The UN as a Regulator of Private Enterprise

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INTRODUCTION

This paper focuses on one specific aspect of the proliferation of law in our economic life — the rising extent to which the United Nations and its specialized agencies are involving themselves in the regulation of private enterprise. Unlike the existing body of domestic regulation, this new burst of regulation does not appear to be primarily motivated by a desire to improve business performance. Rather, the new style of rule-making is aimed at more fundamental, political objectives, notably the redistribution of economic power, and especially of income and wealth.

To compound the problem, the advocates of this new array of regulation have overlooked — and certainly have not learned any lessons from — the shortcomings of existing regulation of business in the developed countries. Study after study has demonstrated that government regulators have so often been oblivious to the burdens that they impose on the private sector and, far more fundamentally, that such rules, regulations, and directives often do little to advance their stated social objectives. In fact, in practice they are often counterproductive. One key finding permeates virtually all serious analyses of government regulation of business: It is the consumer who ultimately bears the burden that government, wittingly or unwittingly, attempts to impose on business.¹

Compared to other international organizations such as

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the European Economic Community and the Organization for Economic Cooperation and Development, the UN is in its infancy as a regulatory body. Many of its measures are still in an evolving state. Thus, a critical review is especially appropriate.

Some of the international agency actions are broad; others are directed at specific business activities. Some of these regulatory efforts are in development or in negotiation stages, in the form of "advisory resolutions" or "voluntary guidelines." But in a growing number of instances, the regulations are legally binding treaties. The form in which they currently exist is often an indication of the next step that will be taken in the international regulatory process. Yesterday's studies lead to today's "voluntary guidelines" which, in turn, become the basis for the treaties and directives of tomorrow.

These regulatory activities cover virtually every function of the business firm — operations, marketing, finance, technology, services, and information. This paper reviews the regulatory efforts by UN agencies in each of these six areas of business decision making. Few areas of private business decisionmaking escape the attention of one or another UN agency.

REGULATION OF BUSINESS OPERATIONS — REGULATION OF MULTINATIONAL BUSINESS

Of the proposals or actions of agencies designed to control the day-to-day operations of private companies, the most ambitious is the United Nations draft code of conduct for multinational corporations (or so-called transnational enterprises). The MNC Code is being developed by a commission of the United Nations Economic and Social Council (ECOSOC). Although approximately two-thirds of the Code's seventy-one provisions have been agreed upon, the discussion remains stalled with one major area of contention being the definition of a multinational corporation.

This stumbling block exists because the scope of the Code goes beyond the definition of multinational corporations which is used in the existing scholarly literature. Most serious analyses limit the definition of MNC to companies


which produce goods and services in more than one country and where there is more than one center of corporate decision making. Unilever and Royal Dutch Shell are the classic examples. But the Code would apparently cover almost any company that tries to sell its products to people in another country. In the modern world, that includes virtually every large company and many middle-size and smaller firms.

The language contained in some sections of the Code is vague enough to make any sensible company think twice before investing in overseas locations, where it might run afoul of the Code once it is promulgated. One example is the provision that multinational corporations should “avoid practices, products or services which cause detrimental effects on cultural patterns and socio-cultural objectives as determined by government.” Where is the historical perspective of the authors of the Code? Over the centuries, civilization has been advanced by the transnational flow of science, art, music, literature, culture, and commerce. Moreover, should the UN encourage the governments of its member nations to set “socio-cultural objectives” and require private enterprise to follow the “cultural patterns” set by government? This is not a traditional function of government regulation in a free society.

Many of the organizations representing the business community on these matters have offered a weak response — asking only that the MNC Code be made voluntary and that, if passed, it apply also to state-owned firms. That kind of response is inadequate. The Code is a misguided instrument and its basic rationale must be reconsidered in a fundamental way. After all, the private corporation has been the key to the successful development of Taiwan, South Korea, Singapore, Japan, and other developing societies that have prospered in our own time. In fact, Japan has succeeded in moving from the developing to the developed category in this century, and it did so without an MNC Code.

