Global Development Policy Center
Economics in Context Initiative

Corporate Power in a Global Economy

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An ECI Teaching Module on Social and Environmental Issues in Economics

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NOTE – terms denoted in **bold face** are defined in the **KEY TERMS AND CONCEPTS** section at the end of the module.

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1. INTRODUCTION

Large corporations are economic, political, environmental, and cultural forces that are unavoidable in today's globalized world. Large corporations have an impact on the lives of billions of people every day, often in complex and imperceptible ways. Consider a consumer in the United States who purchases a pint of Ben & Jerry's ice cream. To many people, Ben & Jerry's represents the antithesis of "big business." In contrast to large firms sometimes criticized for their focus on growth and profit maximization, Ben & Jerry's is well known for its support of environmental and social causes, its involvement in local communities, and its fair labor practices. For example, the company has set a goal to obtain 100 percent of its energy from renewable sources by 2025[1] and advocates for campaign finance reform, LGBTQ+ rights, and fair trade.[2]

But what the purchaser of the ice cream may not know is that Ben & Jerry's is actually owned by one of the largest consumer goods companies in the world. In 2000, Ben & Jerry's was purchased in a semi-hostile takeover by Unilever,[3] a company headquartered in London. No longer an independent company, Ben & Jerry's is now one of more than 400 brands owned by Unilever, including Hellmann's mayonnaise, Knorr sauces, Axe personal care products, Vaseline, and Dove soap.[4] Operating in over 190 countries, 3.4 billion people use Unilever brands every day. Unilever's annual sales of around $62 billion made it number 205 on the 2022 list of the largest corporations in the world ranked by annual revenues, with Ben and Jerry's accounting for less than one percent of its revenues.[5] Unilever employs about 150,000 people worldwide, including the 1,000 or so who work for Ben & Jerry's.

The acquisition of Ben & Jerry's by Unilever is but one example of the growth and increasing globalization of modern corporations. The growth of these corporations is typically measured in economic terms, using metrics such as profits, assets, number of employees, and stock prices. However, the impact of global corporations extends well beyond the economic realm. The production decisions of large firms have significant environmental implications at the national and global level. Corporations exert political influence to obtain subsidies, reduce their tax burdens, and shape public policy. Corporate policies on working conditions, benefits, and wages affect the quality of life of billions of people.

Some people perceive the ascendancy of global corporations as a positive force, bringing economic growth, jobs, lower prices, and quality products to an expanding share of the world's population. Others view large firms as exploiting workers, dominating the public

[1] Ben and Jerry's web site, https://www.benjerry.com/values/issues-we-care-about/climate-justice.
[2] Ben and Jerry's website, https://www.benjerry.com/values/issues-we-care-about.
[3] During the takeover battle, an attempt was made by Ben & Jerry's co-founder Ben Cohen to arrange the purchase of Ben & Jerry's by a socially-responsible group of investors. The board of Ben & Jerry's appeared willing to accept this offer, even though the price was less than that being offered by Unilever. But Unilever further increased their price and the board felt it had no other choice than to accept the offer or face lawsuits by stockholders (Kelly, 2003).
[4] Information about Unilever obtained from their web site, www.unilever.com.
[5] *Fortune*, 2023.

policy process, damaging the natural environment, and degrading cultural values. Despite these differing views, one thing is for certain—global corporations are an inescapable presence in the modern world and will be so for the foreseeable future. The relevant issue is not whether corporations should play an important role in our economy and our society. Instead, we should consider how to ensure that the behavior of large corporations aligns with the broader goals of society, including both economic and non-economic goals.

This module presents an overview of modern **multinational corporations** (MNCs). We first discuss MNCs in traditional economic terms, asking such questions as:

- How many multinationals exist and where are they located?
- How can we rank the world's largest firms?
- Are the world's largest companies becoming larger over time?
- What factors explain the recent growth of MNCs?

We then turn to a broader perspective beyond economic terms, examining issues such as:

- How do multinational corporations exert power in the political arena and have they become more powerful over time?
- Have corporations taken voluntary steps to improve their social and environmental performance?

The module concludes with a discussion of how the behavior of corporations can be affected by regulations at the national and international level.

In the traditional economic view, corporations are entities that operate most efficiently when they aim to maximize profits. But what is efficient for a corporation or even an economy may not be what is most desirable from a broader social and environmental perspective. Ideally, all those impacted by the decisions of multinationals should be given an acknowledged voice through existing or new institutional arrangements. Realizing the full potential of MNCs to serve the welfare of society will require a mixture of voluntary initiatives, market forces, and government regulations.

2. THE ECONOMICS OF MULTINATIONAL CORPORATIONS

The terms "multinational corporation," "transnational corporation," and "global corporation" are often used interchangeably. Similarly, terms such as "corporation," "company," and "firm" are used interchangeably in this module. A multinational corporation is defined here as a firm that owns and operates subsidiaries in more than one country. While a MNC does not necessarily have to be a large firm, the world's largest firms are almost all generally MNCs.

According to the United Nations Conference on Trade and Development (UNCTAD), there are over 80,000 MNCs operating worldwide.[6] As of 2022, there were 78 corporations with annual revenues of at least $100 billion and 1,084 firms with revenues between $10 and $100 billion.[7] Considering the world's largest 2,000 corporations as ranked by Forbes, generally with annual revenues over $1 billion, the countries with the most large corporations are: the United States (595 companies), China (297), Japan (195), South Korea (65), and Canada (58). About 74 percent of the world's largest corporations are located in just 10 countries. MNCs are dispersed across numerous industries. The industry with the largest share of the world's 2000 largest corporations is banking (15 percent), followed by other financial corporations (7 percent), construction (6 percent), materials (6 percent), and oil and gas (5 percent).

2.1. Ranking the World's Largest Corporations

The world's largest MNCs can be ranked using various metrics. Tables 1a and 1b present rankings using four of the most common metrics: revenues, profits, assets, and **market capitalization** (company's value based on its stock price). As might be expected, there is some overlap across different metrics. Of the top 20 firms ranked by revenues, 8 are among the largest by profits and 9 are among the largest by market capitalization. The ranking based on corporate assets shows the least overlap with the other rankings as it is comprised exclusively of banks and other financial corporations.

The world's 2000 largest firms had combined revenues of about $48 trillion in 2022. This equates to sales of over $6,050 for *every* individual on the planet. The world's largest firm in 2022, by revenues, was Walmart with sales of $573 billion. The list of the world's 20 largest corporations by revenues includes five oil and gas companies, four technology companies, and three retailers. Saudi Aramco, an oil and gas company headquartered in Saudi Arabia, is one of the top three firms by revenues, profits, and assets.

A fifth metric to rank the world's largest corporations is employment, shown in Table 2. The world's two largest corporations by revenues, Walmart and Amazon, are also the two largest employers. While several other large employers also appear in the rankings on Tables 1a and 1b, most of the world's largest employers are not among the top 20 companies by any of the metrics in Tables 1a and 1b.

[6] OECD, 2018.

[7] Contreras and Murphy (2022). The Forbes Global 2000 list includes some corporations that only operate within their domestic markets. However, the vast majority of the Global 2000 companies are MNCs.

Table 1a. *Ranking the World's Largest Corporations by Revenues and Profits*

Rank	**Ranked by Revenues**		**Ranked by Profits**	
	Firm	2022 Revenues ($ bil.)	Firm	2022 Profits ($ bil.)
1	Walmart	573	Saudi Aramco	105
2	Amazon	470	Apple	101
3	Saudi Aramco	400	Berkshire Hathaway	90
4	Sinopec	385	Alphabet	76
5	PetroChina	380	Microsoft	71
6	Apple	379	ICBC	54
7	UnitedHealth Group	298	China Construction Bank	47
8	Volkswagen	296	JPMorgan Chase	42
9	CVS Health	292	Meta Platforms	39
10	Toyota Motor	282	Agricultural Bank of China	37
11	ExxonMobil	281	Tencent Holdings	35
12	Berkshire Hathaway	276	Samsung Group	34
13	Shell	262	Bank of China	34
14	Alphabet	257	Amazon	33
15	McKesson	257	Bank of America	31
16	Samsung Group	244	Vivendi	29
17	AmerisourceBergen	221	Toyota Motor	28
18	Hon Hai Precision (Foxconn)	215	Mercedes-Benz Group	27
19	Costco Wholesale	210	Gazprom	25
20	ICBC	208	Novartis	24

Table 1b. *Ranking the World's Largest Corporations by Assets and Market Capitalization*

Rank	Ranked by Assets		Ranked by Market Capitalization	
	Firm	2022 Assets ($ bil.)	Firm	2022 Market Capitalization ($ bil.)
1	ICBC	5.5	Apple	2,640
2	China Construction Bank	4.7	Saudi Aramco	2,292
3	Agricultural Bank of China	4.6	Microsoft	2,054
4	Fannie Mae	4.2	Alphabet	1,582
5	Bank of China	4.2	Amazon	1,468
6	JPMorgan Chase	4.0	Tesla	1,039
7	Bank of America	3.2	Berkshire Hathaway	741
8	Mitsubishi UFJ Financial	3.2	Meta Platforms	500
9	Freddie Mac	3.0	Taiwan Semiconductor	495
10	BNP Paribas	3.0	UnitedHealth Group	490
11	HSBC Holdings	3.0	NVIDA	490
12	Japan Post Holdings	2.6	Johnson & Johnson	477
13	Citigroup	2.4	Visa	436
14	Credit Agricole	2.4	Walmart	432
15	Sumitomo Mitsui Financial	2.2	Tencent Holdings	414
16	Postal Savings Bank of China	2.0	Proctor & Gamble	387
17	Mizuho Financial	2.0	JPMorgan Chase	374
18	Wells Fargo	1.9	Samsung Group	367
19	Barclays	1.9	Nestlé	360
20	Bank of Communications	1.8	ExxonMobil	360

Source: Forbes, The Global 2000.

Table 2. The World's Largest Corporate Employers, 2022

Rank	Corporation	Number of Employees
1	Walmart	2,300,000
2	Amazon	1,544,000
3	Hon Hai Precision (Foxconn)	827,000
4	Accenture	738,000
5	Volkswagen	642,000
6	Tata Consultancy Services	616,000
7	Deutsche Post	584,000
8	United Parcel Service	500,000
8	Kroger	500,000
8	Home Depot	500,000
11	Gazprom	468,000
12	Agricultural Bank of China	455,000
13	Target	450,000
14	China Mobile	449,000
15	ICBC	425,000
16	Teleperformance	420,000
17	PetroChina	417,000
18	Ahold Delhaize	413,000
19	Sodexo	412,000
20	Starbucks	402,000

Source: Statistica.com, "Leading 500 Fortune companies based on number of employees in 2022," January 2023.

2.2. The Economic Scale of the World's Largest Corporations

How large are the world's largest corporations when compared to countries or the global economy? We must realize that such comparisons need to be made carefully. Take, for example, a 2018 comparison which concluded that "157 of top 200 economic entities by revenue are corporations not countries."[8] The analysis further noted that Walmart, Apple, and Shell "accrued more wealth" than countries such as Russia, Belgium, and Sweden. While this seems to imply that the world is dominated not by countries, but by corporations, the metrics aren't quite comparable. This example compares the annual revenues of corporations to the annual government revenues of countries. A government is not an economic entity like a corporation—its activities go well beyond the economic realm to include a legal and judicial system, regulatory agencies, health and education services, and so on. Further, the wealth of a country is not directly comparable to corporate assets, as it also includes publicly-owned renewable and nonrenewable natural resources.[9]

[8] Global Justice Now, 2018.
[9] See, for example, World Bank, 2021.

