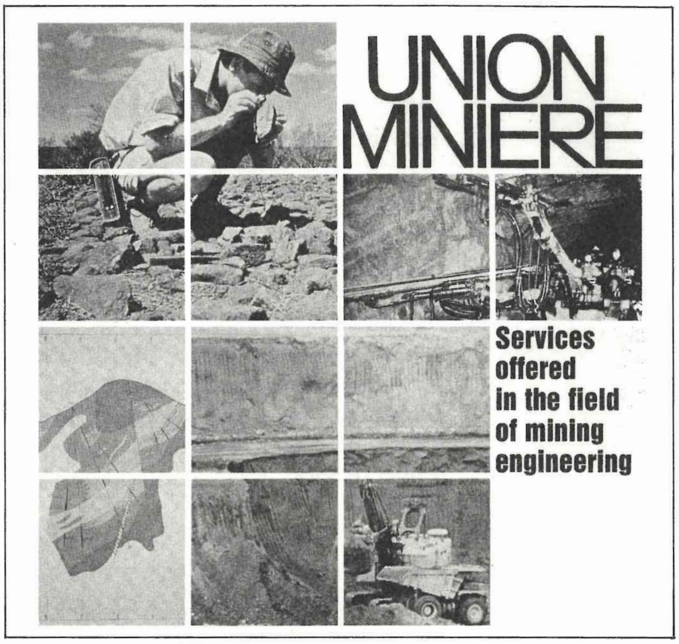
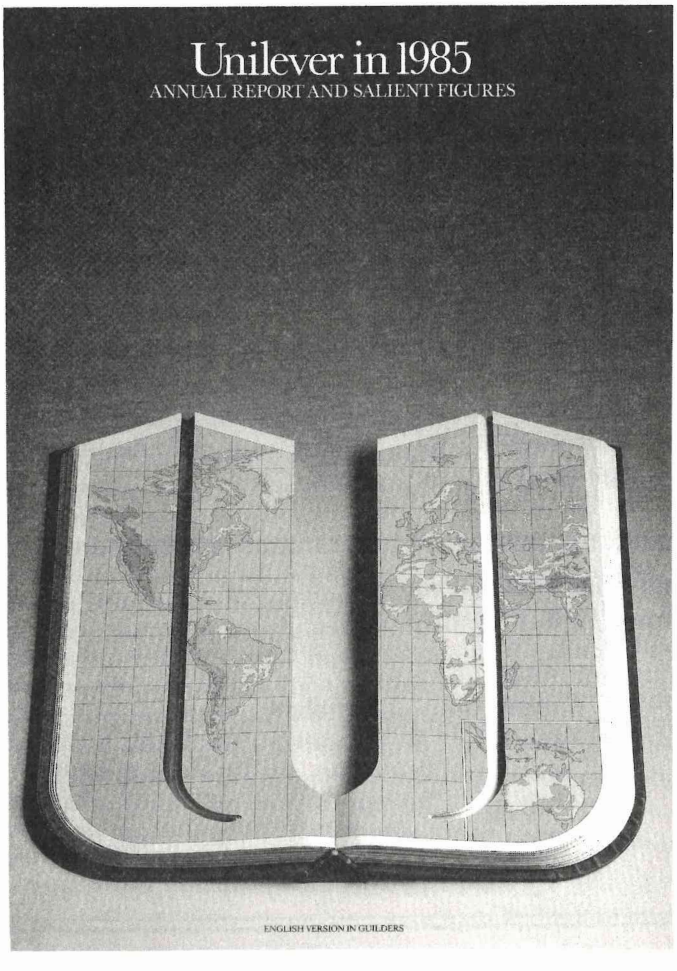
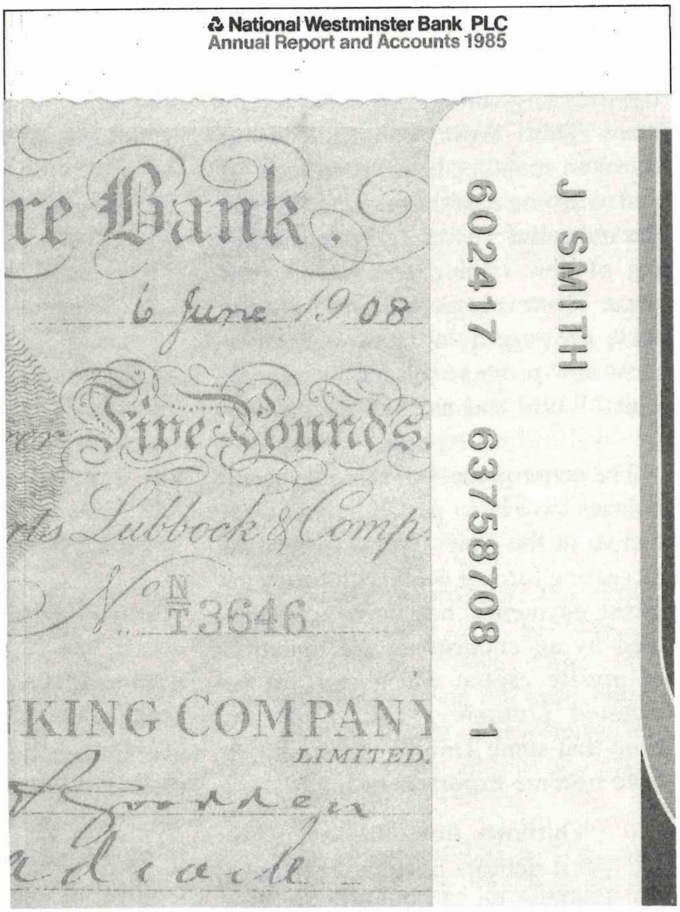
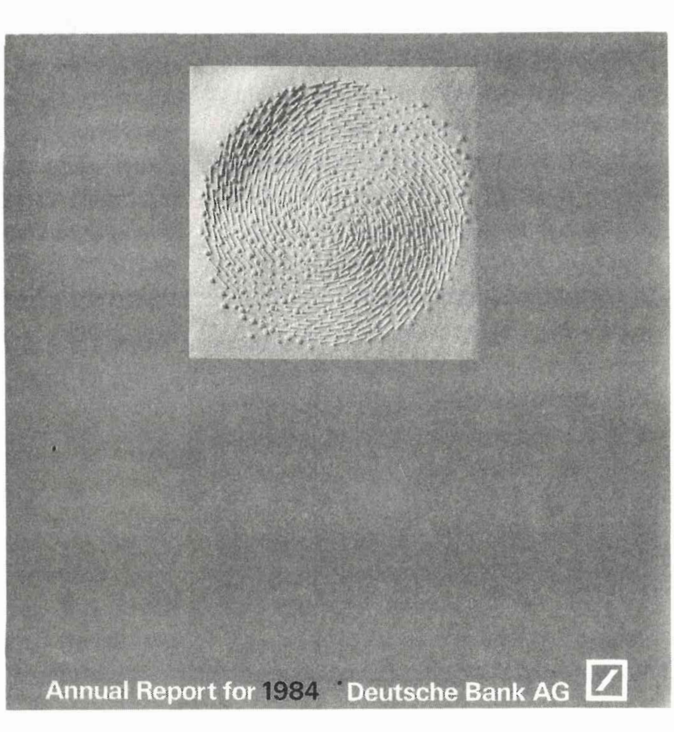
Union Minière (top left) and Unilever (below left) are leading TNCs, with their origin in colonial mining and manufacturing.





