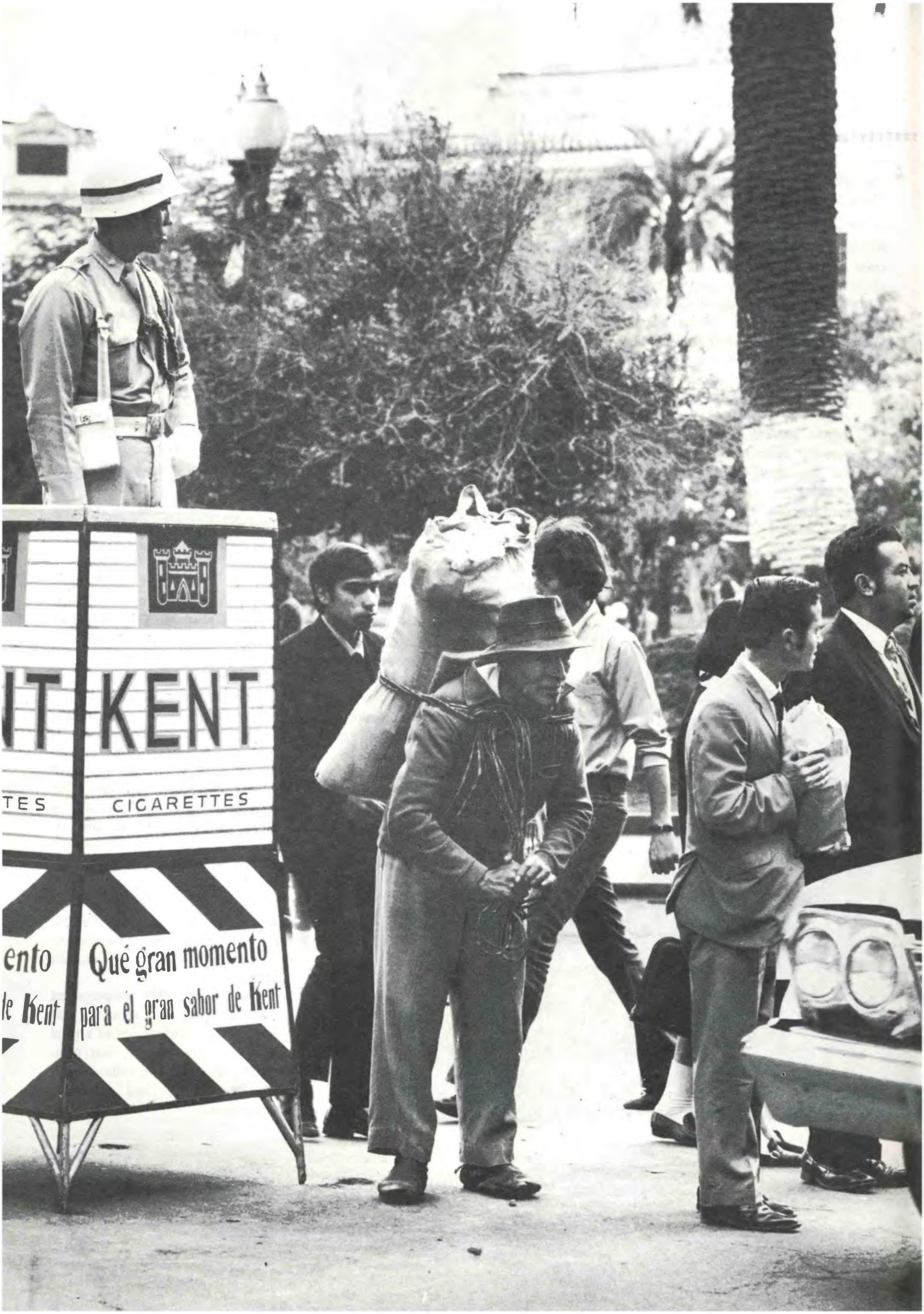
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Photo from Quito, Ecuador

Conglomerate and oligopolistic power in the 1980s

By Frederick F Clairmonte

Between 1948 and 1980 world trade increased from 52 billion dollars to 2 trillion. The main force behind this dramatic expansion has been transnational corporations from a few industrialized capitalist countries. Frederick F Clairmonte analyses the origins of this process and its consequences for the international division of labour.