Another potentially misleading comparison between corporations and countries is to compare corporate revenues to the gross domestic product (GDP) of nations. A 2000 report making this comparison found that "of the 100 largest economies in the world, 51 are corporations."[10] The report also notes that the sales of the world's 200 largest corporations were equivalent to 27.5 percent of world economic activity. But revenue data are not directly comparable to GDP data. National income accounts are kept in terms of **value added**, which is measured for firms as their sales less the amount paid to other firms for inputs. For example, the value added for an automobile company would be its revenues minus its costs for materials, such as steel, electronics, and other parts. Thus, it is not accurate to suggest that over one-quarter of world economic activity is attributed to the world's 200 largest corporations. According to data published by the United Nations, the world's 100 largest firms directly accounted for 4.3 percent of global economic activity in 2000 based on value added.[11] So, in a direct comparison using value added, the world's 200 largest corporations in 2000 were responsible for perhaps 6 percent of global economic activity, not 27.5 percent.

A final misleading example is a 2021 analysis that used market capitalization data to assert that the world's 50 largest companies were "proportional to 27.6% of global GDP in 2020, up from just 4.7% of global GDP in 1990."[12] But market capitalization is based on the total market value of a company's stock, which is essentially unrelated to GDP data. Again, the inference that a relatively small number of large corporations are responsible for over 25 percent of global economic activity is misleading.

Unfortunately, there are few direct comparisons between the value added of the world's largest corporations and the world economy. As mentioned above, the UN estimated that the world's 100 largest companies were responsible for 4.3 percent of world economic output in 2000. More recently, in 2018 the OECD calculated that all the world's MNCs, over 80,000 companies, were responsible for 28 percent of global GDP.[13] However, the OECD did not further break down value added for just the world's largest corporations.

A 2021 analysis looked at the value-added contribution of large corporations, defined as those with at least $1 billion in global revenues, to the OECD economies.[14] It found that these approximately 5,000 large corporations were responsible for about 28 percent of the GDP among the OECD economies.[15] Note that when this analysis is compared to the 2018 OECD analysis mentioned above, it suggests that MNCs overall comprise a greater share of economic activity in high-income countries than in the world as a whole. The very largest corporations, those with annual revenues greater than $100 billion (about 50 companies), contributed about 4 percent of the OECD total GDP. Further, these largest firms contribute less intensively to GDP than firms with revenues between $1 and $100 billion.

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[10] Anderson and Cavanaugh, 2000.
[11] UNCTAD, 2002
[12] Wallach, 2021.
[13] OECD, 2018.
[14] The OECD includes 38, mostly high-income, countries. See: https://www.oecd.org/about/members-and-partners/.
[15] Manyika *et al*., 2021.

The statistics presented in this section indicate that a small number of very large corporations do not dominate the global economy, measured as a share of GDP using value-added. Still, the economic impact of large corporations is significant. Approximately 80,000 MNCs are responsible for about 25 to 30 percent of world economic activity. The world's 100 largest companies are responsible for about 5 percent of global GDP. Next, we consider whether the economic significance of large corporations is increasing.

3. THE GROWTH OF MULTINATIONAL CORPORATIONS

Modern large corporations are private entities under the control of corporate officers and, ultimately, shareholders who own direct stakes in the firm. The profits of a corporation are distributed to its shareholders in proportion to the number of shares they own.[16] A primary objective of corporations is to make a profit for their shareholders, with other objectives generally being subordinate. Most of us take for granted this current perspective of corporations as entities seeking profits under the primary control of shareholders and corporate executives, with a limited role for governments and consumers. However, some historical context of the development of corporations in the United States illustrates that this perception is relatively recent and clashes with earlier views.

3.1. Corporate History in the United States

In early America individual states chartered corporations as public, rather than private, entities.[17] Up until the Civil War, American corporations were fully accountable to the public to ensure that they acted in a manner that served the public good. Corporate charters could be revoked for failing to serve the public interest and were valid only for a certain period of time. For example, in 1831 a Delaware constitutional amendment specified that all corporations were limited to a twenty-year life span. The modern definition of corporations as private entities originated in the decades following the Civil War. In 1886, the U.S. Supreme Court ruled that corporations were entitled to the same constitutional protections under the 14th Amendment as individuals. Among its numerous provisions the Amendment, ratified in 1868, grants equal protection under the law to all people, primarily intended to establish the rights of recently freed slaves. In ruling that this provision applied to corporations as well, the Court effectively granted corporations with the rights of "personhood". Corporations were then held accountable to the public only in the sense that they must operate within the confines of the law.

The power of corporations grew considerably around the end of the 19th century. State laws limiting the size of corporations were evaded by the formation of "trusts" feigning independent operation, such as those formed by John D. Rockefeller's Standard Oil. Although public opposition to the trusts mounted, large corporations were able to grow

[16] The distributed annual profits of a firm are dividends. A firm may decide to retain some of its profits to finance investments or for other reasons.

[17] Information on the history of corporations in America is drawn from Derber (1998), Korten (2001), and Hertz (2001).

larger by pitting states against each other. In 1889, New Jersey passed the first law allowing one corporation to own equity in others. This initiated a period in which states including New Jersey, New York, Delaware, and others battled to attract large corporations by removing restrictions such as limitations on corporate size and mergers. The most permissive state remained New Jersey; by 1900, 95 percent of the nation's large corporations had moved their headquarters to that state.

A strong populist movement arose in response to growing corporate power. **Antitrust laws,** that aim to control corporate power, were eventually passed in 1890 and in 1914, leading to the breakup of several large corporations, including Standard Oil. During the 20th century, the resolve to enforce anti-trust regulation waxed and waned. Corporate power was kept in check following the Great Depression as the federal government reasserted its claim that corporations should exist to serve the public good. **Keynesian economics,** which often justified an active government role in economic policy, became the dominant macroeconomic paradigm. The power of corporations was also kept in check by a strong labor union movement that peaked in the 1950s.

The tide again shifted in the 1970s as Keynesian economic policies failed to control the twin ills of high unemployment and high inflation. Conservative politicians, particularly Ronald Reagan in the U.S. and Margaret Thatcher in England, fostered the growth of large corporations by relaxing enforcement of antitrust laws, reducing corporate tax rates, and ushering in a wave of **deregulation**. As a result, corporate mergers and acquisitions increased dramatically in the 1980s and especially 1990s, reaching levels five to ten times higher than in the 1970s.[18]

The dominant role of free-market capitalism in the global economy was secured with the fall of the Soviet Union and other Eastern Bloc countries near the end of the 20th century. American businesses such as Coke, McDonalds, and Levis quickly expanded into new markets in previously-Communist countries. A "**Washington consensus**" emerged that aligned major economic institutions, such as the World Bank and World Trade Organization, with the ideology of free trade and privatization.

This consensus generated a fertile field for the world's largest corporations. Numerous trade barriers have been removed through international agreements such as the World Trade Organization agreements, the Trans-Pacific Partnership, and the North American Free Trade Agreement (replaced by the United States-Mexico-Canada Agreement, which took effect in 2020). Thus, modern corporations are able to take advantage of preferential treatment by nations, reminiscent of the battle between U.S. states to attract businesses 100 years ago, further discussed below.

Corporate power was further enhanced in the United States with the 2010 Supreme Court ruling in the controversial *Citizens United* case. This ruling stated that corporations could spend an unlimited amount of money on campaign advertising as long as they aren't directly coordinating with a candidate or political party. For more on the *Citizens United* case, see Box 1. Most recently, in 2017 the Tax Cuts and Jobs Act reduced the top federal

[18] Holmstrom and Kaplan, 2001.

corporate tax rate in the U.S. from 35 to 21 percent, further strengthening corporate power. We'll discuss corporate taxation in more detail later in the module.

BOX 1: THE U.S. SUPREME COURT'S 2010 *CITIZENS UNITED VS. FEDERAL ELECTION COMMISION* RULING

In 2008 Citizens United, a conservative nonprofit, created a film highly critical of then-presidential candidate Hillary Clinton.[19] However, airing the film would have been a violation of the 2002 Bipartisan Campaign Reform Bill (BCRB), which prohibited corporations, nonprofits, and labor unions from making election-related communications immediately prior to elections and from advocating for the election or defeat of a particular candidate at any time. Citizens United sued the government, asserting that the BCRB prohibition violated their free speech protection under the First Amendment.

In a 5-4 decision the Supreme Court ruled in favor of Citizens United, essentially allowing corporations and interest groups unlimited expenditures to influence elections as long as they don't directly coordinate with candidates or political parties. Hailed as a victory for corporate speech, President Barack Obama responded that the ruling "gives the special interests and their lobbyists even more power in Washington." In a dissenting opinion, Justice John Paul Stevens wrote that ruling was "a rejection of the common sense of the American people, who have recognized a need to prevent corporations from undermining self-government."

The Citizens United ruling led to the organization of "super PACs"—independent political action committees that can raise unlimited funds for political goals but do not directly contribute to candidates. Money raised by super PACs has increased dramatically in recent election years, as shown in Figure 1 (note that fundraising increases during presidential election years). As of the 2022 election cycle, there were about 2,500 super PACs, with 61 percent classified as having a conservative viewpoint and 34 percent with a liberal viewpoint.[20] While super PACs must disclose their donors, they can accept contributions from "dark money" nonprofit groups that are not required to disclose who their donors are. Consequently, corporations, wealthy individuals, and even foreign entities can channel money through dark money groups to influence American elections.

Citizens United could be reversed through a constitutional amendment, though that is very unlikely to happen. However, according to a 2018 survey, three-quarters of Americans (66 percent of Republicans and 85 percent of Democrats) support reversing the decision.[21] Other options to reduce the influence of the Citizens United ruling include public funding of elections and legislation to require corporations and other donors to report all contributions that are funneled to super PACs.

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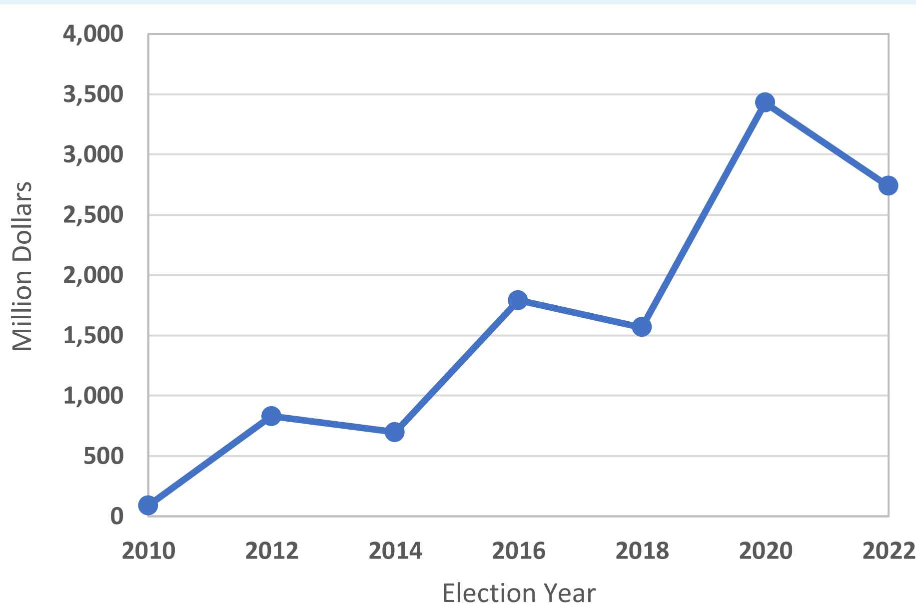
[19] Citizens United vs. FEC, Wikipedia, https://en.wikipedia.org/wiki/Citizens_United_v._FEC.
[20] OpenSecrets.org, "Outside Spending by Super PACs".
[21] Balcerzak, 2018.