Today the most dynamic TNCs are found in the services sector, eg banks and financial conglomerates, with their origin in overseas banking, transport and insurance. National Westminster Bank and Deutsche Bank are two important actors in this sector.





The emergence of service conglomerates

By Frederick F Clairmonte and John H Cavanagh.

The world economy is presently undergoing profound structural changes, with the service industries moving to the centre of the stage. In their second article on the service industries Frederick F Clairmonte and John Cavanagh look at the implications of the internationalization and transnationalization of services, with special reference to the financial sector.

Frederick Clairmonte is a staff member of UNCTAD and John Cavanagh is Fellow of The Institute for Policy Studies in Washington. They are both members of the Editorial Advisory Board of RMR.
The article was first published in Trade and Development, an UNCTAD Review, No 5, 1984. It has been revised and updated by RMR and the authors. The views expressed in the article are their own and not necessarily those of their institutions.

EMERGENCE OF SERVICE CONGLOMERATES

The modern transnational corporation began to take shape after 1875. In the ensuing decades, a transition from relatively competitive conditions to monopolistic and oligopolistic output and market structures was realized by pooling arrangements, the financial holding company, and a legal framework congenial to the concentration of corporate power. Essentially, the principal activities of these transnational corporations were manufacturing, mining and plantation agriculture, e g American Tobacco Co, Lever Bros, Union Minière, De Beers, United Fruit Co, Tate and Lyle.

The earliest service transnationals were companies engaged in banking, transport (shipping and railroads), and insurance whose overseas expansion was related to the colonial world and the semi-colonial worlds of China and Latin America. Outstanding examples include giants such as Barclay's Bank, Lloyds Bank, Jardine Matheson, the P and O Shipping Lines, the Deutsche Bank, the East Asiatic Company, La Banque d'Indochine, the Hamburg Amerika Line and the United Africa Company.

Between the end of the First World War and the 1960s, transnational corporations began to enter other service sectors, notably advertising telecommunications, tourism, retailing and accountancy. None the less, their role was still on a relatively modest scale compared with the concentration and transnationalization of capital in the manufacturing sector.

Since the 1960s, the transnationalization of both services and manufactures has gathered momentum — albeit at different tempos. The profoundest changes in the service sector were those experienced or undertaken by corporations directly linked to tourism, multicommodity trading companies and the rapidly diversifying financial corporations (e g American Express) which benefited from deregulatory measures, notably in the United States.

Service and manufacturing TNCs: the juxtaposition

The combined-sales of the world's top 200 corporations,[1] which in 1982 exceeded 3 T USD, or the equivalent of one third of the world's GDP, indidate the magnitude of corporate power (see table 1).

Of these 200 corporations, 116 have their headquarters in just five countries:

- the United States (80)
- Japan (35)
- the United Kingdom (18)
- the Federal Republic of Germany (17)
- France (16).

These 116 corporations have acquired over 85 per cent of the aggregate sales of the 200.[2] Corporations from the developing world are not entirely absent, as eight firms from seven developing countries figure in the 200.

Out of the 200 corporations, 118 are predominantly (i e over half of sales) engaged in manufacturing, and 82 could be classified as service corporations. These service TNCs accounted for two fifths of the combined revenues of the 200 in 1982. It is noteworthy that there is an even higher level of geographical concentration among the service TNCs: around three quarters of their revenues were accounted for by corporations in two countries: Japan (41 per cent) and the United States (33 per cent.)[3]

Recent data compiled from *Fortune's* tabulation of the top 500 corporations indicate the financial leverage of the big service corporations. The combined assets of merely the top 50 TNCs in each of the four leading service sectors in the United States were equivalent to more than 14 per cent of GNP and 4 per cent of total capital stock,[4] with commercial banking by far the leading service sector (table 2).

Table 1
Top 200 transnational corporations: services v manufactures, 1982[1]

	Service TNCs			Manufacturing TNCs			Total TNCs		
Country	**Number**	**Revenues M USD**	**% of top service TNCs**	**Number**	**Revenues M USD**	**% of top manufacturers**	**Number**	**Revenues M USD**	**% of top 200**
USA	30	392 187	32.9	50	910 268	49.1	80	1 302 455	42.8
Japan	21	487 567	40.9	14	169 742	9.2	35	657 309	21.5
UK	9	99 548	8.4	9	165 174	8.9	18	264 722	8.7
FRG	4	45 034	3.8	13	162 507	8.8	17	207 541	6.8
France	9	92 904	7.8	7	89 733	4.8	16	182 637	6.0
Netherlands	—	—	—	4	86 377	4.6	4	86 377	2.8
Italy	1	10 150	0.8	4	74 331	4.0	5	84 481	2.8
Canada	5	38 772	3.2	2	16 309	0.9	7	55 081	1.8
Brazil	1	8 442	0.7	1	18 937	1.0	2	27 379	0.9
Spain	—	—	—	2	21 574	1.2	2	21 574	0.7
Switzerland	—	—	—	2	20 427	1.1	2	20 427	0.7
Israel	2	17 463	1.5	—	—	—	2	17 463	0.6
Others[3]	—	—	—	10	118 233	6.4	10	118 233	3.9
Total	**82**	**1 192 067**	**100.0**	**118**	**1 853 612**	**100.0**	**200**	**3 045 679**	**100.0**
World GDP[4]								9 421 452	
Top 200 as % of GDP								32.3	

Notes:

[1] A service TNC is any TNC deriving over half of its revenues from services; a manufacturing TNC is any TNC deriving half of its revenues from manufacturing.

[2] Ranked by combined sales of top service and manufacturing TNCs.

[3] Including ten countries with one TNC in the top 200: Mexico, Venezuela, Iran (Islamic Republic of), Kuwait, Sweden, Austraia, Belgium, Republic of Korea, India and South Africa.

[4] Excluding socialist countries.

Source:
Computed from data in *Forbes,* 1983-05-09 and 1983-07-04.

