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0521840619 - Leviathans: Multinational Corporations and the New Global History

Edited by Alfred D. Chandler and Bruce Mazlish

Excerpt

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Introduction

ALFRED CHANDLER AND BRUCE MAZLISH

This book and the project of which it is part were inspired by a United Nations statement a few years ago that of the 100 entities with the largest gross national product (GNP), about half were multinational corporations (MNCs). This meant that by this measure these big MNCs were larger and wealthier than about 120 to 130 nation-states.¹ They still are. An atlas depicts continents and nation-states, their boundaries, their leading features, geographies, and geological characteristics such as mountains, rivers, and so forth. The MNCs do not exist on traditional maps. Convinced that these new Leviathans must be acknowledged, identified, and located, we produced *Global Inc.*, an historical atlas that shows their outreach.² This book, which is the atlas's conceptual counterpart, seeks to make MNCs more visible and more understandable to the mind's eye.

Thomas Hobbes' seventeenth-century book *Leviathan* tried to provide a metaphoric analysis of the notion of a commonwealth or state. The model he used to conceive his new body politic, its "Matter, Forme and Power," was the automaton – an artificial creation, representing a physical body and a human mind and soul. Thus, he spoke of sovereignty as "an artificial *soul*," and magistrates as "artificial *joints*." In short, the state was the product of art – that is, artifice. Hobbes co-opted the term "leviathan" from a biblical allusion. Webster's *New Collegiate Dictionary* defines "leviathan" as, alternatively, a great sea monster (adversary of Yahweh); a large ocean-going ship; a vast bureaucracy; or something "large or formidable." In Psalm 74:14, Leviathan

1. The figures given are, in fact, based on revenue rather than value added, that is, how GDP is measured. Thus, the role of MNCs is actually exaggerated. Yet the general point about the growing power of MNCs relative to the nation-states is correctly symbolized in the U.N. statement.
2. Medard Gabel and Henry Bruner, *Global Inc.: An Atlas of the Multinational Corporation* (New York: The New Press, 2003).

Cambridge University Press

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Excerpt

[More information](#)

is a name of a dragon subdued by Yahweh, who crushed its head and fed him to wild animals when the creation began.

Today, a new kind of Leviathan has risen from the depths of humanity's creative powers – the multinational corporation. In its embryonic state, it is found in multinational enterprises (MNEs), the first wave of the modern global economy, which began in the 1880s in the wake of the Industrial Revolution and modern empires. It took mature shape in a second wave in the multinational corporations (MNCs) of the 1970s. Both in number and power, these multinational phenomena have made a qualitative change in our economic world by the time of the new millennium.

Unlike the nation-state, the new Leviathan makes no pretension to godly origin, though sometimes it seems to appeal to divine protection and legitimacy. Its corporate body is grounded in law, as is its “Matter, Forme and Power.” It is recognized as artifact and generally treated as an artificial person. It is as much historical invention – innovation – as the communication and transportation systems on which it depends. It increasingly challenges the power of the nation-states and of regional entities.

When this project of mapping began in the 1990s, about 37,000 MNCs existed. As of 2002, there were around 63,000. Their power and effects are almost incalculable – not only to the economy but also to politics, society, culture, and values. Multinational corporations have an impact on almost every sphere of modern life from policymaking on the environment to international security, from issues of personal identity to issues of community, and from the future of work to the future of the nation-state and even of regional and international bodies and alliances.

New Global History attempts to analyze globalization both as an historical phenomenon and as an ongoing process. In the new “global epoch,” many enterprises, not economies alone, transcend existing national boundaries in an intensive and extensive fashion albeit with deep roots in the past. Among such factors are humanity's step into space; the satellites circling the globe that provide almost instantaneous communications; the struggle against viruses, mutant genes, and nuclear and other pollutants that drift across national boundaries; environmental dangers that cross all local lines; the new concern with *human* rather than merely parochial, national, or tribal rights; and the growth of global culture that transcends traditional cultures. The spread of MNCs and their influence and activities are such a factor. All are marked by a synergy and synchronicity hitherto unknown.³

3. Cf. *Conceptualizing Global History*, ed. Bruce Mazlish and Ralph Buultjens (Boulder: Westview Press, 1993) – especially the Introduction.