Figure 1. *Money Raised by Super PACs, by Election Cycle*



Source: opensecrets.org, "Outside Spending, by Super PACs"online database.

3.2. Traditional Explanations of the Growth of Large Corporations

Most of the world's largest corporations started as surprisingly small enterprises. Unilever began as a soapmaking company started by two brothers in 1885. Ford Motor Company began in a small factory in Detroit in 1903. Wal-Mart opened with a single store in Arkansas in 1962. How have some firms become so large?

The two traditional economic explanations for the growth of firms have been **economies of scale** and **economies of scope**. Economies of scale arise when a firm lowers its per-unit production costs of a particular product by producing in greater quantity. **Division of labor** through specialization is one reason per-unit costs decrease as production increases. Adam Smith described in the 18th century how a pin factory can increase its output significantly if each worker repeatedly performs a specific task in the production process rather than having each worker independently make complete pins from scratch.

In modern MNCs, economies of scale exist not only because of division of labor but by combining, and often replacing, human labor with mechanized production. Investment in large-scale production equipment and the latest technologies is generally very expensive. These may be affordable only to large firms with substantial financial reserves or access to credit. Thus, firms that are already large can gain a further advantage over smaller competitors. For some products, per-unit costs continue to fall as firms become larger. In such cases, we would expect that a few very large firms would eventually come to dominate

the market. This has occurred in industries such as automobile production and petroleum exploration and refining—notice the presence of several such firms in Table 1.

We should realize that large corporations have not arisen in all markets. In some industries, the **minimum efficient scale,** the level of production where average per-unit costs tend to reach their minimum level, is relatively small. This generally occurs for services that are provided in-person directly by the supplier, such as home and auto repair services, childcare, and education.[22]

Small firms may actually have an advantage over large firms in many instances. While large firms such as McDonald's and Burger King have come to dominate the low-price restaurant market, brand name franchises and chains are generally absent when it comes to upscale restaurants. One reason is that many customers of higher-priced restaurants seek a special "local" experience that a franchise could not offer.

Economies of scope arise when a firm can lower per-unit costs by expanding the variety of products it makes. Typically, a firm will expand its product line by making goods similar to those already being produced, which allows the firm to take advantage of existing marketing networks or production facilities. For example, a cell phone service provider may expand into providing Internet services or an ice cream producer may add yogurt to its product line (as was done by Ben & Jerry's). Firms may also achieve economies of scope through the production of unrelated products. An example is the **conglomerate** General Electric, which produces such diverse goods as aircraft engines, home appliances, medical equipment, and wind power turbines, as well as providing financial services to businesses and consumers. Conglomerates can achieve economies of scope through managerial efficiency, financing flexibility, political power, or the centralization of research and marketing.

3.3. The International Mobility of Multinational Corporations

While these conventional factors explain the growth of many large corporations, the most notable competitive advantage of MNCs in recent years is international mobility—the ability of a firm to transfer resources across national borders. In the decades following World War II, the "internationalization" of corporations, primarily American, took place through the establishment of foreign affiliates intended to serve the markets in which they were located. For example, Ford established Ford of Europe in 1967 to produce vehicles for European consumers.

With falling trade barriers and lower transportation costs, firms increasingly look abroad not only for new markets to sell their products but also for low-cost production opportunities. MNCs that take advantage of cheap foreign labor gain an advantage over less mobile firms that remain dependent on higher-cost domestic labor. Low-cost foreign

[22] An exception, of course, is the provision of education through electronic media. At least currently, education is primarily provided through in-person contact.

labor is a major factor explaining the growth of multinationals in such sectors as electronics and apparel.

Savings from low-cost foreign production are increasingly achieved through contracts with external suppliers, a trend commonly referred to as **outsourcing**. The outsourcing of production jobs to foreign countries is perceived by many to be a primary reason for the loss of traditional "blue collar" jobs in industrial countries. Relying on subcontractors offers MNCs several advantages. First, with short-term contracts and no large capital investments firms can quickly shift to contracts in other countries if even lower costs are possible. Second, corporations can avoid some responsibility for instituting fair labor practices and meeting environmental standards by claiming these are at least jointly the duty of the subcontractors. Consider that 80 to 90 percent of a typical consumer goods company's environmental impacts are generated through its subcontractors, not its direct operations.[23]

4. ASSESSING THE POWER OF LARGE CORPORATIONS

The most difficult problem in assessing the economic and political power of large corporations, and determining whether this power is increasing, is that a commonly-accepted metric measuring corporate power does not exist. Several metrics may be used to measure corporate power and track changes over time, but different metrics yield different conclusions. In this section, we present several of the most common metrics of corporate power and discuss their implications.

4.1. The Relative Economic Scale of Multinational Corporations

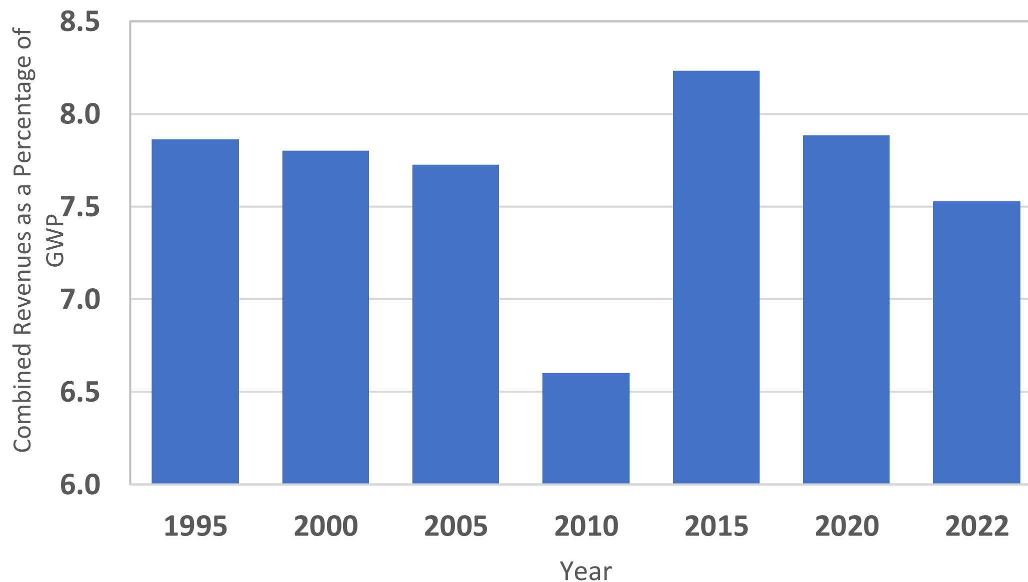
By some, but not all, measures the economic magnitude of the world's largest firms is increasing relative to the rest of the global economy. First, we compare the combined revenues of the world's 25 largest corporations to total global economic production, known as **gross world product (GWP)**, over time. As we see in Figure 2, by this metric the world's very largest firms are not clearly increasing in size relative to the global economy. The revenues of the world's largest firms relative to global production remained constant from 1995 to 2005, fell in response to the global financial crisis in 2010, increased significantly in 2015, but has fallen since then. In other words, there is no clear trend regarding the relative economic magnitude of the world's 25 largest firms.

But realize that the comparison in Figure 2 is not a direct comparison based on value added. As discussed previously, a 2021 analysis directly compares the contribution of large firms (with annual revenues in excess of $1 billion) in the OECD, based on value added, to the total OECD economy.[24] The authors conclude that "the share of overall economic activity attributable to large corporations has grown in the past 25 years." They calculate that large firms were responsible for 17 percent of the OECD's economy in 1995. By 2018, large

[23] Bové and Swartz, 2016.
[24] Manyika *et al*., 2021.

firms were responsible for 27 percent of the OECD's economy—a significant increase. However, this analysis may be overstating the growth of large corporations. Solely due to price inflation, more firms exceeded the $1 billion revenue threshold in 2018 than in 1995. Consider that in nominal terms (i.e., unadjusted for inflation) economic production in the OECD more than doubled between 1995 and 2018. Thus, assuming there were more "large" firms by revenue in 2018 as a result of inflation, this would not necessarily indicate an increasing share of total economic production can be attributed to large firms.

Figure 2. *Combine Revenues of the World's 25 Largest Firms Relative to Global Economic Production, 1995-2022*[25]



Sources: Firm revenues from various editions of the Fortune Global 500. Gross world product from the World Bank's World Development Indicators database.

A 2023 comparison used market capitalization to conclude that the very largest firms in the United States are growing relative to other firms.[26] The author notes that the top five firms comprise more than 20 percent of the entire value of the stock market—the highest share since the 1960s and more than double the percentage from the early 2010s. Further, the top five companies are larger than the next five by the largest margin since the 1980s. Growth at the very top is attributed to firms' ability to capture the benefits of government recovery efforts, especially during the COVID-19 pandemic.

[25] Note that this figure does not indicate that the world's 25 largest firms contribute about 8 percent to the global economic production, as discussed above. Instead, the chart merely presents a possible metric to measure the relative size of the world's 25 largest companies to the world economy.
[26] Sharma, 2023.

Another 2023 analysis supports the conclusion of increasing corporate concentration among the largest firms in the United States.[27] The paper tracked the concentration of three metrics among U.S. corporations over several decades: revenues, profits, and assets. The authors compared the share of these metrics attributed to the largest 1 and 0.1 percent of firms. All metrics displayed increasing concentration. For example, from the 1930s to the 1950s the largest one percent of firms owned about 73 percent of all corporate assets. By the 2010s, this had risen to 97 percent. In the 1960s, the largest one percent of firms captured about 60 percent of all corporate profits, which had grown to about 80 percent in 2020. Similar growth in concentration for all three metrics was found looking at just the largest 0.1 percent of firms. Several hypotheses are explored to explain the increasing concentration, including economies of scale, globalization, and regulatory changes. The authors conclude that economies of scale is the explanation most consistent with the observed data, but that their "results do not rule out that some large firms may have expanded their territories by unduly exerting power and influence" and "that regulatory policies or business environments have been more favorable to larger companies in recent years."

4.2. Corporate Price Markups

A 2019 analysis by the International Monetary Fund defined corporate power as a firm's ability to increase their **price markup**—the difference between a product's selling price and its production cost, expressed as a ratio.[28] Thus, a higher price markup equates to higher profits per unit sold. The authors looked at data from over one million companies in 27 high- and middle-income countries from 2000 to 2015. The three main conclusions from their analysis are:

1. Corporate market power increased "moderately" in high-income countries, with companies' average markups increasing by 8 percent. The growth of corporate power in middle-income countries was less evident, with markups increasing by only 2 percent.
2. The increase in corporate power was "fairly widespread across advanced economies and industries" but particularly concentrated in nonmanufacturing industries and industries using digital technologies.
3. Rising markups were associated with a slight decline in business investment, leading to slower macroeconomic growth. While the negative macroeconomic effects of corporate power have been minimal so far, the authors warn that "further increases in the market power of these already-powerful firms could weaken investment, deter innovation, reduce labor income shares, and make it more difficult for monetary policy to stabilize output."

