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The clash between economy and ecology
Green Economics and
Sustainable Development Economics
Mansfield College University of Oxford

**The Theory of the Transnational Firm:
the Coordination Process and the
Structural Change**

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Particular objectives:

- ◎ ***Explain:***

1. ***The COORDINATION PROCESS AND THE STRUCTURAL CHANGE in the theory of the transnational firm and,***

2. ***its implication to the conflict between economy, ecology and Sustainable Development Economics***

- ◎

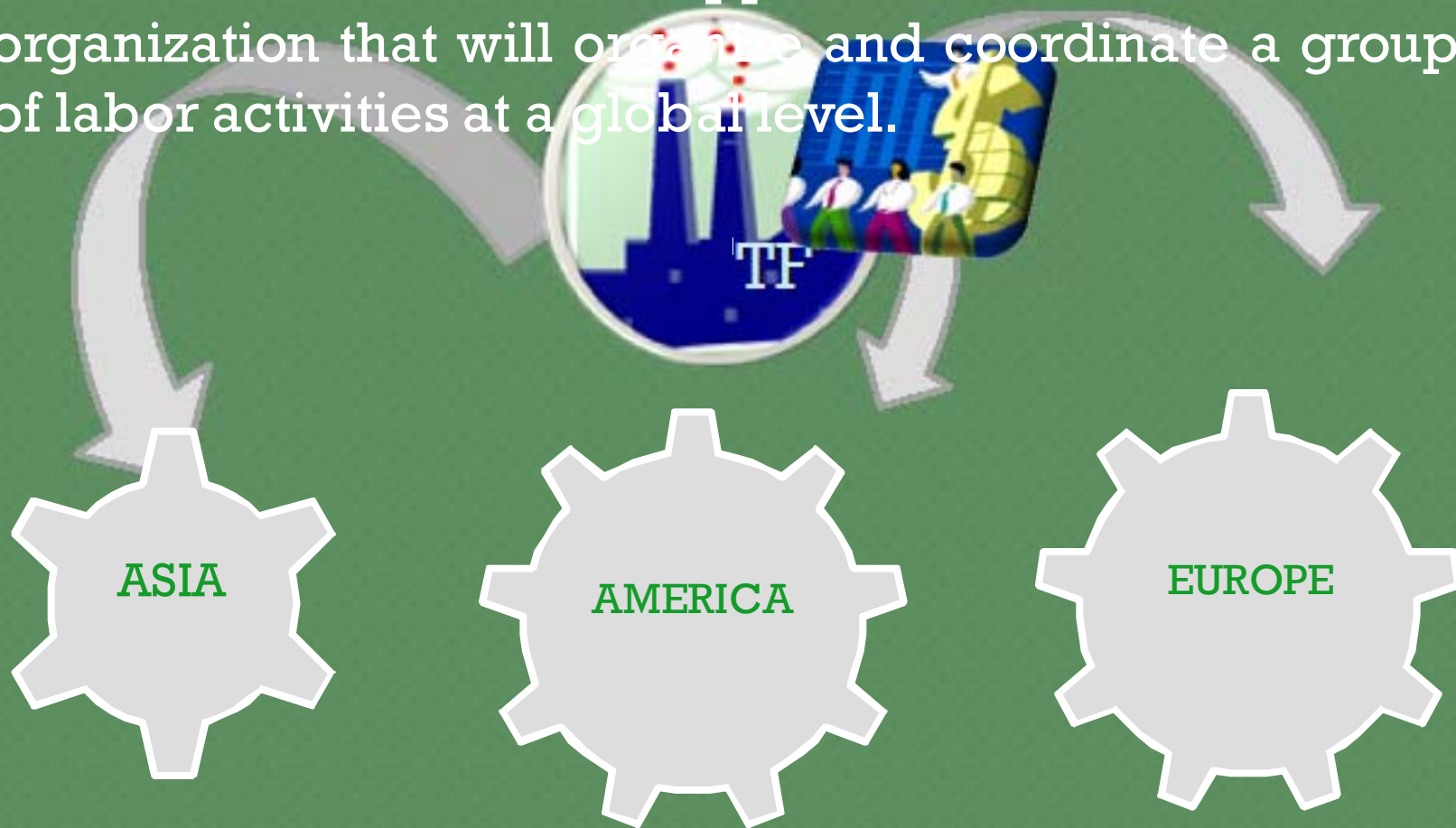
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- ◎ The dynamic theory of the firm
- ◎ The coordination process in the mainstream and some criticism
- ◎ The coordination process and the structural change, a heterodox approach.

Conclusions

The global economy, the place of wealth's creation

The transnational firm appears as an economic organization that will organize and coordinate a group of labor activities at a global level.



Today: Coordination Process and Structural change

- ◉ What does coordination means?

