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John Kenneth Galbraith and the Multinational Corporation

Stephen Dunn

Increasingly, economists are concerned with the power and efficiency of the modern corporation. Many theories, largely based in neoclassical economics, have been advanced to explain the large corporation and the role of management. But the author notes that the theories of John Kenneth Galbraith, though eclipsed, deserve to be rehabilitated. He summarizes these contributions and emphasizes Galbraith's work on the multinational corporation to show its relevance to the globalization debate.

> *The planning system sustains a sizeable priestly class which, for modest compensation, is available for industry meetings, customer and investor indoctrination, sales conventions, executive seminars and other corporate rites, where it combines a slightly extravagant didactic skill with a superficial aspect of deep thought. In recent times the favoured topic of all such artisans has been the deeper*

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> *meaning of the multinational corporation. They picture the multinational corporation—IBM, General Motors, Nestlé—as a major discontinuity in the general process of economic development, something very different that, depending on the preference of the speaker and the need of the audience, is fraught with breathtaking potential for good or, more often, for evil. Standing astride of international boundaries, it is an assault on political sovereignty. Perhaps it is making obsolete the national state. And, since many of the corporations are American in origin, it is singularly a manifestation of American energy, enterprise and power.*
>
> —John Kenneth Galbraith, *Economics and the Public Purpose*

When theorists of the firm contemplate the multinational enterprise, generally speaking they draw upon a variety of existing theories, including monopoly economics, transaction costs, and other views. What is typically overlooked, however, is the fact that John Kenneth Galbraith, notably in his work *The New Industrial State* (1967) but also in a variety of other writings, advanced a distinctive and innovative contribution to the theory of the firm that predates and anticipates elements of these approaches. Moreover, this vision was subsequently extended to advance a *distinctive* view of the multinational corporation that is embedded in the recognition that international production and trade takes place in uncertain, historical time and is coordinated across national boundaries. All theorists of the multinational enterprise seemingly overlook this fact.

This article focuses on Galbraith's neglected contribution to the theory of the multinational enterprise. We proceed by first reconsidering his neglected contribution to the theory of the firm. This step facilitates a more detailed examination of Galbraith's theoretical discussion of the multinational enterprise, which can be viewed as a development of his broader contribution. We pay particular attention to Galbraith's discussion of how the multinational firm deals with uncertainty, especially with regard to its transnational activities and boundaries. We conclude by suggesting that Galbraith's contribution has much prima facie contemporary relevance and should be subject to renewed attention and development.

Galbraith, Uncertainty, and the Modern Corporation

A large part of Galbraith's professional career has been devoted to examining modern industrial society and the large firms that dominate it (for an elaboration, see Dunn 2001b). However, although many theorists (Coase 1937; Penrose 1959; Richardson 1960, 1972; Hymer 1970, 1976) have seen a resurgence of interest in their respective theories of the firm, Galbraith's contribution is hardly mentioned. This neglect typically occurs because Galbraith is traditionally seen as a populist variant of the more rigorous managerial theories of the firm, who sought to tease out and blend such approaches in order to bring into view the ramifications for industrial society. He is widely viewed as an enterprising, yet vulgar, synthesizer and system builder, and one who should certainly not be taken seriously as an original theorist. The cumulative effect of such factors has been that Galbraith's vision of the modern corporation has not attracted the attention of contemporary theorists of the firm. This neglect should not be tolerated any longer.

Galbraith's core contention is that the imperatives and nature of advanced technology necessitate organization. Modern technology inevitably calls for detailed specialized knowledge, effective group decision-making, and large capital commitments to be conducted and coordinated in terms of money-denominated contracts over long periods of time. And it is "the increased use of technology and the accompanying commitment of time and capital . . . [that force] extensive planning on all industrial communities" (Galbraith 1967, 41). Planning enables the mitigation of the impact of unforeseen events and the successful organization of production. Planning is an inescapable consequence of advanced technology and the extended, highly specialized, division of labor that is called forth to manage it. Modern technology requires extensive planning because such large investments of time, money, specialized knowledge, and organization cannot be left to whim, chance, and the vagaries of the market.[1] The costs of failure are great and must be avoided. Avoiding failure means avoiding the hazards and uncertainties associated with trade (see Ciscel

1984). Modern technology requires highly specialized investment in capital and labor over a long period of time.

