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The Mexican Transnational Firm: A Framework
from The Labor Theory of Value, Post Keynesian
Theory and an Eclectic perspective

Dr. Gustavo Vargas.
Universidad Nacional Autónoma de
México.

Particular objective: Explain Transnational Firm's dynamics

Índex

- I. The Neoclassical Theory and the Costs of Transaction Theory
 - II. Explaining the Transnational Firm from the Labor Theory of Value
 - III. Hymer's Theory
 - IV. Post-keynesian theory and microeconomics' representation of the firm
 - V. Dunning and Penrose's Eclectic view
 - VI. The microeconomic representation of the Firm
- Conclusions

The Mexican Firm's historical characteristics

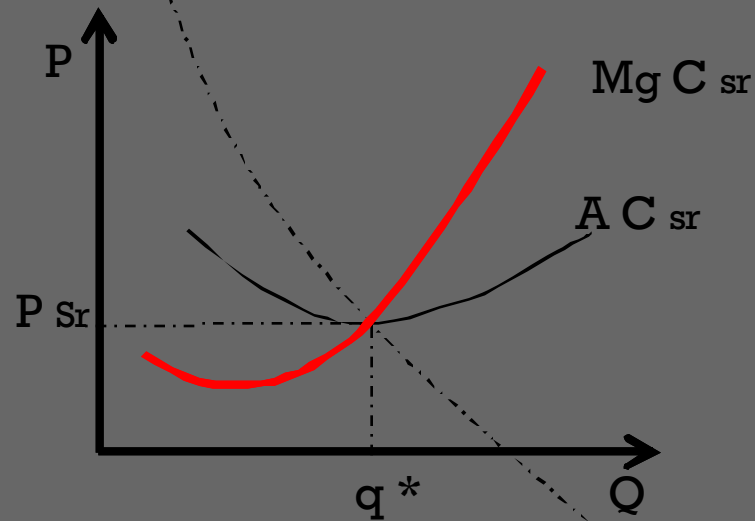
- ◎ Continuous growth since foundation
- ◎ Protectionist relationship with Government
- ◎ Cultural idiosyncrasy
- ◎ Geographic and orographic characteristics
- ◎ Personal leadership

What does the theory must explain?

Why do firms grow?

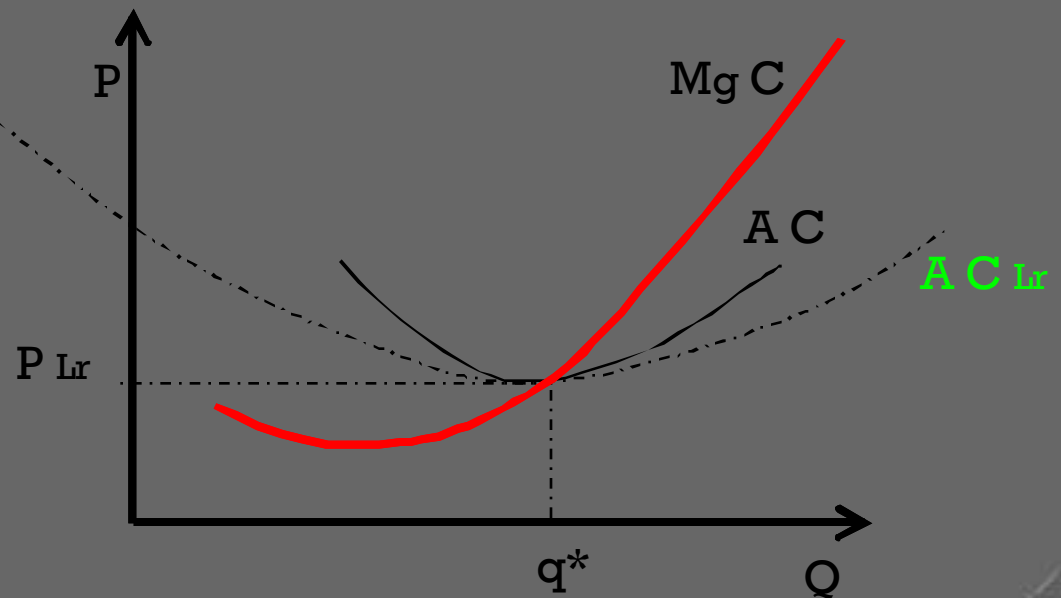
I. Neoclassical Theory:

Equilibrium in the short and long run



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

\downarrow
 Lr



Euler's Theorem

- The output volume means the same product as the sum of the productive factors multiply by its marginal physical productivities.

$$\begin{aligned}K \frac{\partial Q}{\partial K} + L \frac{\partial Q}{\partial L} &= KA\alpha k^{\alpha-1} + LA(1-\alpha)k^\alpha = \\ &= LAk^\alpha \left[\frac{K\alpha}{Ak} + 1 - \alpha \right] \\ &= LAk^\alpha [\alpha + 1 - \alpha] = LAk^\alpha = Q\end{aligned}$$

- That means that the surplus doesn't exist

$$\Delta Y = \Delta K + \Delta T$$

Costs of Transaction Theory

- ◎ Coase's thesis proposes that there are two mechanisms for the assignment of resources in the economy, one of which has traditionally been studied by neoclassicists: the market, and the other is the firm. In the firm, as opposed to the market, resources are allocated according to the coordinating entrepreneur's criteria, while in the market, resources are allocated through price mechanisms. It is in this discussion that Coase's contribution is relevant, as he recognizes the firm as a different allocation space from the market.

What are the limits of the firm's growth?

