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Beyond the Nation-State?: The Transnational Firm and the Nation-State

● This paper analyses the relationship between the transnational firm and the nation-state in capitalist economies. Following a critical appraisal of mainstream and radical theories of the transnational firm and the nation-state we proceed in analysing their relationship within a proposed rivalry and collusion framework. It is suggested that non-antagonistic differences between the two actors lead to potentially rivalrous behaviour, which however incorporates the seeds of collusive arrangements. Transnationals, it is suggested, need the nation-state and vice versa, but also the development of supranational organisations, to facilitate their operations.

I. Introduction

The relationship between transnational firms and nation-states in capitalist economies, is a most intriguing one. A reason for this is that an analysis of the relationship between them presupposes an accepted theory of the firm, both the national and transnational (TNC) and the state, in particular the nation-state. Such 'accepted' theories are simply non-existent. Both within the mainstream and radical camps debates on these issues are raging, with little indication of an emerging consensus, within camps, let alone between them. The absence of such theories renders discussions of the relationship between TNCs and nation-states ill-founded, accordingly the policy implications from them potentially misleading.

Our aim in this paper is to make a step towards improving the level of the debate, by pointing to some of the problems and providing some tentative answers. In particular, following this introduction, we provide critical appraisals of the mainstream and radical theories of the firm (and the TNC) and the state (including the nation-state),[1] in Sections II and III respectively. This provides a starting point for Section IV, which builds upon existing theory both mainstream and radical and discusses the relationship between TNCs and nation-states within a proposed rivalry and collusion framework. Following our proposition in this Section that steps to limit the power of TNCs are both desirable and feasible, we discuss some policy implications in Section V.

II. Mainstream Perspectives on the Transnational Firm and the Nation-State

The mainstream approach is to explain both the firm and the state in terms of market failure. The underlying assertion is that the market should be the starting point of the analysis, so the existence of non-market institutions should be explained in terms of market failures.

The market failure approach to the theory of the state is based on the 'First Fundamental Theorem' of welfare economics, which states that a competitive market economy can give rise to a Pareto optimal allocation of resources (a situation where no-one can become better off without somebody becoming worse off). Even if one is prepared to ignore the explicit focus of the Pareto criterion on efficiency at the expense of distributional issues, this Pareto optimality is based on the assumption that competitive markets including future markets exist and for all products. Given market failures, such as monopolistic or oligopolistic markets, externalities, public goods, etc., a Pareto Optimal allocation of resources will not take place, which necessitates the intervention of a non-market institution (the state) to 'correct' for market failures. See Cullis and Jones (1987) for a detailed critical coverage.

The above is the usual textbook treatment of the 'theory of the nation-state'. More fundamentally, 'public choice' theorists tend to derive the state directly from a prisoners dilemma/benefits of trade argument, see the survey in Mueller (1976). Agents are said to realise the benefits from trade but also the advantages of cheating and disadvantages of being cheated. To avoid cheating they institute a mechanism which aims at delineating property rights and enforcing and policing agreements. This mechanism (the state) is therefore seen as a consensually derived device aimed at providing the necessary conditions for the benefits of trade to be realised. Schotter (1981) has a more general game theoretic approach, in similar lines.

A problem with the above is this. Why should agents seeking to exploit the benefits of trade choose the state rather than a market-type solution (e.g. private guards) and/or a non-market type solution such as the firm? A possible answer within the mainstream tradition could be in terms of transaction costs economising, see Coase (1960), Pitelis (1989). Transaction costs (information, bargaining, contracting and enforcement costs), would be very high if one relied on the market. Efforts could be duplicated, contracts would have to be continuously renegotiated, enforcement might be impossible or very expensive. The firms might help to reduce such costs but there would be no incentive for firms to do so, in the case for example of public goods. Accordingly an institutional device outside the private sector with a monopoly on coercion and the task of providing the 'correct' property rights framework, might economise on transaction costs and solve for instances of market failure through socialising the costs of financing its projects.

A problem with the above theory is its implicit assumption that states will be both willing and able to perform their role; i.e. 'correct' market failures. Public choice theorists, and neo-liberal critics of the mainstream approach point to the sectional interests of state officials, bureaucrats, etc., to support the idea that states may be unwilling to act according to the mainstream ideal, see e.g. Green (1987) for a survey. Others point to the inability of the state, i.e. cases where state actions increase inefficiencies rather than reducing them, see Stigler (1988).