According to Galbraith, the nature of modern technology requires detailed technical knowledge, a range of problem-solving talents, extensive planning, and ultimately its effective coordination. Moreover, it is the firm's strategic decision-makers, whom Galbraith locates within a class of business specialists, who are involved and responsible for such investments and are of necessity highly committed to ensuring its success. Galbraith refers to such groups of lawyers, accountants, technical specialists, strategic planners, and so on who possess the requisite knowledge of the production process as the "technostructure." Accordingly, it is the knowledge embedded in the planning routines of the organization, and not specific atomized, entrepreneurial individuals, to which power has passed. The technostructure embodies technical expertise, seasoned experience, tacit knowledge, and intuition and finds expression within a highly interdependent and organic social process. Such group decision-making represents a sensible response to complex, uncertain processes allowing the pooling and probing of specialist tacit knowledge and informational asymmetries.

The view of the firm that emerges from Galbraith is one of a strategic planning organization that coordinates production and shelters it from the inherent uncertainties that are endemic to the market. Planning in the Galbraithian system, which embodies both conscious decision and human agency, represents an important means of allocating resources that *replaces* the market. Planning, unlike in the more orthodox conceptualizations of the firm, entails not just coordination; it is also about preparing for unforeseen events. It is a portmanteau concept:

> planning consists in foreseeing the actions required between the initiation of production and its completion and preparing for the accomplishment of these actions. And it consists also of foreseeing, and having a design for meeting, any unscheduled developments, favourable or otherwise, that may occur along the way . . . it [also] consists of replacing prices and the market as the mechanism for determining what will

> be produced, with an authoritative determination of what will be produced and consumed and at what price. (Galbraith 1967, 43)

Planning and the organization of production are linked in essence due to the unreliable nature of the market system and the complex, uncertain nature of modern technology. If the uncertainties that surround large commitments of time and money are to be mitigated, the firm must either supersede the market or subordinate it to the requirements of planning: "So the firm controls the prices at which it buys materials, components and talent and takes steps to ensure that the public, other producers or the state take the planned quantities at these prices" (1967, 122). In the Galbraithian view, the firm emerges in response to the increasingly treacherous and uncertain nature of markets. Rather than viewing the firm as resulting from a purely *instrumental* choice of economizing on transaction costs between alternative modes of contracting, the corporation is a strategic "institution" for coping with, or getting rid of, market uncertainties. Moreover, the size of the modern corporation impinges on the ability of the technostructure to engage in more effective planning and to cope with, and assimilate, uncertainty. The larger the firm is, the more likelihood that it can mold and absorb future unanticipated events. This, according to Galbraith, is a primary reason explaining the observed growth of the large firm—to emancipate it from the uncertainties of the market.

Galbraith then proceeds to outline five main generic strategies that are utilized by the technostructure for dealing with the uncertainties that surround the market process. The firm can either ignore market uncertainty or absorb it via diversification and agglomeration, or, more typically, it can mitigate the impact of the market, by superseding it, controlling it, or suspending it via a network of contracts. We elaborate each of these strategies in turn below.

First, if an item is relatively unimportant in terms of the production process, a firm may disregard the market uncertainties that surround its price, availability, and quality. Clearly General Motors has little need to control the supply of paper clips to its vast organization. In relation to its total activity, its expenditure upon paper clips is small, and their importance in the production of cars is peripheral. General Motors can ignore any uncertainties that surround the supply of paper clips. Another approach to market uncertainty is to absorb the uncertainty that cannot be ignored by combining size with diversification (cf. Wolf 1977; Kashlak and Joshi 1994). Producing for several different unrelated markets allows the uncertainties associated with any one particular market to be spread across several markets.[2]

The more common strategies, however, for dealing with the uncertainties of the market concern its replacement, control, or suspension. For example, the principal strategy for replacing the market relates to what is typically referred to as horizontal and vertical integration. Horizontally integrating allows the firm to reduce the amount of price competition that it is subject to and facilitates detailed planning—"unless a firm has a substantial share of the market it has no strong incentive to undertake a large expenditure on development" (Galbraith 1952, 92). Similarly, placing successive stages of production and distribution under the authoritative determination of one center of control enables the modern corporation to appropriate the profit margin of intermediaries and to secure the sources of supply. As Galbraith argues, the "planning unit takes over the source of supply or the outlet: a transaction that is subject to bargaining over prices and amounts is thus replaced with a transfer within the planning unit. . . . To have control of supply—to not rely on the market but on its own sources of supply—is an elementary safeguard" (Galbraith 1967, 45–46). This statement clearly predates and anticipates Williamson's (1975, 1985, 1996) discussion of the motivations of vertical integration. However, Galbraith proceeds to link this to the mitigation of the uncertainties that surround transactions as opposed to the economization of the costs of governance. Vertical integration "does not eliminate market uncertainty; rather the large and unmanageable uncertainty as to the price of ore or crude is replaced by the smaller, more diffuse and more manageable uncertainties as to the cost of labour, drilling, ore transport and yet more remote raw materials" (Galbraith 1967, 44–45).