- ◎ Coase explains the limit of the firm's growth by using the Marshallian idea of margin linking the costs of organization with the costs of transaction. According to this author the limit is in the "diminishing returns of the administration" and in the increase in the supply prices of one or more of the factors of production. From this perspective the firm tends to growth until the increase in the costs of organization are equal to the costs of transaction or those of the other firms.

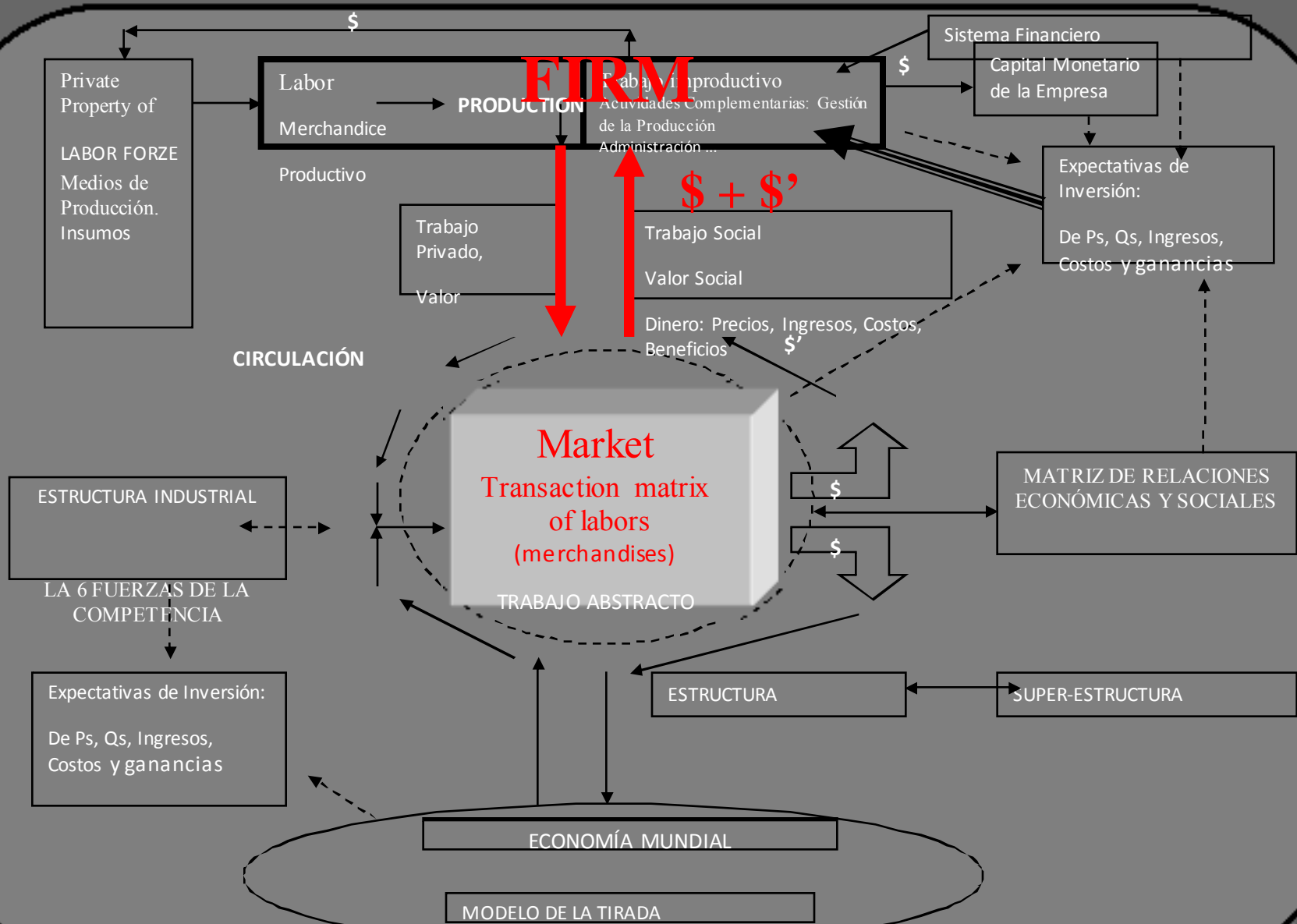
II. How can we explain the nature and the dynamics of the TF?

