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GLOBAL REACH: THE POWER OF THE MULTINATIONAL CORPORATIONS. By Richard J. Barnet and Ronald E. Muller. / INTERNATIONAL REGULATION OF MULTINATIONAL CORPORATIONS. By Don Wallace, Jr. / U.S. POWER AND THE MULTINATIONAL CORPORATION: THE POLITICAL ECONOMY OF FOREIGN DIRECT INVESTMENT. By Robert Gilpin.

Stephen Zamora

BOOK REVIEW

GLOBAL REACH: THE POWER OF THE MULTINATIONAL CORPORATIONS. By Richard J. Barnet[1] and Ronald E. Muller.[2] New York: Simon and Schuster. 1974. Pp. 508.

INTERNATIONAL REGULATION OF MULTINATIONAL CORPORATIONS. By Don Wallace, Jr.[3] New York: Praeger (Praeger Special Studies in International Business, Finance and Trade). 1976. Pp. 233.

U.S. POWER AND THE MULTINATIONAL CORPORATION: THE POLITICAL ECONOMY OF FOREIGN DIRECT INVESTMENT. By Robert Gilpin.[4] New York: Basic Books. 1975. Pp. 291.

Reviewed by Stephen Zamora[5]

Since the early 1970's, there has been an explosion of interest and research related to the study of international business and foreign investment. The concern is no longer with "monopoly" or "big business," the terms traditionally used by liberal economists to define the ills of concentrated economic power. A new category of business endeavour—the multinational corpora-

1. Mr. Barnet is a founder and co-director of the Institute for Policy Studies based in Washington, D.C. He has taught at Yale and the University of Mexico and was an adviser in the State Department during the Kennedy administration. He is the author of *The Economy of Death* and *The Roots of War*. Mr. Barnet is currently assisting in the development of the Transnational Institute, an organization devoted to the problems of world economy and politics.

2. Mr. Müller is Professor of Economics at the American University, Washington, D.C. He is the author of *The Global Corporation and Latin America: Past, Present, and Future* (1976).

3. Mr. Wallace is a Professor of Law at Georgetown University Law Center, Director of the Institute for International and Foreign Trade Law, and also serves as co-director of the Institute's Investment Negotiation Center. In addition, Mr. Wallace is vice-chairman of the International Law Section of the American Bar Association, and chairs the Committee on Transnational Corporations of the American Branch of the International Law Association.

4. Mr. Gilpin is a Professor of Politics and International Affairs at Princeton University. He is the author of *France in the Age of the Scientific State* (1968), and *American Scientists and Nuclear Weapons Policy* (1962).

5. B.A., 1966, Stanford University; J.D., 1972, University of California at Berkeley. Member of the California and District of Columbia Bars. Mr. Zamora is an attorney in the Legal Department of the World Bank.

tion—has been defined by academicians to distinguish the large, contemporary corporations from the large, but relatively simple, monopolies of the turn of the century. It is not only the critics of multinational corporations who recognize the uniqueness of such a distinction; proponents as well have agreed that the multinational corporations represent a dramatic refinement of the traditional business enterprise.[6]

The multinational corporation, as that term is presently used,[7] refers to any large business corporation in which the ownership, management, production, and marketing extend into several national jurisdictions. Such a closely managed organization is uniquely a product of the rapid communication and highly sophisticated technology of the past 15 or 20 years. The increasing concentration of economic power in such large, global corporations has caused students of international economics to begin focusing attention on the benefits, disadvantages, and possible public controls that may be associated with them.[8]

In the last five years, beginning with the publication of Raymond Vernon's influential *Sovereignty at Bay* in 1971,[9] hundreds of books, articles, and studies have been published on the subject of multinational corporations.[10] Numerous international organizations, including the United Nations Conference on Trade and Development, the Organization for Economic Cooperation and Development, the Organization of American States, the International Chamber of Commerce, and the International Labor Organization have studied the problems posed by multinational corporations, and, in some cases, have devised guidelines ("codes of conduct") to be followed voluntarily by the corporations. The United Nations has spawned another entity—the U.N. Comission on Transnational Corporations—to conduct research and make recommendations regarding the need for common policies towards multinational corporations.[11]

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6. *See* Ball, *The Promise of the Multinational Corporation*, FORTUNE, Jun. 1, 1967, at 80.

