Corporate Power in a Global Economy

by Brian Roach

A GDAE Teaching Module on Social and Environmental Issues in Economics

Global Development And Environment Institute
Tufts University
Medford, MA 02155
http://ase.tufts.edu/gdae

GDAE

Copyright © 2007 Global Development And Environment Institute, Tufts University.

Copyright release is hereby granted for instructors to copy this module for instructional purposes.

Students may also download the module directly from http://ase.tufts.edu/gdae.

Comments and feedback from course use are welcomed:

Tufts University Global Development And Environment Institute
Tufts University
Medford, MA 02155
http://ase.tufts.edu/gdae

E-mail: gdae@tufts.edu

1. INTRODUCTION

Large corporations are an economic, political, environmental, and cultural force that is unavoidable in today's globalized world. Large corporations have an impact on the lives of billions of people every day, often in complex and imperceptible ways. Consider a consumer in the United States who purchases a pint of Ben & Jerry's ice cream. To many people, Ben & Jerry's represents the antithesis of "big business." In contrast to large firms considered to be focused on growth and profit maximization, Ben & Jerry's is well known for its support of environmental and social causes, its involvement in local communities, and its fair labor practices. For example, as of 2001 the company has packaged all pints in unbleached paperboard Eco-Pint containers and its One Sweet Whirled campaign is dedicated to addressing the issue of global climate change.[1] In a 1999 Harris Interactive poll, Ben & Jerry's was recognized by the American public as #1 in a ranking of firms according to their commitment to social responsibility.

But what the purchaser of the ice cream may not know, and cannot determine by reading the packaging, is that it is now a product manufactured by a major global corporation. In 2000, Ben & Jerry's was purchased in a semi-hostile takeover by Unilever,[2] one of the largest consumer goods manufacturers in the world. No longer an independent company, Ben & Jerry's is now one of more than 400 brands owned by Unilever, jointly headquartered in England and the Netherlands. Unilever's annual sales of around $50 billion made it number 106 on the 2006 list of the largest corporations in the world ranked by annual revenues.[3] Unilever owns brands used by over 150 million people every day, including Hellmann's mayonnaise, Slim•Fast diet products, Breyer's ice cream, Lipton teas, Ragu sauces, ThermaSilk shampoos, and Dove soap.[4] Ben and Jerry's annual revenues now represent less than ½% of Unilever's sales. Unilever employs over 200,000 people worldwide, including the 700 or so who work for Ben & Jerry's.

The acquisition of Ben and Jerry's by Unilever is but one example of the growth and increasing globalization of modern corporations. The growth of these corporations is typically measured in economic terms – profits, assets, number of employees, and stock prices. However, the impact of global corporations extends well beyond the economic realm. The production decisions of large firms have significant environmental implications at the national and global level. Corporations exert political influence to obtain subsidies, reduce their tax burdens, and shape public policy. Corporate policies on working conditions, benefits, and wages affect the quality of life of millions of people.

---

[1] Information about Ben and Jerry's obtained from their web site, www.benandjerrys.com.

[2] During the takeover battle, an attempt was made by Ben & Jerry's co-founder Ben Cohen to arrange the purchase of Ben & Jerry's by a socially-responsible group of investors. The board of Ben & Jerry's appeared willing to accept this offer, even though the price was less than that being offered by Unilever. But Unilever further increased their price and the board felt it had no other choice than to accept the offer or face lawsuits by stockholders (Kelly, 2003).

[3] *Fortune*, 2007

[4] Information about Unilever obtained from their web site, www.unilever.com.

Some people perceive the ascendancy of global corporations as a positive force, bringing economic growth, jobs, lower prices, and quality products to an expanding share of the world's population. Others view large firms as exploiting workers, dominating the public policy process, damaging the natural environment, and degrading cultural values. One thing is for certain – global corporations are an inescapable presence in the modern world and will be so for the foreseeable future. The relevant issue is not whether corporations should play an important role in our economy and our society. Instead, we should consider how to ensure that the behavior of large corporations aligns with the broader goals of society, including both economic and non-economic goals.

This module presents an overview of the modern **multinational corporation** (MNC). We first discuss MNCs in traditional economic terms, asking such questions as:

- How many multinationals exist and where are they located?
- What measures should we use to identify the world's largest firms?
- Which firms are the largest in the world and how has the composition of these firms changed over time?
- Are the world's largest firms really becoming "bigger" over time?
- What factors explain the growth of MNCs?

We then turn to a broader perspective, examining issues such as:

- How do multinational corporations exert power in the political arena and have they become more powerful over time?
- What are the social and environmental responsibilities of large firms?
- Have corporations taken voluntary steps to improve their social and environmental performance?

The module concludes with a discussion of how the behavior of corporations can be affected by regulations at the national and international level.

In the traditional economic view, corporations are entities that provide maximal benefits to society when they continually seek greater profits. We'll see that this view holds little validity – MNCs are unlikely to provide the greatest social benefit through their own volition. All those impacted by the decisions of multinationals must be given an acknowledged voice through existing or new institutional arrangements. Realizing the full potential of MNCs to serve the welfare of society will require a mixture of voluntary initiatives, market forces, and regulations.

NOTE – terms denoted in **bold face** are defined in the **KEY TERMS AND CONCEPTS** section at the end of the module.

2. THE ECONOMICS OF MULTINATIONAL CORPORATIONS

The terms "multinational corporation," "transnational corporation" and "global corporation" are often used interchangeably. A multinational corporation is defined here as a firm that owns and operates subsidiaries in more than one country. While a MNC does not necessarily have to be a large firm, the world's largest firms are generally MNCs.

Global Distribution of MNCs

According to the United Nations Conference on Trade and Development (UNCTAD), there were about 75,000 MNCs operating worldwide in 2005.[5] These firms are classified according to the location of the parent company, although this location is not necessarily where most of its business is conducted. About 73% of MNCs are headquartered in developed industrial economies. Perhaps surprisingly, the country with the most MNCs is Denmark, which is home to 12% of all MNCs. Denmark is followed by South Korea (10%), Germany (8%), and Japan (7%). The United States is host to only about 3% of all MNCs. Developing countries with significant numbers of MNCs include China (with 5% of the world's MNCs), India, and Brazil.

MNCs are becoming more dispersed globally, spreading particularly to the developing nations.[6] Overall, their number has increased considerably in recent years, more than doubling since 1990, when there were about 35,000 MNCs.[7] This growth has been especially dramatic in developing nations. While the number of MNCs in developed countries increased by 66% between 1990 and 2005, the number in developing countries increased by a factor of more than seven during the same period.

When we consider the geographic distribution of only the very largest MNCs, a greater share are concentrated in the U.S. and Japan, although this has also been changing in recent decades. About 64% of the largest 250 industrial companies, ranked by revenues, were headquartered in the U.S. in 1960. Except for a handful in Japan, all the rest were located in Europe.[8] By 2006 we find only 34% of the world's 500 largest firms headquartered in the U.S. Japan was second with 14%, and then about 7% each in France, Germany, and Britain.[9] About 8% of the largest MNCs are now located in developing countries, including China, Brazil, India, Malaysia and Mexico.

---

[5] UNCTAD, 2006

[6] The United Nations does not have an official classification scheme that differentiates developing nations from developed nations. In general, developing nations have low incomes per capita and poor quality of life as measured by social indicators (life expectancy, education rates, infant mortality, etc.).

[7] UNCTAD, 1992

[8] Calculations of large firms in 1960 made from various editions of *Fortune.*

[9] *Fortune*, 2007

The Economic Size of MNCs

The world's largest corporations are clearly huge economic organizations. But do these MNCs dominate the global economic landscape, as some commentators have suggested? As detailed in Box 1, some statistics that have been used to illustrate the economic magnitude of the world's largest firms misleadingly compare the annual revenues of large corporations to the gross domestic product (GDP) of nations. But revenue data are not directly comparable to GDP data. National income accounts are kept in terms of **value added**, which is measured as the sales of a firm less the amount paid to other firms for inputs. When comparisons are made between corporate and national output, the data should be presented in similar metrics (see Box 1).

The majority of the world's economic activity does not occur in a small number of gargantuan multinationals. According to data published by the United Nations, the world's 100 largest firms directly accounted for 4.3% of global economic activity in 2000 based on value added.[10]

Data published by the U.S. Census Bureau present statistics on the domestic and foreign economic activity of all nonbank[11] U.S. MNCs.[12] In 2003, these corporations contributed $2.7 trillion to the world's gross product, or about 7% of the global total of $36.9 trillion.[13] No data are available on the contribution of all MNCs to world economic activity. However, considering that the U.S. GDP is about one-third of the global total, an estimate that the world's 75,000 multinationals are responsible for about 20% of the world's economic activity might be considered reasonable.

The Economic Growth of Multinational Corporations

By some, but not all, measures the economic magnitude of the world's largest firms is increasing relative to the rest of the economy. The amount of revenue received by the world's 200 largest corporations in 1983 was equivalent to 25.0% of gross world product but equal to 27.5% in 1999 and 29.3% in 2005.[14] The growth is proportionally larger when we consider value added – in 1990 the world's top 100 MNCs accounted for 3.5% of world product but accounted for 4.3% in 2000.[15] Again using value added, in 1990 twenty-four of the world's 100 largest economies were countries; as noted in Box 1, by 2000 this had risen to twenty-nine.