The dynamic relationship between

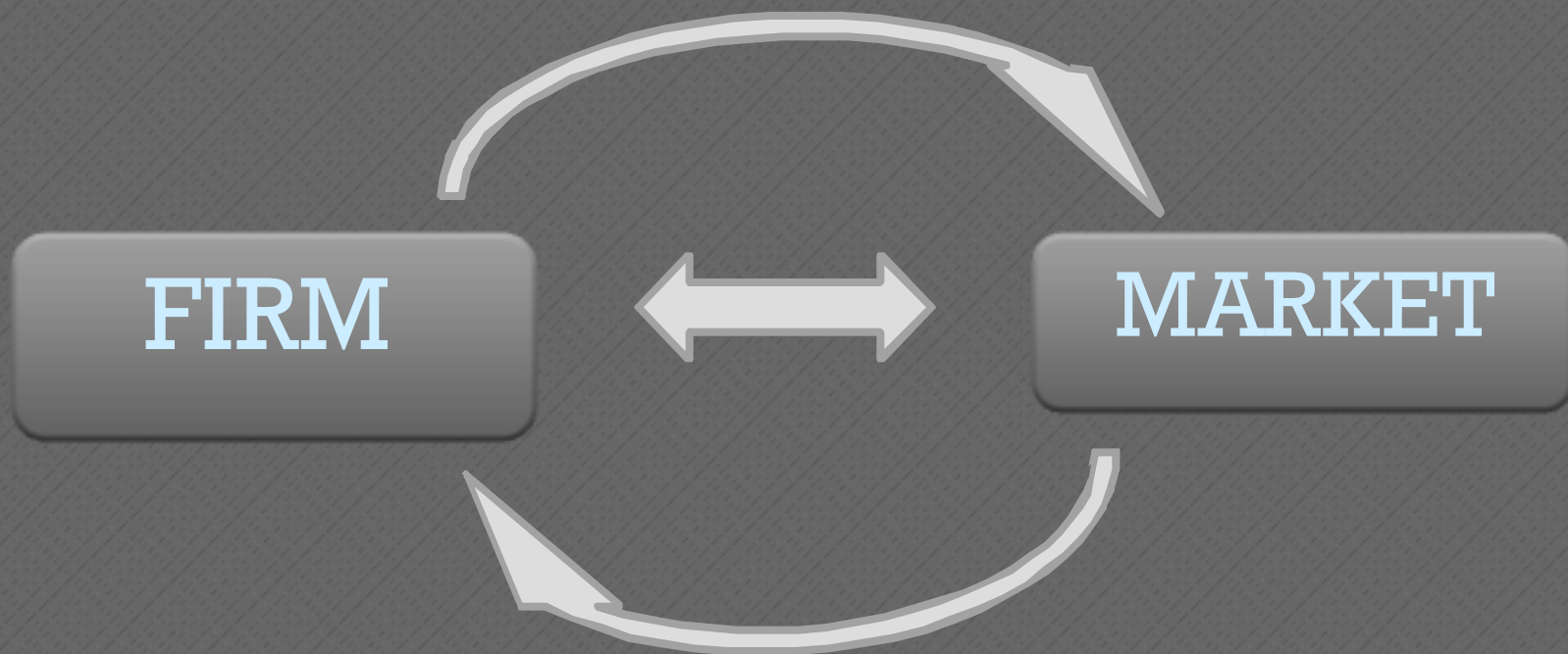
- 1.- **The Labor Theory of Value**
- 2.- Post Keynesian theory, and
- 3.- Dunning and Penrose's eclectic analysis

Labor value principle

Proces of Value Formation



dynamics



Absolute capitalist law

- ◎ The sur-plus or plusvalue production



Is the

General capitalist accumulation
law

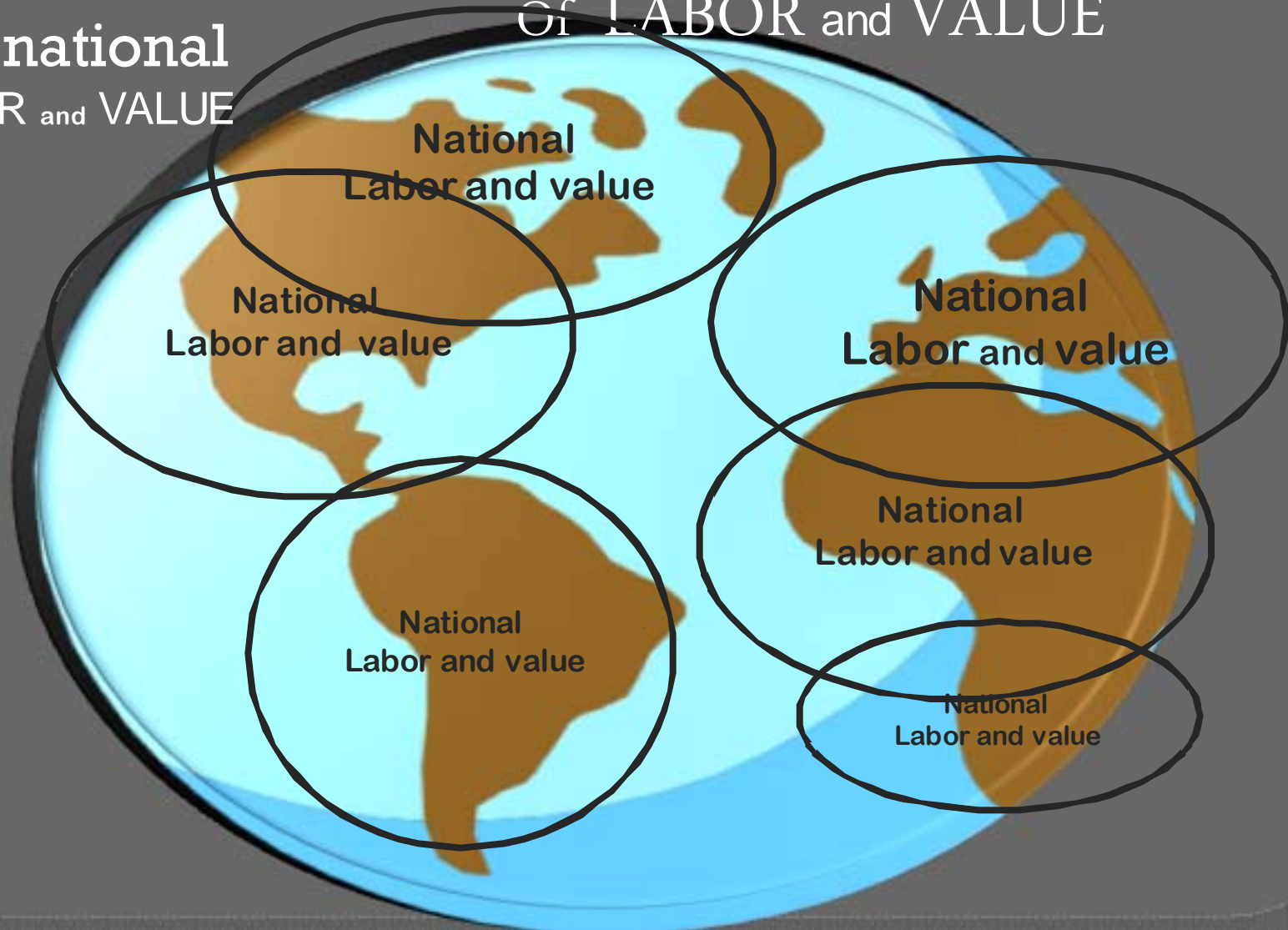
Evolutionary character of Accumulation

In Marx theory we have two fundamental forces:

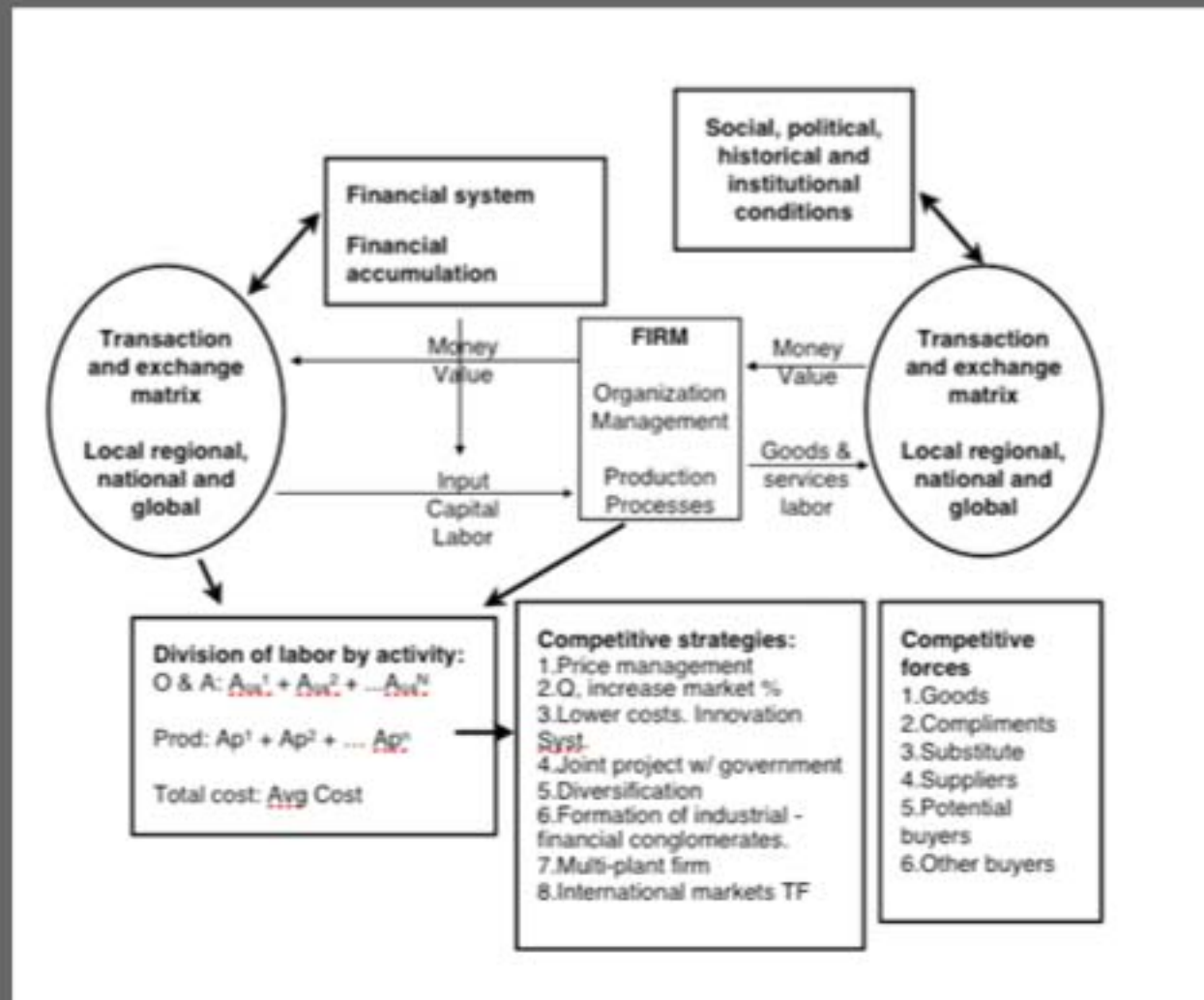
- ◎ a) *the proactive tendency* that carries the firm to introduce technical and organizational innovations and changes on productive techniques that already exist.
- ◎ b) *a reactive law* that generalizes the new productive way, making the organization, the technology and the prices similar inside the industry.