In short, vertical integration represents a means to mitigate uncertainty. The "elimination of the market converts an external negotiation and hence a partially or wholly uncontrollable decision to a matter for purely internal decision. *Nothing . . . better explains modern industrial policy in regard to capital and labour than the desire to make these highly strategic cost factors subject to purely internal decision*" (emphasis added) (1967, 55).[3] For example, the large capital commitments necessitated by modern technology must not be subject to the vagaries of the market and must be protected from outside interference by the use of retained earnings. With the firm less dependent upon the capital markets for funds, its investment activity is likely to be relatively uninfluenced by the market rate of interest.

Obtaining the control of markets represents a fourth route for mitigating uncertainty. This involves, for example, the large firm attempting to manage the consumption of its products at the prices that it controls—part of what Galbraith refers to as *the revised sequence.* This

> need to manage consumer behaviour . . . arises from the circumstances of modern industrial life—sophisticated technology, large commitments of capital, long term planning in product development and production and, in consequence, large, *inflexible* and *vulnerable* organisation. These lead, in turn to the need to control as many as possible of the parameters (costs, prices, demand costs and risks of technical innovation) within which the firm operates. (Galbraith 1970, 58; emphasis added)

The firm must ensure that what is produced is bought, and to this end it must manipulate the desires and wants of the consumer. If the large capital outlays on the advanced technologies are to be recouped, the response of the consumer must be managed. This viewpoint explains the growth in expenditure upon advertising: "to ensure that people buy what is produced—that plans as to the amounts to be sold at the controlled prices are fulfilled in practice" (Galbraith 1967, 208).

The fifth strategy for coping with uncertainty concerns the use of long-term, money-denominated contracts. While vertical integration offers the prospect of controlling the price and supply of strategic factors, so too does the contract. The firm can enter into large, long-term contracts as a strategic response to uncertainty. Contracts and their enforceability are a major source of stability and security for the modern corporation. The nexus of money-denominated contracts occupies a pivotal role in protecting the prices and costs and safeguarding the sales and supplies at these prices and costs. As production takes *time and planning,* money-denominated contracts represent the means by which uncertainties about the future may be mitigated. A large and extensive web of money-denominated contracts, cascaded hierarchically downward, greatly facilitates the future planning and stability necessitated by advanced technology (cf. Cowling and Sugden 1998). To quote Galbraith at length:

> The contract can be thought of as extending the security which the large . . . firm has in its own markets . . . throughout the planning system, and to the common advantage of all concerned. . . . [The large firm] enters into contracts with suppliers and they in turn with their supplies extending down through many layers of sub-contracts. These sub-contracts assure the prime contractor on prices and supply. At the same time they give the subcontractor similar assurance on his price and sales; they allow him to make commitments and otherwise undertake the planning requisite to fulfilling his contract. . . . [T]he more technical the process and product, the longer the period between the original decision to produce and the emergence of the final product in remunerative quantity. And also the more technical the product, the more unlikely that the market can supply either the components, materials or labour that goes into its manufacture. With advancing technology, therefore, contracts increase in importance both for according protection over the longer period between initial decision and pay-off and for ensuring the planning that will, in turn, ensure that needed materials, components and manpower are available when needed.[4] (1973, 141–42)

Thus, according to Galbraith, the problems of market uncertainty can either be ignored or absorbed via diversification, or the firm can replace, control, or suspend the market. Such strategies all "require that the market be replaced by an authoritative determination of price and the amounts to be sold or bought at these prices" (Galbraith 1967, 45; cf. Coase 1937). It should also be clear that the different strategies available for the mitigation of uncertainty are inextricably bound up with size. "The large organization can tolerate market uncertainty as a smaller firm cannot. It can contract out of it as the smaller firm cannot. Vertical integration, the control of prices and consumer demand and reciprocal absorption of market uncertainty by contracts between firms all favour the large firm" (1967, 49).