The above is a rather crude account of the mainstream theory and its neo-liberal critiques.[2] It helps however, to make these points. First, that the state is supposed to exist because of pre-existing markets and in particular their failures, either structural (e.g. monopoly), or 'natural' (e.g. transaction costs), see Dunning and Rugman (1985) for this distinction. Second, the state is asserted to be both able and willing to perform its tasks, i.e. reduce market inefficiencies, a view challenged by 'neo-liberal' critics who point to the 'partisanship' and/or other inefficiencies of the state and its actions.

The mainstream theory of the transnational firm, can be developed in very similar lines to the above. Starting from the observation that neoclassical theory did not analyse the reason for the existence of the firm, Coase (1937) set out to provide such a theory. In his idea the firm and the market are two different means of resource allocation. The former relies on authority and fiat (hierarchy), while the latter on voluntary exchange. Assuming that markets pre-exist and observing that firms do exist, Coase suggested that the latter's existence must be due to the former's failure. Such failures are of the transaction costs (cognitive or natural) type, i.e. market transaction costs may be too high. If so, a hierarchy (the firm) could emerge in order to reduce such transaction costs, i.e. 'correct' for natural market failure, by the very use of authority-fiat.

The Coasian insight has been developed by in particular Williamson (1975, 1981, 1985, 1986). His markets-hierarchies/organisational failures framework combines the ideas of bounded rationality, opportunism (self interest seeking with guile) and asset specificity (existence of sunk costs) to suggest that the coexistence of these conditions will result in very high market transaction costs. Such costs can be reduced by the hierarchy (firm) for a number of reasons, including the ability of management to use authority to stop prolonged disputes, and enforce contracts through e.g. the threat of the sack. Williamson goes on to explain the internal organisation of firms (the M-form), vertical integration, conglomeration and the TNC in terms of such transaction costs economising.

Concerning in particular, the TNC, the argument is largely in terms of the 'intangible assets' hypothesis, and arguably owes more to Buckley and Casson (1976) than to Williamson.[3] The hypothesis suggests that intangible assets owned by firms, such as know-how, technology, product differentiation, etc., suffer from appropriability difficulties when market transactions are used, such as licensing. Given this, firms will choose to internalise such transactions in 'intermediate' products thus choose the TNC form to licensing. Market transaction cost difficulties here are of the usual type. In Williamson's jargon they arise from the 'opportunism' of the party with which the potential TNC deals; which leads to the firm internalising the market by becoming a TNC.[4]

As firms, including TNCs, reduce market transaction costs, thus solve for 'natural' market failures, the 'transaction costs-internalisation hypothesis' can become a very powerful argument against state intervention to curb monopoly power. In this sense the neo-institutionalist mainstream argument is more conservative (regarding intervention) than the original neoclassical view, a largely unnoticed conclusion.

A potential problem with the mainstream approach is that both the state and the TNC are explained in terms of market failure (of the structural and/or transaction costs type). This raises the issue why do both firms and states exist and which exactly are their transactional properties. A related problem, raised by Malcolmson (1984), is that it is often the case that firms acquire monopoly power (i.e. generate structural market failures) through economising in transaction costs (i.e. solving 'natural' market failures). This would suggest that firms have both efficiency and inefficiency properties of the Pareto type, casting doubt on the implications of the transaction costs programme against the need for 'corrective' intervention. The issue however is whether the state is the agent most appropriate to undertake such actions. As suggested, many within the mainstream would argue against this, pointing to 'government failures', see Green (1987), Stigler (1988), but also Coase (1960).

Given the inconclusiveness of the debate concerning the mainstream theory of the nation-state and the transnational firm, it is no surprise that the debate on the relationship between the two leaves something to be desired. In particular, Vernon (1971) and Kindleberger (1973), are the most well known among those who, observing the increasing growth and power of TNCs, reached the conclusion that the 'nation' state may by and large be through as an economic entity! In terms of our account of the mainstream theory this might be taken to imply that the state will be replaced by the TNC (or international bodies) as a means of global allocation of resources, due to the latters' superior transactional efficiency properties. Whether the latter is true however needs to be shown. What is more, even if true, it is not obvious that efficiency alone will render the nation-state superfluous. The exact relationship between TNCs and nation-states need to be analysed here. On these, the mainstream theory has little to say.

III. Radical Perspectives on the Nation-State and the Transnational Firm

Radical (predominantly Marxist) theories of the capitalist nation-state share the belief that the state's role is (therefore it exists in order) to ensure the reproduction of the capitalist mode of production. Views on its exact relationship with capital vary; from the simple instrumentalist view according to which the state is by and large an instrument which capital can use to achieve its general and specific aims, see e.g. Miliband (1969), through the structural-functional theory of Poulantzas (1973) who regards the state as a relatively autonomous entity aiming to achieve the cohesion of capital, to the capital logic school of e.g. Altvater (1973) and Hirch (1978) who start from the observation of competing capitals and/or the 'capital relation' to derive the autonomous form of the capitalist state.