The global dynamics Of LABOR and VALUE

International
LABOR and VALUE



The Transnational firm from the Labor Theory of Value



III. Hymer's theory:

The firm's constant growth

- ◎ The firm has been growing since the industrial revolution: from the workshop, to the factory, to the national company and presently to the transnational firm.
- ◎ The tendency has been so clear that it can be thought of a
“general law of capitalist accumulation”

Hymmer's Theory

- ◎ The power pyramid
- ◎ Power and exclusion relationships
- ◎ Knowledge and management
- ◎ Organizational and administrative structure
- ◎ Financial power
- ◎ Communications technology
- ◎ International competition

Marx and S. Hymer



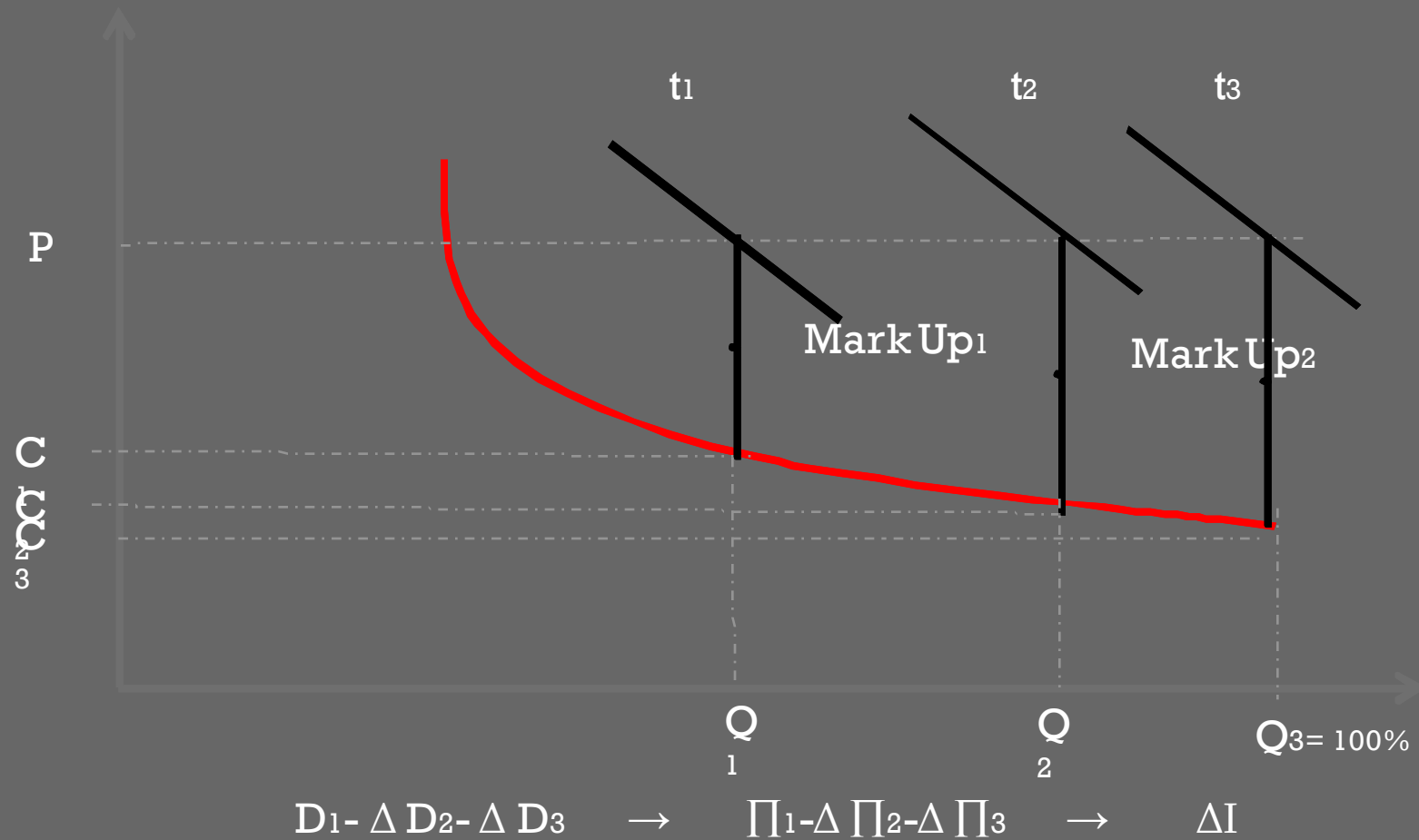
IV. Post-keynesian theory and microeconomics' representation of the firm

- ◎ In order to get a heterodox microeconomics representation of the firm's growth

Sraffa's (1926) principle:

- The production process is dominated by the complementary factors of production.
- That imply constant or increasing returns, and the Average Variable Cost is constant, and the Average Total Cost is decreasing along the relevant production segment.