---

[10] UNCTAD, 2002

[11] The Census Bureau data excludes banks because the economic contribution of banks is not a straightforward calculation. For example, unlike a manufacturing company a bank does not have "sales" that can be used as the basis for calculating value added.

[12] U.S. Census Bureau, 2007

[13] World gross product data, obtained from the World Bank's World Development Indicators, is the sum of all nations' GDP.

[14] Value for 1999 from Anderson and Cavanagh, 2000. Value for 2005 calculated using *Fortune* Global 500 and the World Bank's World Development Indicators. As explained in Box 1, this does not imply that the 200 largest firms are responsible for over one-quarter of the world's economic activity. A direct comparison between corporate production and GDP can only be made using value-added measures.

[15] UNCTAD, 2002

Box 1. Comparing Corporations to Countries

People sometimes compare the economic magnitude of the world's largest corporations to various mid-sized national economies. A commonly-quoted report notes that of the world's 100 largest economies, 51 are companies while only 49 are countries.[1]

> "To put this in perspective, General Motors is now bigger than Denmark; DaimlerChrysler is bigger than Poland; Royal Dutch/Shell is bigger than Venezuela; IBM is bigger than Singapore; and Sony is bigger than Pakistan." (p. 3)

The report goes on to state that the revenues of the world's 200 largest corporations were equivalent to 27.5% of world gross domestic product (GDP) in 1999. These data make the world's largest corporations appear very large indeed – do the largest corporations really generate over one-quarter of the world's economy?

There are serious conceptual problems with such comparisons because corporate revenue is not equivalent to GDP, which is measured in terms of value added. To make the comparison valid, the economic impact of corporations should also be measured in terms of value added. For example, the value added from Wal-Mart would be equal to total revenues minus the value of payments to suppliers.

When this is done, 29 of the world's 100 largest economies are companies.[2] In 2000 the world's largest MNC by value added was ExxonMobil, with a value added of $63 billion. This is still larger than the GDP of such countries as Pakistan, New Zealand, Hungary, and Viet Nam.

While the revenues of the 100 largest corporations equate to about 20% of world GDP, the more relevant comparison, using the value added metric, indicates that the 100 largest corporations account for 4.3% of world GDP. While this is still a significant portion, it does not imply that a small number of firms dominate the global economy.

1 Anderson and Cavanagh, 2000
2 UNCTAD, 2002

But other statistics suggest that the growth of large corporations has paralleled the growth of the world economy. Consider that the world gross product increased by a factor of 3.89 in nominal terms between 1983 and 2005. Annual revenues for the world's 50 largest firms grew at a similar pace during this same time period – by a factor of 3.92. But perhaps more indicative of economic power, the value of capital assets owned by the world's 50 largest corporations increased by an astonishing 686% between 1983 and 2001.[16]

This growth in revenues and assets was not matched by a comparable growth in employment. In 2002 the *Fortune* Global 500 corporations employed about 47 million people, an average of nearly 100,000 each. With a global labor force of over three billion, these 500 firms employ 1.6% of the world's labor force. While the profits of the world's 50 largest corporations increased by a factor of about 11 between 1983 and 2005, employment in the largest 50 firms increased by only a factor of 2.3 during those years.[17]

Ranking the World's Largest Firms

Several approaches have been proposed to rank the world's largest corporations. Perhaps the most common approach is to rank firms by their annual revenues, as is done with the *Fortune* Global 500 list. Other approaches to measuring the economic magnitude of firms provide additional insights.

The 500 largest firms by sales had combined revenues of about $19 trillion in 2005.[18] This equates to sales of over $2,900 for *every* individual on the planet. About a third of these sales are by the world's 50 largest firms. The world's largest firm in 2005, by revenues, was ExxonMobil with sales of $340 billion. Nine of the ten largest firms in the world by 2005 revenues were either oil companies or automobile companies (the exception is Wal-Mart). ExxonMobil was also the most profitable company in the world in 2005, with profits of about $36 billion.

As mentioned above, a firm's revenues do not directly reflect their contribution to the economy. National income accounts are kept in terms of value added, which is the sales of a firm less the amount paid to other firms for inputs. Value added more accurately reflects a firm's contribution to the entire production process, whether as a retailer or wholesaler. Ranked by value added, the world's largest firm in 2000 was ExxonMobil, with a value added of $63 billion, followed by General Motors and Ford.

Employment is a third approach for assessing the size of MNCs. Wal-Mart is the world's largest employer, with 1.8 million workers. Other firms with more than a half million employees include China National Petroleum, Sinopec (a Chinese petroleum and chemical firm), the U.S. Postal Service, and the Agricultural Bank of China. The world's

[16] The *Fortune* Global 500 list last published firm-level data on corporate assets in 2001. The current publicly-available list only includes data for all firms on revenues and profits.
[17] Calculations of revenues, assets, profits, and employment made using various editions of the *Fortune* Global 500.
[18] *Fortune*, 2007

50 largest corporate employers collectively provide jobs for about 20 million people, less than 1% of the global workforce of 3 billion.

A final approach for ranking MNCs, used by UNCTAD, is to measure the foreign assets of firms. Using this metric, the world's largest MNC in 2004 was General Electric with $449 billion in foreign assets.[19] Other corporations with large foreign assets include Vodafone, Ford, General Motors, BP, and ExxonMobil.

A comparison of the world's largest firms using each of these four metrics, using the most recent data available for each metric, is presented in Table 1. As might be expected, there is a large degree of overlap in the different lists. Of the top 20 firms ranked by revenues, 11 of these are among the largest by value added and 9 are among the largest by foreign assets. The ranking with the least similarity to the others is the employment list – only four of these firms appear on any of the other lists.

3. EXPLAINING THE HISTORICAL GROWTH OF MULTINATIONAL CORPORATIONS

Modern large corporations are private entities under the control of corporate officers and, ultimately, shareholders who own direct stakes in the firm. The profits of a corporation are distributed to its shareholders in proportion to the number of shares they own.[20] Most economists assert that the primary objective of corporations is to make a profit for their shareholders, with other objectives being subordinate. Most of us take for granted this current perspective of corporations as entities seeking profits under the primary control of shareholders and corporate executives, with a limited role for governments and consumers. However, some historical context of the development of corporations in the United States illustrates that this perception is relatively recent and clashes with earlier views.

Corporate History in the United States

In early America individual states chartered corporations as public, rather than private, entities.[21] Up until the Civil War, American corporations were fully accountable to the public to ensure that they acted in a manner that served the public good. Corporate charters could be revoked for failing to serve the public interest and were valid only for a certain period of time. For example, in 1831 a Delaware constitutional amendment specified that all corporations were limited to a twenty-year life span.

[19] UNCTAD, 2006

[20] The distributed annual profits of a firm are dividends. A firm may decide to retain some of its profits to finance investments or for other reasons.

[21] Information on the history of corporations in American is drawn from Derber (1998), Korten (2001), and Hertz (2001).

Table 1. The World's Largest Corporations

Rank	Ranked by Revenues		Ranked by Value Added	
	Firm	2005 Revenues ($ bil.)	Firm	2000 Value Added ($ bil.)
1	ExxonMobil	340	ExxonMobil	63
2	Wal-Mart	316	General Motors	56
3	Royal Dutch/Shell	307	Ford Motor	44
4	BP	268	DaimlerChrysler	42
5	General Motors	193	General Electric	39
6	Chevron	189	Toyota Motor	38
7	DaimlerChrysler	186	Royal Dutch/Shell	36
8	Toyota Motor	186	Siemens	32
9	Ford Motor	177	BP	30
10	ConocoPhillips	167	Wal-Mart	30
11	General Electric	157	IBM	27
12	Total	152	Volkswagen	24
13	ING Group	138	Hitachi	24
14	Citigroup	131	TotalFinaElf	23
15	AXA	130	Verizon	23
16	Allianz	121	Matsushita	22
17	Volkswagen	118	Mitsui & Co.	20
18	Fortis	112	E.On	20
19	Crédit Agricole	111	Sony	20
20	American Intl. Group	109	Mitsubishi	20

Rank	Ranked by Employment		Ranked by Foreign Assets	
	Firm	2005 Employees (*1,000)	Firm	2004 Foreign Assets ($ bil.)
1	Wal-Mart	1,800	General Electric	449
2	China National Petroleum	1,090	Vodafone	248
3	State Grid	844	Ford Motor	180
4	U.S. Postal Service	803	General Motors	174
5	Sinopec	731	BP	155
6	Deutsche Post	503	ExxonMobil	135
7	Agricultural Bank of China	479	Royal Dutch/Shell	130
8	UES of Russia	461	Toyota Motor	123
9	Seimens	461	Total	99
10	McDonald's	447	France Télécom	86
11	Carrefour	440	Volkswagen	84
12	Compass Group	410	Sanofi-Aventis	83
13	China Telecommunications	408	Deutsche Telekom	80
14	United Parcel Service	407	RWE Group	79
15	Gazprom	397	Suez	74
16	DaimlerChrysler	383	E.on	73
17	Ind. & Com. Bank of China	362	Hutchison Whampoa	68
18	Hitachi	356	Siemens	66
19	Sears Holdings	355	Nestlé	65
20	Volkswagen	345	Electricite De France	65

The modern definition of corporations as private entities originated in the decades following the Civil War. In 1886, corporations were given legal rights similar to those of individuals. Corporations were then held accountable to the public only in the sense that they must operate within the confines of the law.