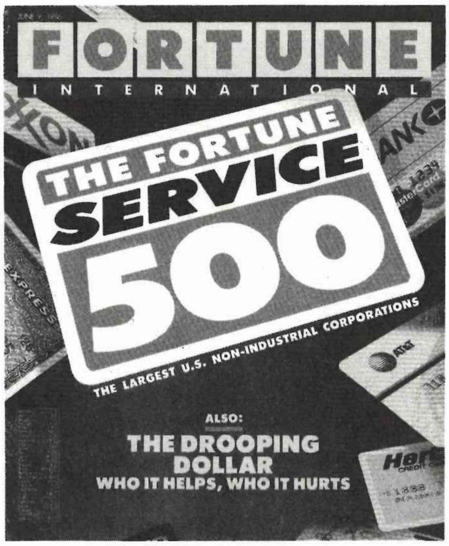
Table 2
USA: major service TNCs 1982 and 1984

Service sector	**Assets of top 50 TNCs in each sector (G USD) 1982**	**1984**	**Per cent of total USA capital stock 1982**	**1984**
Commercial banking	1 144.4	1 330.2	11.9	11.4
Diversified financial	495.6	736.2	5.2	6.3
Life insurance	436.8	522.6	4.5	3.9
Utilities	448.2	456.4	4.7	4.5
Retailing	128.4	170.0	1.3	1.5
Diversified service	116.9	145.7	1.2	1.2
Transportation	87.6	117.9	0.9	1.0
Total USA capital stock[1]	**9 602.4**	**11 690.2**	**100.0**	**100.0**

Note:

[1] Estimated by the authors.

Source:
Computed from data in *Fortune,* 1983-06-13 and 1985-06-10.



Each year Fortune publishes a list of the leading 500 corporations in the service sector.

Whereas 100 years ago, most services were transacted by highly specialized firms that provided single service lines, at present the boundaries between services are crumbling in consequence of corporate diversification and of the evolution of corporations that could be designated as financial supermarkets. It is for this reason that the label "service TNC" should be used with great caution, for this omnibus designation covers the three very different groupings which are discussed below.

- **Single-line service TNCs**

While the food retailer McDonald's is a paramount example of this species of single-line service firms, this grouping is actually on the road to extinction owing to the enhanced power (financial and marketing) and capacity for survival that conglomeration offers, particularly in times of economic crisis.

- **Transnational service conglomerates (TSCs)**

Single-line firms have to diversify mainly because corporate capital seeks new outlets to sustain profitability. At first, they usually expand into a complementary line that can build successfully on the firm's existing technical and marketing expertise. In the case of services, such complementarities exist between banking, insurance and other financial services: between advertising, public relations, the media and telecommunications, etc. As distinct from the single-line firms, the TSCs can be expected to make much headway in the future.

- **Transnational integral conglomerates (TICs)**

The third category represents what may be described as the supreme embodiment of modern capitalism. The logic of uninhibited corporate growth is perhaps nowhere more frankly stated than in a report by R J Reynolds Industries Inc. (1981 sales: 13.8 G USD) which straddles manufacturing, plantation agriculture and service sectors:

> "First, having captured one-third of the United States cigarette market, the company could see a point of diminishing returns for growth potential. Second, significant cash was being generated which could be invested advantageously elsewhere. (Adopting) an unrestricted approach towards diversification, Reynolds moved into entirely new areas — shipping and petroleum, on the theory that it made sense, when appropriate, to supply cash to any strong, well-established business." [5]

There is yet another force — external to the corporation proper — promoting the mergers and acquisitions that are the essence of conglomerate expansionism, namely the activities of commercial and investment banks. "One of the favourite pastimes of concentrated financial power," noted Congressman Wright Patman, ex-Chairman of the United States House Subcommittee on Banking and Currency, "is promoting concentration in non-financial industries. There is substantial evidence that the major commercial banks have been actively fuelling the corporate merger movement".[6]

Since this statement was made more than a decade ago, events have moved apace. First, merger activity has embraced not only non-financial industries but increasingly financial ones as well. Secondly, investment banks like Goldman Sachs and Salomon Brothers have become rivals to commercial banks by arranging mergers on an unprecedented scale. In 1982, United States investment banks earned 221 M USD in fees for services performed in connection with merely 33 mergers and 17 debt and equity offerings. Such merger promotion by these large banks, as one banker warned, "is helping to change the face of corporate America", often at the expense of "the long-term health of their clients".[7] It is precisely in this area that the impact of banking on other services and on manufacturing is most noticeable.

The interaction of service corporations in six major service sectors — financial services, insurance, tourism, shipping, advertising and accounting — is discussed elsewhere.[8]

FINANCIAL SERVICES

Six sectors were selected for analysis on the grounds that a substantial volume of their output has been internationalized. It is on the basis of the value of international transactions that these sectors have been ranked. Here our analysis is limited to the most important sector, financial services. However, it needs to be restressed that such a sequential sectoral analysis should not be construed as in any way suggesting that there are rigid boundaries dividing them.

Towards the financial conglomerate

It would be difficult to find a better portrayal of the changes now revolutionizing financial services than that of the American insurance periodical *Best's Review:*

> "The financial services world is an intricate one of competing conglomerates, interlocking directorates, foreign and domestic subsidiaries and spin-off companies, all interwoven with provincial federal legislative policies that can present daunting prospect for newcomers to the field." [9]

What all this adds up to is the eradication of distinct categories or definitions and the emergence of new conceptions of a bank and even of money. The driving force behind these changes is what has been labelled the financial conglomerate or the financial supermarket. Such institutional hybrids span, amongst other services, commercial banking, securities broking, insurance services, the issue of traveller's cheques and credit cards, money market funds, point-of-sale debit systems and financial futures operations.

The conglomeration of financial services is being facilitated and promoted by the interaction of electronic technology, government deregulation and the corporate striving for the dismantlement of existing barriers. Thanks to the technological revolution, world-wide financial transactions can now take place at the speed of light and corporations, can operate effectively in dozens of financial markets simultaneously. What remains to be done to consummate the truly global financial conglomerate is the dismantling of State regulation. Such a process is already well under way in Japan, the Federal Republic of Germany, Switzerland, Singapore, Hong Kong and the Philippines, and also in the United States. Given the sheer size of United States finance capital and the deregulation battles now raging in that country, attention will be focused on changes within the United States.

Definitions

Financial services embrace a vast spectrum of activities of which the major ones are commercial banking,[10] brokerage and securities dealings,[11] the operation of thrift institutions (composed of savings banks and savings and loan associations),[12] the issue of traveller's cheques and credit cards, the management of cash accounts,[13] financial futures operations and insurance.[14]

Laws governing banking, financing and insurance differ, at times considerably, between countries. In the United States, a rigid separation between banking and other financial dealings has been a basic principle of banking law since the early 1930s. The walls, however, are crumbling, or, in the summation of *The Financial Times*: [15]

> "Hardly a month goes by without another major development — another brick knocked out of the wall. Banks, particularly the major ones, are buying brokers and most recently banks. Big non-bank commercial and industrial companies are buying everything."

Citibank is the world's largest commercial bank. Advertisement from the Banker, July 1985.

Profile of the top 100

Notwithstanding these diversities, the principal institution providing financial services has been and remains the big commerical bank. The assets of the world's top 100 banks indicate the extent of their financial power (table 3). In 1982, their combined assets of 4.5 T USD were almost half global GDP and more than one and a half times the combined sales of the top 200 corporations. Big Japanese and United States banks alone control over two fifths of the total assets of these 100 firms with 24 Japanese banks having over a quarter of this.[16]

Although transnational operations began to be undertaken by banks as early as the 1870s, the bulk of their operations and profits in the ensuing century were related to domestic operations.