7. Professor Wallace discusses the problem of providing a precise definition of the term. D. WALLACE, INTERNATIONAL REGULATION OF MULTINATIONAL CORPORATIONS 17-23 (1976).

8. R. GILPIN, U.S. POWER AND THE MULTINATIONAL CORPORATION: THE POLITICAL ECONOMY OF FOREIGN DIRECT INVESTMENT (1975).

9. R. VERNON, SOVEREIGNTY AT BAY: THE MULTINATIONAL SPREAD OF U.S. ENTERPRISES (1971).

10. *See* S. LALL, FOREIGN PRIVATE MANUFACTURING INVESTMENT AND MULTINATIONAL CORPORATIONS: AN ANNOTATED BIBLIOGRAPHY (1975).

11. *See* S. Rubin, *Reflections Concerning the United Nations Commission on Transnational Corporations*, 70 AM. J. INT'L L. 73 (1976).

In its broadest application, the study of multinational corporations—particularly as carried out by liberal and radical theorists—involves nearly every aspect of modern economic activity, just as the corporations themselves touch almost every aspect of our daily lives. For example, the authors of *Global Reach*,[12] Richard Barnet and Ronald Müller, discuss issues as far ranging as national sovereignty, ownership of the means of production, environmental protection, consumerism, and policies toward organized labor.

The study of multinational corporations is complicated not only by the breadth of the complex issues involved, but also by the fact that these issues are fundamental to one's view of an ideal society, and are thus highly political. Several general theories have evolved, ranging from the traditional laissez-faire policy of apologists for the corporations, to the radical-leftist view of the multinational corporation as a refinement of capitalistic domination over the world's working classes. The three books reviewed here represent differing viewpoints within the range of theories just described. The books differ not only in their perception of the problems posed by the rise of multinational corporations, but also in their analyses of, and solutions to, these problems.

Since its publication in 1974, *Global Reach* has become one of the few bestsellers of its genre. Although many will disagree with its analysis and conclusions, it is undeniably an important book. At the least, *Global Reach* is a highly literate but one-sided polemic against multinational corporations. More favorably viewed, it is a well-documented study (there are 90 pages of footnotes in a separate appendix) that has served to focus public attention on the alleged abuses of the multinational corporation.

For the authors of *Global Reach*, the problem raised by the multinational corporation is an increasing lack of public control over organizations that determine the quality of life throughout he world.

> When we say that the new international economy now being built by global corporations threatens the sovereignty of the nation-state, we mean that [the state's] principal domestic powers and functions—the power to raise revenues, maintain employment, provide adequate social services, encourage the equitable allocation of income and wealth, maintain sound currency, keep prices and wages in line: in short, the power to maintain a stable social equilibrium for the great majority of its population—is being seriously undercut.[13]

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12. R. BARNET & R. MÜLLER, GLOBAL REACH: THE POWER OF THE MULTINATIONAL CORPORATIONS (1974).
13. *Id.* at 373-74.

This same conclusion had been drawn earlier by Raymond Vernon of the "sovereignty at bay" school.[14] The diverse international operations of the multinational corporation, which holds no national allegiance but rather an allegiance only to its shareholders, allow the corporation to escape, or at least to mitigate, national regulation. According to this theory, the nation-state is, by definition, incapable of regulating an organization whose interests and operations extend beyond national jurisdictions.

Those of the "sovereignty at bay" school see the predominance of the multinational corporation as a beneficial means to greater affluence for the world, supplanting the narrow and often counterproductive jealousies of nation-states. Barnet and Müller violently disagree. With a barrage of facts, anecdotes, quotations, and citations to other economists and political scientists, they go about "proving" that multinational corporations exacerbate many of the economic ills of our societies. Their analysis is comprehensive, but one-sided. Nevertheless, the argumentative style of *Global Reach* makes the book interesting throughout, a rare accomplishment in a book of this length on the subject of international economic behavior.