The power of corporations grew considerably around the end of the 19th century. State laws limiting the size of corporations were evaded by the formation of "trusts" feigning independent operation, such as those formed by John D. Rockefeller's Standard Oil. Although public opposition to the trusts mounted, large corporations were able to grow larger by pitting states against each other. In 1889, New Jersey passed the first law allowing one corporation to own equity in others. This initiated a period in which states including New Jersey, New York, Delaware, and others battled to attract large corporations by removing restrictions such as limitations on corporate size and mergers. The most permissive state remained New Jersey; by 1900, 95% of the nation's large corporations had moved their headquarters to that state.

A strong populist movement arose in response to growing corporate power. **Anti-trust laws** were eventually passed, leading to the break up of several large corporations, including Standard Oil. During the 20th century, the resolve to enforce anti-trust regulation waxed and waned. Corporate power was kept in check following the Great Depression as the federal government reasserted its claim that corporations should exist to serve the public good. **Keynesian economics** became the dominant macroeconomic paradigm, which often justified an active government role in economic policy. The power of corporations was also kept in check by a strong labor union movement that peaked in the 1950s.

The tide again shifted in the 1970s as Keynesian economic policies failed to control the twin ills of high unemployment and high inflation. Conservative politicians, particularly Ronald Reagan in the U.S. and Margaret Thatcher in England, fostered the growth of large corporations by relaxing enforcement of anti-trust laws, reducing corporate tax rates, and ushering in a wave of **deregulation**.

The dominant role of free-market capitalism in the global economy was secured with the fall of the Soviet Union and other Eastern Bloc countries near the end of the 20th century. American businesses such as Coke, McDonalds, and Levis quickly expanded into new markets in previously-Communist countries. A "**Washington consensus**" emerged that aligned major economic institutions, such as the World Bank and World Trade Organization, with the ideology of free trade and privatization.

This consensus is generating a fertile field for the world's largest corporations. Trade barriers are being removed through international agreements such as the North American Free Trade Agreement. Corporations are able to take advantage of preferential treatment by nations, reminiscent of the battle between U.S. states to attract businesses 100 years ago. However, unlike corporations at the end of the 19th century, modern corporations are global enterprises that impact the welfare of people from Wall Street to the poorest of developing countries.

Traditional Explanations of the Growth of Large Corporations

Most of the world's largest corporations started as surprisingly small enterprises. Unilever began as a soapmaking company started by two brothers in 1885. Ford Motor Company began in a small factory in Detroit in 1903. Wal-Mart opened with a single store in Arkansas in 1962. How have some firms become so large?

The two traditional economic explanations for the growth of firms have been **economies of scale** and **economies of scope**. Economies of scale arise when a firm lowers its per-unit production costs of a particular product by producing in greater quantity. **Division of labor** through specialization is one reason per-unit costs decrease as production increases. Adam Smith described in the 18th century how a pin factory can increase its output significantly if each worker repeatedly performs a specific task in the production process rather than having each worker independently make complete pins from scratch.

In modern MNCs, economies of scale exist not only because of division of labor but by combining, and often replacing, human labor with mechanized production. Investment in large-scale production equipment and the latest technologies is generally very expensive. These may be affordable only to large firms with substantial financial reserves or access to credit. Thus, firms that are already large can gain a further advantage over smaller competitors. For some products per-unit costs continue to fall as firms become larger. In such cases we would expect that a few very large firms would eventually come to dominate the market. This has occurred in industries such as automobile production and petroleum exploration and refining – notice the presence of several such firms in Table 1.

We should realize that large corporations have not arisen in all markets. In some industries the **minimum efficient scale,** the level of production where average per-unit costs tend to reach their minimum level, is relatively small. This generally occurs for services that are provided in-person directly by the supplier, such as home and auto repair services, child care, and education.[22]

Small firms may actually have an advantage over large firms in many instances. While large firms such as McDonald's and Burger King have come to dominate the low-price restaurant market, brand name franchises and chains are generally absent when it comes to upscale restaurants. One reason is that many customers of higher-priced restaurants seek a special "local" experience that a franchise could not offer.

Economies of scope arise when a firm can lower per-unit costs by expanding the variety of products it makes. Typically a firm will expand its product line by making goods similar to those already being produced, which allows the firm to take advantage of existing marketing networks or production facilities. For example, a telephone company may expand into providing Internet services or an ice cream producer may add yogurt to its product line (as was done by the ice cream manufacturer Breyer's, a company which is

---

[22] An exception, of course, is the provision of education through electronic media such as videos and computers. At least currently, education is primarily provided through in-person contact.

now part of Unilever). Firms may also achieve economies of scope through the production of unrelated products. An example is the **conglomerate** General Electric, which produces such diverse goods as aircraft engines, home appliances, medical equipment, wind power turbines, and televisions, as well as providing financial services to businesses and consumers and owning the television network NBC. Conglomerates can achieve economies of scope through managerial efficiency, financing flexibility, political power, or the centralization of research and marketing.

The International Mobility of Multinational Corporations

While these conventional factors explain the growth of many large corporations, the most notable competitive advantage of MNCs in recent years is likely international mobility – the ability of a firm to transfer resources across national borders. In the decades following World War II the "internationalization" of corporations, primarily American, took place through the establishment of foreign affiliates intended to serve the markets in which they were located. For example, Ford established Ford of Europe in 1967 to produce vehicles for European consumers.

With falling trade barriers and lower transportation costs, firms increasingly look abroad not only for new markets to sell their products but for low-cost production opportunities. MNCs that take advantage of cheap foreign labor gain an advantage over less mobile firms that remain dependent on higher-cost labor. Low-cost foreign labor is a major factor explaining the growth of multinationals in such sectors as electronics and apparel.

Savings from low-cost foreign production are increasingly achieved through contracts with external suppliers, a trend commonly referred to as **outsourcing**. The outsourcing of production jobs to foreign countries is perceived by many to be a primary reason for the loss of traditional "blue collar" jobs in industrial countries. Relying on subcontractors offers MNCs several advantages. First, with short-term contracts and no large capital investments firms can quickly shift to contracts in other countries if even lower costs are possible. Second, corporations can avoid some responsibility for instituting fair labor practices and meeting environmental standards by claiming these are at least jointly the duty of the subcontractors. While MNCs benefit from the flexibility offered through subcontractors, these arrangements can also create harmful social and environmental impacts, as illustrated in Box 2.

4. ASSESSING THE POWER OF LARGE CORPORATIONS

The most difficult problem in assessing the economic and political power of large corporations, and determining whether this power is increasing, is that a commonly-accepted metric measuring corporate power does not exist. Several metrics have been proposed to measure corporate power, but they don't present a unanimous conclusion.[23] We now consider the four most common approaches to assessing corporate power.

[23] Grant, 1998

Industry Concentration Ratios

Industry concentration ratios calculate the receipts of the largest firms in an industry as a percentage of total industry receipts. The most common concentration ratios are based on the largest four, eight, twenty, and fifty firms in an industry. For example, a four-firm concentration ratio of 0.62 means that the largest four firms in the industry account for 62% of all industry receipts. As a rule of thumb, if the four-firm concentration ratio in an industry is above 0.40, the industry is considered to be an **oligopoly** – dominated by a small number of powerful, interrelated firms.

Industry concentration ratios from the United States for 2002 indicate that some industries are oligopolistic while others are not (Table 2). Concentration ratios are quite high in industries such as tobacco, petrochemicals, and cellular communications. Industries such as insurance and real estate are less concentrated.

Table 2. Industry Concentration Ratios in the United States

Industry	Percent of Receipts to Largest Four Firms	Percent of Receipts to Largest 20 Firms
Breweries	90.8	96.4
Tobacco Manufacturing	86.7	98.8
Petrochemical Manufacturing	84.7	99.7
Breakfast Cereals	78.4	98.8
General Book Stores	78.2	81.4
Credit Card Issuing	75.8	96.6
Major Household Appliances	69.5	92.5
Chocolate Manufacturing	69.0	96.7
Cellular Telecommunications	63.4	91.9
Pharmacies and Drug Stores	52.8	65.6
Television Broadcasting	50.2	76.0
Audio and Video Equipment	43.2	78.2
Pharmaceutical Manufacturing	34.0	70.5
Footwear Manufacturing	32.0	73.1
Natural Gas Distribution	18.4	52.8
Textile Mills	13.9	39.6
Insurance Carriers	13.5	39.6
Real Estate	4.7	11.3

Source: 2002 Economic Census, U.S. Census Bureau, (http://www.census.gov/epcd/www/concentration.html).

Box 2. Nike: Just Do it as Cheap as Possible?

Nike is the world's largest apparel retailer with annual revenues around the $15 billion level. While Nike employees about 28,000 people worldwide, amazingly not a single Nike employee makes shoes.[1] All of Nike's shoes, clothing, and other gear are manufactured by foreign firms under contract with Nike, mostly in Indonesia, China, and Vietnam.

The most obvious advantage of manufacturing goods in developing countries is the low cost of labor. Consider that production labor accounts for only about 1%-4% of the price of a pair of Nike shoes. By using foreign outsourcing, Nike and other American corporations often become removed from the circumstances of workers actually making their products. Even though these workers are not corporate employees, large corporations are increasingly held responsible for human rights abuses occurring in "sweatshops" throughout the world.