Table 3

Profile of top 100 banks, 1982 and 1984
(ranked by assets)

Headquarters	Number of banks 1982	Number of banks 1984	Assets (USD) 1982	Assets (USD) 1984	Percentage of total assets 1982	Percentage of total assets 1984
Japan	24	26	1 161.0	1 612.3	25.8	33.1
USA	15	19	743.9	904.5	16.5	18.6
France	8	8	514.3	499.4	11.4	10.2
FRG	11	10	466.1	394.1	10.4	8.1
UK	5	5	355.6	329.8	7.9	6.8
Italy	8	8	263.3	262.2	5.9	5.4
Canada	5	5	247.5	246.5	5.5	5.0
Netherlands	4	3	154.5	112.5	3.4	2.3
Switzerland	3	3	138.6	129.2	3.1	2.6
Belgium	4	2	91.7	51.5	2.0	1.1
Brazil	1	1	61.7	47.4	1.4	1.0
Hong Kong	1	1	57.1	59.8	1.3	1.2
Australia	2	3	49.1	80.8	1.1	1.7
Israel	2	1	42.6	20.6	1.0	0.4
Spain	2	1	41.6	22.0	0.9	0.4
Iran (Islamic Rep of)	1	1	27.1	29.6	0.6	0.6
India	1	1	23.6	25.4	0.5	0.5
Austria	1	—	19.6	—	0.4	—
Sweden	1	1	19.1	20.3	0.4	0.4
Iraq	1	1	18.6	29.0	0.4	0.6
Total	**100**	**100**	**4 496.6**	**4 876.9**	**100.0**	**100.0**

Source:
Computed from *The Banker,* June 1982 and July 1985 by Gertrude Clairmonte.

Table 4

Growth in foreign profits of leading United States banks

Bank (Ranked on basis of 1982 assets)	Foreign profits (M USD) 1970	Foreign profits (M USD) 1981	Foreign profits (M USD) 1982	Percentage of total profits 1970	Percentage of total profits 1981	Percentage of total profits 1982
Citicorp	58	287	448	40	54	62
Bank America	25	245	253	15	55	65
Chase Manhattan	31	247	215	22	60	70
Manufacturers Hanover	11	120	147	13	48	50
J P Morgan	26	234	283	25	67	72
Chemical New York	8	74	104	10	34	39
Bankers Trust New York	8	116	113	15	62	51
Total	**167**	**1 323**	**1 563**	**22**	**55**	**60**

Source:
Calculated from data from Salomon Bros, in *The Economist,* 1978-01-14, and *Forbes* 1982-07-05 and 1983-07-04.

Their international expansion really "took off" during the 1970s when the top 100 banks became the major intermediaries for recycling petrodollars. This dramatic change is reflected in the figures for the seven biggest United States banks, whose profits from foreign operations soared from 22 per cent of total profits in 1970 to 55 in 1981, and to a record 60 per cent in the following year alone (table 4).

The financial bonanza of the 1970s, springing largely from transactions in petrodollars, gave a powerful impetus to the Eurocurrency market, whose combined volume now hovers around 2 T USD. This Eurocurrency market, which trades any country's currency on deposit outside that country, expanded enormously both the volume and variety of banking services globally. The expansion of the banks' international operations was accompanied by a remarkable increase in the mobility of financial resources (sometimes including embezzled funds), which in its turn was aided by the anonymity and secrecy that protect bank accounts in a number of countries.

The most recent participant in offshore banking is the United States, whose Federal Reserve Board authorized the creation of international banking facilities (IBFs) in United States territory to siphon off some of these funds from offshore banking centres.[17] Proliferation of offshore banking facilities exercises a nefarious impact on developing countries. These tax havens — old and new — have become the silent receptacles of billions of dollars from the third world which, by definition, have been subtracted from the development process.

By 1983, developing countries were indebted to the tune of 850—900 G USD; the payment of interest on the debt (not to speak of the reimbursement of principal) was diverting most developing countries' resources away from national development to the transnational banking system. Approximately 300 G USD of this total is owed to commercial banks.[18] The immense profitability of developing country operations is exemplified by the case of Brazil, which produced over one fifth of Citicorp's profits in 1982, although the bank's loans to Brazil accounted for only 5 per cent of the bank's total assets.[19]

Offshore banking is one important component of the transnationalization of banking. There are yet others[20], including large-scale international takeovers of big banks by other banks. Five recent annexations illustrate this mode of transnationalization:

- *Chase Manhattan Bank* acquired 31.5 per cent of the fifth largest Dutch commercial bank (Nederlandes Crediet Bank) and is striving to raise its stake by another 27.5 per cent[21]
- *Citibank* has moved to finalize its control over the holding company of Grindlay's, having acquired nearly 49 per cent of its equity. Lloyds Bank is the other major owner.
- In 1980, the *Midland Bank* acquired a large interest (acquisition price: 820 M USD) in the 11th largest United States bank, Crocker National of California. In 1983, it boosted its shareholding to 57 per cent. Thus annexationism can either take the form of a 100 per cent takeover or be phased over time.
- *The Fuji Bank,* part of the Japanese Fuyo Group (which also includes the Marubeni Sogo Shosha and dozens of other companies), bought out two of the commercial financing subsidiaries of Walter E Heller International (USA) for 425 M USD.[22]
- In the largest Japanese acquisition ever of a United States bank, *the Mitsubishi Bank* (Japan's fourth biggest) bought the BanCal Tri-State Corporation[23] which in turn owns the oldest bank in California, the Bank of California. The deal substantially enhanced Mitsubishi's service and manufacturing leverage in that country. Inevitably, such a Japanese transnationalization drive is triggering demands by United States finance capital to break into the

Table 5

Selected financial mergers, recent years

Acuirer	M USD	Acquired
Bank		*Bank*
Citibank (USA) and Lloyds (UK)	na	Grindlays Bank (UK)
Midland Bank (UK)	820	Crocker national (USA)
Mitsubishi Bank (Japan)	282	BanCal Tri-State (USA)
First Chicago (USA)	275	American national (USA)
Bank of Montreal (Canada)	547	Harris Bankcorp (USA)
		Investment bank/ brokerage house
Bank of America (USA)	53	Charles Schwab (USA)
Citicorp (USA)	30	Vickers da Costa (UK)
		Futures company
Lloyds, National Westminster, Barclays, Midland, William & Glyn's (UK)	na	International Commodity Clearing House (UK)
		Financial conglomerate
Fuji Bank (Japan)	425	Walter E Heller, two subsidiaries (USA)
Financial conglomerate		*Bank*
American Express (USA)	550	Trade Development Bank (Luxembourg)
		Investment bank/ brokerage house
American Express (USA)	930	Sheraton Loeb Rhodes (USA)
		Insurance
Alexander and Alexander (USA)	300	Alexander Howden (UK)
		Media firm
American Express (USA)	175	Warner Communications Cable subsidiary (USA)
Investment bank/ brokerage house		*Investment bank/ brokerage house*
Lehman Brothers (1977, USA)	na	Kuhn Loeb (USA)
		Trading company
Goldman Sachs (USA)	na	J Aron (USA)
Insurance		*Insurance*
Marsh and McLennan (USA)	na	C T Bowring (UK)
Winterthur (Switzerland)	na	Republic Financial Services (USA)