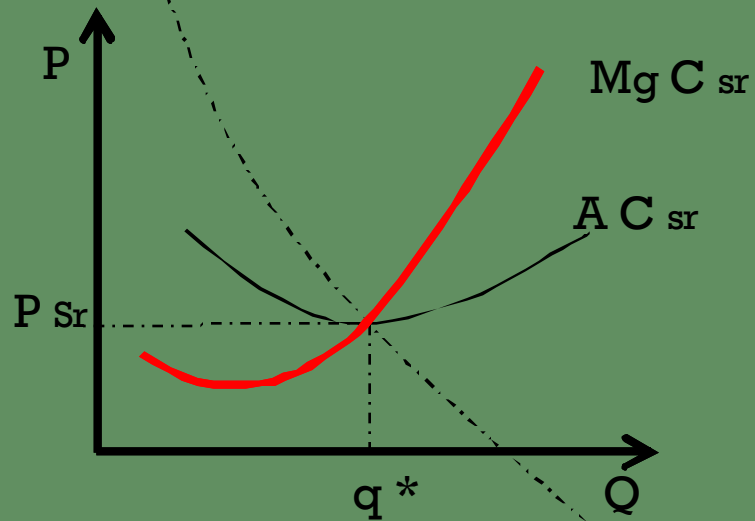
Or

- ◉ What does it mean that: transnational firms make the economic coordination?

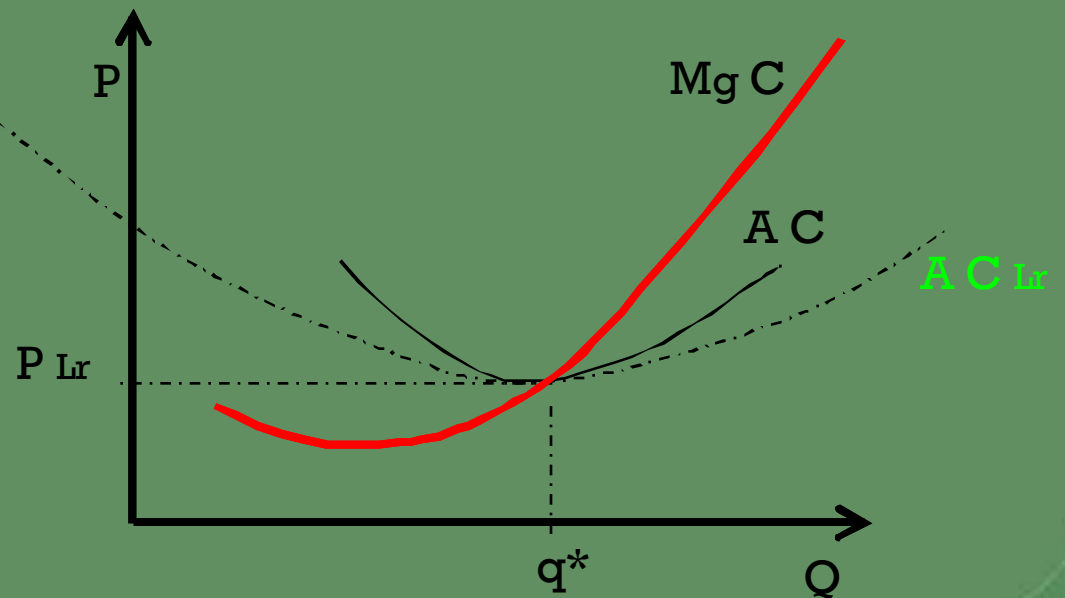
◎II.

