Book Reviews

GLOBAL REACH: THE POWER OF THE MULTINATIONAL CORPORATIONS. By Richard J. Barnet[1] and Ronald E. Müller.[2] New York: Simon and Schuster, 1974. Pp. 508. $11.95.

As the copious notes accompanying its text indicate, the authors of *Global Reach* want their book to be treated as a serious study about serious problems. The book does raise serious problems, and most readers will come away with an appreciation of the urgent need for corrective measures to curb the excesses of the global companies. But anyone hoping for an intellectual framework for evaluating the performance of the global corporations or for understanding the nature and limits of their power will be disappointed. Instead of providing that framework, the authors have used the story of the multinationals as a vehicle for expounding their ideological objections to capitalism. The reader is left without much guidance in judging the validity of the authors' conclusions or the efficacy of their proposed solutions.

John Maynard Keynes described capitalism as "the extraordinary belief that the nastiest of men for the nastiest of motives will somehow work for the benefit of us all."[3] An anticapitalist stance is currently fashionable, and, following the point made in Keynes' mock definition, is intuitively satisfying. A rigorously logical examination of the relationships between the abuses of the global corporations and the inherent defects of the capitalist system would have made a wonderful book. The authors, however, discuss these relationships only rhetorically. They postulate that the integration or rationalization of the world economy into a single global market is the predictable result of the concentration of economic resources, which, in turn, is the natural consequence of a capitalist economy. Having accepted these conclusions by an act of ideological faith, it becomes unnecessary to provide the basic economic analysis needed to demonstrate the causal link between what the world is now and the activities of the global companies. Nor do the authors find it necessary to sort out the abuses

1. Co-director of the Institute for Policy Studies, Washington, D.C.
2. Professor of Economics, American University.
3. Quoted in L. TURNER, MULTINATIONAL COMPANIES OF THE THIRD WORLD 1 (1973).

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resulting from bigness alone and those resulting from the special character of the global companies as world planners.

The lack of explicit economic analysis reflects in part the fact that the book was written for a mass audience.[4] But it also reflects, I believe, a basic ambivalence of the authors toward their subject. On ideological grounds, they must argue that the root causes of the problems are systemic, and, therefore, without short-run solutions. As practical men of affairs, however, they see that relatively modest changes in existing conditions can have (and indeed are having) an important impact on the power of the global companies. The developing countries can improve their situation by acquiring the technical knowledge needed to exploit their market position and by cooperating with each other by exchanging information and in some cases restricting supply. The United States can avoid at least some of its problems by improving the market mechanism, which big business has corrupted through advertising and oligopolistic control of most industries. Even problems of pollution can be alleviated by correcting for defects in the market, so that the costs of damage to the atmosphere and other parts of our life support system are reflected in the price of goods. To trace through the complicated relationships between their vision of utopia and their practical suggestions for reform, however, might jeopardize the authors' posture as radicals, for it may be that their vision and the utopia of a reformed capitalism amount to just about the same thing. They resolve their dilemma by first postulating that capitalism, with its reliance on the market, is intrinsically immoral and then omitting any theoretical explanation for why their practical solutions, all of which depend on the market, can be effective.

Whatever its analytical faults, *Global Reach* is, nevertheless, an important book, for it raises important questions and organizes a vast amount of empirical data about the activities of the global companies. It covers so much ground, and incorporates the literature of such disparate fields, that its lack of scientific rigor can be viewed with understanding. The book is concerned with a "revolutionary" development in the world economy, the control of production by global corporations which view the world as "one economic unit" and which therefore plan, organize, and manage without serious regard for national boundaries (p. 18). The authors contend that this "rational, integrated world economy" being created by the multinational companies has had disastrous results for the masses of people in both the developing countries and the United States and poses a serious threat not only to our standard of living, but to our very survival.

4. A major portion (most of Parts II and III) of *Global Reach* appeared in THE NEW YORKER, Dec. 2, 1974, at 53; and Dec. 9, 1974, at 100.

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The book is organized into three sections. Part I is concerned with the executives of the global companies, whom the authors refer to as the "World Managers." The authors have interviewed many of the top executives, whose arrogance is evident from their unquestioned belief that they are the ones most capable of efficiently managing the world's resources and from their impatience with national boundaries that restrict their activities. They also appear apprehensive and uncertain about the power their companies are acquiring, but the authors do not analyze the nature of that power. How do companies convert economic power into political power, and in what ways does the competition from other oligopolistic companies, especially foreign companies, inhibit (or encourage) that conversion? More basically, what does it mean to have economic power? Are the world managers free to ignore market forces to satisfy private whims? Are they major performers on the economic stage, or mere pawns in the dialectical processes of history? How is the power of the executives within the company bureaucracy related to real power to shape outside events? Is Galbraith wrong, for example, when he claims that the complexity of the corporate planning process requires that decisions be made by groups within the technostructure, not by the chief executives, who only ratify the decisions?[5] *Global Reach* never comes to grips with these basic inquiries.

