy*, Praeger Publishers 1973, Chapter 6.



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