The World Economy: Who's Really In Charge?

The Crisis of Global Economic Governance

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The other day, Richard Harmston was talking with me about the origins of the Group of 78. He reminded me that back in the late 1970's a group of former civil servants, journalists and NGO activists wrote a letter to then Prime Minister Pierre Trudeau urging his government to give more attention to foreign policy issues. The letter signed by some 78 personalities, received a relatively positive response from Trudeau. At that point, I said it would be interesting to contemplate what would happen today if such an initiative were undertaken with the Harper government.

At the outset, I want to congratulate the Group of 78 for the theme you have chosen for your annual meeting this year. Sorting out the relationship between 'the state, markets and democracy' is no small undertaking. In fact, this may be one of the most important and pressing challenges to be tackled after more than two decades of rampant economic globalization. Clarifying the relationship, let alone finding the balance, between 'the state, markets, and democracy' will be no easy task. I wish you well in your deliberations.

One of the nagging questions lying behind this theme is *'who's really in charge --- of the world economy today*? Such a question, of course, is loaded with complexities. Some, no doubt, will answer in terms of the imperial powers of the day, principally the US and to an extent the EU and even China. Others may point to powerful international economic institutions like the World Bank, the International Monetary Fund and the World Trade Organization. As important and relevant as these responses may be, I will argue this evening that the major driving force behind the global economy has been and remains the transnational corporation or TNC.

When I speak about TNCs, I am first of all referring to the evolution of the modern corporation from a 'national' to a 'transnational' phenomenon. In many ways, this trend began to emerge after World War II, as leading corporations became increasing global in their reach. Interestingly enough, this trend coincided with the build-up of the social welfare state that resulted from compromise between state and capital following the Great Depression of the 1930s. Secondly, in referring to the rise of the transnational corporation, I am not simply speaking about the TNC as an economic machine, but also very much as a political and cultural machine that has played a powerful role in redefining the state and society over the past half century.

Before you go to work on clarifying the roles and relationships between 'the state, markets, and democracy,' therefore, I propose we take a closer look at the rising power of transnational corporations as a driving force behind the global economy. So, this evening, it's my intention to share briefly some reflections on the rise of transnational corporate power over the past four decades from my perspective as a civil society activist. In doing so, I hope to lay some ground work for applying a more *critical corporate consciousness* in your deliberations about 'the state, markets and democracy' in the global economy today. Please keep in mind that my comments this evening will be in the form of broad strokes, not detailed analysis.

1. Global Corporate Power: the 1970s

The role of for-profit corporations in shaping the global economy and foreign policy, of course, is not new nor did it begin in the 1970s. Back in the 1940s, big business started to play a more concerted role in international affairs through the formation of the Council on Foreign Relations. In the following decade, the Bilderberg Group was formed, composed of the major corporations and industries in Europe. But, it was not until the creation of the Trilateral Commission in the 1970s that a comprehensive strategy was developed to restructure the global economy in the interests of transnational capital.

The Trilateral Commission was initially conceived in 1973 by two influential figures: David Rockefeller who was, at that time, the president and chairman of Chase Manhattan Bank and Zbigniew Brzezinski who was a professor at Columbia and President Carter's national security advisor. Initially, the Trilateral Commission was composed of some 325 persons drawn from the economic and political elites around the world. They included mostly CEOs of the world's leading transnational corporations along with presidents, prime ministers and senior government officials from the leading economies.

In brief, the Trilateralist goals were two-fold: [1] to restructure the global economy to better serve the interests of transnational corporations for worldwide market expansion; and [2] to dismantle the social welfare state [or what they called the Keynesian welfare state] and redefine the role of national governments in the global economy. The basic Trilateralist rationale for these structural changes was largely spelled out in its initial report called "the Crisis of Democracy." According to this seminal report, the global and national economies were plagued by "a deficit in governability" and "an excess of democracy." In other words, national governments were consulting too much with civil society groups, paying too much attention to protecting workers, and listening too much to critics in universities.

For the Trilateralists, the time had come for some radical surgery to reverse these trends. At the national level, major changes were required in the model of democratic governance. What was needed, they argued, was stronger governance within a weaker democratic framework. In order to facilitate more and more transnational investment, for example, authority had to become much more centralized in models of governance. In so doing, governments had to consult and collaborate a great deal more with big business, instead of working with diverse civil society organizations.

In terms of restructuring the global economy, the Trilateralist agenda in the 1970s called for the liberalization of trade, investment, and finance worldwide. They proposed that the General Agreement on Trade and Tariffs [GATT] be overhauled, establishing rules for free trade in order to open up markets for the sale of goods and services worldwide, which would require a more centralized structure of authority. Similarly, the Trilateralists required international financial institutions like the World Bank and the International Monetary Fund use their debt loans to compel governments in developing counties to restructure their economies to provide open markets for transnational corporations.