While Nike has a code of conduct that sets standards for its contractors regarding wages, working conditions, and overtime, the company has been frequently criticized for failing to ensure that these standards are met. A 1997 audit revealed that workers manufacturing Nike shoes at a factory in Vietnam were exposed to hazardous chemicals without protection, paid below the minimum wage, forced to work excessive overtime, and subjected to verbal humiliation and sexual harassment. Similar conditions were found in a Chinese factory making shoes for Nike and Reebok with workers being forced to work 84 hours per week for as little as 25 cents per hour under dangerous working conditions. Workers attempting to form representative unions were dismissed.

Nike vowed to eliminate such abuses and significant improvements have occurred at some facilities, including higher wages, increased transparency, and even some successful attempts to organize unions. Still, abuses persist and wages remain extremely low at other factories. In September 1999, a letter was sent to Nike signed by 45 human rights organizations calling for an end to human rights abuses and poor wages at factories under Nike contract. A November 2001 report found that factory workers in Bangladesh producing Nike shoes worked an average of 78 hours per week with only two days off per month and that workers as young as fifteen were paid only six to eight cents per hour.

In 2006 Nike published a frank report acknowledging that most of its contractor's factories did not meet Nike's standards regarding wages, working hours, and safety. Nike has set various goals to reduce these problems, such as eliminating excessive overtime in contractor's factories by 2011.

1 Derber, 1998

Increasing concentration ratios over time suggest that the largest firms in an industry are becoming more powerful relative to their smaller rivals. Historical data on U.S. concentration ratios have not changed significantly for several decades. Is this an indication that large corporations have not gained power during this period? Not necessarily – concentration ratios have some shortcomings as a measure of corporate power. First, modern conglomerates that arise as a result of mergers and buyouts are typically composed of firms that operate across a broad spectrum of industries. As concentration ratios do not measure the role of cross-industry conglomerates, stable ratios may fail to reveal the growing power of conglomerates. Another problem is that concentration ratios at the national level do not account for foreign competition and would fail to identify the dominance of an industry by a foreign company.

An attempt to measure concentration ratios at the global level suggests that many industries are global oligopolies.[24] In 1990, global concentration ratios across 27 industries ranged from 0.20 to 0.67, with an average of 0.39.[25] The global data also reveal relatively stable concentration ratios over time – between 1962 and 1990 there was little change in the concentration ratios across 15 industrial sectors. Thus, the concentration ratio data at both the national and global level suggest that the concentration of economic power in large corporations has not increased in the last few decades.

Corporate Economic Statistics

A second approach for assessing the power of large corporations is to measure economic variables such as revenues and profits, tracking these over time in relation to broader economic data. As mentioned previously, while global GDP increased by a factor of 3.89 between 1983 and 2005, the revenues of the world's 50 largest firms increased by a factor of 3.92 during this same period. The similar growth rates of these two variables suggest that the economic power of the world's very largest firms has not increased relative to the rest of the economy.

The opposite conclusion is supported when we look at data on corporate assets. The assets owned by the world's 50 largest firms increased by 686% between 1983 and 2001. While no reliable data are available on total global capital assets, data from the U.S. Bureau of Economic Analysis indicates that total fixed non-residential assets in the United States increased by only 77% during this same period.[26] These data suggest, but do not prove, a dramatic increase during the 1980s and 1990s in the concentration of productive assets in the hands of the world's largest corporations.

---

[24] Dunning, 1993

[25] In this case, concentration ratios were calculated as the sales of the largest three firms in the industry divided by the sales of the largest 20 firms in the industry. Where data were available for less than 20 firms, ratios were calculated as the sales of the largest three firms divided by the sales of the number of firms with available data.

[26] U.S. asset data obtained from the BEA's website, http://www.bea.gov/bea/dn/home/fixedassets.htm.

A less dramatic concentration of economic power is suggested by the United Nations data presented earlier showing that the portion of the world's gross product attributed to the world's top 100 MNCs increased from 3.5% to 4.3% between 1990 and 2000. The portion of world gross product, calculated as the sum of the GDPs of all countries, attributed to U.S. MNCs increased from 6.8% in 1994 to 7.3% in 2003, signifying a slight growth of U.S. multinationals relative to the global economy.[27]

The Declining Power of Labor Unions

Corporate power can be assessed by looking at the strength of countervailing forces seeking to limit the influence of corporations. In other words, by looking at the forces that oppose the concentration of power in corporations, we can gain some insight into the power of corporations. Perhaps the most powerful countervailing force to corporate power has historically been labor unions. A decline in union power may signify the ability of corporations to weaken their "opponents."[28] Using union membership as a proxy for the power of labor unions, we would conclude that labor unions are now considerably weaker than in previous decades.

During the period 1980-1994 union membership declined in 13 of 19 OECD countries.[29] Averaged across these 19 countries, union membership in the workforce declined from 46% to 40% during this period. The decline in union membership has been particularly pronounced in the United States, where membership has declined from a peak of around one-third of the workforce in the mid-1950s to around 10% today.

Several hypotheses have been proposed for the decline in union membership. In general, jobs in developed nations have shifted from the manufacturing sector to service-oriented jobs, which tend to be more difficult to unionize. Many companies now take a more aggressive stance against unions, particularly if they have the option of moving production to low-wage countries. Another factor is the anti-union stance taken by some governments, particularly in the United States, during the 1980s. Whatever the reasons, the decline of unions implies an increase in corporate power relative to labor.

Corporate Tax and Subsidy Data

The final approach to assessing corporate power estimates their ability to reduce their tax burden. Corporations can lobby for changes in tax laws or influence the level of tax code enforcement by government agencies. A sign of an increase in corporate power would be a decline in the tax rates paid by corporations.

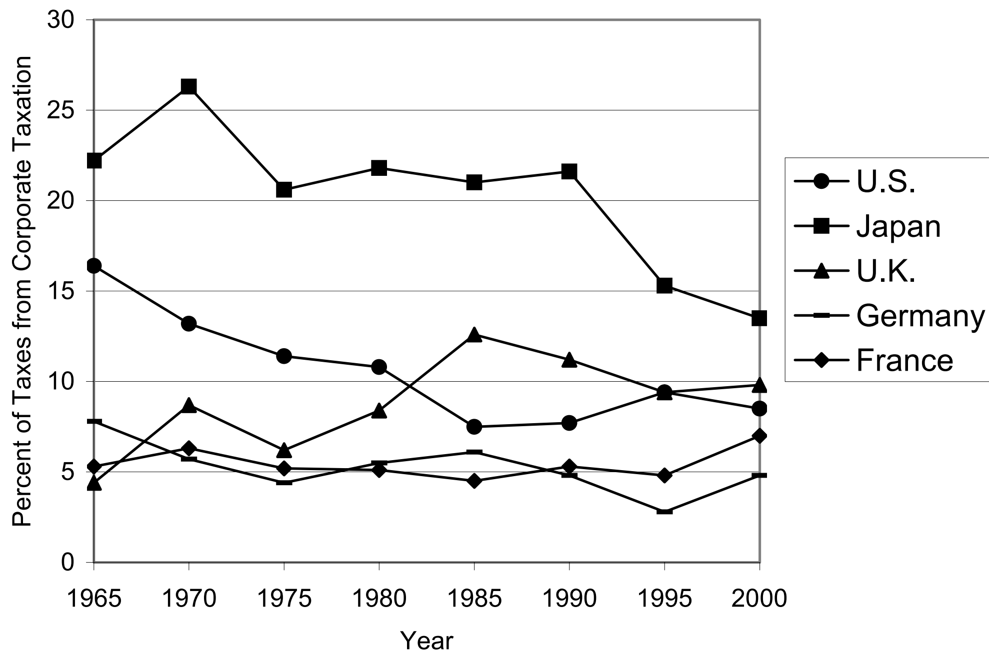
[27] Mataloni, 2005
[28] This does not imply that labor unions oppose the growth of multinational corporations in all respects. For example, to the extent that the expansion of MNCs creates jobs, both management and labor benefit.
[29] Farber and Western, 2000

Data are available on the amount of taxes paid from corporate income as a percentage of total taxes for 23 OECD[30] countries from 1965-2000.[31] In seven of these countries, the portion of total taxes paid by corporations has declined; it has increased in the other 16 countries. In general, European nations have increased the relative tax burden on corporations. The decline in corporate taxation is most prominent in the United States.

Figure 1 presents historical corporate tax shares for the five countries with the most *Fortune* Global 500 companies. The chart indicates that the corporate tax share declined between 1965 and 2000 in the U.S. and Japan, remained relatively stable in France and Germany, and increased in the U.K. Thus, corporations do not appear to be equally effective at reducing their tax share in all countries.

Additional analysis of the tax burden of the largest corporations in the U.S. is enlightening.[32] The statutory tax rate on corporate profits in the United States is 35%. However, the actual tax rates paid by corporations are normally much less because of tax deferrals, credits, and other loopholes. For the period 2002-2003, the average effective tax rate paid by 275 large American corporations was only 17%.

Figure 1. Corporate Tax Share as a Percentage of Total National Taxation, 1965-2000



[30] OECD is the Organization for Economic Co-operation and Development, which includes 30 member countries, primarily developed countries.
[31] OECD, 2002
[32] McIntyre and Nguyen, 2004

Most surprising, many corporations pay negative taxes, actually receiving tax rebates despite making large profits. In 2003, forty-six large U.S. corporations received tax rebates while still making huge profits, including Pfizer, Boeing, and AT&T. Average tax rates are particularly low in the military, telecommunications, and petroleum industries. Any reduction in the portion of taxes paid by corporations means that the proportion paid by other entities, such as individuals and small businesses, must increase.