- ◎The coordination process
- ◎in the mainstream and some criticisms

Neoclassical Theory: Equilibrium in the short and long run



$Sr \leftarrow \pi_{Lr} = 0$
 \downarrow
 Lr

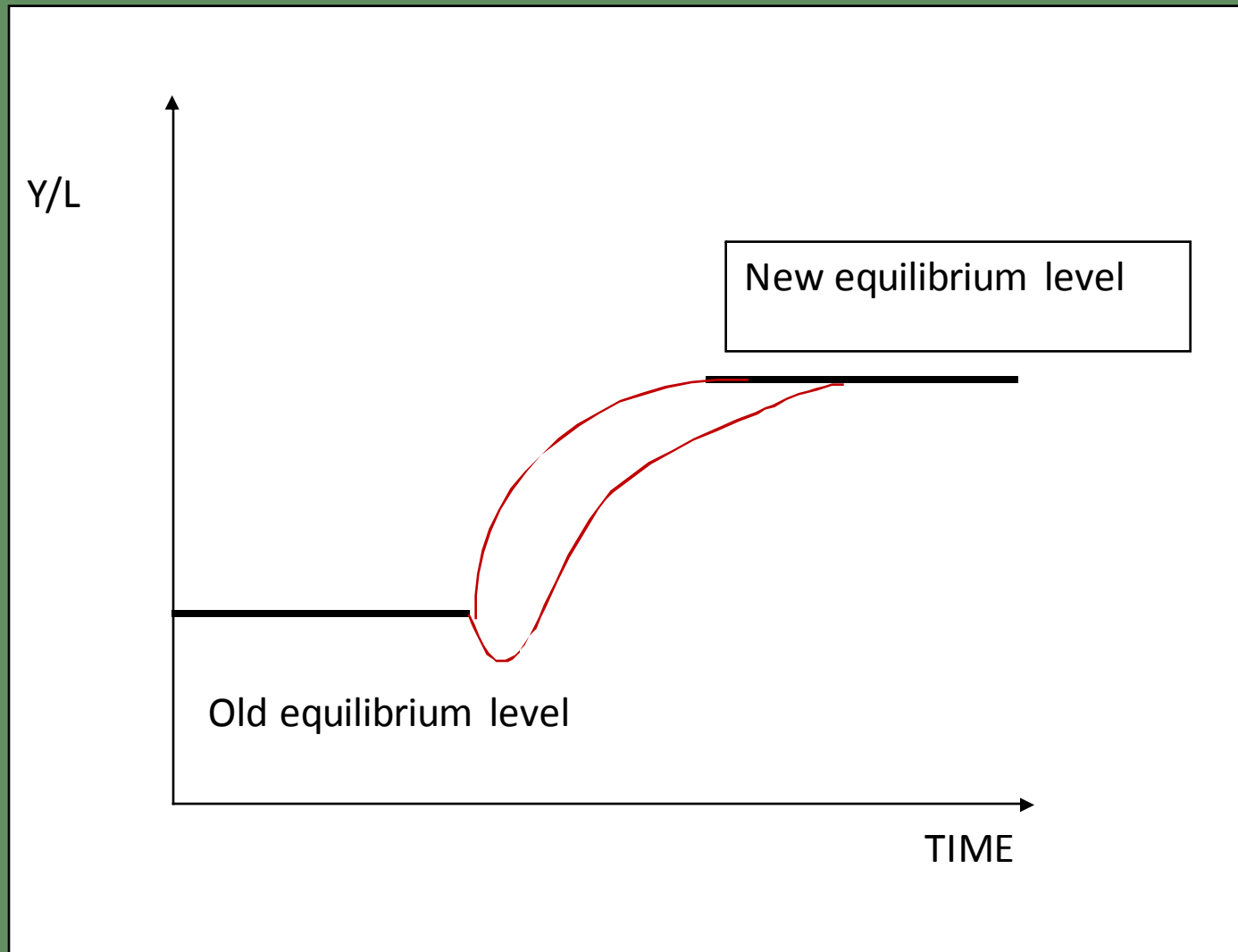


The neoclassical Theory: The Traverse

Definition:

- ◎ The *Traverse* is the path from one steady state to another, which report more labor productivity.
- ◎ The Traverse is interested in the path, the dynamic process of transition and not in one steady state.

The 'Traverse'



The Full Performance assumption

◎ The equilibrium in the Traverse, means a path of perfect coordination between the next three markets:

◎ 1. Goods and services,

◎ 2. Capital, and

◎ 3. Labor.

Hicks, in his Traverse supposed plenty coordination.

Critiques to Hicks' Traverse

Any qualitative innovation means:

1. Structural Change & lose of coordination.
2. The general case is lose of coordination between the markets.
3. New production processes imply labor market disequilibrium.
4. Hicks forgot the central role of money
5. There are supply and demand discordances

The out-of-equilibrium processes of change

- ◎ This means a dynamic path which is not in full performance and not in equilibrium.
- ◎ It is a dynamic process of change from a certain state of the economy to another one. And that process is characterized by structural change and lost of coordination

Meaning of the out-of-equilibrium: Lost of Coordination

- ◎ “A first and general meaning of being ‘out of equilibrium’ is that a change in the balance of processes of production in different stages of their life is under way ... -and the- structure is continuously modified...” “This ... happens whenever a qualitative change is contemplated...”
OEPC P.24

Full Vertical Integration in the OEPC

Amendola and Gafard propose a framework characterized by the Full vertical integration of the production process (FVIPP). It means a production process supported by firms that has an isolated or individualist performance. The whole economic process is result of a mathematical addition of a lot of firms that are producing in an isolated way. They are like islands in the sea. The only place in which has contact is in the market, before and after, they don't have any relation between them neither to the social institutions nor to other economic agents.

Critic to the Full Vertical integration

The technological change and the growth could be appears as something exogenous. Instead innovation and technological change have their origin in the nature of the firm and the structural economic and social relation with the other firms and the whole economy.

The role of the firm in the coordination process:

- ◉ In this framework there are two main agents that carry out or break up the structure coordination: the firms and the State.
- ◉ The firm is the main agent of the coordination and lost of coordination process. The lost of coordination coming up when, in a context of real competition, at the first time one firm carries out innovations giving place to alterations in the economic structure, after this first successful innovation in the market, the coordination system would have been lost and the structure will develop itself on an out-of-equilibrium path.

