

occasional paper no. 5
world summit for social development

*transnational corporations:
impediments or
catalysts of social
development?*

by eric kolodner



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preface

The World Summit for Social Development, to be held in Copenhagen in March 1995, provides an important opportunity for the world community to focus attention on current social problems and to analyse the dimensions, roots and directions of social trends. In particular, the agenda of the Summit specifies three areas of concern: the reduction of poverty, the generation of productive employment, and the enhancement of social integration. UNRISD work in preparation for the Summit focuses on the last of these: as countries confront the seemingly intractable problems of social conflict, institutional breakdown and mass alienation, the topic of **social integration** has assumed increasing importance in public debate.

The UNRISD Occasional Paper series brought out as part of the Social Summit preparatory process takes up a range of issues relating to social integration. This paper examines the relationship between transnational corporations (TNCs) and social development.

Although the impact of the operation of transnational enterprises has long been the subject of much discussion and controversy, this debate has witnessed a qualitative change over the past 5 to 10 years. The fall of the Soviet empire, the decline of social welfare programmes in some European states, and the predominance of a free market ideology have all tilted this debate in favour of transnational corporations. Furthermore, the increasing mobility of capital as well as the growth of international and bilateral trade agreements have expanded the powers and privileges of these multinational entities, while minimizing their social responsibilities. This changing environment is particularly notable in many developing countries where governments, once extremely suspicious of foreign corporations, are now exerting efforts to attract TNC investment.

Despite this shift in thinking and policy, there still exists substantial disagreement regarding the extent to which transnational corporate activity promotes positive social development. On the one hand, proponents for TNCs argue that these entities advance social goals by providing jobs, paying taxes used for social programmes, building an industrial base, earning foreign exchange, transferring technology, raising living standards and contributing to charitable causes. On the other hand, advocates of enhanced corporate responsibility note that TNCs have been linked to interference in sovereign affairs, continued disparities in wealth, poor

workplace conditions, corruption, transfer pricing policies, and a “downward harmonization” of labour, consumer and environmental standards.

This paper assesses the two sides to this debate. It specifically examines the relationship between TNCs and social development with respect to their effects on employment, consumer safety and health, the environment and transfer of technology. Furthermore, it discusses the current expansion in corporate rights and suggests some methods by which governments and NGOs can foster corporate social responsibility. Finally, it argues that, as prevailing ideologies shift and transnational corporations extend their global reach, the international community must ensure that the extraordinary economic and political power of these entities is harnessed to the goals of social development.

Eric Kolodner is currently doing research at the New York University Law School and Princeton University’s Woodrow Wilson School. The production of this paper at UNRISD was co-ordinated by Peter Utting.

November 1994

Dharam Ghai
Director

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