An advantage of the capital logic school, as compared to the instrumentalist and structuralist accounts, is that it offers an answer to the 'Coasian' question 'why does capital need the state to exploit labour and ensure the reproduction of the system?' Alternatively put, why do capitalists as a class not do so? In fact Paschukanis did pose this question in the Marxist tradition as far back as in 1923, see Holloway and Picciotto (1978). The answer of the capital logic school is that the anarchic nature of capital is a necessary condition for the existence of a separate entity (the state) to ensure the general interest of capital in the system, Altvater (1973). The establishment of capitalists control over the labour process through the capitalist firm, removes the need for state intervention, other than to establish the general conditions facilitating this control. Hirsch (1978), thus explains the autonomous form of the state. The apparent community of interest between capital and labour at the level of exchange, as owners of separate sources of income, explains the feasibility of this autonomous form, see the chapter by Flatow and Huisken in Holloway and Picciotto (1978).

The emergent consensus among Marxist economists would appear to be that the state does possess a degree of autonomy *vis-à-vis* competing classes given of course capitalist control of production. Miliband (1969) himself does not deny the states' 'relative autonomy', but points to reasons biasing the state towards favouring the capitalist class. On the other hand, while aspects of the capital logic school's theory might point to the inability of capitalist states even to represent the long run interests of capital as a whole, see Gough (1989), others have criticised this notion pointing to increasing concentration of capital pressing towards a fusion of state and capital, e.g. Barker (1978). Indeed such factors are in line with the emergence of state monopoly capitalism (the predominance of the state in capitalist production), see Fine and Harris (1979), from the early 'primitive accumulation' stage, where the state did appear to operate as an instrument of the rising capitalist class, see Hymer and Resnick (1970), and then the laissez-faire stage, with the state's emphasis on non-intervention.

To summarise, the Marxist view of the autonomous form of capitalist state is that in part the latter exists because of capital's 'failure' to achieve its aims without using a relatively autonomous mechanism, such as the state. The 'failure' of capital is due to the rival fractions within it, but also to the need for legitimisation of the system, which capital *per se* is ill-suited to offer; a point reminiscent of Lenin's claim of democracy being the best shell for capitalism. Although Marxist accounts underplay the significance of state personnel, (i.e. special interests of the state officials themselves, as pointed by the public choice school) such considerations can be used to strengthen the idea that self-interest seeking bureaucrats, politicians, etc., will tend to favour capital for structural type reasons and/or instrumental type reasons. Indeed, Pitelis and Pitelis (1987) derive such reasons even within the state 'neutrality' logic of the mainstream approach.[6] Jessop (1978) moreover attributes such notions of Marx's own early writings on the state.

The above coverage is sketchy, but does, we hope, make the point that Marxist theories of the state allow for the possibility that capitalist states can often take actions which appear to be (or are) against the narrow apparent interests of capital (or at least some of its fractions). Detailed coverages are in among others Jessop (1977), Holloway and Piccioto (1978), Fine and Harris (1979), Gough (1989) and Pitelis (1991). This is a helpful starting point for the analysis of the relationship between the nation-state and the transnational firm.

Marxists had offered little until recently, by way of explaining the transnational firm. The nearer they had gone towards this direction is Hymer's contributions, some of which were produced before his 'public commitment' to Marxism, see the collection of Hymer's papers in Cohen *et al.* eds., (1979). Marglin (1974) is the other important contribution.

Hymer's starting point is similar to Coase's; that the firm and the market are two alternative ways to coordinate the division of labour, the key to explaining capitalism for Marx as well as Marshall! The firm is said to be a more efficient means of exploiting the fruits of the division of labour to the market, as it increases the ability of capital to control the production process. Thus the firm is more efficient to the market (as Coase argued) but from the point of view of capital. Firms observe a 'law of increasing size', from the early Marshallian (an owner-controller) firm, to the national corporation (public limited companies), to the M-form (separation between strategic and operational decisions), to the transnational firm. These developments allow capital to improve their exploits of the division of labour, and extend the latter globally through the TNC.

Marglin (1974) is also concerned with the emergence of the factory system from the putting-out system (market based relationship between capital and labour given labour's control over the pace of work but also often the capital equipment). Marglin suggests that it was not technology that led to the factory system as the mainstream would have it, but rather capitalists' need to increase their control over labour, thus their profits. The similarity between Hymer and Marglin is obvious here as it is the similarity between them on the one hand and the mainstream on the other. Where Williamson, for example, sees 'opportunist' labour, Hymer and Marglin see controlling profit seeking capitalists, but the essence remains; control over the production process, thus a more efficient exploitation of the division of labour. The difference of course is that Williamson regards this as a good thing for all, while Hymer and Marglin doubt the benefits of this to workers. See Pitelis (1991) for more on this and a more general critique of the orthodox approach and its radical critics.