[27] Kwon *et al*., 2023.
[28] Díez *et al*., 2019.

The authors assert that policymakers should act to ensure a level playing field for existing and new companies. Their policy recommendations include reducing the barriers to entry for new firms, antitrust regulations, and reforming corporate taxes.

4.3. Industry Concentration

The relative dominance of a small number of firms in an industry is commonly measured using **industry concentration ratios**, which calculate the revenues of the largest firms in an industry as a percentage of total industry revenues. The most common concentration ratios are based on the largest four, eight, and twenty firms in an industry. For example, a four-firm concentration ratio of 0.62 means that the largest four firms in the industry account for 62 percent of all industry revenues. As a rule of thumb, if the four-firm concentration ratio in an industry is above 0.40, the industry is considered to be an **oligopoly**—dominated by a small number of powerful, interrelated firms.

Table 3 shows the change in four-firm concentration ratios in the United States between 2002 and 2017 for select industries. By about a two-to-one margin, more industries are becoming more concentrated over time, with a particular increase in concentration in cellular communications and air travel. However, concentration ratios have declined in several industries, most significantly in brewing, automobile manufacturing, and credit card issuing.

A more comprehensive analysis of industry concentration ratio trends in the United States from 2002 to 2017 finds that overall concentration peaked in 2007 and has declined slightly since then. [29] The authors conclude that "there is no evidence that the growth of "Big Tech" or the antitrust policies of the Bush and Obama Administrations led to a general increase in industrial concentration in the U.S. economy." However, this study was sponsored by the U.S. Chamber of Commerce, a lobbying group funded primarily by multinational corporations, and thus may not reflect unbiased research.

A 2019 peer-reviewed journal article reached the opposite conclusion. It found that since the late 1990s over 75 percent of U.S. industries have experienced an increase in concentration.[30] The authors found that profit margins tended to increase in industries that became more concentrated. Further, increasing concentration was not associated with higher production efficiency, leading the authors to conclude that "product markets have undergone a shift that has potentially weakened competition across the majority of industries" in the U.S. These results align with those from a 2016 analysis by *The Economist*, which found that two-thirds of American industries became more concentrated between 1997 and 2012.[31] Further, revenues in "fragmented" industries, where the top four firms received less than one-third of total industry revenues, dropped from 78 percent of total national revenues to 58 percent—indicating an increasing share of all business revenues are flowing to industries dominated by a few large firms.

[29] Kulick and Card, 2022.
[30] Grullon *et al*., 2019.
[31] Anonymous, 2016.

Table 3. *Four-Firm Industry Concentration Ratios in the United States*

Industry	Concentration Ratio, 2002	Concentration Ratio, 2017	Change
Home Centers	0.91	0.96	↑
Breweries	0.91	0.69	↓
Tobacco Manufacturing	0.87	0.92	↑
Petrochemical Manufacturing	0.85	0.74	↓
Breakfast Cereals	0.78	0.82	↑
Automobile Manufacturing	0.76	0.58	↓
Credit Card Issuing	0.76	0.56	↓
Major Household Appliances	0.70	0.71	↑
Department Stores	0.66	0.73	↑
Cellular Communications	0.63	0.86	↑
Music Publishing	0.55	0.57	↑
Pharmacies and Drug Stores	0.53	0.69	↑
Television Broadcasting	0.50	0.53	↑
Cable Programming	0.49	0.62	↑
Motion Picture Production	0.49	0.44	↓
Soft Drink Manufacturing	0.46	0.53	↑
Audio and Video Equipment	0.43	0.31	↓
Investment Banking	0.41	0.44	↑
Passenger Air Travel	0.34	0.69	↑
Pharmaceutical Manufacturing	0.34	0.36	↑
Supermarkets	0.33	0.36	↑
Footwear Manufacturing	0.32	0.42	↓
Commercial Banking	0.30	0.25	↓
Natural Gas Distribution	0.18	0.24	↑
Insurance Carriers	0.14	0.16	↑

Sources: 2002 and 2017 Economic Census, U.S. Census Bureau.

Little research is available on trends in global industry concentration. A 2017 paper studied global concentration across numerous industries in 2006 and 2014.[32] The authors found that in contrast to a trend of increasing concentration in the U.S., global concentration ratios generally declined, by an average of four points. The authors note that "while larger firms may be dominating their industries domestically, they are competing vigorously on an international level with foreign firms."[33]

[32] Freund and Sidhu, 2017a.
[33] Freund and Sidhu, 2017b.

4.4. Corporate Political Expenditures

The two main political tools available to large corporations seeking favorable treatment are political donations and lobbying. While corporations in the United States cannot directly contribute to political candidates, they can donate to organizations that then support specific candidates and policies, often without having to disclose their expenditures (see Box 1):

> Many of these corporate political contributions occur in the dark. Much corporate political spending may never be disclosed to shareholders, employees, or the public. This means that shareholders may lack any meaningful way to evaluate whether to sell their stock to avoid indirectly supporting candidates with views diametrically opposed to their own.[34]

Based on the available data, according to the nonprofit group Open Secrets the top industrial donors in the United States include the finance, insurance, and real estate industry ($1.6 billion in political donations during the 2021-2022 election cycle), the communications and electronics industry ($338 million), and the health industry ($278 million).[35]

Lobbying involves attempts to legally influence political decisions through communication with politicians and other government employees. While lobbying occurs across the world, it is often unregulated. Even among the richer OECD nations, lobbying is regulated in only about one-third of countries.[36] The United Sates, where lobbying is to an extent regulated, is the world's leader in lobbying expenditures. As shown in Figure 3, lobbying expenditures in the U.S. rose steadily in the 2000s, leveled off during the early 2010s, and have risen again since then. In 2022, total lobbying spending in the U.S. surpassed $4 billion for the first time.

A few studies have attempted to measure the effectiveness of lobbying. A 2009 journal article analyzed the impact of U.S. multinational corporations' lobbying for a provision of a 2004 law that allowed them to repatriate[37] foreign-earned profits at significant tax savings.[38] The authors found that firms spent a total of $283 million lobbying for this specific provision. As a result, these firms were able to accrue a tax savings of $62.5 billion—a rate of return on their lobbying investment of 22,000 percent!

A 2016 article studied the impact of corporate lobbying for favorable energy policies in the United States.[39] The author found that lobbying did not have a dramatic effect on the likelihood that a specific policy would be enacted. For example, $3 million spent on

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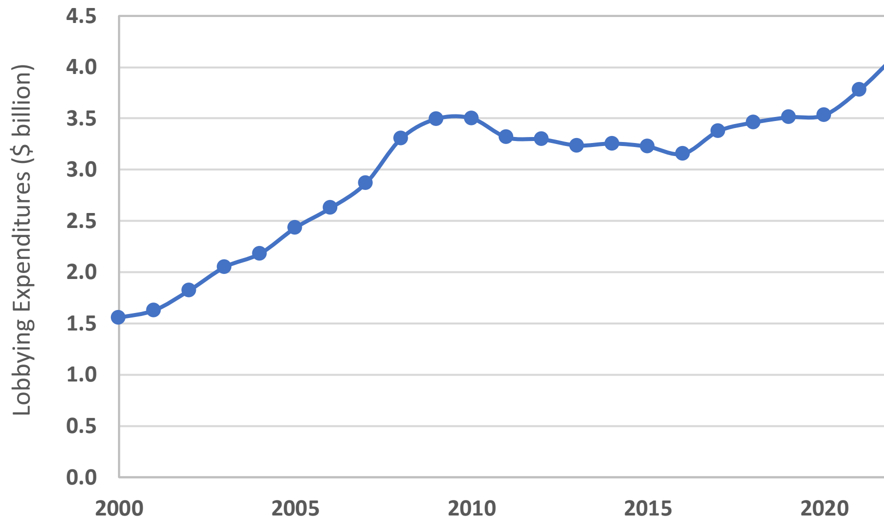
[34] Edwards, 2022a.
[35] Open Secrets, Interest Groups, https://www.opensecrets.org/industries/.
[36] OECD, 2013.
[37] Repatriating foreign-earned income allows the firm to bring this money back to their home country once their tax obligations are met.
[38] Alexander *et al*., 2009.
[39] Kang, 2016.

lobbying would increase the probability that a particular policy would be enacted by an average of only 1.2 percent. However, lobbying was still highly financially lucrative to firms, with an estimated rate of return of 137 to 152 percent. While this is a significantly lower rate of return than the 22,000 percent noted above, it is still much higher than standard rates of return for large companies of around 10 percent.

Figure 3. *Lobbying Expenditures in the United Sates, 2000-2022*



Source: Open Secrets, Lobbying Data Summary

A 2019 report looked at the effectiveness of lobbying in the United States to secure federal funding through contracts and grants.[40] The analysis found that firms during 2014 to 2017 were able to secure $399 billion in federal funding with $2 billion in lobbying expenditures. Most of this funding ($393 billion) was through contracts, so a rate of return on lobbying would need to be based on the profits earned from the contracts. If the profit ratio was a reasonable 10 percent, then the implied lobbying rate of return would be about 20:1, or 2,000 percent.

Finally, a 2021 report looked at the relationship between lobbying and industrial concentration in three industries in the U.S.: internet companies, pharmaceuticals, and oil and gas production.[41] The results show that increasing industrial concentration leads to higher lobbying expenditures and vice versa. The author summarizes the research on the effectiveness of corporate lobbying:

> Corporate lobbying works. A number of studies show that the amount spent on lobbying positively impacts a firm's equity returns and market share. Firms that engage in lobbying also appear to have lower effective tax rates than those that do not. Moreover, a growing body of scholarship suggests that lobbying can directly benefit individual firms or sub-industries through tax breaks or government contracts.

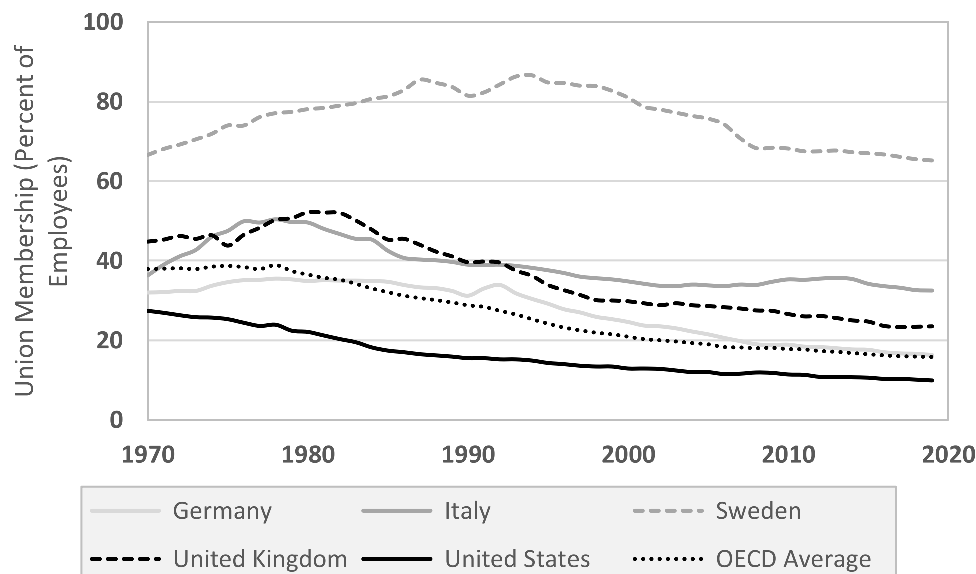
[40] Andrzejewski and Smith, 2019.
[41] Showalter, 2021.