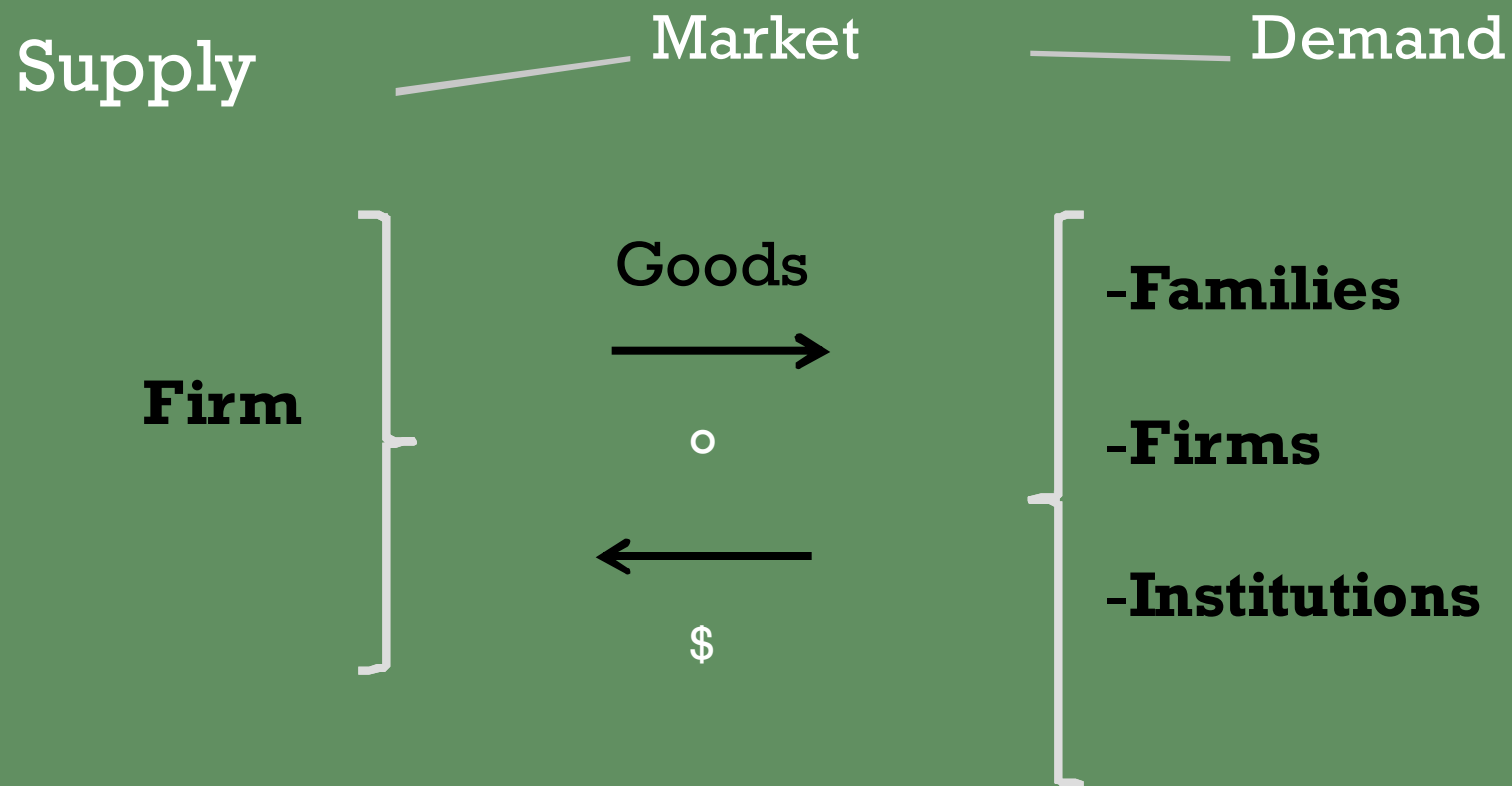
III

The coordination and the structural change, a heterodox approach.