Marxist theory of the transnational firm is again based on Hymer's contributions. While substantial effort has been given by Marxists to explain international production, most notably by 'underconsumptionists', see the survey in Bleaney (1976) and the internationalisation of capital school, see the survey in Jenkins (1987), such theories do not explain the choice of institutional form of international production, that is why we have TNCs rather than exports and/or licensing, see Pitelis (1990a).

Hymer's answer was in terms of 'ownership or monopolistic' advantages (the necessary condition). These are 'internalised' due to intangible assets appropriability problems with an eye to reducing competition between firms (the sufficient condition) in a general framework of rivalry and collusion, see Pitelis (1990) for this interpretation. Hymer also referred to locational factors, the desire by TNCs to increase their bargaining power over labour and the nation-state and the overall advantages *per se*, of transnationalism. In so doing his theory draws upon both mainstream and radical concepts. Hymer himself is, I believe, the leading figure of the mainstream theory of the TNC. His 'ownership advantage' concept has been used by the mainstream as one of the main reasons for TNCs along with internalisation of intangible assets (see the previous section) and locational factors, all combined in Dunning's 'eclectic theory' or OLI (ownership, location, internalisation) 'paradigm'; see for example Dunning (1990).

More recently Sugden (1990) has provided a 'divide and rule' theory of the TNC based on Marglinian lines, while Cowling and Sugden (1987) have brought together 'divide and rule' aspects with 'product market domination' and macroeconomic considerations. Pitelis (1990a) has attempted a synthesis of existing theories where macroeconomic considerations explain primarily international production, while a synthesis of micro-factors explain the choice of the institutional form of the TNC.

Within the Marxist camp, the debate on the relationship between the nation-state and the TNC is in many respects a variant of the mainstream position, of Vernon and Kindleberger. In particular Murray (1971) asked the question whether the growth of TNCs eroded the power of the nation state as an institution. His answer was on the affirmative. In particular he observed that the increasing transnationalisation of capital required the latter's support by functions provided by other nation-states (than the one of its origin) and/or international bodies. This weakened the bargaining power of the nation-state *vis-à-vis* its TNCs, but also nation-states in general *vis-à-vis* TNCs, since the former had to compete in order to attract TNCs.

Warren (1971) has made the opposite claim, by observing the nation state's own participation in instituting international bodies, assisting the creation of giant firms, as well as the very process of internationalisation. These, and the fact that under state monopoly capitalism increased internationalisation and increased participation of the state in the economy go hand in hand, implied to him that the state's power was increasing, given that fewer firms are easier to control.

The focus of both Murray and Warren was on the relationship between TNCs and nation-states in general. The more specific question whether TNCs of one state dominate (erode the power of) another state has been posed by among others, Mandel (1967) and Rowthorn (1971). The former criticised the 'Monthly Review' school, e.g. Baran and Sweezy (1966) and in particular Sweezy (1978), for asserting the dominance of US imperialism over all other capitalist states. In his view the US was being challenged by Europe and Japan. This had led to intensified conflict between nation-states to defend their TNCs. The underlying assumption here is that there is a one to one relationship between interests of nation-states and 'their' TNCs and also, to a lesser extent that the stronger the nation-state is, the stronger will be its TNCs. Rowthorn (1970) also rejected the US-imperialism idea, but warned against identifying a TNCs strength with the strength of their nation-state, pointing to the power of UK TNCs *vis-à-vis* the continuous relative decline of her nation-state. The latter he partly attributed to the very international orientation of British capital, often at the expense of the domestic economy.

More recently the debate on 'deindustrialisation' of Britain (but also the US) has acquired increasing attention by the profession, see for example the collection in Coates and Hillard (1986). It has lent some support to the idea that the cosmopolitan nature of British capital might indeed have facilitated (if not originated) a process of decline. This would appear to lend some support to the possibility raised by Murray. It certainly seems to reject the idea of a one-to-one relationship between states and 'their' TNCs.