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The goal of this article is to elucidate briefly the shifts in the process of global capital accumulation since World War II. At the epicentre of this transformation lies the transnational corporation (TNC), headquartered in a handful of developed capitalist economies, now accounting for 80-90 per cent of world trade (minus world trade of centrally planned economies). The morphology of these TNCs has undergone basic changes in the 1960s and 1970s, with the unprecedented spate of conclomerate[1] mergers and the consolidation of oligopolies[2] in the bulk of manufacturing, banking, trade and retail sectors.

Transnational corporations dominate global trade and manufacturing

The global milieu which was to a large extent generated by the growth of the TNCs was the colossal expansion of world trade and manufacturing centred in the developed capitalist economies (DCEs) and a handful of underdeveloped capitalist economies (UECs). The sheer scale of this transformation can be gauged by the forty-fold increase in world trade between 1948 ($ 52 billion) and 1980 ($ 2 trillion).

The expansionist power of the TNCs behind these impressive figures can be seen in just one sector of *global trade*, that of primary commodities. Over the 1950s and 1960s, all primary commodity sectors witnessed the disappearance (via mergers, takeovers and bankruptcies) of small and medium sized trading companies to a point where, by 1978, over two-thirds of trade in most of these commodities was marketed by a miniscule number of transnational multi-commodity traders.

These multi-commodity traders are epitomized by companies such as Cargill or the Japanese Sogo Shoshas (general trading companies) which market grains, cotton, metals and a staggering array of other commodities. The transition from single to multi-commodity structures has reinforced corporate power by diversifying its marketing foundations.

A parallel movement was observed in *global manufacturing* where billions of dollars of state and corporate funds were poured into industry, which contributed to boost the level of economic concentration. Together with the multi-commodity traders, these industrial conglomerates have indeed created a "New International Economic Order", dominated by transnational capital. It is precisely this New Corporate International Economic Order which is the subject of this exposition[3].

A new international division of labour

Such changes call for a new conceptualization of the international division of labour. This is mandatory inasmuch as the classical Ricardian paradigm, rooted in the static notion of comparative advantage operating through unimpeded "market forces", rationalized a division of the world economy into colonial and semi-colonial raw material producing countries, and metropolitan manufacturing countries. This schematic constellation of forces has now been superceded by a stratification of developing countries into: the OPEC group of countries, the eight major industrialising countries, the 30 resource-impoverished least developed countries, and the rest, each of which has evolved specific sets of relationships with corporate capital and the global market.

In this global configuration, the role consigned to the bulk of UCEs continues to be that of unprocessed commodity producers and exporters. Notwithstanding this general trend, there have been two discernible departures: the burgeoning of OPECs processing and financial leverage since 1973, and the more effective integration of eight leading UCEs as manufacturing locations for TNCs[4].

The Mechanisms of Conglomeration

While conglomerates emerged in certain

This article is based on a paper given by the author at The Second Congress of the Third World Economists (TWE), held in Havanna, Cuba in April 1981: »The Morphology of Oligopolistic Capitalism, or The Realities of The New International Economic Order». It has been updated for RMR by the author. The original version will shortly be published in the proceedings from the TWE Congress.

countries (most notably Japan's Zaibatsu) before World War II, widespread conglomerate expansion became conspicuous on a global scale only in the mid-1960s. The current phase of the concentration of economic power was marked by an unprecedented spate of worldwide mergers from 1967 to 1969. This does not imply that conglomerates did not exist before. In the United States, for example, during the 1948-65 period, there were 711 mergers of large firms, 454 of which were conglomerates[5]. But, as Michael Pertschuk, Chairman of the Federal Trade Commission, explained, there was a qualitative difference between the earlier and more recent mergers. Referring to the 1950s and 1960s, he testified:

> "You had product-extension and territorial extension mergers, more horizontal and more vertical during that time."[6]

Conglomerate mergers are those of companies which are neither direct competitors nor in a buyer-seller relationship with one another. Product-extension mergers include mergers of companies which are functionally related in production and/or distribution but sell products that are not in direct competition with each other (e.g. a yarn spinning company merging with a textile weaving company). Territorial extension mergers include those of companies producing identical or similar products but selling in different geographical markets.