The Galbraithian Theory of the Multinational Enterprise

While it is surprising that Galbraith's distinctive contribution to the theory of the firm has been neglected, it is perhaps more understandable, although no less tolerable, that his view of the multinational corporation has also slipped from view.[5] The multinational corporation does not appear in Galbraith's major treatise on the modern corporation, *The New Industrial State* (1967), nor in his two books on economic development. As John Adams (1984) notes, the prominence given to issues regarding the multinational corporation, international trade, and economic development is minimal in comparison to his more general discussion of the nexus between the large modern corporation and the increasing "affluence" of advanced industrial societies. Moreover, when it does finally appear (Galbraith 1973, 138–49, 180–94, 277; 1974, 100; 1977, 17–19; 1978; 1987, 160, 294–97; 1994, 166–68, 179), it does so fleetingly and is perhaps submerged from general view.[6] Such considerations notwithstanding, it is possible to discern a distinctive approach to the transnational corporation that is embedded in his more general view of the firm outlined above.

Many theorists of the multinational enterprise start from the recognition that there are distinct and potentially prohibitive costs and major uncertainties that arise when strategic decision-makers contemplate engaging in business and organizing production in another country. When languages, customs, social networks, business conventions, and legal frameworks, among other things, differ, the costs of operating in a foreign country are likely to be substantial. It is for such reasons that J.-F. Hennart suggests that "it is difficult to understand why firms based in one country would be exploiting their advantages by undertaking production in another country. Why not sell or rent these advantages to local entrepreneurs, who could then combine them with local factors of production at lower costs than those experienced by foreign direct investors?" (1991, 82). However, while contemporary theorists of the multinational enterprise proceed to answer this question in a variety of ways,[7] Galbraith advances a strategic view of the multinational corporation that emerges in response to the particular uncertainties of international production and trade.[8] While, like the literature on the multinational enterprise more widely, Galbraith starts from the premise that traditional neoclassical microeconomics has difficulty in explaining the existence, role, and boundaries of the multinational firm, his locus is different. Rather, Galbraith focuses on how the firm adapts to the numerous uncertainties that pertain to international trade and production:

> Old-fashioned international trade, as still described with intricacy and sophistication by the neo-classical model, is a system of exchange in which the market remains peculiarly powerful. The firm that engages in such trade is wholly subordinate to an impersonally determined demand and price. The market control by the firm being non-existent, the uncertainty and risk of international trade is exceptionally high. Specifically a firm in one country consigns its product, usually through intermediaries, for sale in another country. On leaving the country of origin, the product leaves entirely the influence of the original producer. The latter retains no power over the price at which the product is sold; he is not imagined to influence the preferences of the foreign consumer. The price of the product is subject to the competitive and uncontrolled consequences of domestic production in the country in which it is sold and of competitive imports from other foreign sources. Tariff changes in the recipient country and fluctuations in exchange rates add further uncertainty—both peculiar to foreign trade. If the firm is buying rather than selling—procuring, for example, an important raw material—classical international trade theory depicts a similar uncertainty. Changing costs of supply, changes in the competitive demand from other countries, changes in exchange rates and (on occasion) changes in export taxes are added hazards. In this procurement the firm is also subject to the sole authority of the market. (Galbraith 1973, 181)

The nature and extent of a firm's multinational activities, like the domestic firm more generally, are conditioned by the protective need to safeguard the enormous commitments of time and capital from the potentially ravaging and uncertain nature of international competition and to reflect the affirmative objectives of the strategic decision-makers, i.e., such as extending their influence and dominance. However, in contrast to some explanations of the multinational enterprise, which focus almost exclusively on vertical relations and specialized assets, Galbraith provides a richer discussion that provides for the fact that the majority of multinational growth involves the transfer of intangible assets such as the technostructure's technical and marketing "know-how" into foreign locations (cf. Kay 1997). The multinational can reproduce and transfer the associated technology, planning routines, and tacit knowledge of the incumbent technostructures to foreign countries in the affirmative and protective pursuit of competitive advantage in a world of uncertainty (Galbraith 1978, 58–62; cf. Buckley and Casson 1976, 36–59; Peteraf 1993).[9]

And it is no coincidence that the multinational firm is large and powerful. Size clearly facilitates the mitigation of peculiar uncertainties associated with international trade. As Thomas Horst (1972) has pointed out, it is the firms that have become dominant in domestic markets that proceed to internationalize. Indeed, numerous empirical studies have found that larger firms are more likely to become multinationals (although it can be conceded that size may be acting as a composite variable for other influences). In the Galbraithian vision outlined above, not only is size in itself important (especially as it impinges on the power of the firm), it may also be acting as a proxy for the nature of the uncertainties that the corporation perceives. "Transnational operations require organization; they become increasingly feasible the larger the firm. The large firm has or can obtain the financial resources to establish operations or acquire firms in other countries and the managers, scientists, engineers and other specialized talent to re-create itself abroad" (Galbraith 1973, 185). Both growth and its adjunct, size, are strategies whereby the transnational firm can mitigate the uncertainties of international production and trade.