Structure: demand and supply structures

- ◎ **The economic structure as the one that is formed by a productive structure, uses the market as coordination mechanism.**
- ◎ ***The productive structure* . This structure is formed by labor resources, capital goods, final goods and the financial system.**
- ◎ ***The demand structure* is defined as the set of purchases carried out by the economic agents. This structure is formed by the families, the institutions, the government, and the firms as customers.**

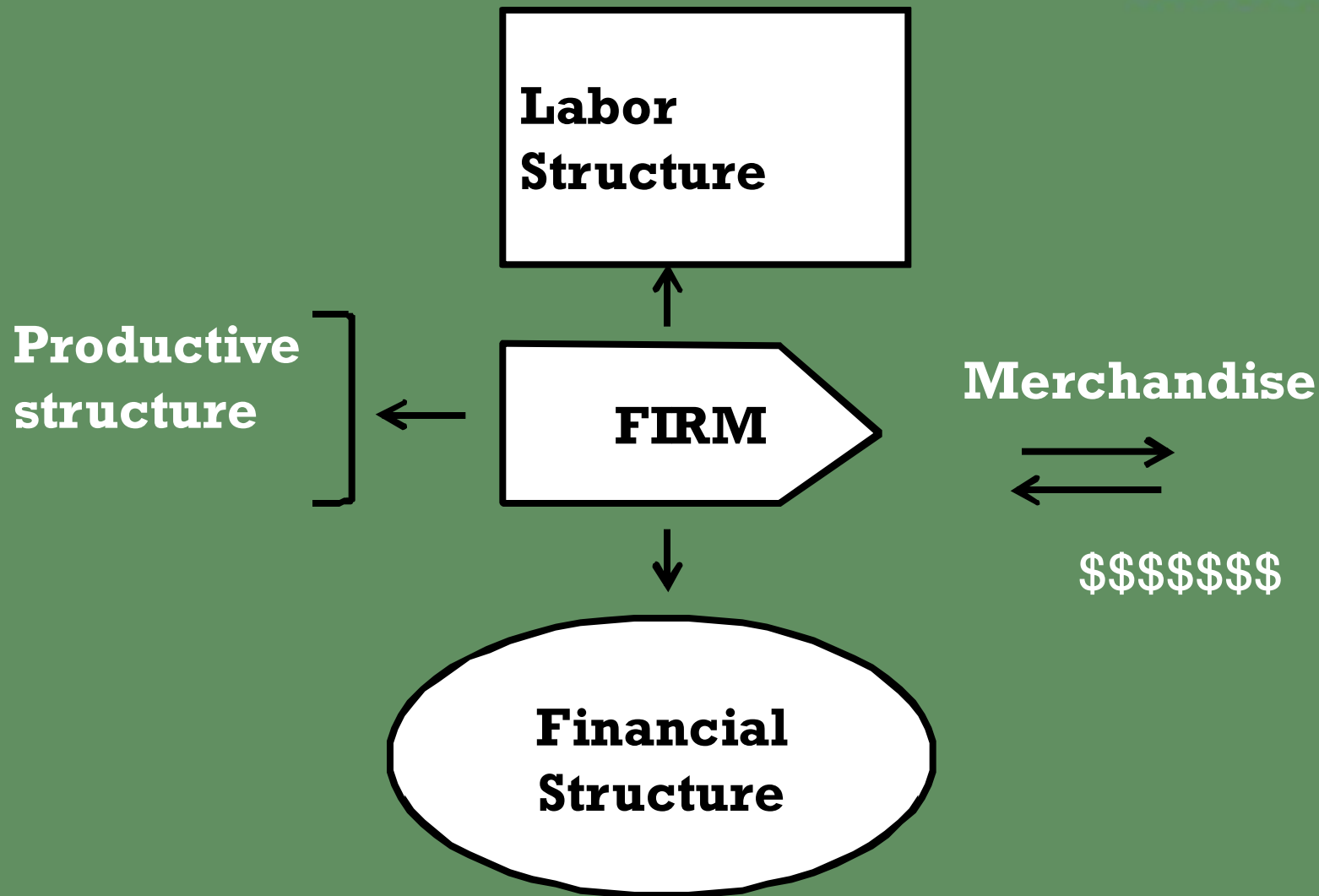
Coordination and structures



Coordination and structural relations.

- ◎ The market should be thought overall as the coordination mechanism of the performance of the economic system.
- ◎ The coordination in the production structure is not only an act of demand and supply, it is a relation of establish dependence between its members, it is a dependency relation that is better shown as a relation of input-output.