In addition to reducing their taxes, corporations can also exert political power to obtain public subsidies and tax breaks, referred to by critics as "corporate welfare." Estimates of corporate subsidies and tax breaks in the United States range from $87 billion to over $170 billion per year.[33] The higher value implies that the magnitude of these subsidies and breaks exceeds the total taxes paid by corporations.[34]

The Political Influence of Corporations

Corporations can influence governments through political donations and direct lobbying. Again, we can look at statistics from the United States for insight.

According to the Center for Responsive Politics (CRP) federal lobbying expenses in 2006 were about $2.6 billion, up 16% from two years earlier and up 62% since 2000.[35] This estimate is likely to be too low as many lobbying expenses are difficult to track. With about 4,000 registered lobbyists, this means there are more than seven lobbyists for every member of Congress. Lobbying expenditures equate to about $5 million for every member of Congress.

Large corporations are also avid contributors to political campaigns. Of the top 100 donors to federal political candidates during the 2004 election cycle, about half are corporations while many others are organizations that represent business interests. Top corporate donors in the 2004 election cycle, according to the CRP, included Goldman Sachs ($6.5 million), Microsoft ($3.5 million), Time Warner ($3.4 million), and Morgan Stanley ($3.4 million).

Political contributions and lobbying can be effective in influencing public policy. For example, the CRP suggests that contributions and lobbying from sugar growers, mainly in Florida, have been effective in maintaining federal subsidies to the industry. The ten House and ten Senate members who received the most contributions from sugar interests all voted to keep sugar subsidies in place. The CRP estimates that sugar subsidies cost taxpayers $1.4 billion per year with the largest one percent of U.S. sugar growers – the ones with major political clout – receiving nearly half of the sugar subsidy money.

---

[33] The low estimate is from Slivinski (2001) and the high estimate is from Citizens for Tax Justice (2002).
[34] Citizens for Tax Justice, 2002
[35] Lobbying and political contribution data obtained from the Center for Responsive Politics, http://www.opensecrets.org/.

The Power of International Mobility

As mentioned earlier, a defining characteristic of modern MNCs is their ability to transfer resources across national borders. The more mobile a multinational corporation becomes, the more able it is to relocate production or seek new contractors as a result of changes in national regulations concerning workplace standards, minimum wages, and environmental quality. Nations, concerned about losing employers and tax revenues, may be less apt to set stricter regulations and may even repeal existing regulations. When there is such a "race to the bottom," nations essentially compete to set the lowest standards to attract businesses. A critic of MNCs has said that multinationals

> "are, in effect, conducting a peripatetic global jobs competition, awarding shares of production to those who make the highest bids – that is, the greatest concessions by the public domain."[36]

These concessions may include environmental damage, human rights abuses, and negative social consequences. Examples that support this claim include the country of Malaysia, which attracted manufacturing operations from several semiconductor MNCs in the 1980s by promising them no taxation on earnings in the country for five to ten years and a guarantee that electronics workers would be prevented from forming unions. As another example, the U.S. state of Alabama attracted a Mercedes factory in the early 1990s by providing tax breaks and other subsidies amounting to about $200,000 for each job that would be created by the factory, including a promise to purchase 2,500 Mercedes sport utility vehicles for $30,000 each.[37]

The mobility of MNCs allows them to shift production and profits across national borders in an attempt to reduce their tax burden. An analysis of corporate financial reports from 200 U.S.-based corporations in the 1980s reveals evidence of tax-motivated income shifting across national borders.[38] Again, this creates an environment where nations compete against each other by offering MNCs low tax rates on profits and investments.

Ireland and several Asian countries have attracted MNC production facilities in recent years primarily through offering low tax rates. Other countries such as Bermuda and the Cayman Islands are recognized as tax havens – MNCs are able to avoid taxation in other countries simply by legally incorporating in these havens without moving any production facilities. Corporate profits in countries classified as tax havens rose 735% between 1983 and 1999, while profits in countries that are not tax havens grew only 130%.[39]

While benefiting from competition by nations, MNCs have also obtained powerful concessions in recent international trade agreements. In addition to granting corporations investment protections, these agreements also allow corporations to potentially override national sovereignty. See Box 3 for the implications of how one such international trade

[36] Greider, 1997, p. 82
[37] Greider, 1997
[38] Harris et al., 1993
[39] Johnston, 2002

agreement has provided corporations a powerful new tool for influencing, and even reversing, public policy decisions.

5. THE SOCIAL AND ENVIRONMENTAL RESPONSIBILITIES OF LARGE CORPORATIONS

We now turn to a broader assessment of large corporations beyond the realm of simple economics. Under the textbook conditions of **perfect competition**, business firms maximize their contribution to human well-being simply by seeking to maximize the returns to their shareholders.[40] Yet as mentioned above, large MNCs generally operate in oligopolistic markets. Oligopolies do not tend to be efficient from either an economic or social perspective. By virtue of their sheer magnitude, the activities of MNCs can have large spillover effects on society. The conception of corporations as merely economic entities is being replaced by a view that places corporations in a broader economic, social, and environmental context – often called the "**triple bottom line**."

Benefits of Large Corporations

The growth of large multinational corporations in recent decades has produced some undeniable benefits. The ability of large corporations to seek out low-cost production opportunities provides a benefit to consumers in the form of lower prices. The prices of many manufactured goods, such as televisions and home appliances, have declined in real terms through improvements in technology and cheaper labor. In addition to low prices, large corporations are also capable of providing a familiar product of consistent quality in different regions of the world. For example, the fast-food restaurant chain McDonald's serves food with similar standards in more than 30,000 locations in over 120 countries, while still tailoring its products to local markets.

Large corporations offer some advantages to their employees, who are more likely than workers in small firms to receive fringe benefits such as health care and pensions. Average wages in the U.S. for employees working in firms with more than 500 employees tend to be higher than in firms with fewer employees. Also, many large corporations that have been in existence for decades are unlikely candidates for bankruptcy (although there are some recent exceptions to this such as United Airlines and K-Mart[41]). The stability of large corporations is attractive to investors seeking security and relatively stable returns.

[40] The Nobel Prize-winning economist Milton Friedman wrote that "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game …" (Friedman, 1990).

[41] These firms are still in existence through reorganization efforts after filing for bankruptcy.

Box 3. Corporate Power and Free Trade Agreements

A common element of most international trade agreements is that foreign investors are accorded rights no less favorable than those available to domestic investors. These protections clearly promote foreign investment and can foster economic development. However, some international trade agreements give foreign corporations expansive investment rights unavailable to domestic corporations, and even the power to overrule domestic legislation.

Consider the rights granted to foreign investors under the North American Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico. Chapter 11 of NAFTA specifies that no party to the agreement may "nationalize or expropriate an investment" or "take a measure tantamount to nationalization or expropriation" of a foreign investor without sufficient compensation. While the purpose of this clause appears to be simply to protect foreign investors from seizure of private property, in practice it has had much broader implications:

> "Since the agreement's enactment corporate investors in all three NAFTA countries have used these new rights to challenge a variety of national, state, and local environmental and public health policies, domestic judicial decisions, a federal procurement law and even a government's provision of parcel delivery services as NAFTA violations."[1]

NAFTA permits investors (typically corporations) to sue a host government. In at least 17 cases to date corporations have filed complaints against NAFTA signatories under the Chapter 11 provisions, most of these claiming economic losses related to environmental regulations.[2] In the first claim under Chapter 11 in 1996, the U.S.-based Ethyl Corporation claimed that Canada's proposed ban on the import of the gasoline additive MMT constituted expropriation. Ethyl Corp. was the world's only producer of MMT, which contains manganese, a known human neurotoxin that has been banned in several U.S. states. The case was settled in 1998 when Canada paid Ethyl Corp. $13 million, withdrew the ban, and published a letter stating that there was no scientific evidence of harmful human health effects from MMT.

The case demonstrated that a foreign corporation could force a national government to change its environmental policies in the interest of free trade. While not all Chapter 11 cases have resulted in victories for corporations other cases have successfully challenged a Mexican municipality's refusal to grant a construction permit for a hazardous waste site and Canada's ban of PCB exports. While the overall economic and environmental impact of these few Chapter 11 cases is relatively minor, the greater impact may be that national and local regulators are reluctant to set new public safety regulations over concerns about corporate challenges, an effect known as "regulatory chill."

1 Public Citizen and Friends of the Earth, 2001, p. i
2 IISD and WWF, 2001

Large corporations implicitly recognize their interconnection with society in their donations to non-profit organizations. For example, Wal-Mart donated a total of $270 million in 2006 to thousands of organizations. Exxon-Mobil describes how they helped create the Save the Tiger Fund, which has collected about $13 million since 1995 to fund conservation projects around the world. General Motors reports on their cooperative efforts with Detroit-area schools to curb youth violence. In the late 1990s, annual contributions by American companies and their foundations amounted to over $8 billion.[42]

Corporate Scandals

Perhaps the most obvious responsibility of corporations is that they obey existing laws. The regulation of corporate business practices has received increased attention in response to a wave of corporate scandals in the last few years. While the specific circumstances vary in each scandal, the primary issue has been the exaggeration of profits, and consequently stock prices, using unethical or illegal accounting practices. In most cases, top corporate executives sold billions of dollars worth of stock at inflated prices, while ordinary investors suffered large losses when the firm's financial problems eventually became known.