To advance their agenda, the Trilateralists realized that big business coalitions had to be formed at least in the major industrialized countries. Accordingly, the US Business Round Table was established composed of the 200 largest corporations in the USA. In Europe, the European

Round table of industrialists was organized which laid the foundation stones for the European Union. In Japan, the leading transnational corporations formed the Keidanren with close ties to the national government. And, here in Canada, the Business Council on National Issues [BCNI] composed of the country's 150 largest corporations was convened in 1978, later becoming the Canadian Council of Chief Executives.

2. Global Corporate Power: the 1980s

While the 1970s set the stage for the Trilateralist agenda, the 1980s was the period in which this agenda was rolled out in terms of restructuring the global economy. Let's remember this was the Reagan era in the White House in Washington DC. The Soviet Union, which was beginning to show signs of disintegration, soon became a target for break-up. Dismantling the Soviet bloc would be a huge leap forward in establishing the hegemony of capitalism worldwide and the consolidation of TNCs. The other major targets were Third World economies.

It was in this decade that the so-called Washington Consensus took on shape and form. In many ways, the Washington Consensus was crafted as a more palliative version of the Trilateralist agenda. While it included several elements, the prime goal of the Washington Consensus was to restructure the global economy so that capital, goods and services could move freely across borders unfettered by government intervention or regulation. In other words, create a political and economic climate worldwide that is favourable to transnational corporate investment and competition.

During the 1980s, the international financial institutions, namely, the World Bank and the International Monetary Fund played an increasingly important role in advancing the Trilateralist agenda. The fact that these Bretton Woods institutions, the World Bank and the IMF, had become delinked from the governing structure of the United Nations, was a plus for the Trilateralists. It allowed them to be used as instruments for the restructuring of the global economy in favour of TNCs, without collective governmental interference via the UN.

It was, of course, the SAPs --- 'structural adjustment programs'--- of the World Bank and IMF that became the main instruments for restructuring the economies primarily of Third World countries. Under the SAPs, the renewal of loans to developing countries was subject to a series of conditionalities. In exchange for loans, governments were compelled to restructure their domestic economies to become export-oriented, open markets for TNCs, and reduce spending for social programs such as education, healthcare and social assistance. In many countries, World Bank and IMF officials became involved in rewriting sections of developing country constitutions to ensure that this restructuring remained permanent.

At the same time, restructuring the global trade system became a focal point for the Trilateralist agenda and the Washington Consensus. To facilitate the free flow of capital, goods and services across borders, new trade rules and regimes were needed. Moreover, these new trade rules and regimes would have to be designed to provide favourable treatment to the operations of transnational corporations and promote the opening up of markets in economies throughout the world.

In many ways, the prototype of this new trade regime and rules was the Canada-US Free Trade Agreement [CUSFTA]. Negotiated by the Mulroney and Reagan administrations during the second half of the '80s, CUSFTA was the first comprehensive free trade agreement in the world. Not only did CUSFTA go beyond changes in import and export duties through dramatic reduction and elimination of tariff barriers, but it included sectors of the economy that had hitherto not been subject to international trade rules such as energy and services. Moreover, it was a legally enforceable trade deal vigorously promoted by a big business alliance, namely, the American Coalition for Trade Expansion with Canada that included 600 US corporations led by American Express, plus its counterpart, the Canadian Alliance for Trade and Job Opportunities, organized by the BCNI.

By January 1989, CUSFTA had come into effect as the new model of a free trade regime. But, the year 1989 is, of course, best known for another milestone, the collapse of the Berlin Wall, which symbolized the breakup of the Soviet Union and its economic empire. With this event, the bi-polar global economy came to an end. Capitalism had triumphed over Communism as the dominant economic and political model for the world. And, in many ways, the biggest beneficiaries were the transnational corporations who could now go fully global, gaining access to markets all over the world.

Indeed, with the falling of the Berlin Wall as its symbol, the triumph of capitalism was seen as the "end of history." TINA, declared Maggie Thatcher, "There Is No Alternative." Capitalism alone is the only prevailing economic model. With that clarion call, TNCs spread their wings. One of their main targets became the public sector of national economies, which had been identified by the Trilateralist Commission as one of the major vestiges of the social welfare state to be dismantled. Turning the public sector economy into private markets through privatization became the name of the game.

3. Global Corporate Power: the 1990s

The new decade of the '90s would be marked by the consolidation of the Washington Consensus. More steps would be taken to remove the remaining barriers to the free movement of capital, goods and services via TNCs across borders, unhindered by government regulation or intervention. A uni-polar global economy emerged, centered around the US itself and the realities of the American empire. In this context, the era of neo-liberalism or economic globalization flourished as the global reach of transnational corporations expanded throughout the planet. Indeed, there were signs that corporate sovereignty would even supersede national sovereignty.

