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A New Transnational Corporate Social Structure of Accumulation for Long-Wave Upswing in the World Economy?

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Abstract

This article examines whether a new *transnational corporate* social structure of accumulation (SSA) has emerged in the global economy to promote long-wave upswing. It explores the main tendencies of the transnational corporate system; three main engines of potential growth; and the evidence of profitability, accumulation, productivity, and growth. Then the dominant contradictions are surveyed. Overall, a new transnational corporate SSA does not seem to be operating, and long-wave upswing is not evident for the global corporate economy.

JEL classification: *B5; E11; P12*

Keywords: *transnational corporations; social structures of accumulation; long waves*

I. Introduction

According to leading social structure of accumulation (SSA) scholars, the corporation is a critical institution in the accumulation and growth process. As the late David Gordon (1980: 13) said, for instance, when examining the SSA role of agents and motors of accumulation, "A relatively stable internal corporate structure is . . . necessary in order to permit capitalist decision-making . . . [and] some moderation of competition is necessary to prevent the kind of economic instability which would undermine accumulation." SSA scholars have tended to examine the question of SSAs from a national perspective, whereas French regulation analysts have generally tried to keep a global view. This article seeks to follow the regulation trend in this respect (while following the SSA institutional theme). For instance, during the postwar golden age of the 1950s and 1960s, Fordism was the leading system of production-distribution-exchange in the world. Part of this Fordist structure was the

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dual corporate system of giant, oligopoly corporations in the leading sectors and the competitive firms that had a derivative relationship to the leading corporations.[1]

The dual system of oligopoly–competitive firms, however, broke down somewhat from the 1970s onward as the dominant firms began to change and some lost their edge to other firms in the domestic, regional, and international economies. It is, however, by no means obvious that the new corporate system has satisfactorily resolved age-old problems of profitability and accumulation. Many argue that the existing system has numerous contradictions that inhibit corporate and economy-wide performance. The current article examines the nature of the transnational corporate system, major engines of growth, corporate and global performance, and contradictions in the world economy that are preventing a new transnational corporate SSA from operating.

2. New Transnational Corporate System and Engines of Growth

A transnational corporation (TNC) is a business organization that owns and controls companies or assets in more than one nation. As the United Nations Conference on Trade and Development (UNCTAD 2002: 14) pointed out, there are around 65,000 TNCs affiliated to 850,000 firms abroad, with a combined level of outward foreign direct investment (FDI) of $6.6 trillion and total sales of $18.5 trillion.

Four main tendencies and three dominant engines of growth have been conspicuous during the past couple of decades in the global corporate economy. The *first tendency* is an environment of *increasing globalization*, in which trade barriers have been reduced substantially, controls on foreign investment were dismantled, and exchange rates became much more flexible throughout the world. The *second tendency* concerns the structure of norms and processes associated with *competition and innovation*. The process of innovation → competition → innovation accelerated in recent decades, and *if* this complex process continues through several runs and markets emerge, profitability, accumulation, and growth *may* be enhanced sufficiently for long-wave upswing.

The *third tendency* is for TNCs to *move into areas of high growth* and away from old production centers and markets. Currently, corporations are producing in areas where market growth is strong, such as East and Southeast Asia (primarily), followed by certain special industrial zones (such as Mexico, Costa Rica, and Ireland), followed by *some* emerging and transitional economies of Eastern Europe (such as Hungary and the Czech Republic). The *fourth tendency* is the establishment of certain *institutional or organizational innovations* within and between the TNCs. These include the promotion of global commodity chains (GCCs), value-added chains, and diversified practices and activities. Global commodity chains, for instance, are ways of organizing inputs in various areas so as to produce a viable product (or series of products) that enhances market share. Producer- and buyer-driven commodity chains are common, but buyer-driven chains are becoming more dominant, especially in the fashion and laptop computing industries.

Three *engines of growth* have been FDI, cross-border mergers and acquisitions (M&As), and exports of high-tech manufactures. Global *FDI inflows* grew from $59 billion in 1982

1. For instance, in relation to the development of a corporate SSA, Bowles and Edwards (1998) scrutinized the dual corporate economy for the United States.