These mergers contrast with the largely "pure" conglomerate mergers of the 1970s, which Mr. Pertschuk described as: "firms with piles of cash that are buying up solid firms"[7]. These involve firms acquiring functionally unrelated enterprises; the classic example is that of ITT which, according to one of its annual reports "is constantly at work around the clock, in 67 nations on six continents, in activities extending from the Arctic to the Antarctic and quite literally from the bottom of the sea to the moon"[8]. The proportion of mergers of United States corporations which can be described as conglomerate rose from 64 per cent in 1948-1965 to 76 per cent in 1976.[9]

Corporate Control of Global Commodity Trade, 1978

Commodity	Total exports '78 ($ million)	Percentage marketed by largest 15 transnationals b)
Food		
Cocoa	4,588	85
Bananas	1,250	70-75
Tobacco	3,809	85-90
Tea	1,290	85
Coffee	9,821	85-90
Sugar	7,500	60
Rice	3,274	70
Wheat	11,285	85-90
Agricultural raw materials		
Hides and skins	1,788	25
Natural rubber	2,800	70-75
Cotton	5,958	85-90
Jute	182	85-90
Forest products	37,185	90
Ores, minerals and metals		
Crude petroleum	306,000 a)	75
Copper	6,304	85-90
Iron ore	5,099	90-95
Bauxite	701	90-95
Tin	2,406	75-80
Phosphates	1,389	50-60

Source: Estimates by the UNCTAD secretariat
a) 1980 estimates
b) In most cases it is only 3-6 transnational traders that account for the bulk of the market.