Cambridge University Press

0521840619 - Leviathans: Multinational Corporations and the New Global History

Edited by Alfred D. Chandler and Bruce Mazlish

Excerpt

[More information](#)

Introduction

3

Some scholars have sought to trace MNCs back more than 2,000 years. In an original and significant book, *Birth of the Multinational*, Karl Moore and David Lewis see multinational enterprises stretching as far back as Ashur, the religious capital of ancient Assyria, to the age of Augustus.⁴ Still, the term “multinational” is an anachronism, for “nation” today has a far different meaning from Assyria or the Roman Empire. And even “corporation,” a relatively recent term, is also grounded in continuing legal philosophy and practice. Although Moore and Lewis speak of multinational enterprises rather than of corporations (as do many other commentators on the subject), we believe that to do so ignores one of the key characteristics of the new Leviathans.

The multinational corporation does have a history, and the MNCs do change over time, as Mira Wilkins so convincingly shows in Chapter 2. Thus, she identifies a line stretching from the British and Dutch East India Companies of the 17th century to the leviathans of our own time. Keeping a sharp eye out for what is persistent and what is changing, we may see a general shift from trading companies to resource extraction, then to manufacturing, and then to service and financial service companies as the dominating types of MNCs – a shift both gradual and incorporative. The earlier forms do not disappear but continue as part of the economic scene.

What is a multinational corporation aside from its arising in a setting of nation-states and corporate law? One of the simplest definitions is that MNCs are firms that control income-generating assets in more than one country at a time. A more complicated definition would add that an MNC has productive facilities in several countries on at least two continents with employees stationed worldwide and financial investments scattered across the globe. Whether an MNC is privately owned or can also be publicly owned by a government, and whether its forms and practices can be either unique to its own nation or transnational are questions to be considered. The answers modify the definition.

By the simplest common denominator, the growth of the MNCs has been phenomenal. There has been increasing concentration at the top, marked by mergers and acquisitions, resulting in huge global corporations whose size (measured by value added) rivals that of many nation-states. However, of the *Fortune* 500 list in 1980, 33 percent no longer existed autonomously a decade later.⁵ By 1995, another 40 percent were gone – a situation reminiscent of the post-Westphalian (i.e., after 1648) absorptions and disappearances

4. Karl Moore and David Lewis, *Birth of the Multinational: 2000 Years of Ancient Business History – From Ashur to Augustus* (Copenhagen: Copenhagen Business School Press, 1999).

5. See Chapter 8 in this volume.

Cambridge University Press

0521840619 - Leviathans: Multinational Corporations and the New Global History

Edited by Alfred D. Chandler and Bruce Mazlish

Excerpt

[More information](#)

of various states. In the perspective of New Global History, it may be possible to see certain constants in the emergence of MNCs, but also visible is constant change and perhaps a dynamic that may have a distinct direction.

The New Global History perspective compels us to recognize that the MNCs are not mere economic entities but part of a complex interplay of factors. The economic is not the whole of globalization, though some commentators seem to imply that it is. Thus, MNCs have a profound impact, intentional and unintentional, on the environment. Some MNCs are destructive of resources and of the general ecology of the planet. Yet they also alert us to global environmental crisis through the satellites circling overhead and reporting on the pollution and the depletion that transcend national boundaries, and some of these satellites are operated by the very MNCs that are part of the problem. MNCs and their executives, in practice and in principle, not only can cause but also can and sometimes do take steps to reduce the severity of these environmental problems.

For better or worse, consumerism is spread via the same satellites that operate on behalf of global multinationals; taste and trade are both promoted by the ubiquitous advertisements transmitted in all countries. World music, for example, is circulated by multinational media corporations. Whatever the sins of Microsoft, it makes possible, via the computer network, the mobilization of opinion worldwide, which then brings pressure on governments everywhere. In pharmaceuticals, too, MNCs play a multifaceted role; the producers of wonder drugs that heal are the same companies that often conspire to rig the market and constrain their use worldwide. Human rights' scope and power are dependent on the same communications links.

MNCs, therefore, embody contradictory impulses and play multiple roles, often producing results unintended by the actors themselves. MNCs, as with other factors of globalization, must be studied in a sustained empirical fashion, in an historical perspective, and with a constant effort to move back and forth between theory and data. We need better knowledge before we pass judgment on our new Leviathans.

We must ask, for example, whether increased globalization is inevitable: Does it result inexorably from the competitive nature of the MNCs with their werewolf appetite for profits (to quote Karl Marx on the nature of capitalism)? Thomas Friedman of the *New York Times* proclaims that those who suggest that globalization can be stopped – for example, by organized protesters in Seattle, Davos, or elsewhere – are wrong. Globalization, he tells us, is, indeed, “inevitable.”⁶ A respondent to Friedman denies that

6. Thomas Friedman, *New York Times*, February 2, 1997.

Cambridge University Press

0521840619 - Leviathans: Multinational Corporations and the New Global History

Edited by Alfred D. Chandler and Bruce Mazlish

Excerpt

[More information](#)*Introduction*

5

globalization is irresistible, sweeping all before it. He sees MNCs as a result of choices:

Multinational corporate executives are making conscious marketing and production decisions [such as Nike producing shoes in Vietnam in sweatshop conditions] to globalize their operations. They could only make their choices in a legal and regulatory framework that permits unimpeded capital mobility, maintains low tariffs and provides stable trading rules like those set by the World Trade Organization and the North American Free Trade Agreement.⁷

In trying to understand the MNCs' role in globalization, it seems useful to take account of the nature of business competition and also the fact that competition does not take place in a vacuum. Political and social conditions requisite for MNCs to operate as they do may provide a stable context and, at the same time, be subject to change – changes that, in turn, respond to the shifting play of culture as well as of forces like migration and technological innovation. Leviathans, though artificial constructs, take on a life of their own, but they are also subject to human decisions. This is so at the level of company decisions such as that of the Ford Motor Company and its policy of making its management global and of building a “world car.” When that effort was unsuccessful, Ford reversed its policy. On a more complex level, market bubbles and protectionist policies might still undo much of present economic globalization as in the earlier decline in indicators of globalization that occurred between the worldwide Depression of the 1930s and the end of the Second World War.

Closely connected to the question of inevitability (its other face?) is predictability. Might globalization falter and go into reverse, as occurred in the period between the two world wars? An economic meltdown might occur – a failure of MNCs worldwide. Or might continuing economic success result in terrible global effects – environmental, for example – that could, in turn, precipitate a major collapse of political and social structures and even the possibility of effective governance?

Globalization as a process is nonetheless likely to continue even if there were to be a collapse in its economic underpinnings, for economic forces, especially in the shape of MNCs, are but one factor in globalization. We can speculate that the transcending of national boundaries in culture, political interventions, human rights movements, and so forth will continue even in the face of a weakening of the “material” base.

Our aim in this book is to consider the MNCs as they actually are, not to praise or blame. We need to look at the myths or propositions about them.

7. Letter to the Editor, *New York Times*, February 6, 1997.

Cambridge University Press

0521840619 - Leviathans: Multinational Corporations and the New Global History

Edited by Alfred D. Chandler and Bruce Mazlish

Excerpt

[More information](#)

We might inquire into the assertion that the nation-state itself is in the process of being displaced by the MNCs, losing its authority to those “more sovereign than the state.” Arguing against this view, William Keller and Louis Pauly assert that “huge, sprawling commercial hierarchies are not replacing states as the world’s effective government.” Their argument goes further to what some scholars call the “myth of the global corporation.” “The global corporation, adrift from its national political moorings and roaming an increasingly borderless world market, is a myth.” They see that corporations are nation-state, not globally, based and reflect national cultures, national traditions, and national social structures – some more distinctly than others. German and Japanese firms, for example, possess a clearer sense of distinct national identity than American firms. So too, Keller and Pauly write, the European continental companies lean more toward national protectionism and against global free markets. Thus, Keller and Pauly conclude, “the ‘global corporation’ is mainly an American myth.”⁸ MNCs are not replacing the nation-state in terms of political power.

Without judging this contention before further empirical research, we can nonetheless inquire whether this is at the heart of the matter: Is the current process of globalization creating a sort of vacuum in which all kinds of market and currency movements are uncontrolled – neither by nation-states nor MNCs?⁹

Another proposition is that MNCs are not truly global. Almost all MNCs do have boards composed of one set of nationals. In the United States, for example, the election a few years ago of a Japanese businessman to the board of General Motors was almost a first. In Japan, there is probably no comparable example. A similar “nationalism” exists country by country. In opposition to the thesis is the assertion of many CEOs that their interests are indeed “global” and so is their company. Are such statements merely fashionable or representative of the actual state of affairs? A global elite has emerged operating in a largely transnational manner, meeting in “global” settings such as Davos, and concocting policies and political aims such as those embodied in the World Trade agreements and the North American Free Trade Agreement (NAFTA). New elites based on specialized policy and technological expertise may be framed by more genuinely global rather than merely international perspectives.

8. Paul N. Doremus, Louis W. Pauly, Simon Reich, and William Keller, eds., *The Myth of the Global Corporation* (Princeton: Princeton University Press, 1999), 371, 375, 370, 373.

9. Cf. David Held, “Democracy, the Nation-State and the Global System,” in *Political Theory Today*, ed. David Held (Stanford, CA.: Stanford University Press, 1991).