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Table 1
Unevenness in the Global Political Economy (1998-2000 Average)

	World	Western Europe	North America	Asia-Pacific	Latin America	Africa (Sub-Saharan)	East-Central Europe[a]	Middle East–North Africa
FDI inflow (share of world total)	100	37.4	34.8	10.1	5.83	2.34	0.77	0.34
Exports (share of world total)	100	33.1[c]	30.4[c]	19.7	6.0[b]	1.0	2.9	4.0
Number of top 100 TNCs[b] (home base)	100	53	25	20 (Japan 16)	2	0	0	0

Source: Adapted from UNCTAD (2002: ch 3, ch 6)
Note: The figures may not add up to 100 due to rounding and some small areas left out.
a. Russia, Hungary, Czech Republic, Poland, Romania, and Estonia.
b. 2001 (foreign assets only).
c. Estimate.

to $203 billion in 1990 and $735 billion in 2001, showing 24 percent (1986-1990), 20 percent (1991-1995), and 40 percent (1996-2000) average annual growth during the past two decades (although declining during the global slowdown of the early 2000s). *Cross-border mergers and acquisitions* (M&As, which are included in FDI) expanded from $151 billion in 1990 to $601 billion in 2001. Cross-border mergers and acquisitions grew at an annual average rate of 26 percent (1986-1990), 23 percent (1991-1995), and 50 percent (1996-2000), growing very rapidly in the late 1990s (United Nations Conference on Trade and Development 2003a). Exports of *high-tech manufactures* grew from 9 percent (1982) to 15 percent (1990) to 23 (2000) percent of total global manufactures exports (Lall 2002a: 57). New technology is a critical part of the TNC engine, especially in the areas of biotechnology, electronics, and communications. These three engines of growth are inextricably related to the increasing transnationality of corporations from 51 percent in 1990 to 58 percent in 2000, as the proportion of foreign assets, sales, and employment expanded relative to global GDP (United Nations Conference on Trade and Development 2003b: 93).

These engines, however, predicate uneven growth and development as various regional and local patterns and trends affect the global system.[2] Table 1 gives an indication of these uneven tendencies at the global level.

This data reveal the existence of *three main continental engines of global growth*: Western Europe, the United States, and Asia. The big development is the relatively recent entry of certain nations of Asia into the club of growth and development. The decline of Japan has not yet, however, been significantly counteracted by the rise of China and other nations of East and Southeast Asia. Certainly the nations of Latin America and Africa, the transitional economies of Eastern Europe, and the Middle East play no really significant role in the global process, and the economies of Western Europe and the United States have

2. In fact, as Wil Hout (2004) argued, recent trends have not just seen more globalization but also regionalization and generally also uneven development in the world economy.

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Table 2
After-Tax Rate of Profit of the Largest 500 U.S. Transnational (TN) Corporations (Annual Average Rates, Decade by Decade, 1954-2002)[a]

Phase of Long Wave	Years	Raw Profit-Rate Figures[b]	Profit Rate Adjusted for Data Revision (π)	Yield on Ten-Year U.S. Treasury Bonds[c] (γg)	Above-Normal Competitive Rents ($\pi - \gamma$g)
Downswing	2000-2002	1.32	3.30	5.22	–1.92
Downswing	1990-1999	2.29	4.02	6.66	–2.64
Downswing	1980-1989	5.30	5.30	10.60	–5.30
Downswing	1970-1979	6.30	6.30	7.49	–1.19
Upswing	1960-1969	7.15	7.15	5.11	+2.04
Upswing	1954-1959	7.71	7.71	3.01	+4.70

Source: Fortune (1955-2003); Federal Reserve System (2000, 2003).
a. Data in Tables 2 and 3 are adjusted for changes in the *Fortune* series. For instance, adjustments have been made to the raw data for the profit rate of the largest 500 U.S. corporations to accommodate the inclusion of service corporations into the series, and also to the global 500 TNC profit rate for the inclusion of U.S. transnationals (both for the period 1994-2002).
b. Adapted from *Fortune* (1955-2003).
c. Adapted from Federal Reserve System (2000, 2003).

been maturing for some time now. This inability to include more nations in the global process is a major limit on growth and accumulation.

3. Transnational Performance

We turn now to the performance of the global corporate system, starting with the rate of profit (π): the value of after-tax profit (p) divided by the value of tangible corporate assets (CA), multiplied by 100: $\pi = [p/CA]100$. We examine profit rates for the largest U.S. transnational corporations net of nominal U.S. interest rates, because, according to Dennis Mueller (1990), the general rate of profit for a specific group of firms (i) at a point in time (t), (π_{it}), is equal to the competitive rate of return (πc_{it}) plus a permanent rent for specific firms (πr_{it}) and a short-run rent (πs_{it}):

$$\pi_{it} = \pi c_{it} + \pi r_{it} + \pi s_{it}$$

where the competitive rate of return (πc_{it}) may be approximated by the yield on long-term government bonds (γg_t) (Kessides 1990). Hence, Table 2 compares corporate profitability with the yield on ten-year U.S. treasury bonds.