The Firm: post-keynesian microeconomics representation

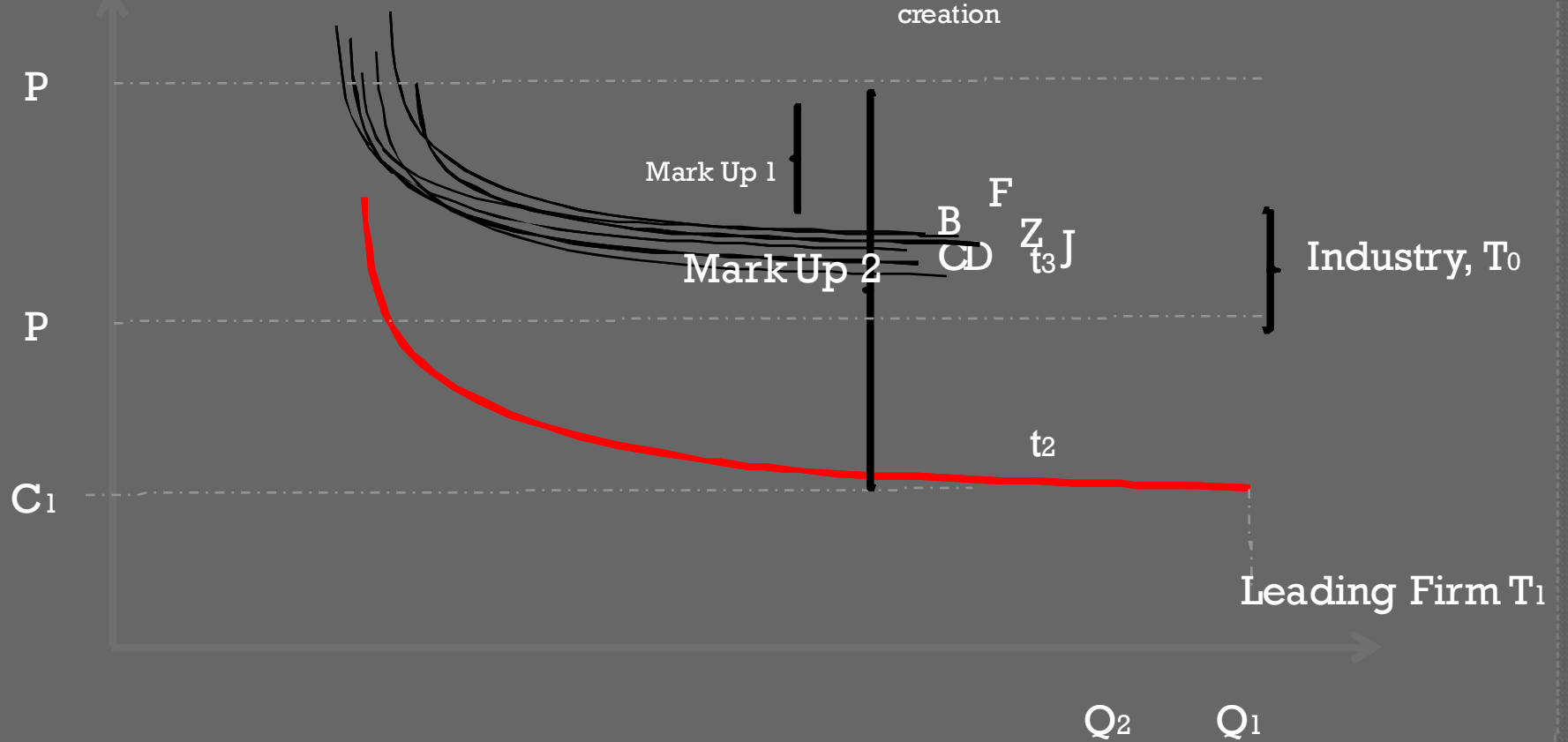


The Marxist and post-keynesian representation of:
2 Forces of accumulation

Proactive tendency → Reactive law

Innovation process

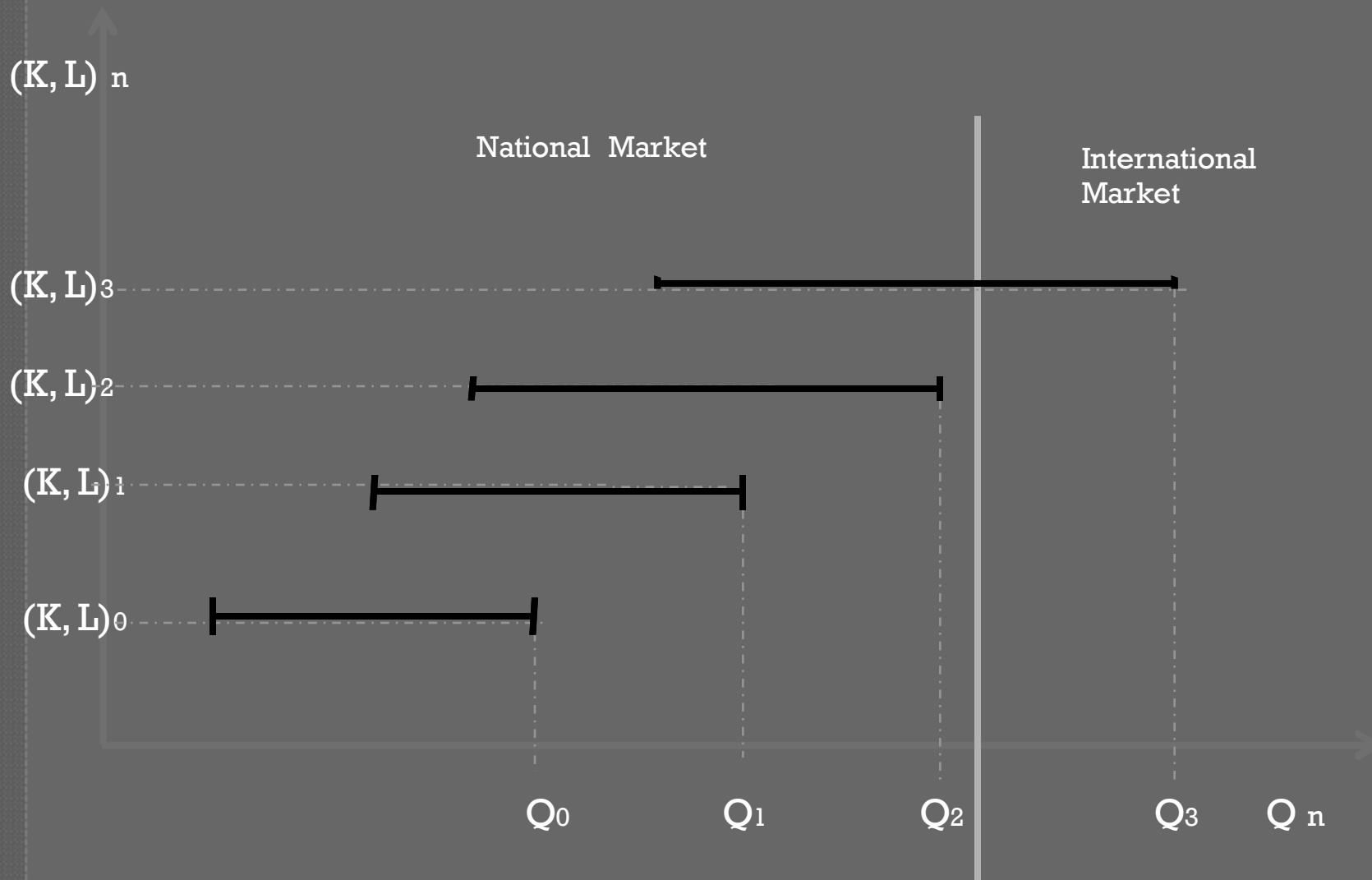
competence disappearance δ oligopoly
creation