Cambridge University Press

0521840619 - Leviathans: Multinational Corporations and the New Global History

Edited by Alfred D. Chandler and Bruce Mazlish

Excerpt

[More information](#)*Introduction*

7

If such a global elite exists, as we believe it does, is it homogeneous? Is it made up of different segments, such as business, media, military? How do such segments relate to one another? The MNC elite is connected to the other elites. National elites will increasingly interact with a developing global elite having dual identities and with the same individuals moving from national to global elite status. We need to revisit Keller and Pauly's first thesis about the unchanging relation of existing nation-states and MNCs.

On the question of homogenization, it is frequently said that MNCs are imposing themselves everywhere in a more or less single and convergent form, which, in a new version of imperialism, disseminates their values and exports their ways of operating worldwide. The same product is promoted in all countries by the same advertisements and the same films. Instead of heterogeneity, we are given the equivalent of Velveeta cheese – one cheese for all purposes.

Homogenization, in turn, it is said, is identified with Americanization. In the eyes, for instance, of many of the French, there has been “Coca-Colazation” or Americanization of the world. More recently, McDonald's has come to symbolize an American homogenization of the planet. Of the more than 18,700 outlets serving 33 million people every day a few with 3,200 new restaurants opening each year, about two-thirds of the new branches were to have been outside America.¹⁰ McDonald's has even become the basis for a new social science “law.” Thomas Friedman, in the *New York Times*, has claimed that no country with a McDonald's outlet has ever gone to war with another country having the same restaurant chain. The reasoning behind this Golden Arches theory is that the restaurants involved are only to be found in countries that have reached a sufficient level of economic well-being and political stability to make war unattractive. This is an intriguing thesis: a new, globalizing version of the long-held view that trade brings peace.

Alarm about homogenization may, however, be a misplaced fear about the character of industrial society at large and its loss of particularity in the face of mass production. Simultaneously, increased heterogeneity has also occurred. All societies at all times alternate between homogenization and heterogeneity with a balance between them. If all McDonald's have golden arches, they serve different menus in different countries. For example, in addition to homogeneous Big Macs, there are also special fish Macs in Japan, and so forth. So, too, global production is often carried out in small

10. *The Economist*, June 29, 1996, 61.

Cambridge University Press

0521840619 - Leviathans: Multinational Corporations and the New Global History

Edited by Alfred D. Chandler and Bruce Mazlish

Excerpt

[More information](#)

innovative settings. In northeastern Italy, one of the fastest growing and richest regions in Europe, the economy is based on small and medium-sized entrepreneurs who are operating successful trading and manufacturing enterprises. Even more to the point, MNCs are turning increasingly to small-batch production, working to satisfy individual tastes, and moving away from Fordism. Ideological a priori myths and hypotheses all need confirming evidence based on detailed empirical inquiry.

As for the issue of Americanization, the hypothesis that it is equivalent to globalization must also be carefully tested and considered. There is no denying that the United States is the most important player in globalization in terms of its economic muscle – its MNCs – its political power, its cultural reach, and, especially, its military capacity. The United States today militarily is the only truly global power. But this by itself does not constitute Americanization of the globe. Indeed, a shift has been occurring in the national character of MNCs. About 25 years ago almost all of the 500 largest industrial MNCs were American or European; today about one-third have their headquarters in Asia and Latin America. Globalization itself, in the form of MNCs, has been becoming increasingly global. Of course, it is still true that in India, for example, with its more than one billion population, only one company, Indian Oil Co., is ranked among the world's 500 largest firms.

Americanization itself is not what it used to be. As a culture, the United States is increasingly experiencing other modes of being. Here, again, what is needed is detailed research concerning MNCs and their role. The outcome, of course, may confirm the view that globalization equals Americanization. On the other hand, it may not. (As our brief remarks suggest, we believe that it will not.) If McDonald's has spread overseas, overseas food has come to America. Within the increasingly porous borders is a bewildering array of Chinese, Thai, Japanese, Indian, Mexican, French, Italian, and other restaurants. One encounters the "other," too, in the form of world music drawn from African reggae, Mexican, Brazilian, and similar "exotic" traditions. The outside enters as well in the shape of films, fashion, and philosophy – French postmodernist thought, largely ignored in its "home" country (where it drew largely upon German inspirations), has been widespread in American academia. The United States is a country in which black and white may still separate the races, albeit unofficially, but it has not done so in its intellectual discourse. Americanization, both inside and out, is Janus-faced.