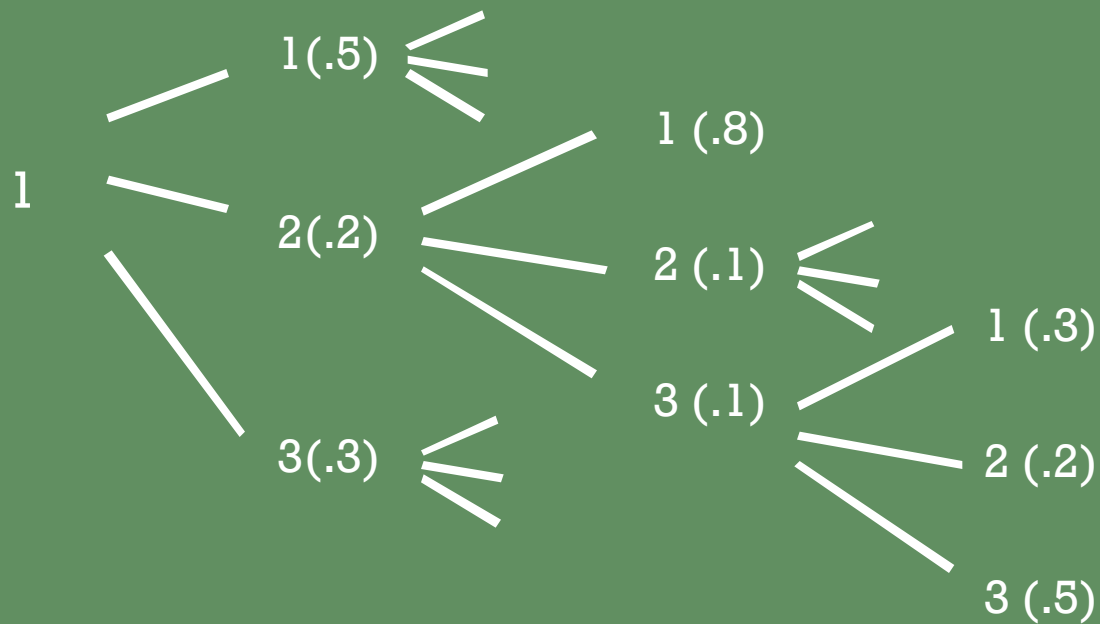
Coordination and Structure of the firm



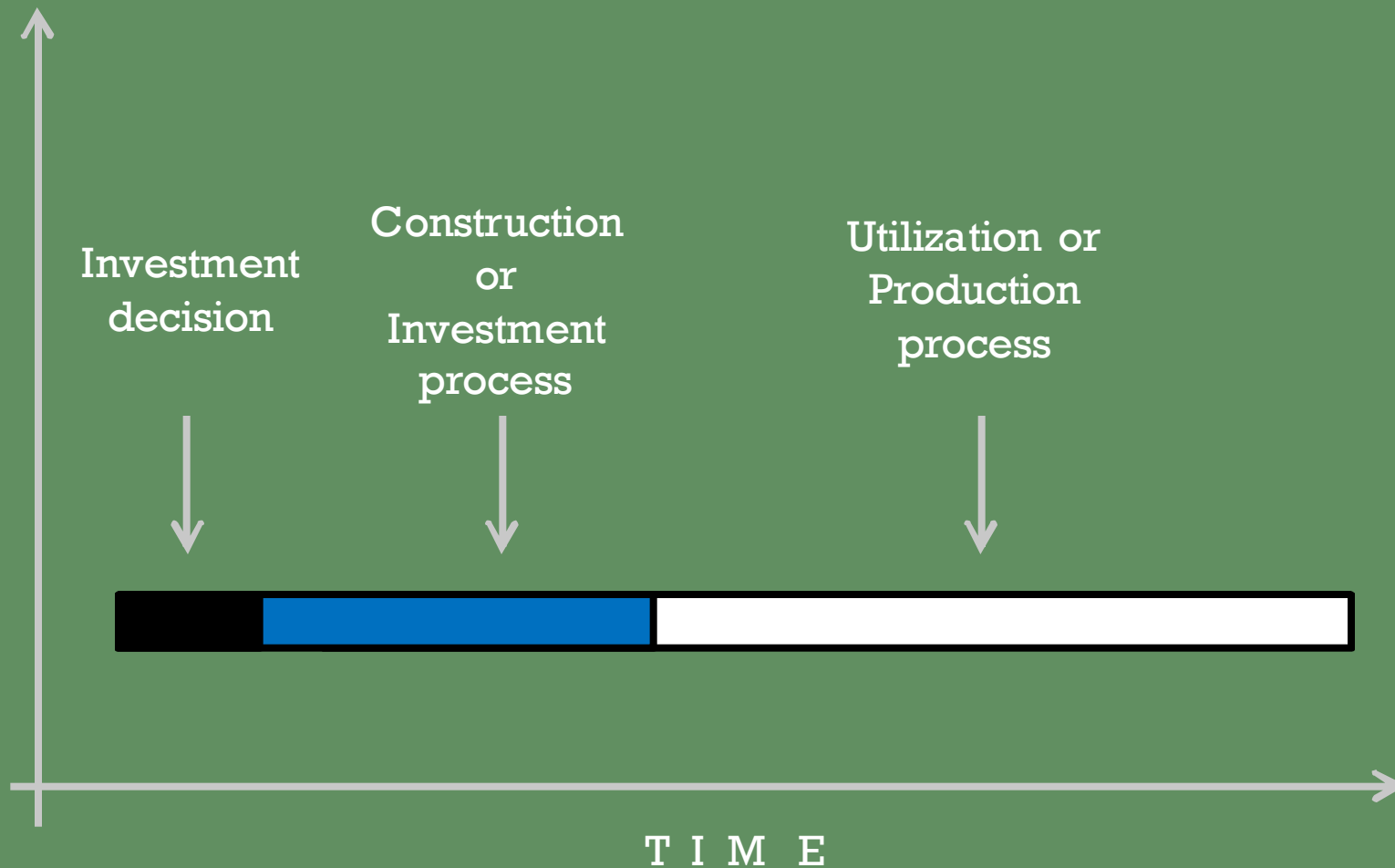
Matrix of input-output on 3 firms

	1	2	3	
1	.5	.8	.3	1.6
2	.2	.4	.2	.8
3	.4	.1	.5	.9

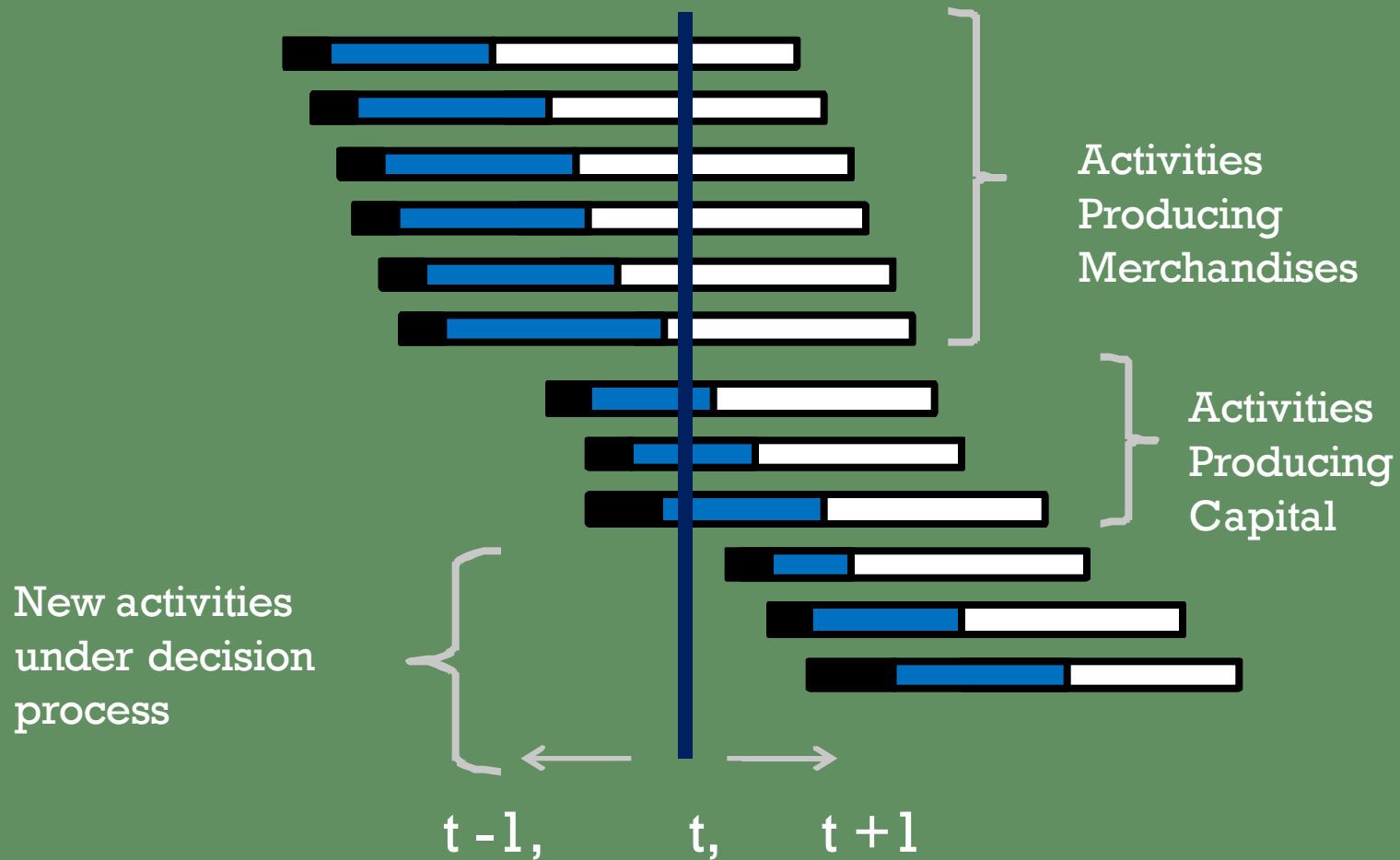
Chain of relations and impacts



Temporal Structure of one enterprise



The temporal structure of the supply



Decision – Prod de capital – Prod merchandises

The firm as manager of the structural change

- ◉ The firms are in charge of take investment decisions.
- ◉ Run and manage the investment process and the coordination implied on it.
- ◉ Manage the production process and the coordination implied on it.