Winterthur (Switzerland)	na	Provident Insurance (UK)
Connecticut General (USA)	na	INA (USA)
		Investment bank/ brokage house
Prudential Insurance (UK)	385	Bache Group (UK)
Prudential Insurance Co (USA)	na	Hambo Bank (UK)
Aetna Life & Casualty (USA)	na	Samuel Montagu (UK)
Mutual fund		*Bank*
Dreyfus corporation (USA)	na	Lincoln State Bank (USA)
Retail company		*Investment bank/ brokerage house*
Sears Roebuck (USA)	600	Dean Witter Reynolds (USA)
		Real estate brokerage house
Sears Roebuck (USA)	na	Coldwell, Banker & Co (USA)
Trading company		*Investment bank/ brokerage house*
Phibro (USA)	550	Salomon Brothers (USA)
		Insurance
Jardine Matheson (HK)	30	Bache Insurance Services (USA)
Industrial corporation		*Investment bank/ brokerage house*
Dow Chemical Co (USA)	na	Arbuthnot Latham (UK)
Texaco (USA)	na	Charles Fulton Holdings (UK)
Bechtel Engineering (USA)	na	Dillon Read & Co (USA)
Société Générale de Belgique (B)	na	Tanks Consolidated (UK)
		Insurance
Engelhard Minerals (USA)	278	Northwestern National Insurance (USA)
ITT (early 1970s, USA)	na	Hartford Insurance (USA)
BAT (UK)	1 200	Eagle Star (USA)
American Brands (USA)	352	Southland Life Insurance (USA)

Sources:
Compiled from trade sources.

Japanese market — a move resisted by the Japanese Government.[24]

The crumbling of the walls

These forms of corporte annexationism so well advanced in banking are increasingly finding a congenial legal climate, particularly in the United States, where the legal walls that separate financial services are crumbling. Over the past half a century the foundations of this wall were laid essentially in three major pieces of legislation.

In 1927, the McFadden Act was enacted prohibiting banks from having branches outside their home states. Six years later, in the aftermath of the Great Depression, the Glass-Steagall Act was enacted at the time of the Roosevelt New Deal Administration, which debarred banks from carrying on investment business, the object being to protect depositors from excessively risky uses of their money. In 1956, the provisions of the Glass-Steagall Act were supplemented by the Bank Holding company Act, which defines a bank as an institution that takes deposits and makes commercial loans, but is prohibited from other commercial activities.

The first signs of the crumbling of the separating walls occurred during the Carter administration; the dismantling of barriers proceeded apace under President Reagan. Merely in the two years since 1981, three major reforms have been instituted:

- Interest rate ceilings for banks have been effectively abolished[25] with the result that banks may now pay higher interest and so can win back deposits and compete more effectively with the unregulated money market funds;
- The division between banking and other financial services is disappearing as banks have already begun to move into stockbroking;
- Regulators have suspended the fifty-year ban on interstate branching by authorizing strong banks to take over

Japanese banks have established a strong position in the global financial services markets. Advertisements from the Banker, July 1985.

weaker ones in other states in crisis conditions. Already two precedents have been set: Citicorp has rescued and taken over a 3 G USD California savings bank and the Bank of America has taken over Seafirst, the largest bank in the state of Washington.[26]

Such a loosening of regulations in the United States and elsewhere has given rise to a variety of combinations of financial service corporations that would have been unimaginable a decade ago. It is revealing to look at the data covering selected mergers of the early 1980s; the trend towards amalgamation can be expected to gather momentum in the rest of the decade (see table 5).

The drive towards a concentration of financial power in the United States has its parallels elsewhere. In the United Kingdom, for example, larger merchant banks are watching this American movement, and are now themselves actively seeking to break into the brokers' business and related financial services. The move of the Rothschild Investment Trust Group (RIT) to merge with the United Kingdom's third largest merchant bank (the Charterhouse Group) is indicative.[27] The mounting presence of giant United States and Japanese financial service corporations in world markets also contributes to the momentum of concentration of financial services in other developed market economies.

What is therefore emerging is not only a conflict between TNCs and the developing countries, but also heightened conflicts between the capitalist centres manæuvring to acquire ascendancy on global financial markets. In this struggle for the conquest of financial markets, the United States and Japanese financial conglomerates are far better poised than their smaller rivals in the United Kingdom and elsewhere.[28]

THE FUTURE

The world economy is undergoing a momentous structural change. Services, moving to the centre of the stage, already account for almost two thirds of world GDP.

Summing up

Internationalization is the crux of this transformation, with the overall share of the world's GDP exported advancing from 16 per cent to 27 per cent during the 1970s. During this period, services also became prominent in global markets, with exports rising from 7 per cent to 11 per cent. The main beneficiaries of the international services trade, and the most vocal proponents of its liberalization, have been a small number of developed market economies, with the United States its foremost protagonist.

A tiny number of large TNCs that entered the serives sector are the driving force behind this internationalization, contributing to an accelerated liquidation of medium and small-scale firms that traditionally dominated the field. No less rapid have been the disintegration of barriers between individual service sectors and the rise of transnational service conglomerates (TSCs) and transnational integral conglomerates (TICs).

For several reasons the services sector was the last of the main sectors to fall under the hegemony of transnational conglomerates. Economies of scale and related technologies in most services did not lend themselves to the concentration and centralization of capital until recent decades. In addition, the marketing of many services was carried out through small, widely dispersed, individually owned units. When the TNCs attained dominance (which happened at different times and in varying degrees of intensity in different sectors), it was United States and Japanese corporations that were in the *avant garde.* TNCs from these two countries exercise a far more pervasive control over services in the world market than they do over agriculture, mining and manufacturing.

At present, TNCs are impelling the service sector forward at a faster pace than any other sector. The expansion of services has also been accompanied by a serious decline in corporate accountability, due to service companies' access to tax havens, flags of convenience, bank secrecy laws and a large array of legal and illegal arrangements.

TNC power: ominous implications

What, it may be asked, will the internationalization and transnationalization of services, and indeed of capital, imply for the world capitalist economy as a whole, and for the developing economies in particular? A response to this question can only be formulated within the framework of the unequal development of capitalism. In the services sector, the penetration of TNCs is already well advanced in advertising, accounting, tourism, and banking, while in other sectors, such as health and retailing, it is still at an incipient stage.