The accounting scandals in recent years can be linked to the widespread use of stock options as a means of executive compensation in the late 20th century. Many economists supported this practice – arguing that executives would manage corporations for the benefit of all shareholders if their compensation were linked to the firm's stock price. In addition to a regular salary, top executives are given shares of the firm's stock. Unfortunately, economic theorists and corporate regulators failed to address a critical problem with the practice. Executives with large stock holdings also have an incentive to temporarily inflate the firm's stock price and sell their shares at elevated prices. By the time the firm's stock price eventually falls, executives can make huge profits while those holding the stock during the crash lose billions.

Complex accounting methods often permitted executives to keep losses and liabilities off the books. Consider the case of WorldCom, the telecommunications firm whose stock price fell from over $60 a share to just pennies as it became evident that the company's profits had been overstated by nearly $4 billion. While WorldCom's bookkeeping deception has been the largest measured in dollars, the scandal at Enron is perhaps the most famous because of its fast-paced culture of greed and influence at the highest levels of government (see Box 4).

Social and Environmental Impacts of Large Corporations

Economic activities often impact those who are not involved in the activity. For example, a corporation manufacturing automobiles generates pollution and the cost of this pollution is borne by nearby residents. External costs (or benefits) arising from economic activities are referred to as **externalities.** While firms of any size can create

[42] Deutsch, 1998

Box 4. Power Failure at Enron

Enron started humbly enough in 1985 from the merger of two natural gas pipeline companies. The rise of Enron over the next 15 years was meteoric. As a result of pipeline deregulation, Enron emerged as an energy trader – matching buyers and sellers while making huge profits as a broker. Enron also expanded into other business areas, including water, fiber optics, newsprint, and telecommunications. Annual revenues rose from about $9 billion in 1995 to over $100 billion in 2000. Enron was listed as the 6th largest company in the world, by revenues, in 2001. Enron was a major political contributor, with nearly $6 million in campaign contributions since 1990. President George W. Bush referred to Enron CEO Ken Lay as "Kenny Boy." Enron frequently appeared on lists of the "best companies to work for" and "most innovative companies."

The Enron bubble burst over a period of a few months in late 2001. Enron's stock price had already been sliding for months, from $80 per share in February to around $30 in early October. Enron had been using its stock value as collateral to obtain loans from complicated "partnerships." These partnerships allowed Enron, using questionable accounting techniques, to exclude this debt from its annual reports and thus inflate its apparent profits. On October 16, 2001, Enron third-quarter report indicated a $638 million loss along with an unexplained reduction in shareholder equity of $1.2 billion related to these partnerships.

After this announcement, things unraveled quickly. The Securities and Exchange Commission announced an investigation the next week. By early November, Enron's stock price had fallen to less than $10 per share, forcing it to borrow billions of dollars in an attempt to save the company. Enron's accounting firm, Arthur Anderson, was accused of shredding documents and complicity in the deception. Enron's stock was downgraded to "junk" status and hit $0.70 per share on Nov. 28. On December 2, Enron filed for bankruptcy.

Investors lost about $60 billion in the Enron collapse. Among the hardest hit were Enron employees who had most of their 401(k) retirement value in Enron stock. Many of these employees saw their retirement savings completely depleted. In May 2006 former chief executive Jeffrey Skilling and founder Kenneth Lay were found guilty of numerous counts of conspiracy, fraud, false statements, and insider trading. While Lay died in July 2006, Skilling is currently serving a 24-year sentence.

externalities, multinational corporations can use their political influence to avoid bearing responsibility for significant external costs.

> "Given the close relation between minimizing costs and maximizing profits, it is natural to assume that an organization that seeks profits and has significant political power will feel some motivation to use that power to externalize costs, where possible. This motivation may be held in check by ethical considerations, by regulation, or by a fear of backlash from groups that might harm the organization; for example, consumer groups, or others who could mobilize effective public opinion."[43]

When corporations manage to externalize some of the costs of doing business these costs are then not part of the market feedback loop that tells the firm to do more of certain activities and less of others. The increase in profits a firm receives as a result of a particular business decision may be more than offset by the additional costs imposed on society.

Large firms also use their power to shift some of the costs of doing business onto the public sector. As an example, a large firm may convince a municipality to build a new road near a production or distribution facility. The benefits the firm receives from the road may be disproportional to the costs it pays through taxes – effectively the public provides a subtle subsidy to the firm.

The benefits firms obtain from being able to impose externalities and shift costs to others are difficult to measure in economic terms. The only available estimate of the total public cost incurred to support the operations of private corporations was $2.6 trillion for 1994 in the United States.[44]

Voluntary Efforts at Corporate Reform

Corporations are required by law to publish annual financial reports. Recognizing their broader responsibilities conceptualized in the triple bottom line, nearly all large MNCs also publish reports detailing their impacts on societies and the environment. For example, Shell publishes annual data on its efforts to reduce emissions of greenhouse gases and Unilever describes their efforts to purchase raw materials from local suppliers in developing countries.

A problem with these publications is a lack of standardization and independent verification. A notable effort to increase the transparency and consistency of corporations' environmental and social performance is the **Global Reporting Initiative** (GRI). The GRI, founded in 1997, seeks to:

[43] Goodwin, 2003
[44] Estes, 1996

> “develop and disseminate globally applicable sustainability reporting guidelines for voluntary use by organizations reporting on the economic, environmental, and social dimensions of their activities, products, and services.”[45]

The GRI has published reporting guidelines for firms wishing to participate in the project.[46] So far, about 1,000 500 corporations have adopted these guidelines in preparing reports, including AT&T, Ford Motor Company, Nike, Nissan, and Shell. These guidelines explicitly incorporate the triple bottom line concept of financial, environmental, and social issues.

Another voluntary attempt to increase the transparency of corporate activities is eco-labeling. Eco-labels either indicate the overall environmental impacts of a product, or else identify those products that pass certification criteria. Eco-labeling is now common in such industries as major home appliances, forestry products, and organic foods. For example, Home Depot seeks to purchase wood that has been certified by the Forest Stewardship Council as meeting a list of ten environmental and social criteria.

A controversial issue is whether firms with elevated social or environmental performance also perform better financially. Until the stock market downturn in 2000 and 2001, the majority of research suggested that firms with high social performance, as measured by various indices, also have better-than-average economic performance.[47] However, about one-third of the studies comparing economic and social performance find a negative relationship between the two variables. Further research is needed, particularly on the validity of techniques for measuring social and environmental performance.

6. INSTITUTIONAL REFORM OF LARGE CORPORATIONS

It is unlikely that MNCs will fully align their behavior with the broader social and environmental goals of society solely through voluntary measures. A significant limitation is that corporate decision makers typically focus on the demands of shareholders and fail to consider the impacts of their decisions on other affected groups. These **stakeholders** include all parties who are impacted by corporate decisions, including consumers, workers, suppliers, creditors, those living near production facilities, and people of the future who will be affected by environmental and other impacts.

We will next consider the ability of stakeholders to initiate corporate reforms through direct action. Yet these efforts alone will not be sufficient to institute meaningful change. Rules and regulations, at national or international levels, will be necessary if the interests of stakeholders are to be formalized. We will conclude with a discussion of some types of regulations that can influence corporate behavior, first at the national level then at the international level.

---

[45] GRI, 2000, p. 1
[46] See their website at see www.globalreporting.org.
[47] Griffin and Mahon, 1997

Stakeholder Actions

Consumers, non-governmental organizations, and other stakeholders can make their preferences known through boycotts and protests. Consumer boycotts and public information campaigns have been instrumental in leading to corporate change in some instances, such as the packaging used by McDonald's and the fishing techniques used to harvest tuna.

The unfavorable media attention arising from consumer boycotts can lead to reduced sales and profits. A *Business Week* (2000) article notes:

> "Citizen attacks on corporations have been surprisingly effective, and many executives have seen how stonewalling and defensiveness have boomeranged. In some cases, the criticism intensifies, with the potential to damage brand images and sales, undermine companies' standing with regulators and politicians, and, ultimately, whack a company's stock price."

The nascent protest movement commonly referred to as "global democracy" and epitomized by the Seattle protests at the World Trade Organization's ministerial conference in 1999, emphasizes the goal that all stakeholders be fairly represented in international trade negotiations. The effectiveness of the global democracy movement has been limited by a couple of factors. First, it is still loosely organized, comprised primarily of single-issue groups dedicated to the environment, workers rights, women's issues, or health topics. It is also hampered by being perceived as a group of radical elitist protesters rather than one that offers logical discourse.

Another way that stakeholders can influence corporations is through their investment decisions. Increased transparency on environmental and social issues allows investors to seek out corporations that behave in a socially responsible manner or screen out corporations based on certain criteria. Between 1995 and 2005 the amount of money involved in socially responsible investing in the U.S. grew slightly faster than the overall growth in managed investments. In 2005, about 9% of all investments in the U.S. were in socially responsible assets, or about $2.3 trillion.[48] As mentioned earlier, the evidence is unclear whether socially responsible firms perform better or worse, on average, than other firms. Some investors may even be willing to accept below-market rates of return when investing in corporations that pay good wages, provide job security, reduce environmental impacts, or otherwise benefit the broader community.