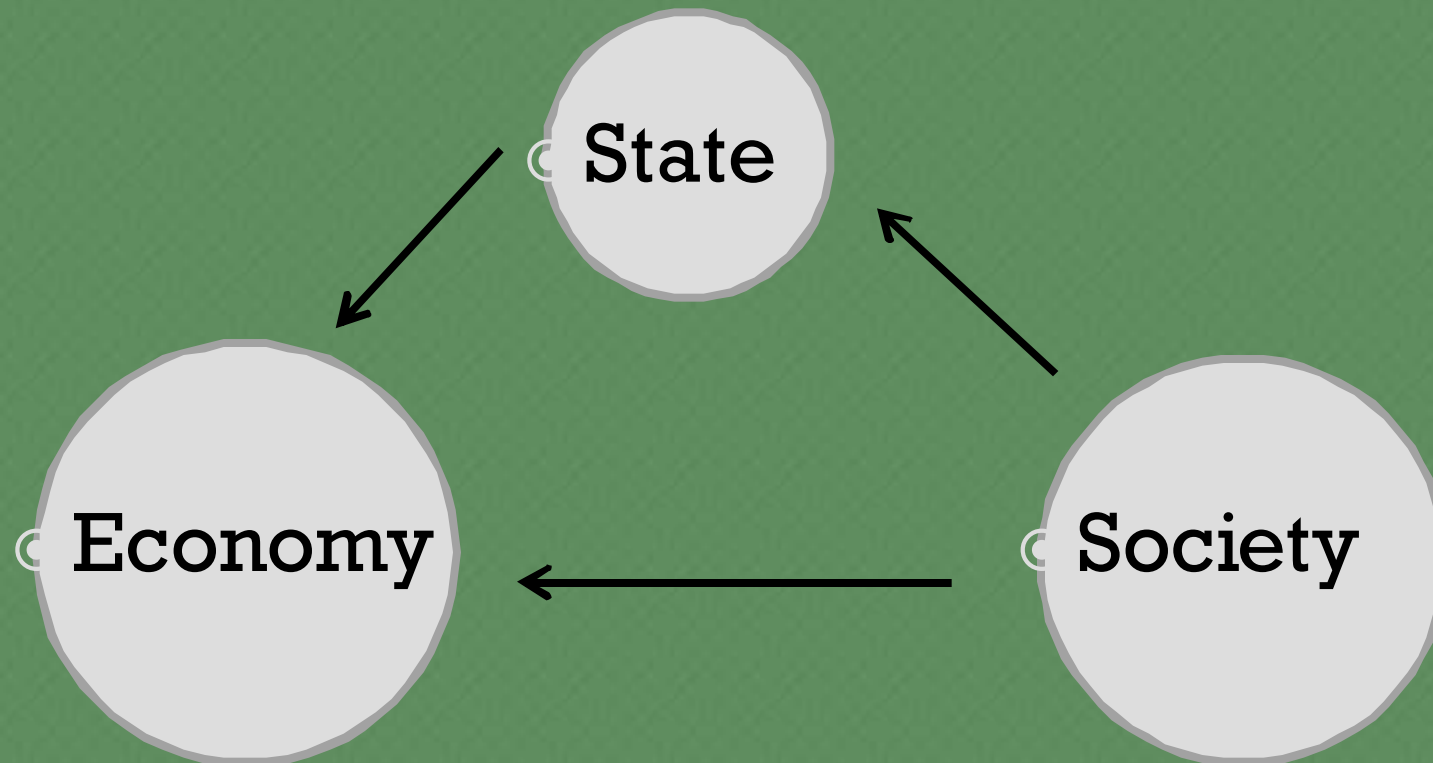
Therefore we can state that the firms are those that manage the structural change and the coordination (relations of input-output) involve on it.

The firm as destroyer and builder of coordination, but ...

This process is determined for the viability of the investment project, which is related with:

- ◎ The size and the expansion of the system: production and consumption.
- ◎ The competition in the industry
- ◎ The institutional restrictions (determined by the government)
- ◎ The society behavior

The customer, institution and society shaping structural change: *desirable relation:*



On what would depend such as desirable relation?

- ◎ It would depend on the society itself, on its organizations, institutions and on its power to orientate the structural change, and on not let it to the market forces.
- ◎ Unfortunately in the actual world the transnational firms are the ones that have the dominant position over the governmental institutions, and the behavior of the society, and they appear as:
- ◎ The transnational firms are running as the manager of the structural change.

Conclusions

- a. Greening the structural change which must be considered as a dynamic process along the time
- b. Because the temporal structure of the supply, which is divided in three parts:
 - The investment decision
 - The investment
 - The production process

Each strategy to greening the structural change could be in the horizon of these three dimensions.



¡Thanks!



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<http://www.economia.unam.mx/profesor/webprof.htm>

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