A further issue, concerns the relationship between TNCs and the nation-states of Less Developed Countries. Here again the debate in the radical tradition has ranged between the concept of the development of underdevelopment (that TNCs of Developed Countries keep Less Developed Countries underdeveloped), see for example Frank (1972), to Warren's (1973) thesis that TNCs have led to a dramatic expansion of the manufacturing sector of the Less Developed Countries (LDCs). The economic successes of the Newly Industrialised Countries (NICs) in recent years would appear to lend support to Warren's views. An important question here however, is the extent to which such industrialisation is dependent, thus precarious, see Cowling and Sugden (1987). Also McMichael *et al.'s* (1974) critique of Warren and the critical surveys by Palda (1978) and Pitelis (1991).

In a number of articles (see the collection by Cohen, *et al.* 1979) Hymer provided a unique account of his views on all the above issues. He too observed the increasing bargaining power of TNCs and suggested that this threatens the autonomy of all nation-states; but asymmetrically. More so it threatens the Less Developed Countries' (LDCs') 'weak' states, than the 'strong' states of the Developed Countries (DCs). Concerning the effects of TNCs on LDCs he suggested, in line with Marx, that TNCs assist the development of LDCs, but this is a dependent and uneven development in that its fruits are shared unequally.[7] TNCs he suggested shape the world to their image, creating 'superior' and 'inferior' states. He doubted however whether the nation-state will wither away, pointing to the difficulties of finding a better legitimising- controlling device to 'nationalism'. Instead he argued that the TNCs would increasingly need the support of international bodies to facilitate their operations. Interpenetration of investments by DCs' TNCs, he observed, and not US imperialism, lead to a situation of increasing global collusion between the world's wealthy (including the rich in the LDCs) who share the common aim of increasing the total surplus. It is not possible for any particular nation-state to coordinate the needs of international capital thus necessitating the emergence of international bodies such as the European Community.

An important criticism of all the above authors is provided by Poulantzas' (1975) observation that states themselves have no power of their own. Rather they crystallize the relative strength of classes and fractions within (and expressed through) it. In this sense the question nation-states versus TNCs is a false one. The nation-state is determined by the relations between all classes within it and not just capital, see Fine and Harris (1979). Building on this concept, the latter suggest that class conflict (at the minimum electoral defeat for capitals' representatives) constrains the ability of nation-states to act on behalf of capital. The distinct advantage of international apparatuses, they observe, is that by distancing themselves from the loci of class struggle, such organisations are better able to pursue the interests of capital, in particular its fractions representing international capital. Poulantzas' insight adds a wholly new dimension in the debate. It provides hints as to the reason why nation-states may (not) support the emergence of international bodies; and/or change their attitudes on this issue in different time periods. To analyse this, one would need to fully analyse the interests and relative power of the major fractions of classes; not an easy task.

It should be obvious from the above, that radical theorists are as far from reaching a consensus on the relationship between TNCs and nation-states as their mainstream counterparts. By pointing however to the importance of class struggle, US imperialism versus interpenetration and global collusion, the dependent development or underdevelopment of the LDCs and the relative advantages of nation-states and international organisations from the point of view of capital, such theories raise additional issues to those of the mainstream, necessary for a comprehensive treatment of the issue. A first step towards such a treatment we attempt in the next section.

IV. Nation States and the TNC; A Rivalry and Collusion Framework

The discussion in the preceding pages suggests that a comprehensive treatment of the nation-state versus TNCs question should be able to provide answers to the following questions. First, what explains the institutional forms of the nation-state and the TNC? Second, to what extent are states 'relatively autonomous' from the competing social groups within them, in particular capital? What explains such autonomy? Third, does transnationalization lead to a threat of such autonomy, by increasing the relative power of one fraction of a class *vis-à-vis* (or within, if we follow Poulantzas) the state? Fourth, to what extent does an answer to the third question depend on the 'strength' of the nation-state, i.e. whether the state in question is an imperial power, a DC or an LDC?[8]

In the following pages we try to provide answers to the above questions, building on existing consensus when available, eclectic synthesis of mainstream and/or radical existing ideas and by providing some new answers.[9] Our thesis is that the current present day relationship between all nation-states and the TNCs can be broadly described as one of rivalry and collusion, but the degree of rivalry or collusion[10] will depend heavily on whether the relationship refers to TNCs own states, or 'host' states, as well as whether the states in question are 'strong' or 'weak', DCs, or LDCs.[11]

Starting from the nation-state, mainstream and in part radical theories appear to base their explanations of the existence-form, in terms of agents' inability to satisfy their interests without a third party which sets the 'rules of the game' and enforces agreements. The mainstream focuses on all agents (capital and labour) while radicals stress the interests of capitals. Shared ground includes, the need to provide 'public goods', given capitals' unwillingness to produce 'goods' of which the prospective profitability is not 'adequate'. In the radical tradition however the argument is more in terms of socialisation of the cost of infrastructure for capital, see O'Connor (1973).