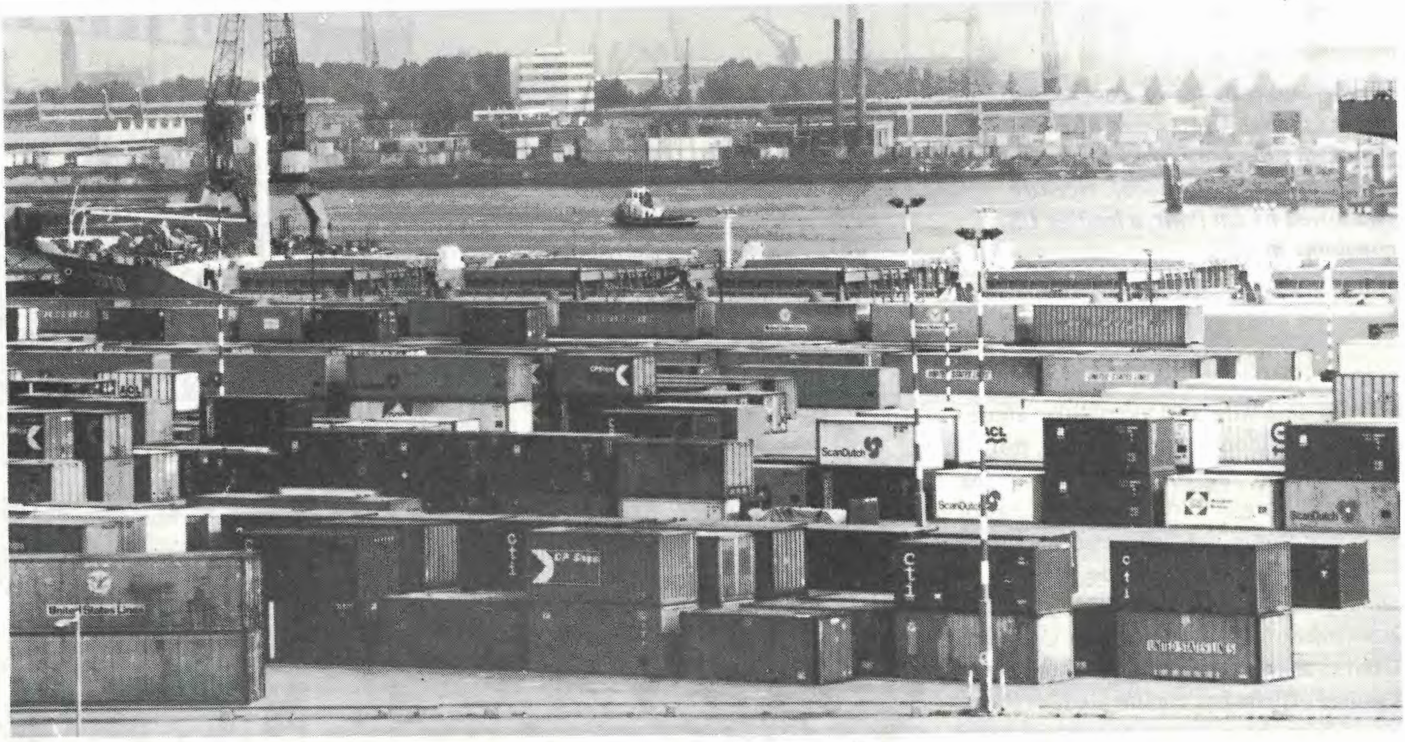
The corporate vision of the 1980s

Any hope of curbing this trend through anti-trust legislation appears illusory as acknowledged by Congressman Neil Smith of Iowa:

> "Enforcement of this nation's existing anti-trust laws rests with whoever may be in power at the Justice Department; and, if and when those laws are enforced, the process is so time-consuming that the injured firms may be long out of business before a decision is reached."[10]

Also underlining the naivety of what is called "antirestrictive business practices" legislation, Mr. Ralph Nader notes:

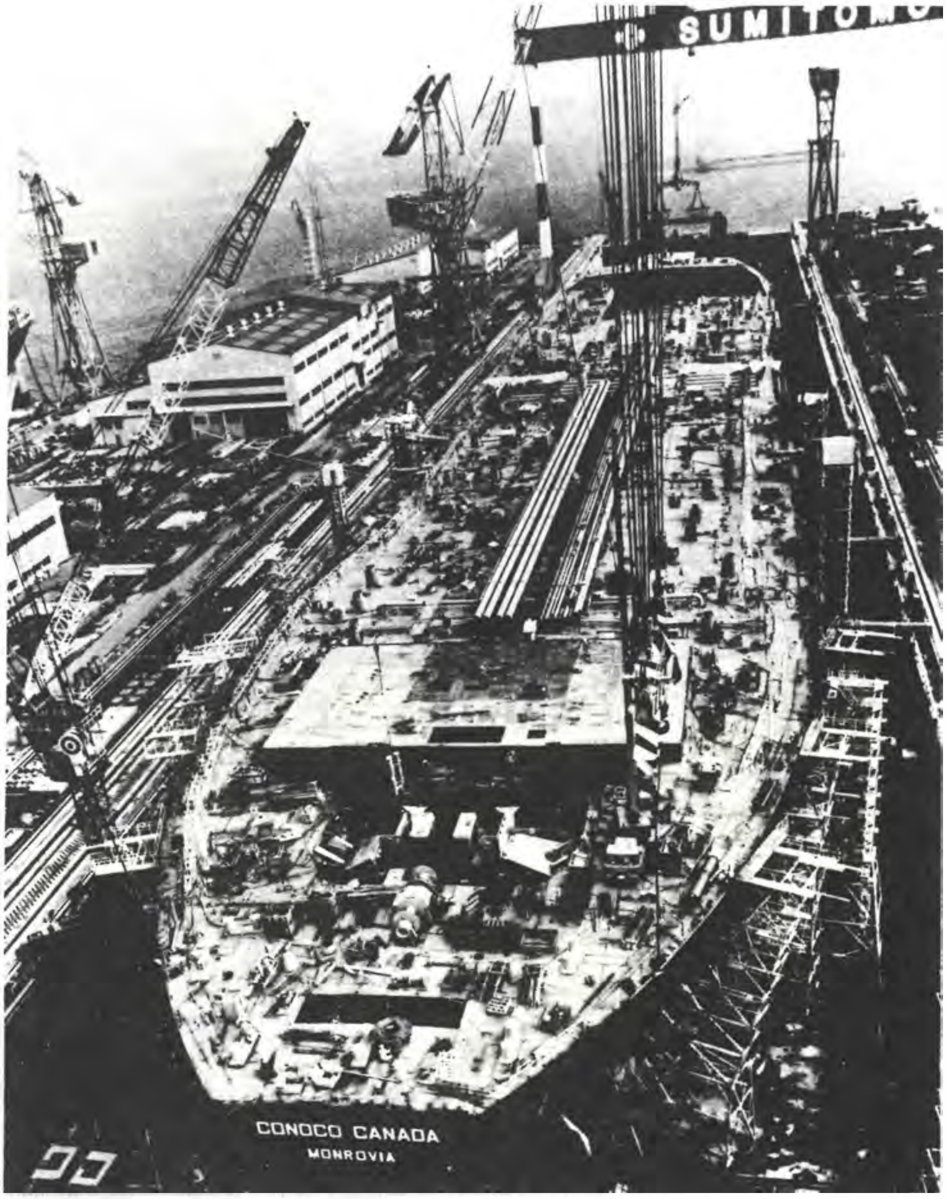
> "The posture of two agencies (the Antitrust Division of the US Justice Department and the Federal Trade Commission), with a combined budget of $ 20 million and 550 lawyers and economists trying