Here, the rate of profit has consistently fallen since the 1950s, being high for the long-wave upswing of the 1950s and 1960s, and successively lower for each decade of the downswing during the 1970s-2000s. The recent experience is poor. Long-wave upswing in the 1950s and 1960s consistently saw positive above-normal competitive rents for business, while during downswing above-normal competitive rents were consistently negative. The negative figures were due to the operation of three factors: (1) deep recessions during the

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Table 3
Global Investment, Productivity, Profit, and GDP (1950s-2000s, Decade Annual Averages)

	1950s	1960s	1970s	1980s	1990s	2000-2002
US 500 TNC profit rate[a]	7.71	7.15	6.30	5.30	4.02	3.30
Global 500 TNC profit rate[a]	5.48	3.68	3.38	2.66	2.46	1.80
Real global investment growth rate[b]	n.a.	7.78	3.97	3.24	2.24	2.1
Global industry value-added growth[b]	n.a.	n.a.	3.36	2.59	1.92	n.a
Global services value-added growth[b]	n.a.	n.a.	3.35	2.60	2.46	n.a.
Real per capita global GDP growth[b]	n.a.	3.19	2.11	1.27	1.05	1.00

Source: Adapted from *Fortune* (1955-2003) and World Bank (2003).
Note: n.a. = not available.
a. From *Fortune* (1955-2003).
b. From World Bank (2003).

mid-1970s, early 1980s, early 1990s, and early 2000s; (2) greater global competition (both of which reduced profit rates); and (3) high rates of inflation during the mid-1970s through to the early 1990s (which led to higher interest rates, usually with a lag). Long-wave upswing is generally not subject to these forces.

The general rate of profit for the *largest global corporations* has a similar trend to that of the *largest U.S. transnational corporations* during the 1950s-2000s. In general, one would expect the low rates of profit in the global corporate system to affect accumulation, productivity, and growth, and visa versa in a circular and cumulative sense. This is shown in Table 3.

These data clearly show that most global performance figures were relatively high during the 1960s (and 1950s), then consistently and successively deteriorated through the 1970s, 1980s, 1990s, and 2000s. Despite the growth engines of FDI, M&As, and technology exports, clearly the global corporate system has not succeeded in propelling greater profitability, investment, productivity, and growth during the 1970s-2000s; in fact, the experience is one of worsening performance. Hence, there is no indication that a new corporate SSA is being developed at the global level for long-wave upswing (see O'Hara forthcoming).

4. Contradictions of the Transnational Corporate System

The central contradiction of the global corporate system preventing long-wave upswing is that the trend to globalization has been ongoing while certain national and continental accumulation regimes have been in relative stagnation. For instance, evidence points to a negative relationship between FDI and national investment in many places. The process of uneven growth and development led to a highly concentrated form of growth in parts of Asia and continual maturation in the advanced capitalist world, whereas Latin America, Africa, and many transitional economies of Eastern Europe (United Nations Conference on Trade and Development 2003b) have failed to enhance global accumulation and growth. Manuel Agosin and Ricardo Mayer (2000) have studied the extent of FDI crowding in (CI) and crowding out (CO) of private investment in Asia, Africa, and Latin America, and their conclusions are summarized in Table 4.

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Table 4
Crowding-In (CI) and Crowding-Out (CO) Effects of FDI on Investment (1970-1996)

	Neutrality	Asia	Africa	Latin America
Long-term investment/FDI coefficient	1.0	2.71	0.89	–0.14
Long-term effect	No CI or CO	Large CI	Slight CO	Substantial CO

Source: Adapted from Agosin and Mayer (2000: 11).

The results demonstrate that there was a large degree of crowding in of (domestic) investment by FDI in Asia (where neoliberalism has traditionally been weak), a very slight crowding out in Africa, and a substantial amount of crowding out in Latin America. Crowding out was especially noticeable in Bolivia, Chile, the Dominican Republic, Guatemala, and Jamaica. Most Latin American governments instigated neoliberal policies in the 1980s and early 1990s to depend on FDI for expanding growth and accumulation. Foreign direct investment increased in Latin America as a percent of GDP from 5.3 in 1983-1991 to 9.5 in 1992-1996 without promoting profit and accumulation for the continent as a whole.

