Big Business and National Governments:
Reshaping the Compact in a
Globalizing Economy

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Some big changes are taking place in the structure of world business, especially in the world’s biggest enterprises. In addition, some equally portentous changes are taking place in the relations of those enterprises to the governments with which they deal. I have been asked to speculate on the implications of these changes for the future, with special emphasis on future relations between business and government.

Other scholars have made attempts of a similar kind in the past, from Karl Marx to Francis Fukuyama. In his first effort, Fukuyama (1992) drew inspiration from some concepts fashioned by philosophers a century or two earlier, titling the work The End of History and the Last Man. But pretending to predict the end of history is a high-risk activity, even when the metaphor is only attention-getting hyperbole. In this case, Fukuyama wants the reader to believe that a basic issue in political economy has at last been settled - that, whatever else political scientists may have to quarrel about, they should accept history’s verdict of the superiority of a society based on liberal democratic principles and open markets.

Today, at the close of the millennium, Fukuyama’s 1992 conclusions seem painfully fragile. The intervening years have been full of economic, political, and social surprises, repeatedly raising basic questions about how well we understand the societies whose behavior we are being asked to predict. Not all the surprises have been disconcerting. But they have left many, including myself, with some major unanswered questions about the behavior of productivity, savings, investment, and inflation in our modern society. And they have generated many new cautions about joining in the mantra regarding the superiority of open markets and democratic societies as an adequate foundation for a new compact between big business and national governments.

Choose Your Theory

In the United States, we have just passed through some years of a curious
prosperity that have left many economists puzzled and shaken. Some signs of prosperity are everywhere, especially in the consumption patterns and employment levels of the advanced industrialized countries. But the economic processes associated with these patterns are so bizarre at times as to raise questions as to whether they are being accurately interpreted.

The performance of the securities markets has been particularly inscrutable. Privately held enterprises are sold to the public in an initial public offering at prices so obviously inflated that a few years ago they would have been incomprehensible. And then, to confound the issue, the public offering is widely regarded as a failure if the market does not subsequently carry the price much higher.

Observers provide numerous complex rationalizations by which such curious performances are explained. For most, the explanations are no longer necessary since the public now complacently accepts such market patterns as normal. Any observer with a bundle of unresolved doubts is then left with a disconcerting choice: to assume that the market is behaving irrationally, producing inflated prices that will not stand up; or to assume that he is not sufficiently astute to recognize a new factor that any rational analyst should be taking into account.

In any event, in a situation of this sort, the usual sources of restraint available to the well-trained analyst begin to lose their restraining power over time. Economies that show no signs of actually generating some savings from current income nevertheless act as if anticipated prospective gains will finance added purchases. Savers and third countries export their savings to the country that appears to have freed itself from the usual restraints. Meanwhile, as long as capital and productive manpower are drawn to the economy, as has been the case thus far in the United States, the inflationary pressures one might ordinarily have expected in a non-saving consuming economy are not strong.

I do not mean to suggest that the U.S. economy is in the throes of a bubble that will inevitably burst. But it is a possibility plausible enough to represent a risk of very considerable significance. The consequences of such an event, if it occurs, are particularly strong because a bubble of long duration is so much more lethal than one of shorter duration. After a few years of expansion, one can assume, the traders involved in creating the bubble have developed both the financial reserves and the visceral convictions that keep them from reacting to any but the strongest signs of danger.

Besides, long bubbles may tend to silence the "traditional" economists, not to increase the strength of their convictions that they are operating in an overpriced economy. When economists are uncertain of the meaning of what they see, the effect is usually to increase the tolerance of the media and the lay world for half-developed theories of lay origin, such as the work of chartists and astrologers. Some of the proposed alternatives are obviously specious; practically all, at best, represent work-in-progress.

In any event, justified or not, there have been few periods in recent decades in which serious economists in the United States have been more uncertain about the uninterrupted continuation of national growth. Such uncertainties are of particular importance today because they go hand in hand with a wide consensus, one that I share. For the time being, the behavior of the U.S. economy...