In Part I, the authors set forth the premise that the global corporations are profit maximizers, and this contention becomes the basis for much of the later rhetoric of Parts II and III. No proof of this fundamental issue is even attempted. The authors do establish that many executives view themselves as profit maximizers, but there is no economic analysis to support that position. In the notes to pages 151–52, maximization of profits seems to be equated with "the short-run maintenance of and/or increases in global market shares." The reason for this equivalence is not explained. The issue is a critical one, for if corporations really are profit maximizers, then the control of some company activities through traditional market mechanisms may be promising. On the other hand, if the corporate managers seek to achieve goals of their own which conflict with the maximization of company profits, such as personal aggrandizement or personal political power, then market techniques would not be effective.

Parts II and III are the most interesting and most valuable sections of the book. Part II relates to the role of the global corporations in the developing countries, in which the authors attempt to show that during the 1960's, hailed as the Decade of Development, "the development

5. *See* J. K. GALBRAITH, THE NEW INDUSTRIAL STATE 65–71 (rev. ed. 1971). The authors comment negatively on the Galbraith position, but apparently misstate it (p. 245).

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track pursued by the global corporations . . . contributed more to the exacerbation of world poverty, world unemployment, and world inequality than to their solution" (p. 151). The hypothesis that the global companies have had an overall negative impact in the developing countries is, as the authors acknowledge, a startling one, in light of the substantial increases in per capita income in most developing countries over the past 20 years and the almost frantic efforts of the developing countries to attract foreign investment. But the hypothesis, supported at least in part by a number of respected economists, contends that structural changes in the developing economies which have occurred simultaneously with the introduction of foreign investment have more than offset any gains.[6] The authors, however, present the theory as if it were proved fact, despite their inability to explain the causal links between the conduct of the multinationals and the miserable conditions of the poor. Much more basic research remains to be done before the hypothesis can be fairly tested.

There are three key elements in the authors' argument that the impact of the global companies on the developing countries has been negative. First of all, the authors contend that the global companies have invested very modest amounts of new capital in the developing nations. Much of the investment has been raised on local capital markets or has come from retained earnings, not from foreign sources (pp. 152–55). Huge profits have then been repatriated, resulting in many cases in a net drain of resources (pp. 160–61). Secondly, the introduction of new technology, supposedly one of the great benefits of foreign investment, has in most cases not been beneficial, because the type of technology transferred has been "the sort of technology poor countries need least" (p. 165). The technology, the authors insist, has emphasized individual consumption (p. 165) and, by being capital intensive, has resulted in the destruction of jobs (pp. 166–67). The third, and perhaps most fundamental point is that the global corporations have exported the consumer ideology, "marketing the same dreams they have been selling in the industrialized world" (p. 173). The global companies, through advertising, have created consumer demand for low priority items like Coca-Cola and Ritz crackers and thereby have reduced the resources available for satisfying the desperate nutritional needs of the population. This last argument can be seen either as a challenge to capitalist values, as the authors argue, or as a more orthodox comment on the illusory nature of consumer sovereignty when the market is being manipulated.

The authors support their case with a number of academic studies, with opinions from corporate executives who have worked in develop-

6. For a detailed bibliography of books and articles on both sides of the debate, see G. MEIER, LEADING ISSUES IN ECONOMIC DEVELOPMENT 327–29 (2d ed. 1970).

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ing countries, and with numerous anecdotes woven into the text. The references in the notes and the descriptions in the text reflect a Latin American orientation, as does the choice of rhetoric. The authors believe, however, that the problems they discuss are widespread in all areas of the world. It is, nevertheless, more difficult to blame the multinational companies for the poverty of India, where foreign investment has played a relatively minor role, and generally on terms directed by the government, than it is in some Latin American countries, where foreign involvement in the economy has been extensive and uncontrolled.[7] In other Asian countries — Korea and Taiwan are the best examples — the increases in national income have been substantial enough to make a "no benefit" theory nearly impossible to demonstrate.[8]

Although the charges made by the authors are difficult to prove, they are equally difficult to disprove, for there is a woeful lack of data on the critical issues raised by *Global Reach*. The authors, for example, must rely on what they acknowledge to be "notoriously inadequate" data on income distribution (notes to p. 150) to support their contention that the condition of the poor in most developing countries has deteriorated.[9] Similarly, to prove that the multinational companies extract huge profits from the developing countries, the authors are dependent on fragmentary information about the abuses of transfer pricing by the multinational companies. Data on transfer pricing abuses is difficult to obtain, partly because of the reluctance of companies to release information on their own misconduct and, perhaps most importantly, because there is in many cases no objective "correct" price from which to measure an abuse.

A transfer price is the price charged on the company books for sales between related corporations, and it is common knowledge that corporations will establish prices which minimize taxes or otherwise serve a corporate purpose. But the game of manipulation cannot be played with the abandon suggested by the authors. A study cited by the

7. For a discussion of the Indian approach to foreign investment, see Singhal, *Taxing for Development: Incentives Affecting Foreign Investment in India*, 14 HARV. INT'L L.J. 50 (1973). An expanded and revised version of this article will be published later this year as a separate monograph under the auspices of the Harvard International Tax Program and the International Bureau of Fiscal Documentation.