The notion of the "transparency" of MNCs derives from a term more familiar in politics – a concept linked to the French Revolution and its

Cambridge University Press

0521840619 - Leviathans: Multinational Corporations and the New Global History

Edited by Alfred D. Chandler and Bruce Mazlish

Excerpt

[More information](#)

Introduction

9

demand for openness in government. Before 1789, the reigning political concept (with a partial exception in Great Britain) was that the monarch's rule was separate from the people's will because royal power derived from God, ancestry and tradition, or all three. The guiding principle was *raison d'état*, which was not to be shared with the public and needed no defense other than the king's assertion of it. In short, it was secret and nondemocratic. With the fall of the Bastille, transparency – openness – was demanded in regard to both an individual's heart and the workings of institutions. In Rousseau-like fashion, individuals were expected to experience interior private revolutions that mirrored the revolution taking place in the state. Similarly, the state was to be open in its own dealings with all its workings and reasonings available to public inspection.¹¹

The demand for transparency was, and is, clearly linked to democracy. Can it be translated to MNCs, whose officials are not elected by public vote but, at best, by directors and shareholders? John Browne, chief executive of British Petroleum, believes that corporations have public responsibilities as well as private ones, that MNCs that do not engage in the "business" of pollution control as well as profit taking will lose their legitimacy. As one account of his activities puts it, "The continuing process of globalization . . . has made business transparent." Or, in Browne's own words, "Business must keep projecting the fact that on balance, it is a good thing."¹² To be a good thing means that one must show what one is doing, that is, be transparent, for how else can a business be held to account for its public actions and efforts as well as for its private money-making? Increasingly, it is MNCs and not governments alone that are engaged in public actions of great import. Within the corporation a struggle often exists between the CEO or the managers' desire for secrecy – and thus for unaccountability – and the stockholders' and other stakeholders' demand and wish for information. In the public role of corporations and their desire to hide information there are public implications. Witness the tobacco companies' foot-dragging in the face of the polity's need for transparency.

If MNCs are, in fact, the new Leviathans of our time, much more thought and analysis must be given to transparency, but political scientists, for one, seem to have chosen to ignore the subject. Two scholars looking at the

11. Cf. Jean Starobinski, *Jean-Jacques Rousseau: Transparency and Obstruction*, trans. Arthur Goldhammer (Chicago: University of Chicago Press, 1988).

12. Quoted in Youssef M. Ibrahim, "International Briefs: Praise for the Global Warming Initiative," *New York Times*, December 12, 1997.

Cambridge University Press

0521840619 - Leviathans: Multinational Corporations and the New Global History

Edited by Alfred D. Chandler and Bruce Mazlish

Excerpt

[More information](#)

Web site that posts a thousand abstracts of the American Political Science Association's meeting in 2000 and using a good search engine discovered only two hits for the word "corporation."¹³ This suggests that political science has not yet caught up with the political importance of the new Leviathan.

The other key concept derived from political power that relates to MNCs is sovereignty, which is a term accorded much attention by political scientists, although their attention is confined almost solely to the sovereignty of nation-states. The idea that MNCs as political actors might also need to be examined in terms of the notion of sovereignty appears quite foreign to most work in the field of political science as well as in economics.

Like transparency, sovereignty, too, is a relatively new concept. It can be traced back to the seventeenth century and the emergence of the modern state system, which is customarily dated from the Peace of Westphalia in 1648 at the end of the Thirty Years' War. In that treaty, several countries' sovereignty over territories was confirmed. A century earlier, the eminent theoretician of the idea, the French writer and jurist Jean Bodin, in his *Six Books* (1576) on sovereignty, had laid down the lines along which discussion subsequently proceeded. Bodin saw sovereignty as indivisible – a state's power vested in a single individual or group. Thus, sovereignty now generally means, as Webster's *New Collegiate* puts it, "supreme power esp. over a body politic: freedom from political control." But it is useful to distinguish the internal from the external exercise of power. Internally, sovereignty means exercising power (e.g., the control of violence) in a relatively uncontested way even though, in fact, there are always oppositional groups. The government, in other words, exercises "supreme power." As Hobbes put it, "there had to be a supreme authority that enforced the law and adjudicated conflict."¹⁴ External sovereignty is even more complicated. It requires, in the Westphalian state system, that a state be recognized by other states and be accepted as a juridical equal with a corresponding right to enter into treaties, alliances, and international institutions. But, in such a system, no sovereignty is ever absolute; it is always balanced by other sovereign states. Yet, for international purposes, the smallest state deserves representation, for example, in the United Nations as much as a large state such as China. This model of sovereignty is, as one recent scholar of the subject puts it, based on two principles:

13. Public e-mail posting by Focus on the Corporation, a weekly column written by Russell Mokhiber and Robert Weissman, September 20, 2000. <<http://www.sfp.org/Focus>>.

14. Quoted in Josef Joffe, "Rethinking the Nation-State," *Foreign Affairs*, November/December 1999, Vol. 78, No. 6, 123.