McInroy & Wood

"O, it is excellent
To have a giant's strength; but it is tyrannous
To use it like a giant".

Measure for Measure.

In 1948 the biggest public company in the UK was Imperial Tobacco. Its stockmarket value was about £ 260 million which, in those days, amounted to about 2% of the UK's national output. Fifty years on, the merger of Glaxo and SmithKline, if it had been consummated, would have created a colossus worth £ 100 billion, no less than 12% of UK output today, and bigger than the entire economy of Portugal.

In the event, Glaxo and SmithKline fell out at the altar, but Daimler-Benz and Chrysler (£ 25 billion), Travelers and Citicorp (£ 43 billion), and a procession of others are joining hands. As the giants combine they stride over the hurdle of local boundaries and national frontiers on their way to re-defining a global market-place dominated by global corporations.

Of course empire-building by strategic alliances is as old as history. For centuries the royal houses of Europe pursued the same ends by opportunistic marriages among themselves; Henry V, the victor of Agincourt in 1415, married Catherine de Valois, daughter of the French king, and laid claim to the French throne. A hundred years later, Henry VIII married Catherine of Aragon, daughter of Ferdinand and Isabella, the Spanish king and queen, and so put a check on French dominance of Europe.

But if the power of the monarch in the 16th century was far-reaching, it was as nothing compared to that of a multi-national company today. Then it took days or weeks to re-direct an army or send a message to a distant royal relative. Today it takes the flick of a switch to send the same message, design a model factory, or transmit billions of dollars across the globe. In terms of their impact, the business alliances of today have no parallel in history. For the first time, the world economy is about to become the captive of corporate imperialism.

One can see how it happens. As they make their speeches at each new wedding feast, hailing the latest business match as the fairest yet, company executives and marriage brokers can scarcely stagger to their feet for the weight of stock options, professional fees and stomachs gorged at the corporate trough.

Until now, even the mightiest businesses have been held in check. John Rockefeller's Standard Oil combine in the early 1900s, maybe the mightiest of them all, the American Telephone Company in the 1970s, the UK publishing and media industries in the 1980s and '90s were all shackled or dismembered by those elected or appointed to protect a national interest.

But the balance of power is shifting. British MPs recently voiced anxieties in Parliament about Rupert Murdoch's stranglehold, as they saw it, on sectors of the British media. Margaret Beckett, our trade minister, declared herself unable to mount any effective restraint. In America, the US Justice Department has begun an action to check what it sees as the abuse of monopoly power by Microsoft, the dominant world computer software supplier; but it is far from clear whether the Justice Department will win.

With the arrival of the Internet and its anonymous web of connections, some are beginning to doubt whether even national governments will be able to collect the income taxes due to them for much longer.

Losses can already be counted as the corporate dynasty advances. Vast companies cannot control their far-flung empires and push-button financial markets mean that a mistake in New York or a madman in Tokyo brings the whole house crashing down.

Consumer choice is another casualty and anyone who fills a supermarket trolley instead of a grocer's bag knows that convenience is not the same thing as quality. Personal service will surely be the victim of the giant mergers now being cobbled together in professional fields such as accountancy, law, and fund management.

But the biggest threat posed by mega-business is at national level, to a country's ability to control its own political programme. If a Korean or American or German manufacturer can site his plant wherever in the world it suits; can move capital virtually overnight whenever the tax regime changes; can sub-contract assembly work for global products to wherever labour costs least, how is any nation to insulate its domestic programme from the whim of a global company with a different agenda? Here in Scotland the vulnerability of the local economy has become all too clear as business faces up to the collapse of Asia and the retreat of Far-Eastern multi-nationals.

Shareholders, of course, have been the gainers as big business has revelled in a growing freedom to re-direct its priorities to their satisfaction. Northern hemisphere markets have, as we suggested last October, soared to an extent which has surprised many. Gravy continues to pour down the sides of the shareholder's pie.

It is clear therefore that global companies have reaped great benefits for shareholders from assuming sovereign economic powers. It is far less clear that they are fit or able to discharge the political responsibilities that need to go with them.

At one level it is a matter of business ethics. In his 1998 BBC radio lectures, John Keegan spoke of the concept of honour in warfare which he regarded as a civilizing and restraining influence in the exercise of violence. The code of chivalry, he said, has ancient roots, and points to an abiding requirement for self-interest, even in the most urgent and heated pursuits, to be tempered by a sense of decency. Such a sense is, in essence, what the ethical investment movement seeks to inculcate in business.

But even if global corporations set limits to their own powers in the market, and take a fuller account of their responsibilities within the communities where they operate, as they should, the reality is that the local aspirations of nation states may no longer be attainable in a global economy where mega-business calls the shots.

Here then is a dilemma. Business conditions across the western economies have never been better for investors, and confidence is at a peak. But the growth of the mega-corporation, and the extension of its power and reach, threatens to constrict the freedoms and choices we used to exercise through the democratic process. As shareholders we may have gained from abandoning restraints on the efficient use of capital and the application of commercial logic; as free citizens we have to recognise that we may be losing the power to control our political destinies.

Recent events in Japan show all too clearly how the engine of unfettered economic power runs off the rails if it comes unhitched from the train of political consensus behind it. The danger for stockmarkets is not that the engine of world growth looks like being thrown into reverse, though it may slow down, but that political reaction to the loss of control over our economic interests may be so severe as to undermine the free-market system itself.

Just as state intervention during the middle decades of this century marked a political retreat from the free-wheeling entrepreneurship of the post-Victorian age, so the turn of the millenium may usher in a reaction to the soulless tyranny of mega-business. Reaction is more likely to take the form of international regulation than nationalisation or expropriation, but the risk to investors is plain. For this cycle at least, it looks as if the great days of the corporate empire may soon be done.

13th July, 1998