8. *See* A. MADDISON, ECONOMIC PROGRESS AND POLICY IN DEVELOPING COUNTRIES (1970) (showing substantial growth rates in gross domestic product, at 29, in employment, at 44, and in per capita food production, at 130).

9. The authors argue that the data on income distribution, although unreliable as to magnitudes, is at least reliable for showing changes in inequality. It is probably true that change figures are more reliable, but if the underlying survey data is bad, even the change figures are subject to wide margins of error. For an evaluation of various income distribution studies in Latin America, *see* Bird & De Wulf, *Taxation and Income Distribution in Latin America: A Critical Review of Empirical Studies*, 20 IMF STAFF PAPERS 639 (1973).

authors claims that profits of some drug companies in Colombia ranged from a low of 38 percent of net worth to a high of over 900 percent, with a declared profit of under 7 percent (p. 160). If this pattern were typical, a profit maximizer would surely be investing every peso he could raise in the Colombian economy, for no alternative investment could possibly be so lucrative. Much more likely, the study is either a very special case or has been biased by inappropriate definitions of the "proper" arm's-length price.[10]

The depressing news about the developing countries is only half the story. More startling are the effects in the United States of "the reorganization of the world economy into a Global Shopping Center and a Global Factory" (p. 214), which are discussed in Part III of the book. The United States is being transformed from an industrial economy to a service economy, a producer of "plans, programs, and ideas for others to execute" (p. 216). In a chapter entitled "The Managerial Dilemma of the Nation-State," which may be the best chapter of the book, the authors show how the global companies can frustrate the fiscal and monetary policies of the United States (pp. 273–76). The authors also point to evidence that the concentration of economic power that has been taking place in the United States over the past 20 years has resulted in a greater share of national income going to the very rich, at the expense of the middle class (p. 294). They review the debate between organized labor and the global companies that has been going on for the past couple of years over the effects of foreign investment on the American labor force. In evaluating the evidence for job displacement — the trading of high-priced American labor for low-priced labor in developing countries — the authors tread cautiously (pp. 301, 304). They have no doubt, however, that the "ability of corporations to open and close plants rapidly and to shift their investment from one country to another erodes the basis of organized labor's bargaining leverage, the strike" (p. 308).

The practical suggestions that the authors make for dealing with the global companies in the United States are well within the mainstream of current academic thinking. For example, their tax proposals are all sound, but they are neither radical nor new, and their treatment is sketchy. The authors call for an end to tax haven abuses by requiring all American controlled companies, wherever incorporated, to be subject to current taxation in the United States. They call for an increase in the IRS staff responsible for enforcing Internal Revenue Code section 482, which requires that transfer prices among related corporations be set by an arm's-length standard (pp. 282–83). Their basic

10. The study referred to by the authors was prepared as a Ph.D. thesis by Constantine V. Vaitsos in 1972. The study is relied on heavily by the authors. I leave it to the public finance economists to determine its professional standing.

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position is that the tax laws should be neutral and should no longer be used to encourage foreign investment (p. 376). At a recent Round Table of Economists held at Harvard Law School under the auspices of the International Tax Program, economists, lawyers, and other professionals from government, big business, academia, and some of the international bodies discussed the same types of tax reform proposals advocated in *Global Reach*.[11] In 1962, when similar proposals were advanced by the Kennedy Administration, they were viewed by big business as dangerous heresy, but that attitude no longer exists. Most of the tax reform measures, in fact, are legislative proposals which may be seriously considered in the current session of Congress. The equanimity with which the global corporations can view the probable loss of their most glamorous tax gimmicks may reflect the fact that there is less money in the tax haven business than there was in the early 1960's. At least in part, however, it is a reflection of the public demand that the well-publicized tax avoidance schemes be ended, a fact which supports the authors' view that only with a change in public perspectives can the power of the global corporations be contained.

This book will be widely read and widely criticized. Those already disposed to its set of values will find it a treasure trove of supportive information. Those opposed will find it an easy target, for it is an uncautious book which in some areas at least has generalized on the basis of anecdotes and impressions and not scientific studies. Whatever its faults, the story told of the power of the global corporations is exciting and alarming. It provides a valuable set of warning signals for developing countries inviting foreign investment and for the developed countries which are losing control of the corporations which they have unleashed.

*Michael J. McIntyre**

THE EURO-DOLLAR MARKET AND THE INTERNATIONAL FINANCIAL SYSTEM.[1] By Geoffrey Bell. London: The Macmillan Press, 1974. Pp. 125. n. p.

In a clear and lucid style, Geoffrey Bell has recorded the evolution of the Eurodollar market up to the beginning of 1973. Although important post–1972 developments are not covered, his book offers a good

11. The conference, the subject of which was "Economic Criteria for Policy Formulation on Taxing Foreign Income," was held Feb. 27–28, 1975.

* Director of Training, International Tax Program, Harvard Law School, and Lecturer on Business Administration, Harvard Business School.

1. First published as *Les Marchés d'eurodevises* by Presses Universitaires de France in 1973.

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