4.5. The Declining Power of Labor Unions

Corporate power can be assessed by looking at the strength of countervailing forces that oppose the concentration of corporate power and seek to limit their influence. Perhaps the most powerful countervailing force to corporate power has historically been **labor unions** that represent workers' interests. A decline in union power may signify the ability of corporations to weaken their "opponents."[42] Using union membership as a proxy for the power of labor unions, we conclude that labor unions are now considerably weaker than in previous decades.

As shown in Figure 4, labor union membership in OECD countries was relatively constant during the 1970s at nearly 40 percent of employees. But since the 1980s average union membership has been steadily declining, to only about 15 percent in 2019. Labor union membership differs significantly across OECD countries, from about 10 percent in the United States and Mexico to more than 50 percent in the Scandinavian countries, including Norway, Sweden, and Iceland.

Figure 4. *Labor Union Membership, Select OECD Countries, 1970-2019*



Source: OECD, OECD.Stat, Trade Union Dataset

Several hypotheses have been proposed for the decline in union membership in most OECD countries. In general, jobs in developed nations have shifted from the manufacturing sector to service-oriented jobs, which tend to be more difficult to unionize. Many companies now take a more aggressive stance against unions, particularly if they have the option of moving production to low-wage countries. Another factor is the anti-union stance taken by some governments, particularly in the United States during the 1980s. A 2020

[42] This does not imply that labor unions oppose the growth of multinational corporations in all respects. For example, to the extent that the expansion of MNCs creates jobs, both management and labor benefit.

analysis concludes that anti-union corporate practices and government regulatory changes have been the primary drivers of declining union membership in many countries, particularly in the United States.[43]

Contrary to the trend of declining union membership in high-income countries, union membership tends to be increasing in low- and middle-income countries, although reliable data are often lacking. However, labor unions in non-OECD countries are generally not effective counterweights to corporate power. For example, labor unions in China rarely challenge companies' policies and may face police intimidation.[44] In India, unions are often limited by a lack of financial resources and government support.[45] Also, industrial workers seeking to go on strike in India must provide 60 days' notice, reducing the effectiveness of a potential work stoppage.[46]

4.6. Corporate Taxes

Another approach for assessing recent changes in corporate power is to measure their ability to reduce their tax burden. Corporations can lobby for changes in tax laws or influence the level of tax code enforcement by government agencies. A sign of an increase in corporate power would be a decline in the tax rates paid by corporations.

Figure 5 presents corporate **statutory tax rates** from 2000 to 2022, averaged across different regions of the world. We can see that corporate tax rates are declining across the world. Among the OECD nations, the average statutory corporate tax rate fell from over 32 percent in 2000 to only about 23 percent in 2022, the largest decrease among the various global regions. Of the 117 countries represented in Figure 5, corporate tax rates decreased between 2000 and 2022 in 97 countries, with rates increasing in only 6 countries, including China, Honduras, and Hong Kong.

The 2017 Tax Cuts and Jobs Act (TCJA) in the United States was one of the most significant corporate tax law changes in recent years. Prior to the TCJA corporate tax rates varied by profit level, up to a maximum of 35 percent. The Act instituted a universal rate of 21 percent on corporate profits, while eliminating some deductions and expanding the types of foreign-sourced profits subject to U.S. taxation. Proponents argued that the lower tax rates would be offset by an increase in business investment leading to higher taxable profits. Thus, even though the TCJA lowered statutory tax rates, the **effective tax rates** paid by corporations could increase.

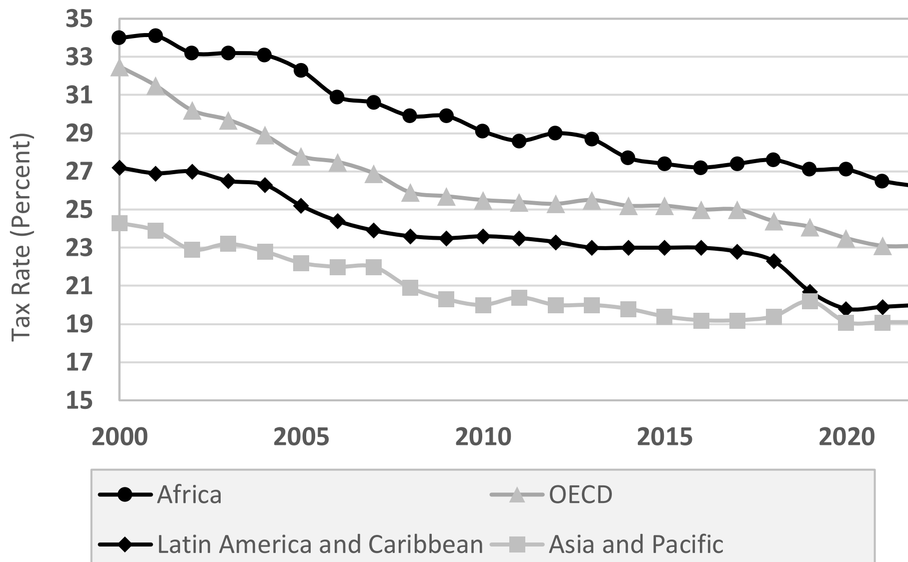
A 2022 analysis by the U.S. Government Accountability Office (GAO), an independent government agency, found that the average effective corporate tax rate fell in 2018 (after

[43] Mishel *et al*., 2020.
[44] Kirton, 2021.
[45] Anonymous, 2022.
[46] Panda, 2021.

the implementation of the TCJA provisions) compared to 2014 to 2017.[47] A 2021 Brookings Institution paper found that:

> [The] TCJA clearly reduced federal revenues significantly and several pieces of evidence suggest that TCJA's supply-side incentives had little effect on investment, wages, or profit-shifting. … the insensitivity of aggregate investment to tax incentives may be due in part to a rise in economic uncertainty or to increasing market power of big businesses in the economy.[48]

Figure 5. *Average Statutory Corporate Tax Rates, by Global Region, 2000-2022*



Source: OECD, 2022a.

The GAO report also found that the TCJA led to an increase in the number of corporations that were able to eliminate their tax liability entirely by claiming various credits and deductions. Between 2014 and 2018 the percentage of large[49] profitable corporations owing no federal taxes increased from 22 to 34 percent.[50] Further, some profitable companies are able to obtain tax refunds despite earning large profits. For example, in 2021 AT&T reported pre-tax profits of about $30 billion but ended up receiving a tax rebate of over $1 billion from the federal government. The insurance company AIG reported 2021 profits of about $10 billion but received a tax rebate of over $200 million.[51]

Besides lobbying for lower tax rates, corporations can also reduce their tax burden by moving profits to low- or no-tax jurisdictions, often referred to as tax havens. Typically, a corporation can take advantage of a tax haven by setting up a "shell" company in a country

[47] GAO, 2022.
[48] Gale and Haldeman, 2021, p. 9.
[49] "Large" corporations were defined in the GAO report as those with assets in excess of $10 million.
[50] GAO, 2022.
[51] Koronowski *et al.,* 2022.

such as the Cayman Islands (which has no corporate taxes). A shell company is a legal entity that exists only on paper, without any employees or physical office in the tax haven country. The parent company then directs taxable assets and profits to the shell company, where the tax rates are significantly lower (even zero) than the tax rates where the parent company is located. Even if a tax haven country does not tax assets and profits, it can generate significant revenues from charging fees to establish shell companies. For more on tax havens, see Box 2.

BOX 2: CORPORATE TAX HAVENS

The International Monetary Fund estimates that tax havens deprive countries of $500 to $600 billion in corporate tax revenues annually. As a share of GDP, developing countries lose the most in tax revenues from tax havens. The $200 billion in annual tax losses in low-income countries exceeds their annual receipts of international aid (about $150 billion). [52]

In 2015, the world's largest economies implemented a plan to crackdown on the abuse of tax havens by multinational corporations. But a 2022 analysis found that corporate profit shifting to tax havens has instead increased since then.[53] The authors found that corporations shifted nearly $1 trillion in profits to tax haven countries in 2019, up from about $600 billion in 2015. Overall, multinational corporations shifted 37 percent of their profits to tax haven countries in 2019. Companies based in the United States were responsible for about half of the global amount of profits shifted to tax havens, followed by companies from the United Kingdom and Germany.

The nonprofit Tax Justice Network ranks the world's most complicit tax havens countries based on the leniency of their corporate tax laws and the amount of profits that are claimed in each country.[54] The most significant tax havens countries are the British Virgin Islands, the Cayman Islands, and Bermuda. However, corporate tax havens aren't necessarily small island nations, as the top 10 tax haven countries also include the Netherlands, Switzerland, and the United Arab Emirates.

While individual countries can enact national laws to reduce corporate tax haven abuses, such as empowering tax agencies to investigate fraud cases, ultimately a strong international agreement is needed to adequately address the problem. In 2021, 136 countries provisionally agreed to establish a global minimum corporate tax rate of 15 percent to reduce the amount of tax revenues lost from tax havens. The agreement would also make it more difficult for companies to shield their profits in tax haven countries. While the agreement would not eliminate tax havens, the OECD estimates it would allow countries to collect an additional $150 billion in taxes from corporations annually. [55]

[52] Shaxson, 2019.
[53] Wier and Zucman, 2022.
[54] Tax Justice Network, Corporate Tax Haven Index, https://cthi.taxjustice.net/en/.
[55] Thomas, 2021.

4.7. Corporate Subsidies

In addition to avoiding taxation, corporations can also use their political power to obtain subsidies. Subsidies come in various forms, including direct cash payments, low-interest loans, price supports, public bailouts, and other favorable policies. Note that tax breaks can also be classified as a type of government subsidy. Of course, not all subsidies are necessarily socially harmful, as subsidies can be used to motivate investment in low-income communities, or in renewable energy. Tracking corporate subsidy payments is difficult due to a lack of transparency. In the United States, only about 60 percent of subsidy programs report the name of the company receiving payment.[56] According to the conservative Cato Institute, the U.S. federal government spends more than $100 billion annually in inefficient subsidies, equivalent to about $800 per household.[57]

Corporations looking to locate new factories or office buildings can use their market power to pit states or municipalities against each other to obtain the most favorable subsidies. In order to attract corporate investment and jobs, local politicians may offer deals such as tax breaks and low-cost land. As another example, a large firm may convince a municipality to build new roads as a condition for constructing a production facility in the area. According to the nonprofit Center for Economic Accountability, 2022 was a record year for corporate subsidy payments by U.S. states, including $2.1 billion paid by the state of Ohio to attract an Intel computer chip manufacturing plant and $1.8 billion paid by Georgia to Hyundai to attract an electric vehicle manufacturing plant.[58]

4.8. Externalizing Social Costs

Another type of corporate subsidy occurs when companies impose the negative effects of their production activities on society without compensation. For example, a corporation that manufactures automobiles generates pollution and the cost of this pollution is borne by nearby residents who do not receive any compensation from the company. External costs (or benefits) arising from economic activities are referred to as **externalities.** While firms of any size can create externalities, multinational corporations can use their political influence to avoid bearing responsibility for significant external costs.