Mainstream theories of the TNC focus on the need of firms to appropriate the quasi-rents of intangible assets thus stress the efficiency aspects of the TNC. Many radicals (e.g. Hymer) accept the existence of such motives, but also point to inefficiencies of such operations, either in terms of the direct effects on control over labour and/or due to the impact of TNC operations on monopolisation. Also to the possibility that such efficiency may often lead to distributional gains for capital, Pitelis (1991).

Neoclassical theorists assert the autonomy of the state *vis-à-vis* classes (although explanations are offered by 'pluralist' sociologists, see the survey in Vincent 1987). This is doubted by the public choice school which points to the sectional interests of state officials' as such, but also the possibilities of such interests coinciding with the sectional interests of powerful groups, such as capitalists and/or trade unions. Marxists derive the form of an autonomous capitalist state in terms of capitalist competition, the emergence of the 'capital relation', and the apparent coincidence of interests between capital and labour. Capitalist state's relative autonomy *vis-à-vis* classes is seen in terms of capital's need for legitimisation, which capitals (including TNCs) could never possess. Shared ground includes the need of governments (capitals' representatives in the Marxist version) to be re-elected, i.e. electorate's pressure.

Both the mainstream and most Marxist theorists, agree that increasing transnationalization, increases the relative power of TNCs *vis-à-vis* nation-states. In the mainstream tradition this may lead to the 'replacement' of the nation-state by the TNCs and/or international organisations.[12] Many radicals take a more cautious view, by focussing on the relative advantages of TNCs, nation-states and international organisations for transnational capital. Still, they provide very little to support the claim, that nation-states and international organisations are complementing each other, or even just coexist.

Drawing upon our earlier discussions one can provide further reasons to support such a claim. First, the very fact that TNCs increase their power over labour and the nation-state due to their relative flexibility of operations, suggests that TNCs need a system of nation-states, thus national labour if they are to exploit this advantage! Also in order to play-off nation-states against each other. Second, as public choice theorists observe, one can only ignore the special interests of state officials, politicians, bureaucrats, etc., at a cost. Indeed it would be surprising if national politicians voluntarily surrendered their power to international bodies. The reluctance of Margaret Thatcher when Britain's Prime Minister to even contemplate it, is a case in point. Thus, national states officials' sectional interests do provide a further reason for the persistence of the nation-state, a point going back to Marx's early theory of the state, see Jessop (1977). Third, and related, the above ignore the role of labour. Indeed, as Hymer (1971) observes most labour achievements (e.g. in the form of the welfare state) are country-specific. This would make labour reluctant in cases to surrender such gains thus make it supportive of the nation-state. Such support in its turn should be expected to affect the governments of the day for fear of electoral defeat.

The above suggest that all transnational capital, state functionaries and labour have some interest in the persistence of the nation-state. This casts some doubt on the mainstream traditions focus on failures (market and/or state and implicitly firm failures). A more fruitful alternative might therefore be to focus on relative advantages of institutional forms to explain the actual or potential persistence of their coexistence.[13] Such an alternative underlies the analysis of some Marxist authors, in particular Hymer.

In Hymer's scheme, the TNC improves upon the market and the national firm from the point of view of further enhancing the division of labour for the benefit of capital. Transnationalization implies the need of capital to rely on the support of states other than its own. This however does not lead to the supersession of the nation-state by the TNC, and/or by international organisations. The nation-state's distinctive advantage is its legitimisation ability, in terms of the exploitation and/or creation of nationalism. This means that capital needs the nation-state. This is particularly true for the case of 'strong' states, such as the US.[14]

The importance of 'strong' versus 'weak' states, and DCs versus LDCs has primarily been the concern of radical theorists. Hymer in particular has raised the possibility of asymmetric erosion of power of nation-states, depending on their strength, and the possibility of uneven development or even development of underdevelopment.

To summarise, there are a host of reasons why transnational capital requires the nation-state. In this sense it may be more interesting to ask whether and why it also needs international organisations.

At one level the answer to the above question is that transnational capital does not necessarily need international organisations. To the extent that the role of such organisations is in part, to coordinate the global operations of

TNCs, an imperialist (hegemonic) power, such as the US, might be equally effective. In this sense one explanation for capital's need for such organisations might be in terms of the 'non-American challenge', i.e. the challenge of US imperialism by European and Japanese capitals and more generally the relative decline of US world stature.[15] Another explanation however, is Fine and Harris' (1979) point that by removing themselves from the site of class struggle, international organisations are better able to serve the interests of transnational capital. These two reasons, suggest that transnational capital needs both the nation-state and international organisations.