When it comes to solutions, Barnet and Müller face a problem. They have painted such an evil portrait of the global corporation that one would expect them to advocate its destruction. They recognize, however, the practical impossibility of making profound changes in the operations of multinational corporations, which are at the base of the Western economic system. Consequently, *Global Reach* offers only more of the same measures that are already being contemplated or have been adopted—more complete disclosure of corporate activities, including global profit and loss statements; elimination of the present bias in the United States favoring foreign investment; more restrictions at the national, state, and local levels on the investment activities of global corporations; and an emphasis on increased self-sufficiency in raw materials and manufacturing. Like Professor Wallace,[15] Barnet and Müller do not find international regulation of multinational corporations a plausible solution.[16]

In *U.S. Power and the Multinational Corporation*, Robert Gilpin has written a useful and important addition to the literature of multinational corporations. *U.S. Power* is less audacious than *Global Reach*; the latter is factual, anecdotal, and polemical, while the former is more objective and theoretical. Professor Gilpin's book is nonetheless interesting.

14. For a discussion of the views of Vernon and others, see GILPIN, *supra* note 8, at 220-28.

15. *See* discussion at pp. 454-55 *infra*.

16. BARNET AND MÜLLER, *supra* note 12, at 372-73.

The strength of *U.S. Power* lies not in its presentation of new ideas or theories, but rather in Professor Gilpin's classification and exposition of the theories of others. As Professor Gilpin explains at the outset,[17] there has been a dearth of literature on international economic relations that sufficiently integrates economic and political thought. He attempts to help solve this deficiency by examining the rise of the multinational corporation in terms of traditional political and economic theories. Thus, in the beginning of his book, he discusses in some detail the "three prevailing conceptions of political economy: liberalism, Marxism, and mercantilism,"[18] and later relates these theories to the multinational corporation. He also presents, in an even-handed fashion, the theories of economists and political economists such as Charles Kindleberger, Stephen Hymer, Peggy Musgrave, Raymond Vernon, and others who have studied the multinational corporation and foreign investment.

Professor Gilpin states that the broad purpose of his book is to develop a theory of political economy[19] using the multinational corporation as his testing ground. He explains that

> the dramatic overseas expansion of American corporations and of American political influence has reflected political, economic, and technological forces at work both within the United States itself and in the larger international system. The analysis of the interplay of these political and economic factors in the rise of the multinational corporation and of American hegemony is the primary purpose of this book.[20]

The above quotation, as well as the title of the book, demonstrates Professor Gilpin's concentration on the experience of the United States. One of the most interesting sections of the book sets forth a brief comparative history of British and American foreign investment. Professor Gilpin believes that an overemphasis on foreign investment led directly to the decline of the British economy. He concludes, after analyzing present economic circumstances in the United States, that the same may happen here unless we curb the bias in our system towards direct foreign investment.[21] His solution—

17. GILPIN, *supra* note 8, at 5.

18. *Id.* at 25.

19. As used by Professor Gilpin, "political economy" refers to the interaction of political and economic factors in international relations. An in-depth understanding of political economics requires a thorough grounding in economics and political theory.

20. GILPIN, *supra* note 8, at 7.

21. This bias can be explained by the fact that U.S. multinational corporations make greater profits overseas than they do at home. Thus, according to Professor Gilpin, corporations turn to foreign direct investment as a defensive tactic when their technological advantages and profits dip domestically. For some confirmation of this theory see

tax reform and other policies to favor domestic investment and trade, rather than foreign investment—is cited with approval in *Global Reach.*[22]

In my opinion, Professor Gilpin's book is slightly weakened by his rather narrow focus on the United States. *Global Reach* contains a long discussion of the costs and benefits for developing countries from foreign investment by multinational corporations. In contrast, Professor Gilpin presents the developing countries as characters in a redramatization of the British decline. The multinational corporations, like the British trading companies of the 19th century, are seen as unwittingly hastening the decline of the dominant economy, that of the United States, by spreading American technology abroad. He appears to lament this decline while recognizing that it may well be inevitable.