> Given the close relation between minimizing costs and maximizing profits, it is natural to assume that an organization that seeks profits and has significant political power will feel some motivation to use that power to externalize costs, where possible. This motivation may be held in check by ethical considerations, by regulation, or by a fear of backlash from groups that might harm the organization; for example, consumer groups, or others who could mobilize effective public opinion.[59]

[56] Tarczynska, 2022.
[57] Edwards, 2022b.
[58] CEA, 2022.
[59] Goodwin, 2003

The fossil fuel industry is generally recognized as the largest recipient of global subsidies. Global financial subsidies to fossil fuel companies have been estimated to be about $600 billion annually by the International Monetary Fund, equivalent to about 0.5 percent of global GDP.[60] These subsidies have remained relatively stable since 2015. However, by far the largest subsidy the fossil fuel industry receives is the implicit subsidy of underpricing for its environmental damage, including air pollution and global climate change. In other words, the fossil fuel industry imposes vast environmental externalities on society, generally without providing adequate compensation. Including these environmental subsidies, the IMF estimates that global fossil fuel subsidies were about $6 trillion in 2020, equivalent to 6.8 percent of world GDP. In the absence of new policies, global fossil fuel subsidies are expected to rise to 7.4 percent of world GDP in 2025. The IMF notes that pricing fossil fuels at their efficient levels would raise nearly $3 trillion in new government revenues worldwide while reducing air pollution deaths by nearly one million per year and putting the world on target to limit global warming to 1.5 degrees Celsius—the target agreed upon under the 2015 Paris Climate Agreement.

The only available comprehensive estimate of the environmental externalities imposed by global economic activity is from a 2013 analysis.[61] This study estimated the externalities associated with primary production (agriculture, forestry, fisheries, mining, and oil and gas) and primary processing (cement, steel, petrochemicals, and pulp and paper) across different regions of the world. It found that total unpriced damages were $7.3 trillion, equivalent to 13 percent of world GDP at the time. The largest category of externalities was climate change emissions (13 percent of the global damages), followed by water use (25 percent), land use (24 percent), and air pollution (7 percent).

The international mobility of MNCs raises the question of whether firms chose to locate operations in countries with less stringent environmental regulations. Such "exporting" of pollution can result in increased environmental impacts in lower-income countries. A 2020 paper finds that companies headquartered in countries with strict environmental regulations do tend to export their carbon emissions by locating production in countries with weaker environmental regulations.[62] Specifically, in countries with strict carbon regulations firms tend to lower their domestic emissions by 29 percent on average, while increasing their emissions abroad by 43 percent. Another study estimated how international trade affects deaths from air pollution in different countries.[63] The results indicated that air pollution deaths increase in China, India, and other parts of Asia from the production of goods consumed in other countries. Meanwhile, air pollution deaths in the United States and Europe are lowered as production is shifted abroad, effectively exporting these deaths to countries with less stringent regulations.

[60] Parry *et al*., 2021.
[61] Trucost, 2013.
[62] Itzhak *et al*., 2020.
[63] Anonymous, 2017.

4.9. The Rise of Exceptional Profits

Almost all businesses exist primarily to make profits. To motivate an entrepreneur or investor to invest in a particular business, the rate of return on that investment should ideally exceed the rate of return on their next best alternative. In other words, the entrepreneur or investor should always consider their **opportunity cost**. For example, the average rate of return in the stock market is about 10 percent per year. So, an entrepreneur or corporate investor should seek a rate of return greater than 10 percent, especially considering the risk of investing in a particular company as opposed to the overall stock market.

A 2016 article in *The Economist* notes that from the 1960s up to 2000 the global rates of return for U.S. companies fluctuated between 8 and 12 percent.[64] This suggests that corporate rates of return were similar to, or marginally higher than, the rate of return in the stock market. However, since 2000 U.S. corporate rates of return have fluctuated between 12 and 16 percent, leading to an era of "exceptional" profits well above those necessary to attract investment. While less than 15 percent of U.S. companies managed rates of return greater than 25 percent in the 1990s, by the 2010s more than one-third of companies were able to achieve rates of return greater than 25 percent. The article notes:

> Profits are an essential part of capitalism. They give investors a return, encourage innovation and signal where resources should be invested. … But high profits across a whole economy can be a sign of sickness. They can signal the existence of firms more adept at siphoning wealth off than creating it afresh, such as those that exploit monopolies.

The article concludes that the rise of exceptional profits has contributed to an increase in economic inequality in the U.S. and that "a giant dose of competition" is necessary through antitrust and lobbying regulations. For a discussion of how firms have been able to make exceptional profits during the inflationary period resulting from the COVID-19 pandemic, see Box 3.

BOX 3. CORPORATE PROFITS IN THE PANDEMIC INFLATIONARY ERA

The inflation rate in the U.S. rose to over 9 percent during mid-2022, its highest level since the early 1980s. According to the U.S. Bureau of Labor statistics, the leading causes of inflation during this time were: energy price volatility, supply chain backlogs related to the COVID-19 pandemic, and a tight labor market forcing firms to raise wages (and thus prices).[65] Implicit in these standard explanations for inflation is the idea that large companies and consumers were "sharing the pain." But a 2022 analysis by *The Guardian*

[64] Anonymous, 2016.
[65] Hernandez, 2023.

finds that while consumers have clearly suffered from inflation during the pandemic inflationary era, large U.S. companies have been capturing record profits.[66]

From the start of the pandemic in early 2020 to mid-2023, real (i.e., adjusted for inflation) median wages in the U.S. failed to keep pace with inflation.[67] However, during the pandemic median profits for large U.S. companies increased by 49 percent. According to *The Guardian* analysis, the main reason corporate profits have soared even as inflation hurt consumers is a consolidation of market power in a small number of very large companies. Krista Brown, a policy analyst with the American Economic Liberties Project, notes that:

> Those who have market power can raise prices above what's considered fair market value. We're at a point in our market concentrations that we haven't seen ever before.

Once an industry becomes dominated by fewer than 10 companies, and particularly fewer than 5 companies, those companies have enough market power to limit supply to raise prices, and consequently profits. Brown further states:

> it's obvious that corporations are trying to pass on any form of short-term pain they might be feeling … and that's serving the top, wealthiest class instead of those in need of fair wages or products that are affordable.

4.10. Summary Assessment of Corporate Power

This section has presented several perspectives for analyzing corporate power. There are conflicting data about whether an increasing share of global economic activity is generated by the world's largest corporations. However, across the world multinational corporations appear to be exerting power to decrease membership in labor unions, lower their taxes, and externalize environmental costs. In the United States, the data present a more convincing story of increasing corporate power. Most U.S. industries are becoming more concentrated, with the largest companies increasing their share of revenues, profits, and assets.

Does an increase in corporate power necessarily reduce overall social welfare? As we'll see below, there are some advantages to corporate power, but excess market concentration appears to result in at least three major negative consequences:

1. Excessive market power leads to an increase in economic inequality. As a greater share of national income is captured as corporate profits, the share of income going to workers falls, reducing their purchasing power and increasing inequality.[68]

[66] Perkins, 2022.
[67] Wage data from Federal Reserve Economic Data (FRED), St. Louis Fed.
[68] Manyika *et al*., 2019.

2. An increase in corporate power reduces market competition, leading to a decrease in investment and productivity. Economist Thomas Philippon of New York University estimates that the decline in market competition in the United States since 2000 has reduced GDP by about one percent.[69]
3. As already mentioned, corporations use their market power to reduce their tax burden and lobby for subsidies, including the implicit subsidy of externalizing environmental damages. This results in reduced public revenues for social spending on education, infrastructure, health care, and other needs, as well as contributing to climate change and other environmental problems.

As discussed in Section 3, corporations were once required to serve the public good. While large corporations are clearly here to stay, the relevant issue is how can corporations better align with broader social goals? We consider that issue below in the next section.

5. ALIGNING CORPORATE BEHAVIOR WITH SOCIAL GOALS

In 1970, the Nobel Prize-winning economist Milton Friedman wrote that "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game."[70] According to this perspective, corporations are under no obligation to align their behavior with broader social goals, such as reducing inequality, paying a living wage, or reducing environmental impacts. By virtue of their sheer magnitude, the activities of MNCs have large spillover effects on society. The conception of corporations as merely economic entities is being replaced by a view that places corporations in a broader economic, social, and environmental context—often called the "**triple bottom line**." While this modern viewpoint still recognizes the importance of earning profits, it emphasizes that corporations should act in ways that are socially and environmentally responsible, even going beyond minimum legal requirements.

In this section, we consider the two main ways that corporate behavior can better align with broader social goals: through voluntary measures and through government regulation. But before we discuss ways to improve the social behaviors of large corporations, we discuss the benefits MNCs currently provide to society.

5.1. Benefits of Large Corporations

Benefits of MNCs in High-Income Countries

The growth of large multinational corporations in recent decades has produced some undeniable benefits. The ability of large corporations to seek out low-cost production opportunities provides a benefit to consumers in the form of lower prices. The prices of many manufactured goods, such as televisions and home appliances, have declined in real

[69] Philippon, 2021.
[70] Friedman, 1990.

terms through improvements in technology and cheaper labor. In addition to low prices, large corporations are also capable of providing a familiar product of consistent quality in different regions of the world. For example, the fast-food restaurant chain McDonald's serves food with similar standards in more than 40,000 locations in over 110 countries.

Large corporations offer some advantages to their employees, who are more likely than workers in small firms to receive fringe benefits such as health care and pensions. As shown in Table 4, large firms with more than 500 workers employ more than half (54 percent) of all workers in the United States. Further, average annual wages tend to increase as a firm employs more workers. Also, many large corporations that have been in existence for decades are unlikely candidates for bankruptcy (although there are some recent exceptions to this such as Enron, Radio Shack, and Borders). The stability of large corporations is attractive to investors seeking security and relatively stable returns.

Large corporations implicitly recognize their interconnection with society in their donations to non-profit organizations. For example, Wal-Mart donated a total of $1.5 billion in 2022 to thousands of organizations, including those helping to fight hunger and respond to natural disasters.[71] General Motors reports on their efforts to promote youth education in Mexico and Egypt.[72] Total corporate donations in the U.S. in 2022 were estimated to be over $21 billion.[73]

Table 4. *Average Annual Salary by Firm Size, United States, 2020*

Number of Employees	Total Number of Employees	Average Annual Worker Salary
Less than 5	6,000,000	$49,000
5 to 19	15,200,000	$40,600
20 to 99	21,700,000	$45,100
100 to 499	18,700,000	$54,500
500 to 999	7,200,000	$58,200
1,000 to 4,999	17,100,000	$64,500
5,000 or more	48,300,000	$65,000

Source: U.S. Census Bureau, 2023.