Nation-states however also need their transnational capital. In a capitalist economy it is through capitals' investments that growth and progress take place, thus the very ability of the state to legitimise the system. To the extent that transnationalisation enhances the state's position *vis-à-vis* other states (e.g. through repatriated profits), the interests of the nation-state are in line with those of its transnational capital. Indeed Hymer and Resnick (1970) observe, the relationship between state and capital was a symbiotic one and they grew hand in hand up to when transnationalisation started threatening the state's autonomy. Such a threat has arisen when transnational capital's demands threatened to expose the class nature of the state, thus diminishing its legitimising ability. Accordingly, its potential ability to seek the long-term interests of capital as a whole, the maintenance of the system.

When this ability is undermined, the possibility of rivalry between nation-states and 'their' TNCs emerges. The extent of such rivalry depends on the strength of the nation-state, in particular its ability to share in the benefits of transnationalisation, through e.g. taxation, see Hymer (1972). Weaker states, might find themselves faced with the possibility of deindustrialisation as transnational capital flees the country in the quest for higher profits, and protects the latter through tax-havens. In such cases rivalry will tend to intensify.

The situation between nation-states and foreign TNCs is qualitatively similar to the above. In the absence of a policy of self-sufficiency, host countries, DCs and LDCs, do require foreign TNCs, e.g. for employment, technology and balance of payments reasons. This again provides an underlying framework of community of interests, which however is threatened when TNCs share unequally the benefits, through exploiting their flexibility of operations advantages. This is particularly true of LDCs, where the national bourgeoisie may find their interests in opposition to those of the TNCs. It is not unknown in the DCs either, however, see Hodges (1979) for the case of the UK.

To conclude, transnationalisation tends to result in an increasing power for the transnational fraction of capital *vis-à-vis* their states (to the extent that the latter is supposed to balance the more general interests of capital), but also the states of host countries, in particular LDCs. This undermines the apparent autonomy of the state and exposes its class nature. It thus creates sources of conflict between states and TNCs. International organisations are needed by transnational capital in order to globalise the socialisation of the costs of its global operations, which however does not lead to a withering away of the nation-state. Instead, the nation-state persists alongside such organisations for reasons related to benefits for transnational capital, but also labour and the interests of the state functionaries *per se*. The states of DCs assist the requirements of transnational capital for the emergence of international organisations, in the expectation that they (the nation as a whole) will share in the benefits of transnational capital's operations abroad. Still, the underlying community of interests (collusive tendencies) is often threatened by the increasing power of TNCs to maximize their private benefits, without sharing the benefits with some nation-states, or even at their expense.

V. Conclusions and Policy

Our discussion in this paper is in line with the idea that nation-states are relatively autonomous institutions, *vis-à-vis* classes. Such autonomy arises from the sectional interests of the state personnel as such, and the relative reliance of the voting populace, but also because of the competition between capitals and the very emergence of the capital relation as such. This autonomy is threatened by the increasing power of transnational capital; more so for LDCs, but also for DCs. This can generate potential rivalries between TNCs and nation-states.

The growth of transnational corporate capital implies that all capitalist states, including those of the LDCs require the operations and benefits of TNCs, so their underlying interests are in line with those of the TNCs. This is particularly true when local bourgeoisies in host countries (DCs and LDCs) become shareholders of TNCs, thus wish to share in the profits of the global operations of transnational capital.

The community of interests between states and TNCs implies that rivalry should be seen within a more general framework of common interests (collusion). Accordingly the potential threat of TNCs on nation-states autonomy does allow potential coalitions between labour movements and nation-states for particular issues, but also between labour, nation-states and domestic capitals, who may themselves be threatened by the 'cosmopolitan' nature of TNCs. Britain is a case in point.

For a multitude of reasons, the question of the withering away of the capitalist state is wide of the mark. The continued existence of the nation-state is not only in the state functionaries own interests but also that of labour and capital. Capital in particular needs the state alongside international institutions. The need of TNCs for nation-states does allow scope for labour; within however fairly narrow limits.

Labour movements should try to mobilise support towards pressing the nation-state to reduce the mobility of TNCs, and increase their commitment to their 'host' (including home) countries labour. LDCs in particular should try to obtain control over the flow of information, know-how, technology, etc., with an eye to independent industrialisation.

It is only through labour's pressure that such gains can be derived. Small domestic capitals may find it more desirable to join the transnational corporate system, through share-holding.[16] They are therefore not a reliable ally. The extent of possible progress towards this direction however is also difficult to forecast. Not only is progress restricted within fairly narrow limits but there are induced divisions within labour itself: employed versus unemployed, DCs versus LDCs, racism and sexism, combined with the increasing spatial division of labour through the TNCs. This increases the grip of transnational capital on labour and the system as a whole. One should not despair, but equally there are few reasons for 'revolutionary optimism' today.