A sense of social justice—more particularly a sense of the need to redistribute the world's wealth—would encourage, rather than lament, the decline of U.S. economic dominance. Indeed, economic dominance is a polite way of describing U.S. economic domination of developing countries, often through the operation of American multinational corporations. One may hope that the spread of technology and competitive advantage from the "core" (United States) economy to the "peripheral" (third world) economies[23] would lead to a spread of economic benefits. It is morally untenable that one country, with five percent of the world's population should consume one-third of the world's resources while other countries cannot even feed their populations. At the same time, I would share Professor Gilpin's apprehension that the decline of the dominant economy might lead to economic disruptions in the United States and to increased political intervention, *e.g.* boycotts, cartels, etc., in the international economy. These repercussions must be mitigated if and when such a decline results.

Professor Wallace's book, *International Regulation of Multinational Corporations*, deals with a single, rather academic aspect of this subject—whether an international investment organization is needed to regulate multinational corporations, and if so, whether it could be established in the near future. He concludes, not surprisingly, that such an organization is unlikely to be established in the foreseeable future.

Professor Wallace points out that "the Bretton Woods system"—the term he uses to describe the complex of Western institutions and agreements con-

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BI Profit Survey Shows U.S. Firms Did Better Abroad than at Home, BUS. INT'L, Jan. 2, 1976, at 1.

22. BARNET AND MÜLLER, *supra* note 12, at 377-78.

23. *See* GILPIN, *supra* note 8, at 44-78.

cluded since the Second World War, including the International Monetary Fund, the World Bank, and the General Agreement on Trade and Tariffs—is lacking any structure, formal or otherwise, to regulate international investments. Consequently, individual countries are forced to impose their own restrictions on foreign investment, especially on foreign direct investment. Similarly, there is no international regulation of issues closely connected to the operations of multinational corporations, such as the taxation of corporate profits, antitrust policies, and accounting standards.

As Professor Wallace sees it, the problem presented by multinational corporations is not that they exploit the poor and disrupt national economies (*cf.* Barnet and Müller), or that they may hasten the decline of the American economy (*cf.* Professor Gilpin). In the first instance, Wallace appears to believe that the benefits associated with the activities of multinational corporations are not to be questioned; in the second instance, he holds that the United States' economic success is dependent on these activities. "Although what is good for General Motors might not necessarily be good for the United States, they are more closely related than is normally admitted."[24] Professor Wallace is concerned with the maintenance of an open, predictable system, unhindered by conflicting national laws, a system that will allow multinational corporations to continue to operate around the world. His model for an international investment organization "builds on an open world economy . . . , [the] most widely preferred international economy; in effect, I accept the premises and presumptions of the Bretton Woods system."[25] His view is opposite to that of Barnet and Müller, who argue for increased national legislation.

All four authors—Barnet, Müller, Gilpin, and Wallace, would appear to agree on one point: the multinational corporation is not the instrument by which economic redistribution can, or will, take place.[26] This can only happen, according to Barnet and Müller, through national and international policies aimed not at winning over the multinational corporations as "partners in development," but at actively reducing their economic power through greater local ownership of industry, higher prices for raw materials, and preferential terms of trade for developing countries.[27]

Despite some assistance, in the form of foreign aid and generalized trade preferences for developing countries, the rich countries have not been

24. WALLACE, *supra* note 7, at 161.

25. *Id.* at 108.

26. BARNET AND MÜLLER, *supra* note 12, at 379; WALLACE, *supra* note 7, at 45. While Professor Gilpin is not explicit on this point, it would appear to be in accordance with his views.

27. BARNET AND MÜLLER, *supra* note 12, at 379.

eager to hasten economic redistribution. One may argue that it is politically impossible for the leaders of industrialized countries to support policies that would shift economic benefits away from their own constituencies. The danger in failing to do so, however, is an increased likelihood that our present economic system—based on the freedom of multinational corporations to pursue their own interests—will become disrupted as the "have-not" nations gain in political consciousness and sophistication.[28]

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28. See the excellent discussion of present economic uncertainties in Barraclough, *Wealth and Power: The Politics of Food and Oil*, N.Y. REV. OF BOOKS, Aug. 7, 1975, at 23.