Another potentially important investment trend is the growing concentration of corporate stock held by institutional owners, including mutual funds and pension plans. In the early 1970s individuals owned about 75% of corporate stock in the United States. By 2000, institutions owned about 60% of the stock in the 1,000 largest U.S. corporations.[49] The increase in institutional ownership provides an opportunity for organized and effective influence in matters of corporate governance. While institutional influence on

---

[48] Social Investment Forum, 2006

[49] Hawley and Williams, 2000

corporations has been, so far, primarily used to promote the interests of shareholders, the influence of institutional owners continues to increase and could be used to promote the interests of other stakeholders as well. As an example, in November 2003 institutional investors representing over $1 trillion in assets met at the United Nations to call for increased disclosure by corporations of the risks of global climate change to investors.

Corporate Reform at the National Level

While direct action by consumers and investors has initiated some corporate reforms, it still remains the task of governments to set the legal boundaries for corporate behavior. Several reforms could be instituted at the national level to reduce the externalities MNCs impose on society and increase social well-being.

Corporate taxation can be viewed as a way to collect fees from corporations to finance public services and as compensation for external costs imposed on society. As mentioned above, existing loopholes in national tax policies allow some corporations to achieve very low, even negative, rates of taxation on profits. Some proposed reforms that could be enacted in the U.S. include:

> "focusing on the long list of corporate tax breaks, or as they are officially called, 'corporate tax expenditures' … They could rethink the way the corporate income tax currently treats stock options. They could adopt restrictions on abusive corporate tax sheltering … They could reform the way multinational corporations allocate their profits between the United States and foreign countries, so that U.S. taxable profits are not artificially shifted offshore. In short, the corporate income tax code is overdue for a deep examination of how we tax, or fail to tax, our major corporations."[50]

The benefits of corporate tax avoidance accrue to a small portion of any society, while the loss of tax revenue means that the majority suffer from loss of services or higher taxes. The fact that there has not yet been serious debate on the prospect of outlawing the use of offshore tax havens is persuasive evidence for the deep political power of MNCs.

Enforcement of antitrust laws is an obvious means to limit the power of large corporations that obtain monopoly power. More rigorous enforcement could be used to increase competition in industries with high concentration ratios. Greater scrutiny of proposed mergers is another measure for preventing the concentration of market power.

Campaign finance reform could limit the power of corporations in the political arena. The McCain-Feingold reform bill passed by the U.S. Congress in March 2002 was designed to end unlimited soft money[51] contributions to political parties. Yet, as demonstrated in the 2004 election cycle, this reform can be essentially circumvented through donations to independent organizations that supposedly support issues rather than

---

[50] McIntyre and Nguyen, 2004, p. 15

[51] Soft money is political contributions designated for general "party building" activities rather than supporting a particular candidate. In practice it can be difficult to differentiate between the two purposes.

candidates. Some reformers propose that the ultimate solution to control the influence of money on politics is to finance campaigns with public funds.

National regulations can stipulate that stakeholders need to be formally integrated into the decision making process of corporations. One movement that has met with some success is increasing the role of labor in corporate decisions. In Germany, as well as other European countries, **works councils** are elected to:

> "institutionalize worker rights to information and consultation on the organization of production and, in some cases, codetermination of decision making, In addition to institutionalizing worker input, works councils also enforce state regulation of the workplace in such areas as occupational health and safety. They are seen as being able to extend their reach beyond the unionized sector while supplementing the work that unions already do."[52]

Other proposals for corporate restructuring are more radical. As corporate behavior has broad impacts on a community, some theorists argue that the broader community needs to be explicitly brought into the management process of corporations. Modest proposals would require a community representative or other external voice on the board of corporations. More ambitious proposals would transfer varying degrees of ownership to the community or seek to reestablish large corporations as entities that are specifically chartered to provide for the overall welfare of society.

Corporate Reform at the International Level

As corporations increasingly operate in a global market that transcends national boundaries, the possibility of using their mobility to avoid national regulation increases. Thus, the regulation of MNCs is often best approached at the international level through treaties, international institutions, and the coordination of national policies: "… there is no world government with enforceable laws for markets. Hence international agreements are needed to develop civil governance."[53]

For all practical purposes international institutions to enact and enforce corporate regulations are currently non-existent and unlikely to arise in the near future. Fortunately, an effective global corporate regulatory system does not necessarily require international rules and oversight. Distinct national approaches can be effective if structured within a flexible and enforceable international framework. Consider the current variability of national tax policies. International competitiveness for corporate investment can lead to inefficient corporate behavior as firms spend resources to shift income across national boundaries to lower their taxes. There could be significant public benefit if nations could agree to set tax policies that are similar enough to discourage corporate mobility that has no productive purpose.

---

[52] Gallagher, 1998, p. 220
[53] Bruyn, 2000, p. 200

Currently, international trade agreements likely provide the most effective means to regulate MNCs. The key to international trade agreements that reduce corporate externalities is that all stakeholders be represented. Progress is slowly being made to include non-corporate interests in international trade negotiations and advisory committees. However, a look at the composition of trade advisory committees in the United States reveals a striking imbalance. Of the 111 members of the three major trade advisory committees in the early 1990s, 92 represented individual corporations and 16 represented trade industry associations. Only two represented labor unions and one represented environmental advocacy groups.[54]

The prospect for international trade agreements that direct corporations to incorporate social and environmental objectives rests on the issues of accountability and transparency. Unfortunately, international trade policy is currently conducted under circumstances that are deficient on both counts. Trade representatives are appointed, not elected, and the meetings of the World Trade Organization (WTO), the primary international trade agency, are conducted behind closed doors.

The global democracy movement, mentioned above, is leading the push for greater accountability and transparency in international trade agreements. This movement still needs to present a coherent alternative to the Washington consensus dominating trade discussions. Another necessity is to form alliances with other parties pursuing similar, but not necessarily the same, objectives. For example, developing nations are often doubtful of the benefits of globalization based on rules dictated by the wealthy nations and MNCs. But the developing nations are also fractured, disagreeing about what constitutes fair trade rules. Any meaningful counterweight to the current regime of globalization will require that different stakeholders work out their differences to present a just and sustainable alternative.

7. CONCLUSIONS

The economic significance of multinational corporations has been illustrated in several ways. Their economic scale is increasing, particularly when measured according to their ownership of productive assets. While economies of scale and scope have contributed to the growth of MNCs, the dominant characteristic of modern MNCs is their transnational mobility in seeking low-cost production opportunities.

MNCs wield significant political power but precise measurement of this power remains elusive. Corporate power appears particularly evident in the United States, where corporations have lobbied to lower their share of total taxes, receive substantial subsidies, and impose externality costs upon society. The political power of MNCs is also evident in international trade agreements, under which corporations can challenge the regulations of democratic sovereign governments.

---

[54] Public Citizen, 2000

Pressure from a number of directions is pushing MNCs to become more transparent and accountable regarding their social and environmental impacts, but much more needs to be done. Assuring that the objectives of MNCs converge with the broader goals of society is unlikely to be accomplished by voluntary reforms or national regulations. The transnational mobility of MNCs implies that international action is required. The difficulty is that MNCs exert significant influence over international agreements. Only if the interests of all stakeholders are represented in these agreements will meaningful change occur.

REFERENCES

Anderson, Sarah, and John Cavanagh. 2000. Top 200: The Rise of Corporate Global Power. Institute for Policy Studies, Washington, D.C.

Bruyn, Severyn T. 2000. A Civil Economy: Transforming the Market in the Twenty-First Century. The University of Michigan Press, Ann Arbor, MI.

Business Week. 2000. "Too Much Corporate Power?" Business Week Online: September 11, 2000.

Citizens for Tax Justice. 2002. "Surge in Corporate Tax Welfare Drives Corporate Tax Payments Down to Near Record." (April 17, 2002). Available at http://www.ctj.org/html/corp0402.htm.

Derber, Charles. 1998. Corporation Nation: How Corporations Are Taking Over Our Lives and What We Can Do About It. St. Martin's Press, New York.

Deutsch, Claudia H. 1998. "Corporations Adopt a Different Attitude: Show Us the Value," in Corporate Power in the United States (Joseph Sora, ed.), H.W. Wilson Company, New York.

Dunning, John H. 1993. Multinational Enterprises and the Global Economy. Addison-Wesley Publishing Company, Wokingham, England.

Estes, Ralph. 1996. Tyranny of the Bottom Line: Why Corporations Make Good People Do Bad Things. Berrett-Koehler Publishers, San Francisco.

Farber, Henry S. and Bruce Western. 2000. "Round Up the Usual Suspects: The Decline of Unions in the Private Sector, 1973-1998." Princeton University Industrial Relations Section Working Paper #437 (April 2000).

Fortune. Global 500. 2007. Available at http://money.cnn.com/magazines/fortune/global500/2006/full_list/

Freidman, Milton. 1990. "The Social Responsibility of Business Is to Increase its Profits." In The Essentials of Business Ethics (Peter Madsen and Jay M. Shafritz, ed.), Meridian, New York.
Gallagher, Kevin. 1998. "Emerging Patterns of Industrial Relations: Overview Essay." In The Changing Nature of Work, (eds. Frank Ackerman, Neva R. Goodwin, Laurie Dougherty, and Kevin Gallagher). Island Press, Washington, D.C.