Many commodities are imported by the industrialized countries from the Third World, processed and then reexported. Rotterdam in the Netherland is the leading European port for this trade, to a large extent carried out by advanced container systems. Above.

Advanced container systems facilitate the penetration of markets in Third World countries lacking their own transport systems. Photos from the islands of Montserrat and Anguilla in the Carribean.

A supertanker built in Japan, sailing under Liberian flag, named after the Canadian subsidiary of a US transnational energy company (Conoco), recently swallowed by Du Pont, a leading US conglomerate.



> to deal with anticompetitive abuses in a trillion-dollar economy, not to mention an economy where the 200 largest corporations control two-thirds of all manufacturing assets, is truly a charade."[11]

Canada's Anti-Combines Branch of the Department of Consumer and Coporate Affairs also confesses its impotence. A senior official has commented:

> "Whe have a great concern over the size of these mergers but the law is toothless. Mergers are impossible to stop. We must prove an 'undue' loss of competition to the public's detriment before that happens."[12]

The Director of the Anti-Combines Branch added:

> "What we will have if this march of increased concentration continues is a national oligarchy in which a few dozen people will interact to bargain about the economic future of millions."[13]

Such is the corporate vision of the 1980s.

With the advent of the Reagan administration, antitrust legislation is now being thrown into the discard. It is highly indicative that Mr. William Baxter (the new Republican appointee of the US antitrust division of the Justice Department) has already declared that he opposes legislation to limit the diversification of oil companies. The magnitude of recent conglomerate annexations is suggestive of what can be expected in the 1980s. Sohio, a subsidiary of British Petroleum, is to annex Kennecott (one of the world's biggest copper producers), for $1.77 billion; and Socal (Standard Oil of California) has already offered $ 4.8 billion for AMAX, one of the world's largest mining corporations.

Another indicator of the accelerating pace of conglomeration is that while the total value of conglomerate mergers and acquisitions was less than $1.5 billion in 1972, by 1977, after what one expert called "an orgy of cannibalism which has reached unprecedented levels"[14], it had jumped to nearly $ 6 billion. By 1981 the largest corporate bid in the annals of corporate history, the 7.3 billion bid by Du Pont, the largest US chemical corporation, to annex Conoco the 9th largest US petroleum corporation, outstripped the 1977 figure.[15]

In Europe, the extent of transnational conglomeration is depicted in the growing number of firms in the *Fortune 500* list of industrial corporations outside the United States, which span several industrial categories. This pace of concentration and conglomeration is evidenced not only in the developed capitalist countries, but also in certain UCEs, notably South Korea. The Samsung Group, a significant member of that country's oligarchy, alone accounts for about 5 per cent of the country's GDP.