Foreign direct investment in Latin America has crowded out private domestic investment through an array of mechanisms associated with the unproductive substitution of FDI for national investment. Latin American governments have in general been less prudent in encouraging the more productive FDI activities associated with the establishment of new plant and equipment and new technology (greenfield investment). Instead, they have encouraged the open-slather approach to corporate development. Such an approach, in this context, has encouraged the buying of local real estate (rather than the expansion of plant and machinery), mergers and acquisitions, the substitution of foreign for local investment, spending in low-technology areas, and the repatriation of profits overseas (Lall 2002b: 11).

Global growth has also been inhibited by unfavorable conditions for investment in sub-Saharan Africa, despite the almost wholesale adoption of neoliberal policies throughout the subcontinent. African per capita average annual GDP during 1970-1998 was a disappointing 0.01 percent, after having increased during the long-wave upswing of 1950-1973 at an average annual rate of 2.07 percent (Maddison 2001: 129). Three problems are conspicuous. First, sub-Saharan Africa as a whole has been subject to problems associated with dependency on minerals, agriculture, and low-level manufactures. For instance, productivity benefits in metropolis nations tend to accrue in the form of rents, whereas in Africa they tend to manifest in lower prices, due to the low-income elasticity of demand of African exports as linked to the Prebisch-Singer thesis (Raffer forthcoming). Second, sub-Saharan Africa has been subject to high levels of war, general conflict, drought, and disease that inhibit growth and investment. And third, there is the relatively low level of institutional development in sub-Saharan Africa. For instance, in sub-Saharan Africa the average number of years of schooling is only 3.5 years, compared with 6.4 in East Asia (2000); infant mortality is 94 per 1,000 live births, compared with 36 for East Asia (2001); the rule of law index is a low –0.8, compared with –0.1 for East Asia (1997-1998); the absence of corruption index is a poor –0.7, compared with –0.3 for East Asia; and the political stability and peace index is a disappointing –0.8, compared with 0.2 for East Asia (Rogoff and Reinhart 2002; Wood 2002). In the early years of the twenty-first century, sub-Saharan Africa does not provide a suitable social foundation for corporate expansion to promote long-wave upswing in the world economy.

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Also, despite transnational corporate growth during the 1990s-2000s, the macroeconomic and continental socioeconomic performance of Eastern Europe have been disappointing. For instance, transnational penetration of production via FDI has increased markedly into the six main nations of Eastern Europe from 7 percent (1990) to 53 percent (1996) and 88 percent (2001) of private domestic investment. At the same time, domestic investment has more than halved between 1990 and 2002, from US$387 billion (1990) to US$156 billion (2002). As a percentage of world investment, investment in six transitional Eastern European economies has dropped from 6.4 percent (1990) to 1.9 percent (1996), remaining low at 2.0 percent (2002). This is quite a remarkable deterioration of domestic investment. A similar drop is discernable for their real GDP relative to world real GDP, from 3.4 percent (1990) to 2.0 percent (1996), remaining very low at 2.1 percent (2002) (World Bank 2003). Clearly, there is no real evidence that Eastern European nations are enhancing market growth and accumulation to help propel a new long-wave upswing for capitalism into the first decade of the new century.

5. Conclusion

Overall, the global corporate system is at best in a transitional phase in which the conditions for profit, accumulation, productivity, and growth are not consistent with long-wave upswing in the early years of the twenty-first century. There are too many contradictions in the system, including the inability of FDI to propel domestic investment in Latin America, limited conditions for attracting investment of any sort in Africa, and the process of dislocation not being sufficiently overturned in the transitional economies of Eastern Europe. Western Europe and the United States have been undergoing industrial maturation, whereas the only really bright spot is the rise of certain nations of East and Southeast Asia. The Asian renewal, however, has not extended to Japan, and since the Asian crisis, growth and accumulation have been more subdued in the area. The great corporate revolution in technology, innovation, and FDI is at present apparently unable to propel sufficient global profitability, accumulation, productivity, and growth for a new era of capitalist transformation. Further changes and renewals are required before a new transnational corporate social structure of accumulation and long-wave upswing can be propelled.

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