With the exception of a few developing countries, the gains derived from services on the international market have bypassed the developing world. In short, these countries simply cannot compete. The reaction of governments of developing countries to such an unequal distribution of power varies widely. In most cases, under the spur of economic liberalism espoused by GATT and certain other international organizations, these governments have opened their economies to TNCs. Perhaps the most extreme cases are those offering tax and investment havens and the incentives of offshore banking units, captive insurance companies, flags of convenience and subcontracting *maquiladoras.* A less extreme form of such "openness" is the welcome extended to transnational advertising, hotel chains, tourist enclaves, etc. It is debatable whether this receptivity has contributed to the development process in the developing world as a whole. More to the point, it has been a source of immense enrichment for the members of only a small oligarchy who channel their (lawful or illicit) gains abroad.

In the world economy as a whole, the future of service TNCs and services in general is inseparable from technological revolutions in computers, word processors, electronic office equipment and telecommunications systems.

The swift introduction of these new technologies is slashing jobs in service and industrial sectors. In United Kingdom banking, for example, employment is forecast to drop 12 per cent between 1983 and 1990, owing to the widespread introduction of automated teller machines, cashier-operated note dispensers and other labour-saving devices.[29] Since knowledge and information constitute a major facet of power, those able to harness these technologies and to disseminate them on a large scale become even more powerful. In this realm, it is precisely the largest service TNCs which have the easiest access to advanced technologies, both nationally and internationally.

These new technologies are swiftly reshaping not only international economic relations but cultural ones as well. Telecommunications satellites are being used by advertising and media TNCs to project corporate images and ideology world-wide. This form of publicity is based largely on a Western élitist ideology and on a complex of values antithetical to cultural pluralism. The propagation of these images acquires a political force as they implicitly drive home the desirability of a specific economic and social order. Indubitably, technology in this perspective, along with the values it transmits, can never be a neutral force. Wedded to mass advertising and the media, it is deployed to reshape the size, composition and evolution of world trade and consumption patterns.

The foregoing description of the impact of new technologies and of the values spread by them should be seen in the context of the current economic crisis. Certainly, the unequal nature of capitalist development is replicated in the unequal impact of the crisis on different economies, sectors and corporations. Within the services universe, for example, shipping is stagnating, while accountancy, insurance and tourism are momentarily weathering the storm.

Big banking, while surviving thus far with relatively high earnings, is now approaching a critical phase. Its major profit centres of the 1970s, namely the developing economies, are foundering under a staggering burden of indebtedness and agonizing from a political instability born of austerity measures imposed in a desperate bid to break out of the debt grip. As the big banks diminish their exposure to the developing economies, they are confronted with shrinking geographical opportunities for profitable investment. With the debt squeeze marginalizing much of the potential market of the developing world for service TNCs, increasingly the economic war for world service markets will be fought within the OECD countries. Financial service conglomerates are already being mobilized as spearheads in struggles between major developed countries for power and wealth. In this sense, transnational conglomerates are in the forefront of a virtual economic war characterized by a proliferation of corporate takeovers, price wars, cartel arrangements, state subsidization, protectionist measures and other means.

Another by-product of the rise of the service TNC has been a revolution in the workplace as large centralized industrial units are replaced by smaller, fragmented and decentralized service units. These service units, while decentralized at certain levels, are in no way incompatible with a highly centralized corporate structure that retains firmer control over its labour force than its industrial counterparts.

The world trade union movement, and indeed the labour movement as a whole, built up over the last century and a half with the blue-collar industrial worker as its core, has thus far proved unable to organize white-collar workers on any significant scale. The main reason is the heterogenity of service workers, who include large numbers of a low-wage and a deliberately de-skilled labour force at one of the spectrum and a coterie of high-income lawyers and finance experts, scientists, technologists, researchers, managers and engineers at the other end. Those at the lower end appear unlikely to organize due to their replaceability, while those in the upper echelons have identified themselves with the goals of corporate capital. As a consequence, services, with all their complex technical and corporate interrelationships, have contributed to raise corporate power to unprecedented heights despite the global economic depression and to no less unprecedented control over the labour force and the world economy.

Countervailing strategies

One of the central principles of the entire United Nations system is the right of every nation to use its economic resources in conformity with the interests of the people. The power of transnational capital, epitomized in the service conglomerates, tends to erode this national sovereignty. Yet, despite the widening gap between TNC power and that of the governments and people of developing countries, this process of erosion is not irreversible. Countervailing strategies at the national, regional and international levels can be worked out which could contribute to narrow the gap. Certain policy measures which have the potential to be realized are outlined schematically below for the service sectors that have been studied.

Several of these sectors lend themselves to rigorous action at the national level that would tend to reinforce economic sovereignty. Both banking and insurance are sectors whose needs at the national level can effectively be met by nationalized enterprises. Indeed, an increasing number of developing countries have augmented public sector control over these two sectors during the past decade. In the external trade sector, the formation of specialized state trading corporations for primary commodity exports is but another logical step which, when coupled to public sector control of financial services, would strengthen a country's bargaining leverage *vis-à-vis* transnational power.

In the case of advertising, strict controls on penetration by foreign companies can counteract the harm done to the cultural heritage. In those countries in which tourism is important, cultural autonomy can be better safeguarded by increased national control over airlines, hotels and other tourist enterprises. With respect to the information revolution, developing countries should take steps to enter the industry by training the technical cadres and developing software and hardware capabilities.

In those cases where national capacities are inadequate to meet the challenge, inter-country co-operative ventures may prove desirable (in much the same manner as certain common production, marketing and research arrangements between TNCs have proved effective). In a sector like reinsurance, where major financial resources are required, regional reinsurance pools can be effective. Likewise, in the marketing of primary commodities, regional multinational marketing enterprises in the public sector can become more potent forces securing and retaining foreign markets.

Certain actions by developing can only become effective if taken at an international level. In view of the mobility of transnational capital, any individual move that may be construed as jeopardizing the profitability of TNCs is likely to provoke an adverse response on their part. Attempts should be made, for example, to staunch revenue losses due to transfer pricing by imposing more stringent accounting practices; if such efforts are to be successful, the developing countries concerned should strive to enact appropriate legislation simultaneously.[30]

A model that merits serious study on this score is the unitary taxation legislation recently pioneered in the state of California which assesses firms for taxation based on the proportion of their world-wide profits, which corresponds to the firm's in-state assets, payroll and sales figures. A similar formula adapted to the requirements of developing countries could go a long way towards halting the most flagrant abuses of transfer pricing, and would also open corporate operations to ethical public scrutiny.

International action by developing countries is also the only feasible countermeasure to the transnationalization of culture and the media which threatens to eclipse national values and information in some of them. UNESCO's initiative for a "New International Information Order" has addressed itself to this power. Not surprisingly, it has thereby become the target of a barrage of abuse by the service TNCs and their governments.

All of these measures singly and in their totality, at the national, regional and international levels, must be imbued with an understanding of the pervasive political and economic power of transnational service conglomerates, which are strenuously resisting such policy orientations. International commodity agreements based on buffer stocks, for example, can be frustrated in certain cases by individual or collective dumping of the corporations' own commodity stocks on international markets.