Dr. Walter Adams recently testified to the overwhelming impact of conglomerates, even in the absence of oligopoly:[16]

> "A conglomerate giant is powerful, therefore, not because it has monopoly or oligopoly control over a particular market, but because its resources are diversified over many different markets. Its power, as Corwin Edwards says, derives from the fact that it can outbid, outspend, and outlose a smaller firm. It occupies a position much like the millionaire poker player who, in a game of unlimited stakes, can easily bankrupt his less opulent opponents, regardless of his comparative mastery over the dizzy virtues of probability theory."

In fact, conglomerates derive benefits from oligopolistic market power, and conglomeration in combination with oligopoly is a source of enormous economic power. While different markets expand and contract, the conglomerate which shares in several industrial oligopolies can ride with the tide, shifting its resources into whatever happens to be most profitable at the moment. Another technique is that of "cross-subsidization", whereby a conglomerate operating in many fields can use profits earned in its lucrative sectors to subsidize losses in any temporarily depressed lines of business, or to inject additional capital flows to acquire larger market shares. The classical illustration of this in recent time is that of Philip Morris subsidizing its wholly owned subsidiary Miller's brewery, with tobacco profits.

In addition to cross-subsidization, another mechanism of conglomerate power is business reciprocity, which is the practice of making sales to and purchases from corporations that are customers of the conglomerate. Not only does this practice raise barriers to new entrants but also such reciprocal arrangements serve to reshape drastically the competitive market mechanism. As such arrangements proliferate, "trade relations between the giant conglomerates tend to close a business circle. Left out are the firms with narrow product lines; as patterns of trade and trading partners emerge between particular groups of companies, entry by newcomers becomes more difficult"[17]. The further consequence, as *Fortune* notes, is that the United States economy "might end upp completely dominated by conglomerates happily trading with each other in a new kind of cartel system", The phenomenon is, however, by no means confined to American capitalism.

The rise of international oligopolies

Internationalization of capital and conglomeration has been paralleled by the transition from oligopolistisc structures in certain national industrial sectors to what could be designated as international oligopolies.

The clearest and most dominant illustration of this is the *"seven petroleum sisters"* which include some of the world's leading corporations. The ten-fold rise in oil prices in the 1970s contributed not only to an OPEC current account surplus exceeding $115 billion in 1980, but no less crucially to the staggering growth of the seven giants, with combined 1980 sales outstripping $ 460 billion. (See table.) The oil major's annexationist strides are seen in their massive share of aggregate profits in United States manufacturing, soaring from 15 per cent in 1972 to 40 per cent in 1980. In this context of global market power, to categorize them speciafically as "petroleum corporations" is a misnomer as they straddle and dominate a large spectrum of natural resource, mining and industrial sectors.

Chemicals represent yet another sector where international oligopoly is attaining ever higher levels of concentration and control. Currently, the 30 leading corporations, all horizontally and vertically integrated, have sales of well over $ 200 billion. These 30 dominate all chemical end uses, from plastics, paints, fertilizers, pharmaceuticals, dyestuffs and synthetic rubber to chemical fibres. According to the Dow Chemical Company forecast, ten of these will disappear by the year 2000, while another ten will have merged with oil corporations. The Du Pont/Conoco deal is a pointer in this direction and trenchantly reinforces the already overwhelming control that the oil and chemical oligopolies wield over the global petrochemical industry. Within the present chemical oligopoly, production, marketing, research and development of specific product lines are often dominated by a handful of giants. In dyestuffs, four conglomerates in the Federal Republic of Germany encompass more than two-fifths or world trade; four Swiss corpora-

Sales of world's major petroleum companies ($ US billions)

Seven sisters	1970	1979	1980	1980 1970 = 100
Exxon	16.6	84.3	110.5	665
Royal Dutch/Shell	10.8	73.9	99.0 a)	917
British Petroleum	4.1	48.2	64.6 a)	1 575
Mobil	7.3	47.9	63.7	873
Texaco	6.3	39.1	52.5	833
Standard Oil (California)	4.2	31.8	42.9	1 021
Standard Oil (Indiana)	3.7	18.6	37.8	751
Total	**53.0**	**343.8**	**461.0**	**948**

Source: Annual reports and trade sources.
a) Estimates

Continental Grain is one of the leading trading conglomerates in the US. The company's advertisment slogan reflects the transnational aims of dominant corporations in the capitalist world. Advertisment published in Metal Bulletin, London.

tions for another third; and the U.K.'s Imperial Chemical Industries for around a tenth. No less glaring, 12 of the chemical firms produce almost three-fifths of the world's chemical fibres, embracing about 80-90 per cent of their global trade.