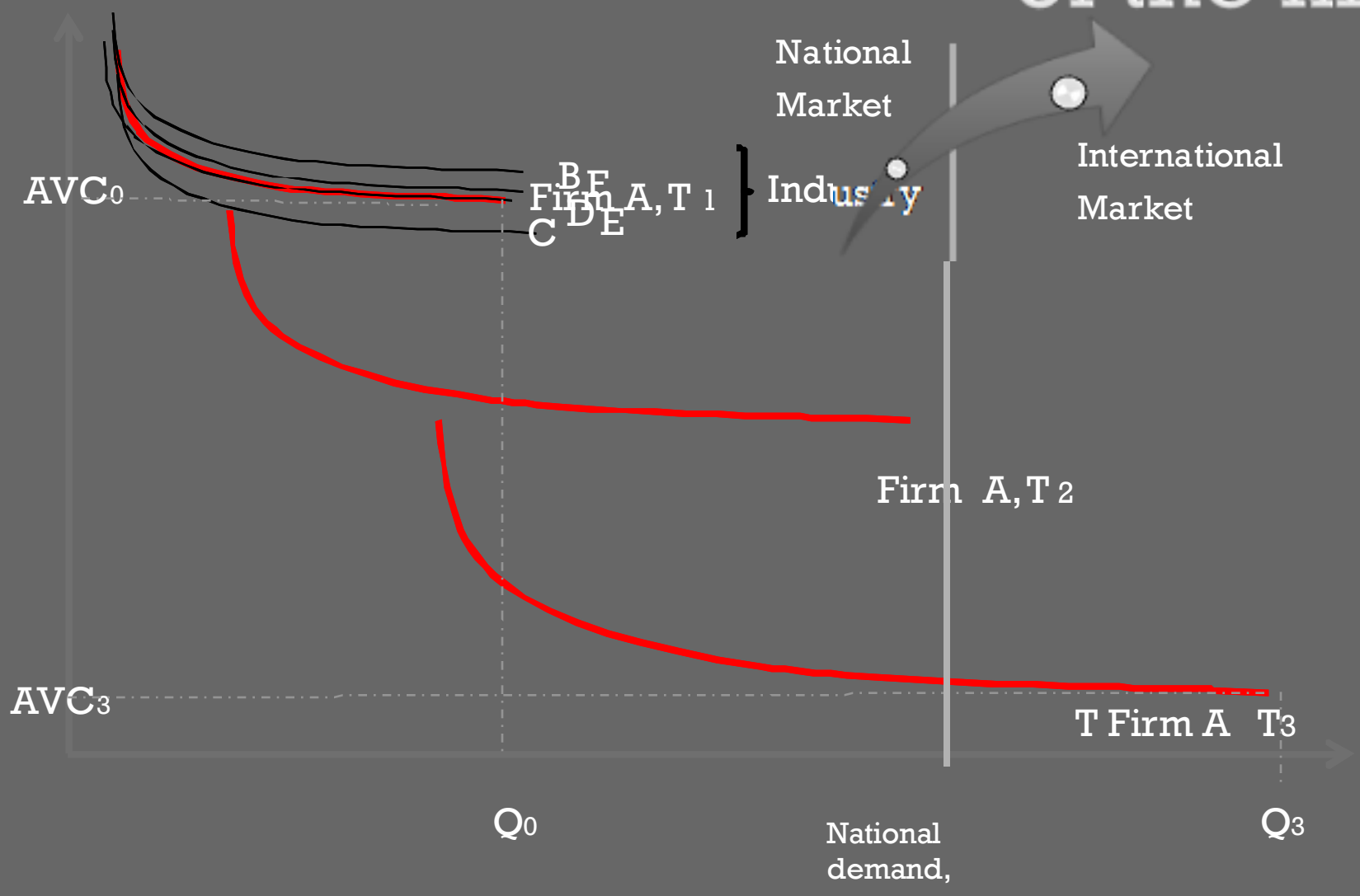
V. Eclectic perspective: Dunning and Penrose's View

- Perfect competition doesn't exist
- Information is not free
- The firm chooses where to produce
- The firm produces knowledge
- The firm originates technological innovations and organizational changes.
- The firm is influenced by the market, but as a dominant force, it determines the evolution and growth of said market.
- This relationship between the firm and the market is what determines the firm's constant growth.