Global Reporting Initiative. 2000. "Sustainability Reporting Guidelines on Economic, Environmental, and Social Performance."

Goodwin, Neva. 2003. Unpublished memo. Global Development and Environment Institute, Tufts University.

Grant, Randy R. 1998. "Measuring Corporate Power: Assessing the Options," in Corporate Power in the United States (Joseph Sora, ed.), H.W. Wilson Company, New York.

Greider, William. 1997. One World, Ready or Not: The Manic Logic of Global Capitalism. Simon & Schuster, New York.

Griffin, Jennifer J., and John F. Mahon. 1997. "The Corporate Social Performance and Corporate Financial Performance Debate," *Business & Society*, vol. 36(1):5-31.

Hawley, James and Andrew Williams. "Some Implications of Institutional Equity Ownership." *Challenge* 43 (July/August 2000):43-61.

Harris, David, Randall Morck, Joel Slemrod, and Bernard Young. 1993. "Income Shifting in U.S. Multinational Corporations." In Studies in International Taxation, (eds. Alberto Giovannini, R. Glenn Hubbard, and Joel Slemrod). The University of Chicago Press, Chicago.

Hertz, Noreena. 2001. The Silent Takeover: Global Capitalism and the Death of Democracy. William Heinemann, New York.

International Institute for Sustainable Development (IISD) and World Wildlife Fund (WWF). 2001. Private Rights, Public Problems: A Guide to NAFTA's Controversial Chapter on Investor Rights. International Institute for Sustainable Development, Winnipeg.

Johnston, David Cay. 2002. "Key Company Assets Moving Offshore," *The New York Times*, November 22, 2002, sec. C, p. 3.

Kelly, Marjorie. 2003. "The Legacy Problem," *Business Ethics*, Summer 2003: 11-16.

Korten, David C. 2001. When Corporations Rule the World, 2nd edition. Kumarian Press, Inc., Bloomfield, CT and Berrett-Koehler Publishers, Inc., San Francisco.

Mataloni, Raymond, Jr. 2005. "U.S. Multinational Companies: Operations in 2003," *Survey of Current Business*, July 2005, p. 9-29.

McIntyre, Robert S., and T.D. Coo Nguyen. 2004. "Corporate Income Taxes in the Bush Years." Citizens for Tax Justice and Institute on Taxation and Economic Policy, Washington D.C.

Organization for Economic Co-operation and Development (OECD). 2002. Revenue Statistics, 1965-2001. OECD, Paris.

Public Citizen, “On Procedures for Obtaining Trade Policy Advice from Non-Governmental Organizations,” public comments submitted in response to 65 Federal Register 19423, July 10, 2000.

Public Citizen and Friends of the Earth. 2001. “NAFTA Chapter 11 Investor-to-State Cases: Bankrupting Democracy.” Public Citizen, Washington D.C., September 2001.

Social Investment Forum. 2006. “2005 Report on Socially Responsible Investing Trends in the United States,” SIF Industry Research Program, January 2006.

Slivinski, Stephen. 2001. “The Corporate Welfare Budget Bigger Than Ever.” Cato Policy Analysis No. 415 (October 10, 2001).

United Nations Conference on Trade and Development. 2006. World Investment Report 2006, FDI from Developing and Transitional Economies: Implications for Development. United Nations, New York and Geneva.

United Nations Conference on Trade and Development. 2002. World Investment Report 2002, Transnational Corporations and Export Competitiveness. UNCTAD/WIR/2002. United Nations, New York and Geneva.

United Nations Conference on Trade and Development. 1992. World Investment Report 1992, Transnational Corporations as Engines of Growth. ST/CTC/130. United Nations, New York.

U.S. Census Bureau. 2007. Statistical Abstract of the United States, 2007. Washington D.C. Available at http://www.census.gov/compendia/statab/.

DISCUSSION QUESTIONS

1. Discuss the impact of large corporations on your life. What benefits do you obtain from large corporations? What negative impacts do large corporations have on your life? Overall, would you say that large corporations have a net positive or negative impact on your life? Why?

2. How would your answer to Question #1 change if you were a 16-year old woman making Nike shoes at a factory in Indonesia? What if you were the owner of a small neighborhood hardware store?

3. Do you feel that large multinational corporations are subject to competition? Would you say that a multinational corporation is subject to more or less competition than a local retail store? Why?

4. After reading the section on the history of large corporations, do you believe that corporate charters should be subject to revocation if they fail to operate in the public interest? Why or why not? Consider who would be affected if a corporation's charter was revoked.

5. As discussed in this module, the scale of many multinational corporations is similar is size to some national economies. How are corporations similar to national economies? How are they different? Contrast the decision-making process in a national and business economy.

6. Suppose the industry concentration ratio is increasing for a particular industry, say credit cards. How would you expect the credit card industry to change if the concentration ratio increased? What would you expect to happen to the interest rate on credit cards? Do you think it would be easier or harder to get a credit card if you have bad credit?

7. Do you believe that changes in the operations of large corporations are more likely to occur because of government regulation or changes in consumer behavior? Why?

8. Do you believe that the general public is entitled to a role in the management of large corporations? Why or why not? Further, do you believe the general public is entitled to ownership rights in large corporations? Why or why not?

ADDITIONAL RESOURCES

- Several of the publications referenced in this module are good sources for additional information on corporate power. Derber (1998), Hertz (2001), and Korten (2001) are all potential sources for additional readings. Several articles on corporate power issues are summarized in Frontier Issues in Economic Thought, Volume 5: The Political Economy of Inequality (edited by Frank Ackerman, Neva R. Goodwin, Laurie Dougherty, and Kevin Gallagher, Island Press, Washington D.C., 2000) and Frontier Issues in Economic Thought, Volume 6: A Survey of Sustainable Development (edited by Jonathan M. Harris, Timothy Wise, Kevin Gallagher, and Neva R. Goodwin, Island Press, Washington D.C., 2001).

- The Anderson and Cavanagh (2000) report is available for free download from the Institute for Policy Studies at http://www.ips-dc.org/reports/top200.htm. The McIntyre and Nguyen (2004) report is also available on-line at http://www.ctj.org/corpfed04an.pdf.

- Many other corporate power resources are available on the Internet. In addition to the Anderson and Cavanagh (2000) report, the Institute for Policy Studies has reports on corporate accountability, the North American Free Trade Agreement, CEO pay, and other issues concerning globalization and corporate power. Their home page is http://www.ips-dc.org/. The organization CorpWatch operates a web site at http://www.corpwatch.org/. Their mission is to counter "corporate-led globalization through education and activism." Their site includes information about a wide range of issues including climate change, biotechnology, international trade, and political donations. They also maintain a large number of links to other web sites. Note that a similar site based in the United Kingdom maintains a web site at http://www.corporatewatch.org/. A more radical web site is operated by the Corporate Accountability Project at http://www.corporations.org/. Their site provides numerous links with more information on the dangers of large corporations. The organization Common Cause focuses on campaign finance reform and accountable government, see http://www.commoncause.org/.

- Social and environmental reports are available on-line from almost any large corporation. The *Fortune* list of the best companies to work for can be found at http://money.cnn.com/magazines/fortune/bestcompanies. Data on industry concentrations ratios can be found from the 2002 Economic Census, available at http://www.census.gov/epcd/www/concentration.html

KEY TERMS AND CONCEPTS

Anti-trust laws: legislation to control the market power of corporations

Conglomerate: a firm involved in the production of many unrelated goods and services

Deregulation: the removal of government controls from an industry; intended to increase competition

Division of labor: the separation of a production process into many individual tasks with each worker performing the same task repeatedly

Economies of scale: the per-unit costs of production decrease as the overall scale of production increases

Economies of scope: the per-unit costs of production decrease as a firm produces a broader range of goods and services

Externalities: costs of an economic activity that are borne by persons, or entities such as the environment, that are not among the economic actors directly responsible for the activity

Global Reporting Initiative: an attempt to develop and promote a standardized approach for corporations to report on their economic, environmental, and social activities and impacts

Industry concentration ratios: the amount of domestic receipts of the largest firms in an industry as a percentage of national industry receipts

Keynesian economics: an approach to economic policy, developed by John Maynard Keynes, that often concludes that government policies can affect the macroeconomic variables in a national economy

Minimum efficient scale: the smallest level of production at which the per-unit long-run production costs of a firm reach their lowest level

Multinational corporations: firms that own and operates subsidiaries in more than one country

Oligopoly: an industry dominated by a few, interdependent firms

Outsourcing: when a corporation contracts to other, often foreign, businesses for production, marketing, distribution, or other goods or services

Perfect competition: an industry composed of many price-taking firms that each set quantity but cannot influence the industry price

Stakeholders: individuals or groups affected by the actions of an economic entity, such as a corporation, who are not direct owners of the entity

Triple bottom line: the perspective that a firm should measure performance along three axes: financial, environmental, and social.

Value added: a measure of the true economic contribution of a firm; calculated as a firm's revenues minus the cost of inputs.

Washington consensus: the broad general agreement between international economic institutions such as the World Bank and the International Monetary Fund, to seek economic development through liberalization policies such as reduced trade barriers, lower taxes, increased capital flows, and fiscal restraint by governments.

Works councils: an institutional arrangement, primarily found in Europe, whereby workers are formally integrated into the decision making process of a firm