Notes

1. Mainstream' here is taken to include standard neoclassical theories and the 'public choice' school. Radical theories include Marxist and other 'left' critiques of the 'mainstream'. An excellent collection of the latter is in Radice (1975). A more detailed account of these issues is in Pitelis (1991).
2. For a more detailed account see Green (1987), Pitelis (1991).
3. A number of other theories have also been developed within the mainstream tradition, see Pitelis and Sugden (1990) for a collection of such contributions and also below.
4. For a critique of Williamson's version of the theory, see Kay (1990), Pitelis (1991).
5. Vernon (1981) qualified his early views, observing the difficulties TNCs were facing; in particular nationalisations by third world countries. He observed that 'Everyone at Bay' might be a better alternative to his 1971 'Sovereignty at Bay' book title.
6. Starting from state neutrality, increasing concentration and centralisation of capital increases the relative power of the corporate sector, both instrumentally (e.g. industry finances political parties) and structurally (e.g. control over investments implies that both capital and labour may be better off if capital is favoured).
7. For a critical appraisal of Hymer's views on this, see Pitelis (1991).
8. It should also be noted that answers to these questions may differ depending on the period of capitalist development under consideration. Our focus here is explicitly on the modern epoch, of 'transnational corporate capital', which distinct feature is the internationalisation of productive capital. For a discussion of the 'periodisation of capitalism', see Fine and Harris (1979).
9. A tentative attempt for a historical and evolutionary approach, I have made elsewhere, see Pitelis (1991). This derives non-eclectically some of the consensus points, which I here choose to use in an eclectic way, for space reasons.
10. Rivalry, as opposed to conflict, because both capitalist states and TNCs share the common objective of raising the global surplus, by exploiting the benefits from the division of labour and team work. Collusion, because of their mutual dependence, as suggested below. Unlike the case of oligopolistic firms, where collusion is seen as resulting from rivalry and aims at achieving the joint profit maximum, the term collusion is here used in its broader sense of induced cooperation-non rivalry. For a critical assessment of mainstream, Marxian and Austrian theories of monopoly and competition, see Pitelis (1991).
11. In Hymer (1971), strong ('superior') states are identified with DCs, which are home countries of TNCs, and weak ('inferior') states with LDCs, which are host countries of TNCs. In view of the emergence of NICs, third world TNCs and also the oil producing LDCs, this classification is very precarious. It also

fails to address the question of strength *vis-à-vis* other states, home based TNCs, foreign TNCs and/or domestic (or foreign) classes. Further, it fails to account for the 'deindustrialisation' of DCs phenomenon. My definition here is a very tentative and post-festum one. Strong states are those which achieve a modus vivendi between capital and labour internally such that they succeed in deriving maximum advantage by both 'their and 'foreign' TNCs. States which fail to do so, decline relatively, even when they are home bases of TNCs.

12. Nye (1988) has a critical assessment of this mainstream perspective.

13. Arguments for the coexistence-complementarity of institutional form are in Hodgson (1988), Schotter (1981) and Pitelis (1991) among others.

14. In Hymer (1971), strong ('superior') states are identified with DCs, which are home countries of TNCs, and weak ('inferior') states with LDCs, which are host countries of TNCs. In view of the emergence of NICs, third world TNCs and also the oil producing LDCs, this classification is very precarious. It also fails to address the question of strength *vis-à-vis* other states, home based TNCs, foreign TNCs and/or domestic (or foreign) classes. Further, it fails to account for the 'deindustrialisation' of DCs phenomenon. My definition here is a very tentative and post-festum one. Strong states are those which achieve a modus vivendi between capital and labour internally such that they succeed in deriving maximum advantage by both 'their and 'foreign' TNCs. States which fail to do so, decline relatively, even when they are home bases of TNCs.

15. Kindleberger (1986) has advanced a similar position in the mainstream. According to his 'hegemonic stability' hypothesis a hegemonic power (the US up to recently) provides international public goods, such as 'stability', which no individual nation-state wishes to do (for 'free riding' reasons). The recent decline of US hegemony endangers international stability, for these reasons. Nye (1988) criticises this position; see also Pitelis (1991) for a critique.

16. It should be noted though, that local bourgeoisies can also act against their narrow pecuniary interests, for 'nationalistic', religious and/or 'anti-imperialistic' sentiments. These can be of their own or of the countries' labour, in which case it may still constrain the behaviour of capital and (thus) the state.

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