Benefits of MNCs in Lower-Income Countries

While the majority of MNCs are headquartered in high-income countries, an increasing number are located in low- and middle-income countries, particularly China. MNCs generate employment in lower-income countries through subcontracts to production facilities. These jobs can play a critical role in reducing global poverty:

[71] https://corporate.walmart.com/askwalmart/what-does-walmart-do-for-local-communities
[72] GM, 2022.
[73] National Philanthropic Trust, https://www.nptrust.org/philanthropic-resources/charitable-giving-statistics/

> MNCs play a vital role in alleviating poverty in the countries where they operate. Although directly and cumulatively employing hundreds of millions of people in the developing world is a key contributor, the impact goes beyond simply employment. The reasons are twofold. First, poverty reduction depends on the growth of businesses: MNCs help connect local businesses with world markets and facilitate access to credit and technologies. Second, MNCs can drive the institutional change necessary for poverty reduction: they may have leverage with local governments, invest in infrastructure projects and provide competitive jobs.[74]

A 2022 journal article analyzed the impacts of U.S.-based MNCs on 18 developing countries over the period 2009-2018.[75] The results indicate that the companies had a positive effect on poverty reduction in those countries. The authors also found that countries which implemented reforms to attract MNCs, such as promoting industrialization and democracy, were also more effective at reducing poverty.

The United Nations notes that multinational corporations in developing countries are ideally suited to tackle many social and environmental challenges including poverty alleviation, climate change, and gender inequality.[76] In order to meet these challenges, corporations must adopt inclusive management techniques, promoting jobs and economic development among the world's poorest: "Innovative corporations from the global south will be the ones leading social change, creating jobs and servicing the yet-untapped markets at the base of the economic pyramid." The U.N. finds that those companies with the most inclusive policies have stronger potential for continuity and growth.

Another potential benefit of MNC investment in developing countries is the promotion of entrepreneurship.[77] Large corporations can serve as incubators for new technologies, funding startups either directly or through local subsidiaries. The large scale of MNCs means they may be willing to risk a high failure rate and invest across a wide range of activities. Evidence indicates that MNC investment to support local businesses has been increasing in recent years.

Of course, the benefits of MNCs in developing countries must be weighed against the negative impacts. The majority of the profits generated by corporate subsidiaries in developing countries flow back to the high-income countries where those companies are headquartered. While MNCs support millions of jobs in developing countries, those jobs generally provide low pay and often involve poor working conditions. The International Labour Organization notes that the majority of the world's workers experience:

> a lack of material well-being, economic security, equal opportunities or scope for human development. … Many workers find themselves having to take up

[74] World Benchmarking Alliance, 2020.
[75] Castillo and Chiatchoua, 2022.
[76] Neto, 2019.
[77] Bahar, 2015.

> unattractive jobs that tend to be informal and are characterized by low pay and little or no access to social protection and rights at work.[78]

While large corporations are increasingly investing in countries such as China and India, MNC investment in the poorest regions of the world remains low. And as mentioned earlier, MNC-funded production facilities in Asia are contributing to the deaths of millions of people per year due to air pollution.

5.2. Non-regulatory Approaches to Corporate Reform

As issues such as economic inequality, racial injustice, and climate change have received more attention in recent years, large corporations are increasingly adopting a triple-bottom line business model. The annual financial reports of nearly all large MNCs also publish reports detailing their impacts on societies and the environment. For example, Shell's 2022 Sustainability Report details how they aim to become a carbon-neutral energy company by 2050.[79] Unilever describes their efforts to promote equity, diversity, and inclusion, noting that 54 percent of their managers are women.[80]

A problem with some corporate social and environmental reporting is a lack of standardization and independent verification. A notable effort to increase the transparency and consistency of corporations' environmental and social performance is the **Global Reporting Initiative** (GRI). The GRI was founded in 1997:

> to create the first accountability mechanism to ensure companies adhere to responsible environmental conduct principles, which was then broadened to include social, economic and governance issues.[81]

The GRI has published reporting guidelines for firms wishing to participate in the project.[82] The GRI guidelines "have become the world's most widely used and internationally accepted tool for corporate transparency," with over 10,000 corporations subscribing to their standards, including 78 percent of the world's 250 largest corporations.[83,84]

Another voluntary attempt to increase the transparency of corporate activities is eco-labeling. Eco-labels either indicate the overall environmental impacts of a product or identify those products that pass certification criteria. Eco-labeling is now common in such industries as major home appliances, forestry products, and organic foods. For example, Home Depot and Lowe's seek to purchase wood that has been certified by the Forest

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[78] ILO, 2019.
[79] Shell, 2022.
[80] Unilever, https://www.unilever.com/planet-and-society/equity-diversity-and-inclusion/gender-equality-and-womens-empowerment/
[81] GRI, https://www.globalreporting.org/about-gri/mission-history/
[82] GRI, https://www.globalreporting.org/standards/download-the-standards/
[83] GRI, https://www.globalreporting.org/media/11jdjwuu/brochure-global-standards-fund-2021.pdf
[84] KPMG, 2022.

Stewardship Council as meeting a list of ten environmental and social criteria, including maintenance of ecological functions and recognition of indigenous people's rights.[85]

Corporate decision makers typically focus on the demands of shareholders and fail to consider the impacts of their decisions on other affected groups. These **stakeholders** include all parties who are impacted by corporate decisions, including consumers, workers, suppliers, creditors, those living near production facilities, and people of the future who will be affected by environmental and other impacts. Consumers, non-governmental organizations, and other stakeholders can make their preferences known through boycotts and protests. Consumer boycotts and public information campaigns have been instrumental in leading to corporate change in some instances, such as the packaging used by McDonald's and the fishing techniques used to harvest tuna.

The unfavorable media attention arising from consumer boycotts can lead to reduced sales and profits:

> Citizen attacks on corporations have been surprisingly effective, and many executives have seen how stonewalling and defensiveness have boomeranged. In some cases, the criticism intensifies, with the potential to damage brand images and sales, undermine companies' standing with regulators and politicians, and, ultimately, whack a company's stock price.[86]

Another way that stakeholders can influence corporations is through their investment decisions. Increased transparency on environmental and social issues allows investors to seek out corporations that behave in a socially responsible manner or screen out corporations based on certain criteria. Global investments in ESG (environmental, social, and governance) funds surpassed $2.5 trillion in 2023, concentrated in Europe (with over 80 percent of ESG investments). About 90 percent of investors consider ESG funds as part of their investment strategy.[87]

Another potentially important investment trend is the growing concentration of corporate stock held by institutional owners, including mutual funds and pension plans. In the early 1970s, individuals owned 75 percent of corporate stock in the United States. By 2020, institutions owned about 80 percent of the stock value of the 500 largest U.S. corporations.[88] The increase in institutional ownership provides an opportunity for organized and effective influence in matters of corporate governance. About one-third of institutional investors consider ESG issues in their investment decisions.[89]

Corporate shareholders, including institutions and individuals, can encourage corporate responsibility by forcing votes on shareholder resolutions. While most shareholder

[85] Northwest Natural Resource Group, https://www.nnrg.org/our-services/get-certified/fsc/
[86] Business Week, 2000.
[87] Baker, 2023.
[88] Greenspoon, 2019.
[89] USSIF, https://www.ussif.org/sribasics

resolutions on ESG issues have not been successful,[90] a few recent successes show the significant potential for future resolutions. For example, in 2021 61 percent of Chevron shareholders voted in favor of a resolution to force the company to reduce its carbon emissions.[91] Also in 2021, an ESG hedge fund successfully replaced two of Exxon Mobil's board members with its own nominees favoring more action on climate change.[92]

Another way a corporation can align with a triple-bottom line ethos is to obtain certification as a **B corporation**, which requires meeting a set of independent standards established by the nonprofit company B Lab. These standards define "the social, environmental, and governance best practices for businesses."[93] As of 2023, there are approximately 5,700 companies in more than 80 countries that have been certified as B corporations, including Ben & Jerry's, Patagonia, and The Body Shop. While B corporation certification provides no legal or tax benefits, it can bring increased brand recognition and confirm a company's commitment to a triple-bottom line. While research on the economic performance of B corporations is limited, the evidence so far is mixed. For example, a 2021 journal article finds that B corporations experience an increase in sales after certification in the short term, but more sales volatility over the long run.[94]

5.3. Regulatory Reform of Large Corporations

It is unlikely that MNCs will fully align their behavior with the broader social and environmental goals of society solely through voluntary measures and stakeholder demands. While direct action by consumers and investors has initiated some corporate reforms, it is ultimately the task of governments to set the legal boundaries for corporate behavior.

Several reforms could be instituted at the national level to better align corporate behavior with social well-being. Corporate taxation can be viewed as a way to collect fees from corporations to finance public services and as compensation for external costs imposed on society. As mentioned previously, corporate tax rates have been declining globally and existing loopholes in national tax policies allow some corporations to achieve very low, even negative, rates of taxation on profits. Some proposed reforms that could be enacted in the U.S. include:

> focusing on the long list of corporate tax breaks, or as they are officially called, 'corporate tax expenditures' … They could rethink the way the corporate income tax currently treats stock options. They could adopt restrictions on abusive corporate tax sheltering … They could reform the way multinational corporations allocate their profits between the United States and foreign countries, so that U.S.

[90] Shareholders receive one vote per stock owned. A resolution needs more than 50 percent of the votes to pass.
[91] Anonymous, 2021.
[92] Hiller and Herbst-Bayless, 2021.
[93] https://www.bcorporation.net/en-us/standards/.
[94] Patel and Dahlin, 2021.

> taxable profits are not artificially shifted offshore. In short, the corporate income tax code is overdue for a deep examination of how we tax, or fail to tax, our major corporations.[95]

Enforcement of antitrust laws is an obvious means to limit the power of large corporations that obtain excessive or monopoly power. Enforcement of antitrust laws in the United States has declined since the 1960s, which can be considered both a signal and a cause of increasing corporate power. According to a 2022 paper, the declining enforcement of antitrust laws in the U.S. has not reflected public preferences but is primarily a consequence of lobbying and other political efforts by large corporations.[96] A return to more rigorous enforcement of antitrust laws could be used to increase competition in industries with high concentration ratios. Greater scrutiny of proposed mergers is another measure for preventing the concentration of market power.