Microprocessors, which are now drastically reshaping the entire face of global industry and service sectors, are already dominated by a coherent international oligopoly: five US corporations and the Dutch conglomerate Philips have appropriated over half the world market; with Texas Instruments and IBM garnering over 10 per cent each[18]. If one adds four Japanese and three other European producers to this phalanx, it would bring their joint control of the global microchip market to over four-fifths.

Another sector that remains one of the world's most concentrated is *the automobile industry*, with developing countries having no independent research and production capacity. Indeed, they serve as little more than production locations for nine TNCs (based in five developed countries) that produce about nine-tenths of global automobiles[19]. Increasingly, under the impact of the unrelenting economic crisis, combined with escalating fuel prices and the vast amounts for capital required for retooling and robotization, there American and two Japanese firms now dominate the global market.

What is true of the gathering momentum of concentration in these traditionally capital-intensive industries is valid for all industries. Even in what has conventionally been considered labour-intensive industries, such as *apparel,* concentration is moving apace under the impetus of the global crisis,[20] mounting costs of technological innovations, and the compulsive exigencies of the global market. Once again, the United States[21] provides an illustration of this movement. Over the last several decades, its apparel industry has shifted from thousands of small scale sweatshops to one led by nine large conglomerates (e.g. Gulf and Western and Consolidated Foods) that are automating at a rapid clip, with certain new machines costing up to half a million dollars.

Concluding Reflections

What traditional analysis of the growth of postwar productive forces has shrouded are the instabilities and inequalities which are endemic to the growth of global capitalism. Since the monetary crisis of the early 1970s, joined to the upsurge in oil prices, global capitalism has been rocked by a series of crises whose most blatant expressions are the tens of millions of unemployed and uncontrollable inflation. The eventual central contradiction within the system is that in generating enormous productive capacity within the framework of mounting concentration, it has (amongst other things) distorted and underdeveloped capitalist economies.

The global crisis in this framework has had highly unequal consequences. On a regional basis, the relative economic prosperity of West Germany, Japan and Switzerland has not been shared by the U.K., Italy or Spain. Likewise, amongst the UCEs, the rapid growth of South Korea, Taiwan and Hong Kong stands in stark contrast to the deteriorating situation in Chad, Haiti and Guatemala. With respect to industries, the gigantic profits of microprocessor, telecommunication and petroleum TNCs have occurred in contrast to almost total stagnation in shipbuilding, steel and textiles.

Finally, in class terms, UCE oligarchies in collaboration with TNCs have enriched themselves enormously at the expense of the bulk of the working population, strikingly vis-à-vis a peasantry deprived of the income to consume the bulk of capitalism's products. Whereas in the DCEs, the period of relative full employment in the fifties and sixties served to conceal marked inequalities, the onset of the crisis with raging inflation and unemployment has unmasked and exacerbated these inequalities.

Continuing conglomeration and oligopolization under the present conditions of crisis at the onset of the 1980s have generated the backlash of increased protectionism and beggar-my-neighbour policies. Understandably, in this context the volume of global trade increased by only one per cent in 1980, the lowest growth rate seen in the postwar period. It would appear in the present institutional configuration that the global crisis of oligopolistic capitalism is irreversible.

Notes:

1 *conglomerate:* a corporation generally consisting of a holding company and a group of subsidiaries engaged in unrelated economic activities. Expansion of conglomerates takes place through mergers and takeovers. Such diversificantion allows the conglomerate to survive periods of losses in certain product lines by profits earned in other divisions.

2 *oligopoly:* defines a market structure characterized by dominance of a handful of firms, whose corporate and pricing policies are coordinated via such mechanisms as pricing policies that deviate from those that might prevail under more competitive conditions; various collusive practices; and a multiplicity of effective barriers against other firms aspiring to enter the sector.