With CUSFTA as the model of a new, more comprehensive free trade regime, hundreds of bilateral negotiations were initiated on trade and investment during the early '90s. By 1994, CUSFTA was morphed into an expanded North American Free Trade Agreement [NAFTA] between Canada, the US and Mexico that included new sets of free trade rules on intellectual property rights, public monopolies, and an investor-state dispute settlement mechanism allowing corporations to sue governments directly for alleged violation of the agreement's trade rules. Elsewhere, in Europe, 'economic partnership agreements' were established which often included trade and investment provisions between European countries and developing countries.

Meanwhile, the Uruguay Round of the GATT finally came to an end with a rather dramatic conclusion. In 1995, the 50 year old GATT regime was to be succeeded and replaced by the World Trade Organization [WTO]. The GATT Agreements were grandfathered into new WTO. However, the WTO was armed with a great deal more centralized power, reinforced with binding and enforceable trade rules. In effect, the WTO would have much more clout in implementing the Trilateralist agenda re: opening up markets for transnational corporations than the GATT had.

Yet, the consolidation of corporate power in the 1990's would have been greatly advanced had the efforts to develop and implement the Multilateral Agreement on Investment [MAI] been successful. Negotiated behind closed doors at the OECD in the mid '90s, the MAI was designed to codify the rights of investment and transnational corporations into international law. In effect, the MAI would have consolidated the sovereignty of corporations over that of nation states. In the minds of civil society opponents, the MAI was a 'corporate rule treaty.'

Indeed, the MAI gave rise to what became known as the ant-corporate globalization movement. With the draft of the secret MAI document in hand, activists in the OECD member countries organized resistance, applying intense pressure on their own governments to reject it. As the member countries exempted one domestic law or regulation after another, the MAI negotiations eventually imploded from within. By the spring of 1998, the deal was dead in the water. But, the anti-corporate globalization was just beginning to spring to life.

Then came the infamous 'Battle of Seattle' --- in the last month, in the final year of the decade and the century. The WTO ministerial in 1999 was designed to launch a whole new round of global trade negotiations leading to a deal that would, in effect, open markets for TNCs around the world. However, the mass mobilization that resulted in 50,000 people taking to the streets of Seattle in protest against the WTO eventually shut down the proceedings. The subsequent collapse of the WTO talks at the Seattle ministerial was a 'high water mark' for the bourgeoning movement against corporate globalization.

4. Global Corporate Power: 2000 – 2001

Immediately following Seattle, the resistance against corporate driven globalization grew and intensified. The targets included regional trade summits like APEC and the FTAA; meetings of the World Bank, the IMF, and regional development banks; plus gatherings of the G-7 leaders. Major protests were organized in Washington DC, Bologna, Prague, Genoa, Bangkok and Melbourne. As we all know, here in Quebec City, 65,000 marched in opposition to the negotiations to expand the NAFTA to the Latin American hemisphere by creating a Free Trade Area of the Americas in April, 2001.

All of this, however, came to an abrupt end on September 11, 2001. The airborne attacks of 9/11 on the World Trade Centre in New York City and the Pentagon in Washington DC proved to be a dramatic game changer. Suddenly, security trumped trade and all affairs of state. The US Congress rallied to pass Patriot Acts I and II. Canada, the European Union and many other countries followed with their own anti terrorism legislation [some of which was already in the works before 9/11].

Embedded within this new wave of anti-terrorism legislation in the wake of 9/11 were measures which created conditions for the criminalization of dissent. More than ever before, to engage in acts of protest and resistance against the dominant economic and political institutions, nationally or globally, ran the risk of being charged for committing a criminal act. Needless to say, this sent a powerful chill effect that contributed to the weakening of the resistance movement against corporate-driven globalization during this past decade.

Moreover, national security interests became the main ingredients for developing a new paradigm for reshaping the global economy and its governance. Increasingly, the economy, finance, energy, trade and other affairs of states were reviewed and redefined in terms of national security priorities. At the same time, military spending soared in the US, Canada and many other countries, especially those involved in the wars in Iraq and Afghanistan, which escalated throughout this decade.

Given these new realities of ‘security trumping trade,’ corporate leaders were compelled to come up with new strategies. Here, in Canada, the Business Council on National Issues, comprising the CEOs of the country’s largest corporations, moved quickly with the Canadian government to propose a Smart Border Plan with the US. Subsequently, the BCNI changed its name to become the Canadian Council of Chief Executives [CCCE] and promptly took the lead in advancing a plan for revamping NAFTA which they called the North American Security and Prosperity Initiative [NASPI]. The underlying objective for both initiatives was to ensure trade security for corporations and investors.