Knowledge of the existence of such power need not lead to defeatist conclusions, but should rather stimulate a response; for while the implementation of effective countervailing strategies is bound to encounter formidable obstacles, in the long run such strategies can be successful.

Notes:

[1] Excluded from the top 200 are family-owned enterprises, of which Cargill (with annual sales runing at 30—35 G USD) is perhaps the leading example. Other family-owned or private firms include Continental Grain, Bunge and Born, André, Dreyfus and Marc Rich.

[2] The United States corporations, however, account for over two fifths of the top 200's revenues; next in the order of shares of revenues are companies having their headquarters in Japan (22 per cent) and in the United Kingdom (9 per cent).

[3] The average size (in terms of assets) of leading service TNCs differs greatly from country to country; the 21 Japanese companies average 23 G USD as opposed to 13 G USD for the United States corporations and around 8 G USD for the five Canadian TNCs.

[4] Assets consist of specific property and claims against others which possess commercial or exchange value. Caution should be exercised in any comparison of assets with GDP, inasmuch as the contribution of an individual firm to GDP is only the value added by that firm, a sum which is only a fraction of the firm's assets. Since value-added data for *Fortune's* top 500 companies are almost impossible to obtain, assets and revenues have been used in the comparison to give an order of magnitude of the size of these firms.

[5] R J Reynolds Industries Inc, *Our 100th Anniversary, 1875—1975,* Winston-Salem, North Carolina, 1975. See also *Marketing and Distribution of Tobacco,* study prepared by the UNCTAD secretariat (TD/B/C.1/205), United nations publication, Sales No. E.78.II.D.14.

[6] Wright Patman, "Other Peple's Money", *The New Republic,* 1973-02-17. He went on: "A 1971 congressional report, for example, found that the major banks financed acquisitions, furnished key financial personnel to conglomerates and were even willing to clean out stock from their trust departments to aid in takeover bids. Thus Gulf & Western, one of the most aggressive conglomerates of the 1950s and 1960s (92 acquisitions involving almost a billion dollars in 11 years), expanded hand in glove with Chase Manhattan. Friendly representatives of Chase made funds available and provided advice and services that assisted Gulf & Western in its acquisitions. In return, in addition to the customary business charges for Gulf & Western's accounts and loans, Chase secured banking business generated by the newly developing conglomerates that formerly had gone to other banks, band was recipient of advance inside information on proposed future acquisitions."

[7] *Financial Times,* 1983-05-16.

[8] The ensuing analysis excludes foreign investment earnings, a major item on service account, because it is qualitatively different from other service sectors. This exclusion is justified inasmuch as such earnings originate from the heterogeneous foreign operations of transnational corporations in all sectors. For an elaboration, see F F Clairmonte and J Cavanagh, "Transnational... ", *op cit,* pp 168—169.

[9] *Best's Review,* July 1983.

[10] A commercial bank is an institution which specializes in demand deposits and commercial loans.

[11] Brokerage houses, investment banking houses and securities companies are firms

whose functions overlap. Their common denominator, however, is that they all buy and sell securities, i e stocks and bonds.

[12] Thrift instituions specialize in accepting consumer deposits and reinvesting them in mortgages. In 1981, the combined assets of United States thrift institutions were estimated at 800 G USD, second only in financial institution rankings to commercial banks. See J M Rosenberg, *Dictionary of Banking and finance* (New York, John Wiley & Sons), p 495.

[13] Merrill Lynch pioneered managed cash accounts at the end of the 1970s and at present is the market leader. By 1983, it was managing assets of around 75 G USD in 950 000 separate accounts. It has now extended the offering of these accounts internationally from Western Europe to Aisa.

[14] An insurance company is an institution which, in exchange for premiums, issues policies which guarantee reimbursement for losses caused by legally designated contingencies.

[15] *Financial Times,* 1983-05-24.

[16] Colossal economies of scale exist in commercial banking, with estimates of optimal bank size beginning at 15 G USD worth of assets. This is one of the reasons for mergers of large-scale banks. Merely in the first half of 1983, 10 banks in the United States with assets of over 1 G USD each were taken over by other banks. This represents a giant stride, with the value of major bank acquisitions rising from 475 M USD in 1980 to 1.4 G USD in 1981 and 3.6 G USD in 1982, *Fortune,* 1983-09-19.

[17] The IBFs are freed from several restrictions that hamper United States banks: they can accept time deposits from foreigners free of reserve requirements and interest rate ceilings; they are exempt from paying dposit insurance and are not liable to the various regulatory assessments imposed by the Federal Deposit Insurance corporation. By April 1983, there were 269 IBFs in the USA, with 142 of these located in New York, followed by California, Florida, Illinois and Texas. It is estimated that the assets of the IBFs are rapidly approaching 200 G USD, *Financial Times,* 1983-05-16.

[18] According to Mr Paul Volcker, Chairman of the Federal Reserve Board, the developing countries' debt to commercial banks of non-OPEC countries has soared to 285 G USD *Bank for International Settlements, Press Review,* 1983-10-28. Their debt to banks of the OPEC countries probably exceeds 50 G USD.

[19] *The Economist,* 1983-03-19.

[20] One other component of transnationalization is what is known as the inter-bank system. This system, through which banks place deposits with other banks, is the vital lubricant which prevents the entire world banking system from seizing up. It is more than ten times larger than the 1982 international syndicated loan market of 82 G USD and is thought to involve around one trillion dollars of bank-to-bank deposits, *Financial Times,* 1983-03-01.

[21] *Financial Times,* 1983-03-31.

[22] In a similar move, Sumitomo Bank and the Bank of Tokyo bought 37 branches of the Bank of California.

[23] In terms of assets, the Bank of California ranks 63rd in the United States. It possesses the strategic advantage of operating branch banks in the states of Washington and Oregon, which were set up before the 1927 enactment of the McFadden Act prohibiting banks from operating branches outside the home state (*Japan Economic Journal,* 1983-08-30.

[24] The Japanese Ministry of finance, for example, is hostile to a proposed joint venture between Nomura Securities and Morgan Guaranty Trust to set up a joint trust company in Japan.

[25] The Garn-St Germain Depository Instituions Act, rushed through Congress in 1982, freed both commercial banks and thrift institutions to offer competitive interest rates. It was designed primarily to save the thrifts from bankruptcy or "shotgun mergers". Another provision of the Act authorized banks with assets of under 50 M USD to write insurance. This flung open the doors to insurance for 2 300 of the 3 500 banks that came under the Federal Reserve Board's jurisdiction.

[26] Facilitating this process of national unification in the banking system are certain coordinated actions by state legislatures. For example, New England lawmakers are creating the first regional interstate banking system by introducing reciprocal banking legislation among the six states concerned. For a legal overview of the financial services industry in the United States, see *Hearings before the Committee on on Banking, Housing and Urban Affairs. Problems, options and issues currently facing the financial services industry and the agencies that regulate and supervise these entitles,* parts I and II, 98th Congress, 1st Session, April, May and June 1983, Washington, DC.