3 For an elaboration of these ideas, see UNCTAD, *Fibres and Textiles: Dimensions of Corporate Marketing Structures* (TD/B/C.1/219), Geneva, 1981; and Frederick Clairmonte and John Cavanagh, *The World in their Web: The Dynamics of Transnational Fibre and Allied Textile Oligopolies* (London 1981).

4 These include Taiwan, South Korea, Hong Kong, Singapore, Yugoslavia, Brazil, India and Mexico who, in 1978, accounted for 78 percent of UCE industrial exports.

5 United States Senate, Subcommittee on Antitrust and Monopoly of the Senate Committee of the Judiciary, *Mergers and Industrial Concentration,* Hearings on 21 September 1978, p. 151. "Large firms" refers to acquired firms with assets of $10 million or more.

6 *Ibid.*, p. 152.

7 *Ibid.*, p. 152.

8 *Ibid.*, p. 172.

9 *Ibid.*, p. 151.

10 United States, Congress, House of Representatives, Transcript Record of "Excerpts from the Testimony of Neil Smith before the Subcommittee on Livestock and Grains", 30 October 1979 (Washington, DC), p. 7.

11 Quoted in M. J. Green, B. C. Moore and B. Wasserstein, *The Closed Enterprise System* (New York, 1972), p. xii. See also M. S. Lewis-Beck "Maintaining Economic Competition: The Causes and Consequences of Antitrust", in *Journal of Politics,* Vol. 41, 1979. By 1980, 20 US corporations employed over 100 in-house lawyers each. (AT & T 902 and Exxon 384). Du Pont allocated 39 corporate lawyers exclusively for anti-trust work.

The staggering sales of the petroleum giants indicate the gigantic scale of their accumulation that can be used to extend their conglomerate annexations. The following data refer to 1980 sales of some of the paramount American oil corporations compared to 1979. Exxon, $110.5 billion (30 per cent); Mobil, $ 63.7 (32); Texaco, $ 52.5 (34); Standard Oil, $ 42.9 (34); Standard Oil (Indiana) $ 27.8 (38); Gulf Oil, $ 26.9 (11); Atlantic Richfield, $ 24.2 (45); Shell Oil, $ 20.0 (37); and Conoco, $ 18.8 (44). Source, Standard and Poor's Compustat Services Inc.

13 Quoted in *The New York Times*, "Canada's industry plays monopoly for real", 25 March 1980.

14 *Ibid.* Canada has recorded only one monopoly conviction since 1945 and that presumably on the basis that the defendent pleaded guilty.

15 United States Senate, 95th Congress. *Mergers and Industrial Concentration, Hearings before the Subcommittee on Antitrust and Monopoly. Acquisitions and Mergers by Conglomerates of Unrelated Businesses,* 12 May, 27 and 28 July and 21 September 1978, Washington, DC, 1978, p. 143.

16 *Ibid.*, p. 143.

17 *Ibid.*, p. 172.

18 *Fortune,* June 1965, and Willard Mueller, "The Social Control of Economic Power", University of Wisconsin, Working Paper Series, June 1977.

19 The present $ 10-20 billion semiconductor market is expected to shoot past $ 100 billion yearly by the century's end according to data of the Philips Corporation, quoted in *The New York Times,* 29 January 1980.

20 These include General Motors, Ford and Chrysler in the United States; Toyota and Nissan in Japan; Volkswagen in the FRG; Renault and Peugeot-Citroen in France; and Fiat in Italy.

21 An indication of the magnitude of the crisis was that in the first 10 weeks of 1981, US business bankruptcies rose to 2,933, a gain of 63 per cent from the 1,800 tallied in the comparable period of 1980, and the highest reported for the period since 1963. Significantly, last year's figure was 53 per cent above the similar period in 1979, according to Dun & Bradstreet data. For the first 11 months of 1980, 10,727 businesses filed bankruptcies, 52 per cent higher than the similar period in 1979. These bankruptcy figures are symptomatic of the OECD group of countries as a whole.

22 Shifting global corporate hegemony is pinpointed in the following numbers: in 1971, 280 of the world's five hundred largest industrial corporations were US based; by 1979, the number had dropped to 219. Japan followed with 71; the U.K., 51; the FRG, 37; France, 27; and Canada, 19. Data from the New York-based Conference Board. ■