Meanwhile, the ongoing default in US payments to the UN opened the door for corporate contributions, thereby compromising the independence of the global governance body. Led by wealthy entrepreneurs like Ted Turner, corporate donations to the UN multiplied during this and the previous decade, largely in exchange for increased influence within the UN. The Global Compact, for example, initiated under Kofi Anan’s tenure as UN Secretary General in the year 2000, created new opportunities for private-public partnerships within the UN, thereby augmenting the influence and power of TNCs in global governance.

Towards the end of the decade, when the financial meltdown struck in 2008, it became clear that the banks and finance capital, which had provoked the crisis in the first place, would come out on top in the end. Once again, the preoccupation of the governing economic and political elites was to save the capitalist system. The big bailouts by the US government to Lehman Bros., Goldman Sachs and many other banking and investment firms demonstrated the power wielded by finance capital.

At the very same time, a major shift was taking place in the structures of global economic governance. The G8 was being sidelined in favour of the G20. Not only had the G8 lost much of its political legitimacy in governing the global economy. But, more importantly, the G8 countries no longer had the foreign exchange reserve capacity to withstand the financial meltdown. On the contrary, it was the emerging economic powers like China, and to a lesser extent India and Brazil, that held the lion’s share of foreign exchange reserves. In short, replacing the G8 with the G20 was imperative for saving the global economy from collapse.

Yet, the creation of the G20 has not resolved the crisis of global economic governance. This became amply clear when, in 2009, the UN General Assembly aided by the Stiglitz

Commission, attempted to assert greater control over the global economy affairs on behalf of all 192 member states. Moreover, the failure of the G20 to adequately manage the continuing global financial meltdown let alone its links to the multiple crises of the economy, climate change, food security and the widening gap between rich and poor is likely to intensify the critical problems of global economic governance.

Conclusions:

So, what do these brief reflections on the past four decades tell us about the evolution of corporate power and the global economy? And, what do these observations have to say about the main topic of the Group of 78's conference this year, namely, the future of liberal democracy.

Well, it should be clear that more than half of the major economies in the world are not nation states but transnational corporations. By 1995, some 16 years ago, 52 of the top 100 economies in the world were TNCs. For the most part, these for-profit corporations are able operate with impunity, outside the purview of democratically elected governments, not only as economic but political and cultural machines as well. Moreover, today the concentration of wealth in the world today has reached a stage where not only corporations but wealthy individuals or oligarch's dominate national economies. Besides the better known billionaires like Bill Gates and Warren Buffet, there are the Koch brothers in the US and the Tata family in India. Indeed, the richest man in the world today, according to Forbes Magazine, is Carlos Slim of Mexico who accumulated $76 billion in 2010 and is now ranked 54th of the top 100 economies.

More importantly, this rising power of transnational corporations and wealthy oligarchs has had a profound impact on the nation state and economic governance. As capital became fully global, so TNCs were able to trump both national governments and domestic businesses. Through this process, we have seen the gradual dismantling of the 'social welfare state' and the emergence of what I call the 'corporate security state' in this country and may others throughout the world, North and South. The prime goal of the corporate security state is to reorganize the economy for efficient transnational investment and competition. Whereas the social welfare state aimed to provide greater security for people, the corporate security state is more focused on ensuring security for corporations and investors. It is now estimated, for example, that the $4.1 trillion doled out recently for bank bailouts in the US and EU amounts to 40 times the amount spent on addressing the crises of expanding poverty and climate change.

As you probe further into the future of liberal democracy in your deliberations during this conference, I urge you to focus more attention on where the real power is that is driving economic governance, both domestically and globally. The increasing consolidation of corporate power, sovereignty and rule over these past four decades and more, must not be ignored. Unless effective ways can be found for reining in corporate power and sovereignty, both nationally and globally, the future of liberal democracy is doomed in my view. Finally, I think it would be instructive to review the work of a great Canadian political scientist, CB Macpherson, who's 1965 Massy lectures on 'The Real World of Democracy' and his 1977 book on 'The Life and Times of Liberal Democracy' contain useful insights. Although Macpherson lived and wrote in another era, his critical reflections on liberal democracy help us to think about what it means to create forms of democratic governance that are more equitable, sustainable, and participatory.

Tony Clarke, founder and director of the Polaris Institute in Ottawa, is also the author or co-author of several books on these themes, including, *Silent Coup: Confronting the Big Business Takeover of Canada [1997];* with Maude Barlow, *MAI: The Multilateral Agreement on Investment and the Threat to Canadian Sovereignty [1998];* Global *Showdown: How the New Activists are Fighting Global Corporate Rule [2001],* and *Blue Gold: The Corporate Theft of the World's Water.* His most recent book is *Tar Sands Showdown: Canada and the New Politics of Oil in an Age of Climate Change* [2008].