From this perspective, a distinctive view of the multinational corporation comes into view—it is simply the accommodation and protection of the planning routines of the modern corporation to the peculiar uncertainties and needs of international trade. As Galbraith recognizes, "In addition to the uncertainties from buying and selling abroad, imports from other countries could prejudice or destroy control and resulting planning in the home country" (Galbraith 1973, 182). It is in response to such uncertainties that the multinational corporation emerges.

> [It] transcends the market internationally as it does nationally. It accomplishes over a world of multiple national sovereignties what it first accomplishes within any one. It minimises the need for tariffs, quotas and embargoes to reduce uncertainty in national markets. And, needless to say, it is not peculiarly American. It is the common accommodation of all non-socialist planning, whatever the country of origin, to the special problem of international trade. By re-creating itself in other countries the technostructure, in effect, follows its product to those countries. In so doing, it enters into the same understanding on prices with the other market participants in the foreign country that it has on its home turf. And the reciprocal movement of foreign firms into its own territory eliminates the hazards of price cutting and allows of the same control there. (1973, 182–183)

That is to say, by following its products abroad, the multinational corporation can initiate its various planning strategies, such as controlling or suspending or replacing the market, in foreign countries so as to mitigate the potentially damaging impact of international competition. "With the rise of the transnational system, capital, technology and qualified manpower are brought within the authority of a single organization. This authority extends across national frontiers. So does the ability to persuade customers and the community and to win needed support from the state. No such cosmic powers are available to the market system" (1973, 190). To produce at home and export to foreign markets is to expose the modern corporation to the whims of foreign consumers, lay itself open to domestic competition, subject it to the vagaries of different legal traditions, and court the vicissitudes of foreign governments. Locating abroad enables such hazards to be mitigated. In accompanying its "product to Germany, General Motors can bring its persuasion to bear on the German consumer. And it can press its needs on the German government. . . . And, by following its product to the United States, Volkswagen is able to influence the responses of American consumers. And it can protect itself and obtain its needs in Washington. None of this would be possible were products consigned through agents in the manner of classical international trade" (1973, 183).

However, the dynamics of transnationalism are not unidirectional. Anticipating the debate on outsourcing, Galbraith considers the other countervailing influence that also motivates the transnational operations of the modern corporation—the potential or real threat of low-cost foreign competition. For example:

> In the past the United States had higher real wages than other countries but better technology and capital equipment. Of late, American civilian industries, formerly important in export or domestic markets, have been at a disadvantage in both quality of capital and wage levels in relation to Germany and Japan, where the military development has been much less. American corporations have responded in accordance with the preceding analysis; they have extensively developed lower-cost production abroad. This has enabled them to retain their position not only in overseas markets but in the United States as well. The eminence of the American corporation in transnational operations is a manifestation of both the high development of the American economy and of weaknesses that are associated with the particular form of that development. (1973, 186)

Thus, engaging in multinational activities limits the uncertainties associated with the possible entry of new firms into its operational domain. By operating in foreign countries, the multinational can attempt to circumvent the potentially damaging cost advantages that may give rise to the domestic entry of foreign competition and the associated uncertainties that impinge upon the processes of production, accumulation and organizational reproduction. As Galbraith notes:

> This is a matter of great and increasing importance—especially to the United States. Within the United States there is no great danger that one manufacturer of automobiles, television sets, transistor radios,

> tape recorders, typewriters or other such products will have an insurmountable cost advantage over its rivals in the same industry. Unions tend to be industry-wide; the productivity of workers and access to capital, technology, qualified manpower and materials, if not the same for all firms, are not permanently and unmanageably different. As between countries, however, this cannot be assumed. In comparison with the United States, labour costs in Japan or Germany may be durably lower, the productivity of labor may be permanently higher, capital costs may be lower and there may be continuing differences in the costs of other requisites of production. In consequence the costs of German or Japanese products may be permanently much lower than their American counterparts. Given the foregoing differences—and given the reduced role of tariffs in the international planning system—the danger to the purely national corporation is evident. The oligopolistic convention under which prices are set serves well for firms that have roughly similar cost functions. But a foreign firm with sharply and durably lower costs might well insist on prices much below those that the domestic corporation finds advantageous. Movements in exchange rates, an occurrence of increasing frequency, add to the hazard. Both the protective and affirmative purposes of the corporation are thus in jeopardy. With transnational operations this danger is elided. The transnational corporation can produce or arrange production where costs are lowest. The advantage has been extensively and increasingly exploited, especially by American-based corporations, in recent years. Automobiles for all the major American producers are being built in Germany, England, Canada or Japan. Components for models being produced in the United States are assigned, routinely, to the lowest-cost foreign plant. (1973, 183–184)