Campaign finance reform could limit the power of corporations in the political arena. In the U.S., in 2023 Congressional Democrats introduced a constitutional amendment that would reverse the *Citizens United* ruling, but with virtually no chance of approval (see Box 1). Campaign finance reforms to limit corporate influence have been instituted by some U.S. states, particularly in Arizona and Maine. In both states, candidates for statewide offices who agree not to take contributions from large and corporate donors, and who also raise a minimum number of small ($5) donations prior to the general election, are eligible for public campaign funds (the amount of funding depends on the office).[97,98] Candidates who forego public funding are, however, still eligible to receive corporate donations. In Maine, about 55 percent of the candidates for statewide offices in 2020 receive public funding, but in the 2000s larger majorities (around 80 percent) were publicly funded.[99]

Several countries ban corporate donations to political parties and/or candidates. In Europe, Belgium, France, Greece, Poland, and several other countries ban corporate donations to both political parties and candidates.[100] Germany and Spain ban corporate donations to political parties but not candidates. Examples of countries where corporate donations to candidates are banned, but not to political parties, include Guatemala, Japan, Romania, and South Africa. As a result of various corporate corruption scandals in Brazil, the country's Supreme Federal Court ruled in 2015 that corporate donations to political parties and candidates were unconstitutional. However, the prohibition hasn't necessarily reduced the influence of corporate interests:

> If the objective of the 2015 electoral reform was to reduce the influence of economic power, then banning corporate donations didn't work. As the law allows

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[95] McIntyre and Nguyen, 2004, p. 15
[96] Lancieri *et al*., 2022.
[97] Arizona Citizen's Clean Election Guide, https://storageccec.blob.core.usgovcloudapi.net/public/docs/713-Candidate-Guide-2022_fullguide.pdf
[98] Maine Clean Election Act, https://www.maine.gov/ethics/candidates/maine-clean-election-act
[99] Maine Clean Election Act Overview 2004 – 2020, https://www.maine.gov/ethics/sites/maine.gov.ethics/files/inline-files/2020%20Maine%20Clean%20Election%20Act%20Overview.pdf
[100] Institute for Democracy and Electoral Assistance, Political Finance Database

> individuals to donate a limit of 10% of their income, people who have more money are allowed to donate (much) more and exert inflated influence on the election process.[101]

National regulations can stipulate that stakeholders need to be formally integrated into the decision-making process of corporations. One movement that has met with some success is increasing the role of labor in corporate decisions. In Germany, as well as other European countries, **works councils** are elected to:

> institutionalize worker rights to information and consultation on the organization of production and, in some cases, codetermination of decision making. In addition to institutionalizing worker input, works councils also enforce state regulation of the workplace in such areas as occupational health and safety. They are seen as being able to extend their reach beyond the unionized sector while supplementing the work that unions already do.[102]

Other proposals for corporate restructuring are more radical. As corporate behavior has broad impacts on a community, some theorists argue that the broader community needs to be explicitly brought into the management process of corporations. Modest proposals would require a community representative or other external voice on the board of corporations. More ambitious proposals would transfer varying degrees of ownership to the community or seek to reestablish large corporations as entities that are specifically chartered to provide for the overall welfare of society.

As corporations increasingly operate in a global market that transcends national boundaries, the possibility of using their mobility to avoid national regulation increases. Thus, the regulation of MNCs may need to be approached at the international level through treaties, international institutions, and the coordination of national policies:

> … there is no world government with enforceable laws for markets. Hence international agreements are needed to develop civil governance.[103]

For all practical purposes international institutions to enact and enforce corporate regulations are currently non-existent. Fortunately, an effective global corporate regulatory system does not necessarily require international rules and oversight. Distinct national approaches can be effective if structured within a flexible and enforceable international framework. Consider the current variability of national tax policies. International competitiveness for corporate investment can lead to inefficient corporate behavior as firms spend resources to shift income across national boundaries to lower their taxes (see Box 2). There could be significant public benefit if nations could agree to set tax policies that are similar enough to discourage corporate mobility that has no productive purpose. One current effort is to set a global minimum corporate tax rate of 15 percent. For more on this proposal, see Box 4.

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[101] Benjamin and Caruso, 2016.
[102] Gallagher, 1998, p. 220
[103] Bruyn, 2000, p. 200

BOX 4. A GLOBAL MINIMUM CORPORATE TAX

In October 2021, 136 countries agreed to a plan drafted by the Organisation for Economic Co-operation and Development (OECD) to institute a global minimum corporate tax rate of 15 percent. The proposal "seeks to respond to continued concerns regarding profit shifting, harmful tax competition, and a damaging 'race-to-the-bottom' on corporate tax rates."[104] Companies with foreign profits taxed at less than 15 percent in those jurisdictions would be required to "top up" their taxes in their home country.

The OECD's guidelines provide a template that individual countries can use to enact domestic legislation approving the minimum tax. As of 2023, more than 40 countries are moving ahead with plans to implement the tax.[105] All 27 members of the European Union have agreed to start applying provisions of the plan in 2024. In the EU, the minimum tax rate will apply to large MNCs with annual revenues in excess of €750 million (about $820 million). The United Kingdom and South Korea are also implementing the plan starting in 2024. The United Arab Emirates has stated their intention to participate, but with an exemption for extractive industries. In Switzerland, the proposal was put to a national referendum in June 2023, with nearly 80 percent of voters approving it.[106]

In the United States, the 2022 Inflation Reduction Act imposes a 15 percent minimum corporate tax rate on companies with at least $1 billion in annual revenues. The tax is expected to raise about $250 billion in additional government revenues over 10 years, with about 30 percent of Fortune 500 companies paying the minimum tax.[107] However, full implementation of the plan requires tax law changes that have yet to be approved by the U.S. Congress. Congressional Republicans are opposed to those changes, claiming that they will "undermine U.S. sovereignty to enact its own tax policy and vault foreign countries ahead."[108] But analysis by the nonpartisan Joint Committee on Taxation (JCT) estimates that if the rest of the world implements a global minimum tax in 2025 while the United States does not, then the government will lose $122 billion in revenues over 10 years.[109] The JCT analysis notes that the U.S. could still see a net loss of tax revenues with full implementation of the plan, about $57 billion, as U.S. companies claim tax credits for taxes they pay elsewhere. Both sides of the debate question the assumptions underlying the JCT analysis, but the OECD's intention was not necessarily to boost the tax revenues of any particular country but to raise more taxes overall by reducing tax avoidance.

International trade agreements are another way to regulate MNCs at a supranational level. The key to international trade agreements that reduce corporate externalities is that all stakeholders be represented. Progress is slowly being made to include non-corporate

[104] OECD, 2022b, p. 6.
[105] Mehboob, 2023.
[106] Illien, 2023.
[107] Congressional Research Service, 2022.
[108] Weil, 2023.
[109] Joint Committee on Taxation, 2023.

interests in international trade negotiations and advisory committees. However, a look at the composition of trade advisory committees in the United States reveals a striking imbalance. Of the 428 trade advisors to the United States in 2023, 84 percent represent business interests (either corporations, including Amazon, FedEx, and Johnson & Johnson, or trade associations). Only 29 advisors represent labor interests and 11 represent nonprofits.[110]

The prospect for international trade agreements that direct corporations to incorporate social and environmental objectives rests on the issues of accountability and transparency. Unfortunately, international trade policy is currently conducted under circumstances that are deficient on both counts. Trade representatives are appointed, not elected, and the meetings of the World Trade Organization (WTO), the primary international trade agency, are conducted behind closed doors.

6. CONCLUSION

The economic significance of multinational corporations has been illustrated in several ways. Corporate power generally seems to be increasing when measured according to firms' ability to weaken labor unions, increase their price markups, lower their taxes, and impose external costs upon society. While economies of scale and scope have contributed to the growth of MNCs, the dominant characteristic of modern MNCs is their transnational mobility in seeking low-cost production opportunities.

MNCs wield significant political power but precise measurement of this power remains elusive. Corporate power appears particularly evident in the United States, where most industries are becoming more concentrated. Corporate lobbying in the U.S. was particularly enhanced by the Supreme Court's 2010 *Citizens United* ruling, which allowed corporations to channel unlimited funds for political purposes.

Pressure from a number of directions is pushing MNCs to become more transparent and accountable regarding their social and environmental impacts, but much more needs to be done. Assuring that the objectives of MNCs converge with the broader goals of society is unlikely to be accomplished by voluntary reforms or consumer pressure. While national regulations such as antitrust enforcement can be effective, the transnational mobility of MNCs implies that international action is required. One promising development is the recent effort to impose a global minimum corporate tax rate of 15 percent. If this plan is widely adopted and successful, it could signal a shift in the balance of power away from large corporations in favor of broader social goals.

[110] Dayen, 2023.

7. KEY TERMS AND CONCEPTS

antitrust laws: legislation to control the market power of corporations

B corporation: a company that has been certified by the nonprofit B Lab as meeting social, environmental, and governance best practices for businesses.

conglomerate: a firm involved in the production of many unrelated goods and services

deregulation: the removal of government controls from an industry; intended to increase competition

division of labor: the separation of a production process into many individual tasks with each worker performing the same task repeatedly

economies of scale: the per-unit costs of production decrease as the overall scale of production increases

economies of scope: the per-unit costs of production decrease as a firm produces a broader range of goods and services

effective tax rates: total taxes paid as a percentage of total income or profits. Due to deductions and exemptions, effective tax rates tend to be lower than statutory tax rates.

externalities: costs of an economic activity that are borne by persons, or entities such as the environment, that are not among the economic actors directly responsible for the activity

Global Reporting Initiative: an attempt to develop and promote a standardized approach for corporations to report on their economic, environmental, and social activities and impacts

gross world product (GWP): global economic production, measured as the sum of each country's gross domestic product (GDP).

industry concentration ratios: the amount of domestic receipts of the largest firms in an industry as a percentage of national industry receipts

Keynesian economics: an approach to economic policy, developed by John Maynard Keynes, that often concludes that government policies can affect the macroeconomic variables in a national economy

labor union: an organization formed by workers in order to advance common interests, such as higher wages and stronger workers' rights

lobbying: attempts to legally influence political decisions through communication with politicians and other government employees.

market capitalization: the stock value of a company; equal to its stock price per share multiplied by the number of shares

minimum efficient scale: the smallest level of production at which the per-unit long-run production costs of a firm reach their lowest level

multinational corporations: firms that own and operates subsidiaries in more than one country

oligopoly: an industry dominated by a few, interdependent firms

outsourcing: when a corporation contracts to other, often foreign, businesses for production, marketing, distribution, or other goods or services

perfect competition: an industry composed of many price-taking firms that each set quantity but cannot influence the industry price

price markup: the difference between a product's selling price and its production cost, expressed as a ratio

stakeholders: individuals or groups affected by the actions of an economic entity, such as a corporation, who are not direct owners of the entity

statutory tax rates: the tax rates set by government agencies, as a percent of taxable income or profits

triple bottom line: the perspective that a firm should measure performance along three axes: financial, environmental, and social.

value added: a measure of the true economic contribution of a firm; calculated as a firm's revenues minus the cost of inputs.

Washington consensus: the broad general agreement between international economic institutions such as the World Bank and the International Monetary Fund, to seek economic development through liberalization policies such as reduced trade barriers, lower taxes, increased capital flows, and fiscal restraint by governments.

works councils: an institutional arrangement, primarily found in Europe, whereby workers are formally integrated into the decision-making process of a firm

8. DISCUSSION QUESTIONS

1. Discuss the impact of large corporations on your life. What benefits do you obtain from large corporations? What negative impacts do large corporations have on your life? Overall, would you say that large corporations have a net positive or negative impact on your life? Why?

2. How would your answer to Question #1 change if you were a 16-year old woman making Nike shoes at a factory in Indonesia? What if you were the owner of a small neighborhood hardware store?

3. Do you feel that large multinational corporations are subject to competition? Would you say that a multinational corporation is subject to more or less competition than a local retail store? Why?

4. After reading the section on the history of large corporations, do you believe that corporate charters should be subject to revocation if they fail to operate in the public interest? Why or why not? Consider who would be affected if a corporation's charter was revoked.

5. As discussed in this module, the scale of large multinational corporations are sometimes compared to national economies. How are corporations similar to national economies? How are they different? Contrast the decision-making process in a national and business economy.

6. Suppose the industry concentration ratio is increasing for a particular industry, say credit cards. How would you expect the credit card industry to change if the concentration ratio increased? What would you expect to happen to the interest rate on credit cards? Do you think it would be easier or harder to get a credit card if you have bad credit?

7. Do you believe that changes in the operations of large corporations are more likely to occur because of government regulation or changes in consumer behavior? Why?

8. Do you believe that the general public is entitled to a role in the management of large corporations? Why or why not? Further, do you believe the general public is entitled to ownership rights in large corporations? Why or why not?

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