[27] The merged firm becomes the largest merchant bank in the United Kingdom, with combined shareholders' funds of around 360 M GBP, dwarfing the previous leaders Kleinwort Benson and Hill Samuel. Another institutional change influencing the entire shape and direction of British banking is the large-scale intrusion of building societies into the market for consumer deposits.

[28] An indication of this disparity in financial power is seen in a comparison of market capitalization (in M GBP) of the three leading investment houses in these countries. The United Kingdom: Kleinwort Benson (235), Hill Samuel (184) and Charterhouse Group (171), which merged with RIT. The United States: American Express (4,800), Merrill Lynch (2,648), Phibro-Salomon (1,392). Japan: Nomura Securities (3,278), Nikko Securities (1,356) and Daiwa Securities (1,219). *Sources: RIT* and *Financial Times,* 1983-11-04.

"A lucid definition is that given in a United Nations document: "Insurance companies cede part of their risks to reinsurers. Thus, a reinsurance company is an insurance company's insurance company. This situatin enables insurers to underwrite a larger amount of business than would otherwise be possible by protecting them both from a series of small losses and from a signle big loss arising out of a major catastrophe." *Transnational Reinsurance Operations: A Technical Paper* (ST/CTC/15), United Nations publication, Sales No E.80.II.A.10, para 4.

[29] Automated teller machines installed in United Kingdom banks grew from 3 466 in June 1982 to 5 480 by the end of 1983, a rise of almost 60 per cent *Labour Research,* Vol 72, No 11, November 1983, p 284.

[30] The perils of individual action are illustrated by the recent case where Japanese corporations threatened to halt investments in those states of the USA which apply the unitary method of collecting taxes from TNCs, *Financial Times,* 1983-10-11. ■

GEO ABSTRACTS

Now in its 25th year of publication, GEO ABSTRACTS' series of journals continue to offer a unique abstracting service in the fields of geography, geology and ecology — unique because of the broad selection of specialized categories and because of the inclusion of full descriptive journal and book abstracts rather than bibliographies alone. GEO ABSTRACTS journals are in three series:
GEOGRAPHICAL ABSTRACTS, GEOLOGICAL ABSTRACTS and ECOLOGICAL ABSTRACTS.

The 7 parts of GEOGRAPHICAL ABSTRACTS can be ordered separately, with or without their annual subject and author indexes. The full list is:

A. LANDFORMS AND THE QUATERNARY — covers three main areas of geomorphology: a) regional physiography, landforms of all types and the factors influencing them, including structural control, karst, slopes and soil mechanics; b) all aspects of Quaternary and present glacial, periglacial and extra-glacial landforms and processes; and c) weathering, soil erosion, pedogenesis and related soil studies.

B. CLIMATOLOGY AND HYDROLOGY — provides information on the atmosphere and hydrosphere. The climatology section ranges from analysis of the meteorological elements and mechanisms to studies of air circulation systems and regional climates. Air pollution investigations are also covered. The hydrology section covers physical aspects of water balances, runoff, and groundwater. Practical applications and resource management are included.

C. ECONOMIC GEOGRAPHY — presents interdisciplinary coverage of the literature for the macro- and microeconomic aspects of geography: general location theory, economic development, environmental economics, recreation, transport, and the geography of industry and resources, including fuel and energy, and agriculture.

D. SOCIAL AND HISTORICAL GEOGRAPHY — provides wide-ranging coverage of the literature, including major sections on population geography, human/environment interactions, and cultural and political geography. The historical section includes archaeology and documentary evidence.

E. SEDIMENTOLOGY — deals with all aspects of transport and deposition of modern and ancient sediments, except for Quaternary deposits which are covered in Part A. Soft-rock geologists will find it a valuable reference source to the literature on sedimentary environments, mineralogy and preservation.

F. REGIONAL AND COMMUNITY PLANNING — provides a balance between general and technical material. A major section on urban planning includes architecture and renewal, and other sections cover housing, recreation, coastal conservation, pollution, natural resources and planning law.

G. REMOTE SENSING, PHOTOGRAMMETRY AND CARTOGRAPHY — covers av very wide range of report and other literature and has become an important source of reference in an increasingly specialized field. Most of the material is integrated into a thematic structure which gives major sections on data acquisition, data processing and display, and interpretation and applications.

GEO ABSTRCTS also publishes INTERNATIONAL DEVELOPMENT ABSTRACTS — a journal for the researcher, student, fieldworker, and administrator, which covers worldwide literature on the interdisciplinary aspects of national and international development. It appears in English in the same format as Parts A—G, and the annual index is included in the price.

The GEOLOGICAL ABSTRACTS journals are:

GEOPHYSICS AND TECTONICS — which provides a complete research facility for the solid earth geologist with sections covering the Earth's structure and properties, seismic activity, volcanology, tectonics and age determination.

ECONOMIC GEOLOGY — provides details of literature concerned with all geological aspects of the fossil fuel and mineral industries, from exploration to exploitation, with additional sections covering regional studies where the geological disciplines have been integrated.

PALAEONTOLOGY AND STRATIGRAPHY — presents a common source of information on published papers involved in research on ichnology, palaeobotany and invertebrate and vertebrate palaeozoology, and their applications in stratigraphical, palaeogeographical and palaeoecological studies.

SEDIMENTARY GEOLOGY — supplies abstracts from publications on modern and ancient sediments and their environments, including aspects of mineralogy, transport, deposition, diagenesis and methods of research. The material in this journal is also published in Parts A or E of GEOGRAPHICAL ABSTRACTS.

***

ECOLOGICAL ABSTRACTS publishes about 9 000 abstracts annually on plant and animal ecology, separated into terrestrial, marine, freshwater, applied and historical subject matter. The annual index is included in the subscription price.

GEO ABSTRACTS LTD also publishes SOIL SURVEY AND LAND EVALUATION — a primary journal that serves as a forum for communication between those engaged in soil survey, and evaluation, and the application of the results of these activities to land-use planning and management.

***

SUBSCRIPTION INFORMATION

Geographical Abstracts Parts A—G:
Each part 36.75 GBP/57.00 USD
All seven 257.25 GBP/399.00USD
International Development Abstracts (including annual index)
51.60 GBP/80.00 USD

Geological Abstracts (Geophysics and Tectonics, Economic Geology, Palaeontology and Stratigraphy, Sedimentary Geology
Each title 54.00 GBP/84.00 USD
All four titles 200.00 GBP/310.00 USD
Ecological Abstracts
142.00 GBP/220.00 USD

All prices include postage. For second subscriptions to the same institution address (eg departmental or personal subscriptions) a 50 % discount applies.

SOIL SURVEY AND LAND EVALUATION
Single copy subscriptions
7.00 GBP/11.00 USD
7 or more subscriptions to the same address 5.60 GBP/8.70 USD

A sample issue of any journal will be sent on request. All general and subscription enquiries should be addressed to: Geo Abstracts Ltd, Regency House, 34 Duke Street, Norwichg NR3 3AP, England.