As this long quotation highlights, it is perhaps prudent for the modern corporation to internalize the cost advantages available in a foreign country rather than leave the planning routines and large specific capital investments of a solely national organization exposed to challenge. “The threat of lowest-cost foreign production is thus effectively countered by being (or using) the lowest-cost foreign producer. In such fashion does the planning system transcend national boundaries and become transnational” (1973, 184).

Similarly, the nature of the multinational’s imperialistic tendencies, especially in the arena of manufacturing, can be understood as an attempt to mitigate the uncertainties that surround the acquisition of the requisite raw materials for the complex and extensive production processes that obtain with modern technology. "The corporation in the planning system, in pursuit of the protective purposes of the technostructure, seeks to secure its sources of important raw materials. This takes it into the less developed countries. And to a limited extent in the case of products such as gasoline, transistor radios and aspirin it finds markets in these countries" (1973, 187). Thus the appearance of the multinational in less-developed countries reflects the strategy of superseding the market with the planning structures associated with the strategic decision-makers; that is, it reflects a process of vertically integrating to mitigate the uncertainties that surround the obtaining of crucial raw materials.

However, while this process appears to parallel traditional explanations of the multinational organization, it nevertheless explicitly challenges the conventional view that expansion overseas into underdeveloped regions is primarily driven by the incessant need to search for new markets. Rather, from a Galbraithian perspective, the transnational system is a product of the affluent nexus: "the transnational system is primarily a relationship between the developed countries. It is here that the important markets exist; it is here, accordingly, that the protective equilibrium of the planning system must be established" (ibid.). The multinational corporation is neither an expression of modern imperialism nor an engine of economic development. Indeed, this insight explains why an extended discussion is not afforded to multinational corporation in Galbraith's (1962, 1979b) two main contributions to economic development. While the multinational enterprise may in some small way contribute to economic development, its primary preoccupation is with servicing the more established and rapidly advancing economies rather than the more underdeveloped and backward economies.[10]

Moreover, the adjunct of such discussions, common in many contemporary post-Seattle and Prague disquisitions on the future of the multinational system, conflate the notions of cultural imperialism with the nature of advanced development more broadly. Many commentators continue to confuse

> the cultural impact of the American corporation with that of the corporation in general. That the planning system, in pursuit of its purposes, has profound influence on the national community in which it operates we have seen. It conducts a powerful propaganda on behalf of its products. Thus it shapes attitudes on behalf of goods in general and makes these central to life. It imposes its intellectual discipline on those associated with its organizations. Its purposes and values become those of the community and the state. But this cultural effect is not peculiarly American. This is imagined only because so many of the multinational corporations have their origins in the United States. (Ibid.)

That is to say that one of the dominant characteristics across affluent societies is the homomorphism associated with the modern corporations' planning routines. Indeed, this characteristic explains why "hotels, automobiles, service stations, airlines are much alike not because they are American but because all are the products of great organizations" (1973, 188).

Perhaps one of the most salient strategies that forms part of the Galbraith vision of the multinational firm, however, is that which pertains to its political nexus to sovereign states. Frequently the multinational is viewed as a perfidious impediment to the democratic processes that should be unceremoniously rejected. Indeed, Galbraith cryptically remarked, paraphrasing Marx, that the modern state "is not the executive committee of the bourgeoisie, but it is more nearly the executive committee of the technostructure" (ibid.). However, while the wielding of power and invasive influence is recognized, the motivations, according to Galbraith, are less Machiavellian. That is to say, the attempt by the modern corporation to secure the requisite response from domestic and foreign governments form part of the wider process of mitigating the uncertainties that surround and impinge upon accumulation and production and the affirmative and protective goals of strategic decision-makers (cf. Porter 1990). Thus, although the multinational firm greatly impairs the sovereignty of national governments, it "is not because of its transnational character; it is because the impairment of sovereignty—the accommodation of the state to the purposes and needs of the corporate technostructure—is the very essence of the operations of the planning system" (ibid.). Indeed, much of the political discussion on the salience of the multinational misapprehends the nature of the planning process. For instance, the

> political case against the multinational firm regularly emphasises that its wage and price policies are determined in its home country. In consequence workers and consumers are subject to a foreign authority to which they have no access and over which they have no influence. This also misapprehends the reality. The multinational firm enters the country to become part of the wage- and price-making process of that country—to protect itself from the wage advantage of domestic producers or to be part of the price equilibrium that ensures it against disastrous price competition. (1973, 189)

Similarly, the institutions that govern international trade can be viewed as an attempted accommodation to the particular uncertainties of international trade.