Time and growth



Microeconomic representation of the firm



So the result is:
we have a first approximation for explaining the
TF dynamic's

Its objectives, of private character, are
simple, well defined, and permanent:

profitability and growth,

evaluated as its integrated operations at a
global market level and in a long-term
perspective

The global economy, the place of value creation

- ◎ Labor's division and the general process of value's creation and realization, transcend the boundaries of a country

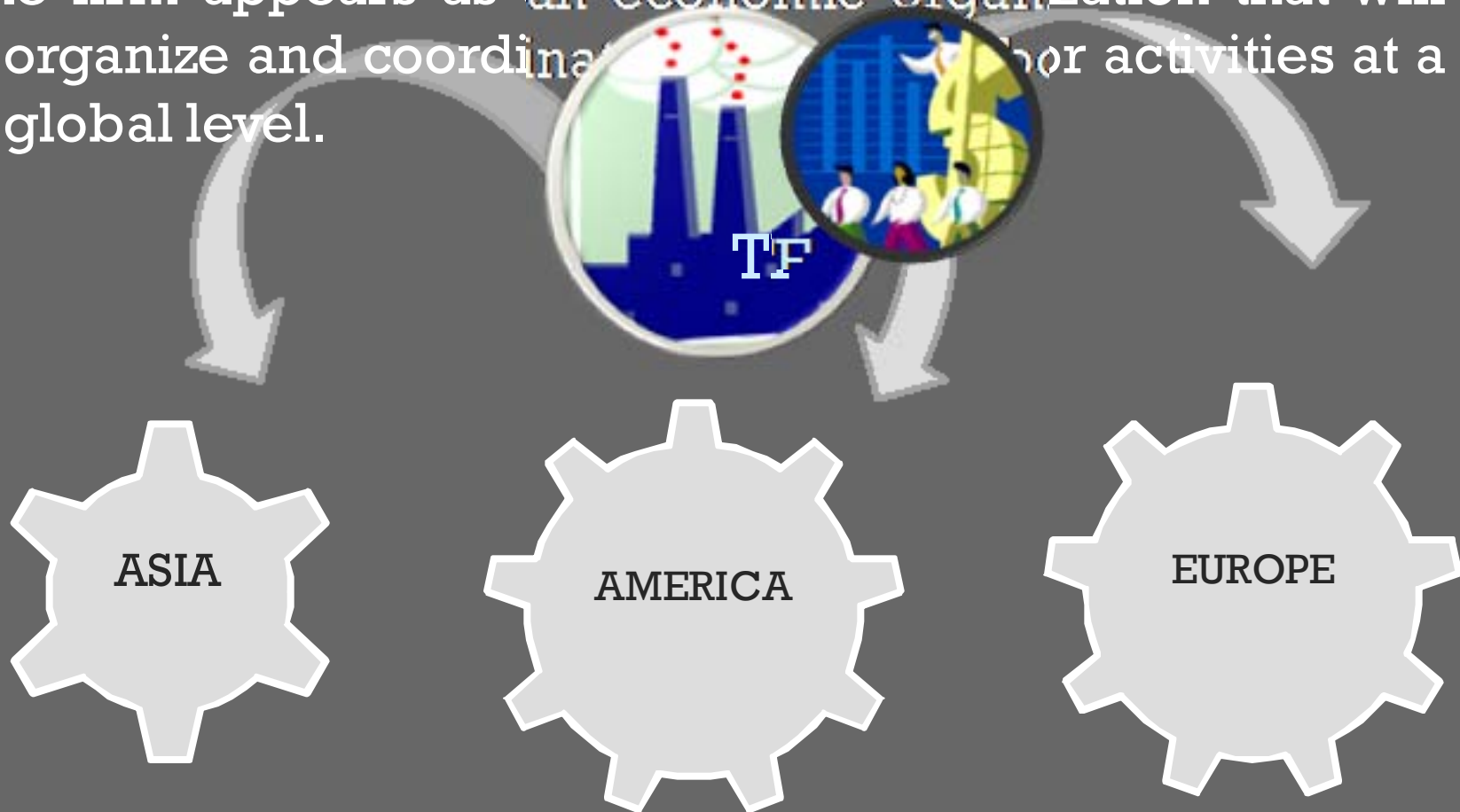
The global economy, the place of value's creation

The place where the firm's different activities are carried out, and where the value that the TF captures is the global economy.



The global economy, the place of value's creation

The firm appears as an economic organization that will organize and coordinate other activities at a global level.



Conclusions

- ◎ Firstly, the theoretic perspective for the analysis of real firms' function and in particular, the TF is necessary. Furthermore, (in Dunning's words) this analysis requires an "eclectic paradigm".
- ◎ Secondly, even though the eclectic perspectives we have analyzed offer important contributions to our explanation, the reorientation of focus that we offer in this essay is also pertinent to these approximations: the force or cement that constitutes the integrating force of the economic system is the relationship between the concepts of labor and value.
- ◎ Thirdly, the TF is the result of an accumulative process that happens in two complementary economic arenas: the firm and the market.

Conclusions

- ◉ Fourthly, even though the nature of the TF is that of a private enterprise, its existence implies substantial changes in the global economic function.
- ◉ Production takes place in more than one country, therefore, the international division of labor in the global arena has resulted in an organizational structure that is capable of directing and coordinating the worldwide activities of the TF.
- ◉ The creation of value happens in a worldwide scale, thus we must assume several transaction matrices that involve various markets, productive structures, social and cultural institutions and institutional differences, as well as different currency, exchange, tax and fiscal policies.
- ◉ The TF has become an organization that manages the creation of value on a global scale and along with it, the accumulation of capital. The TF is the pivot on which the global economy rests. Including financial, technological, trade, knowledge and information flows, etc., even human resources.



¡Thanks!



Dr. Gustavo Vargas.

E-mail.- vargassanchez01@live.com.mx

1.- <http://www.economia.unam.mx/webprof.html>