> Since World War II, there has been a marked retreat from what was once called economic nationalism. The visible manifestation has been the General Agreement on Tariffs and Trade (GATT), the European Common Market (EEC), the European Free Trade Area (EFTA), the several efforts between trading countries to reduce tariffs, restrict the use of quotas and, hopefully, forestall competitive currency depreciation. These developments have been attributed to the increasing economic enlightenment of the industrially advanced countries. In fact a matter that will no longer have any large element of surprise—they reflect the needs of the planning systems of the participating countries. (1973, 189–190)

Hence the desire of the modern corporation to reduce tariffs, diminish quotas, mitigate extreme currency fluctuations, and engage in technology transfer and its manifestation in transnational political and economic institutions can all be viewed as part of the wider process of coordinating production and trade over national boundaries under conditions of uncertainty.

Concluding Comments

Galbraith advances a view of the multinational corporation that is a logical extension of the theoretical framework detailed in *The New Industrial State*. Otherwise, as Galbraith (1973, 182) recognizes, "all planning would have to stop at the water's edge. Firms might have the requisite domestic power. When they came to do business abroad, they would again be faced with all the uncertainties associated with the market system. To these would be added the extra uncertainties uniquely associated with international trade." The firm seeks to mitigate the uncertainties that threaten production and planning, including those associated with international trade.

Galbraith offers an approach to the multinational firm that links technology, asset specific capital, money contracts, power, and planning to the peculiar problems of uncertainty that beset international trade. Galbraith's discussion of the multinational firm emphasizes the strategic *coordinating* role of managers, interest groups, and other specialists within the firm, that is, the technostructure, and their associated need to plan in an uncertain environment.

Galbraith's view of the multinational corporation predates and anticipates aspects of the subsequent internalization arguments of Williamson (1975), Buckley and Casson (1976), and Hennart (1982). Indeed Galbraith (1973, 184–85) quotes with approval Hymer's (1970, 441) suggestion that "Multinational corporations are a substitute for the market as a method of organizing international exchange," noting that they are "islands of conscious power in an ocean of unconscious cooperation." However, and perhaps more importantly, Galbraith is aware that Hymer is paraphrasing D.H. Robertson's (1923, 85) earlier observation, and he argues saliently that "*Since it was made, the islands, it could be said, have become continents*" (Galbraith, 1973, 185, emphasis added; cf. Coase 1937; Richardson 1972). This idea intimates Galbraith's broader concern with an understanding of the role of power in society and its organizational nexus (Galbraith 1983).

The approach to the multinational firm outlined developed by Galbraith, however, should thus not be thought of as a variant of the transaction-cost–type story, such that the firm replaces the market on account of its capacity to minimize the uncertainties and thus the transaction costs that engulf markets. Rather, Galbraith's argument is the reverse, offering a view of the multinational enterprise that incorporates *both* power and efficiency considerations within a historical and evolutionary conception of economic processes. It thus represents an original attempt to integrate the study of uncertainty into the theory of the firm and provides a basis for further development. It integrates some of the more recent theoretical developments in the transaction-cost–, monopoly-, and resource-based approaches in a more general view of the multinational firm that acknowledges the role of power and efficiency considerations in affecting the activities and decision-making structures of the modern corporation.

The view of the transnational corporation developed by Galbraith exists in historical time and represents an *enduring* institutional response to an uncertain future specifically designed to mitigate its impact. This view also represents a salient contribution not least because transnational theorists of the firm typically do not contemplate the control of markets as a strategic response to the threat of uncertainty. Galbraith also presents us with a rich taxonomy that captures many of the salient strategies pursued by transnational firms to cope with uncertainty—and in doing so he anticipates many contemporary concerns that have been raised in the globalization debate. Galbraith offers a challenging perspective on such matters that differs markedly from that of the more dominant neoconservative and radical view. That there is a clear need for renewed attention to Galbraith's contribution to the theory of the firm and the multinational corporation should no longer be in question.

Notes

1. As argued in Dunn (2001b), Galbraith's discussion of the relationship between technology and organization clearly predates, and has many parallels with, Williamson's (1975, 1985, 1996) recognition of the importance of asset specificity in the study of organizations. According to Williamson, asset specificity is critical in that once an investment has been undertaken, the buyer and seller become locked

in a transaction for a considerable period, thereafter referred to as ex post bilateral dependence. Conversely Galbraith's argument is that the imperatives of modern technology and the associated commitments of time, capital, and specialized labor in an uncertain environment require that planning supersedes the market. "Planning exists because this (market) process has ceased to be reliable . . . (the firm) must replace the market with planning" (Galbraith 1967, 41). Galbraith moves beyond the limiting view of "in the beginning there were markets" toward a view that "in the beginning there was an absence of a need for extensive planning as technology was not that sophisticated!"

2. One should compare this discussion with Neil Kay's (2000) discussion of the resource-based view of the multinational enterprise and his rationalization of the strategy of diversification.

3. To this end, one can view the mechanization and routinization of the production process as further mitigating uncertainties that encompass production (see Galbraith 1967, 239).

4. Compare this quote with Cowling and Sugden (1998), who argue that part of the import of their definition of the firm is that a firm incorporates all market and nonmarket transactions coordinated from one center of strategic decision making, i.e., subcontracting relationships fall within the scope of a single firm. See Dunn (2001a, 2001c) for a further discussion.

5. In one sense an important exception is James K. Galbraith. Indeed, he noted that "the rise of international competition and the decline of the great American manufacturing corporation since 1967 are facts often cited by John Kenneth Galbraith's critics, who argue that they render the message of the New Industrial State obsolete" (Galbraith 1989, 231). However, while James Galbraith proceeds to refute such a view. In doing so, however, he fails to identify his father's broader theoretical contribution and perhaps unwittingly has contributed to the general neglect of his father's works!

6. Indeed, Galbraith must also bear some responsibility for this state of affairs. In one of his more prominent contributions on the transnational corporation in the *Harvard Business Review*, Galbraith (1978) ignores his earlier, more salient theoretical discussion in *Economics and the Public Purpose*, choosing instead to consider the pros and cons of the multinational enterprise largely drawing on the theoretical treatments of Vernon (1977) and Buckley and Casson (1976). Similarly, in the fourth edition of the *New Industrial State*, he concedes that he "did not see the development of the foreign, most notably the Japanese, competition to which [the corporation] would be subject. . . . No one can doubt that in our older industries this competition has substantially impaired the certainty and effectiveness of the planning process" (Galbraith 1967, xxxi–xxxii). Equally, *twenty years later*, in discussion of the *New Industrial State*, Galbraith remarked, "There have also been some important microeconomic developments that I did not foresee. In 1967, my view was, in some measure, of a closed American-dominated corporate structure extending its reach internationally by way of American multinational or transnational enterprises. I did not foresee the invasive thrust into this structure by Japan and other countries. This, to put it mildly, has introduced a new element, substantially beyond the influence and control of the firms of the corporate or planning system" (1988, 375).

Clearly, however, while the nature of international trade undermines the ability of the firm to successfully plan and control, it does not diminish its desire to do so. That is to say, it adds to the uncertainty that the firm faces and thus provides further impetus to the pursuit of a variety of strategies that Galbraith considers. It from this perspective, we would argue, that Galbraith's contribution and its continued relevance should be viewed.

7. Usually the answer is in terms of an imperfectionist account of the internalization of financial (the monopoly approach) or nonfinancial (the transaction cost approach) externalities, or in terms of a bundle of dedicated and productive resources (the emergent resource-based view).

8. That is to say, typically theorists of the multinational corporations explain the emergence of the firm by relaxing the patently unrealistic but "perfect" neoclassical core by drawing on the "imperfect" concepts such as bounded rationality, asset specificity, and opportunism, or highlighting structural "market imperfections" such as monopoly. However, as argued in more detail in Dunn (2000, 2001a), both the transaction cost and monopoly approaches implicitly rely on an ergodic conception of economic processes. And the import of this assumption is that these imperfections can be overcome in the (very) long run (defined as an asymptotic end-state of a process of learning). Conversely a Galbraithian-transmutable approach that exists in historical and uncertain, i.e., nonergodic time, is not an imperfectionist account, given that there is no preprogrammed omniscience against which configurations can be judged.

9. As Galbraith argues (1973, 185), "Not only is the multinational corporation a precise answer to need, it is an answer that greatly favours the most developed technostructure."

10. As Galbraith (1958; see also 1967) argued in *Affluent Society,* the instruments of persuasion can only be brought to bear on those who have had the basic needs of shelter, warmth, and food satisfied. For an institutionalist perspective, see Glade (1987).

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