International Antitrust Rules

The size and structure of firms operating in developing countries can be affected by a UN code to control international business practices. Rules amounting to global antitrust

regulations are embodied in "The Set of Multilaterally Agreed Equitable Principles and Rules for Control of Restrictive Business Practices" (RBP Code). The RBP Code was adopted as a UN General Assembly resolution in 1980. Its objective is to promote "the establishment or development of domestic industries" in developing countries by eliminating "disadvantages to trade and development which may result from the restrictive business practices of transnational corporations or other enterprises."

Business practices to be regulated when they "limit access to markets or otherwise unduly restrain competition" are: price-fixing agreements for imports and exports, collusive tendering, market or customer allocation arrangements, sales and production allocations by quota, collective actions to enforce arrangements, such as concerted refusals to deal, concerted denial of access to an arrangement, or association, which is crucial to competition.

Other restricted practices include those resulting from what is termed abuse of a dominant market position. Examples include: predatory pricing behavior, discriminatory pricing on contract terms, horizontal, vertical, and conglomerate mergers, takeovers, or joint ventures, resale price fixing of imported goods, restrictions on the importation of products marketed with legitimate trademarks by the exporter. The RBP Code is now voluntary. Governments are expected to implement it at national levels. In 1985, a follow-up conference is expected to propose that the RBP Code be made legally binding.

CONTROLLING "THE COMMON HERITAGE OF MANKIND"

The most sweeping UN regulation of private enterprise is in the area of natural resources and mining. The most important example is the Law of the Sea Treaty, adopted in April 1982. The United States is not a signatory. To receive approval for sea mining, a private firm must agree to transfer


any technology it uses to the "Enterprise" (a governmental unit operating under UN auspices) or to developing countries for "fair and reasonable commercial terms." Also, the company must provide, for each site mined, information on a second seabed site to be reserved for the Enterprise or developing countries. Private firms are, therefore, forced to subsidize and build the Enterprise, the same unit which competes with private enterprise.

A redistributive scheme similar to this one is contained in the UN 1980 Moon Treaty. That is another attempt by other nations to "free ride" on Western technological innovation. Since the treaty declares that "the moon and its natural resources are the common heritage of mankind," any benefits accruing from those resources must be shared, and an international regime will be established to oversee extraction of those resources. As a result, financial incentives to private industry for space exploration are greatly reduced, since developing countries share in the benefits but not the costs of commercial activity in space. It is interesting to note that the concept of "the common heritage of mankind" does not cover oil, strategic minerals, and other valuable items located in the developing nations.

**Regulation of Marketing Activities**

Companies involved in international marketing of products face a variety of regulatory measures. In recent years, the most well known of these actions has been the Infant Formula Code, adopted in 1981 by the United Nations World Health Organization (WHO). This Code calls for a wide variety of restrictions on the marketing and distribution of breast milk substitutes. It applies to advertising of the product, distribution of samples, labeling requirements, and even the activities and compensation of marketing personnel. Specifically, the Infant Formula Code calls for: No public advertising or promotion of infant formula products. No free samples of infant formula products to be distributed. No point-of sale advertising, such as special displays, discount coupons, sales or tie-in sales to occur. Marketing personnel of infant formula companies, in their professional capacity, may not contact pregnant women or mothers of infants and young

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children. No health care system should be used to promote infant formula. Manufacturers and distributors may provide health care workers only with scientific and factual materials on infant formula. Samples of infant formula may not be provided to health care workers. Companies cannot use sales incentives or bonuses based on sales volume to reward sales and marketing personnel. Marketing personnel should not participate in education programs for women or mothers of infants and young children. Labeling requirements for infant formula should include: a statement on the superiority of breastfeeding, a statement that the product only be used with the advice of a health care worker, and a warning against health hazards from improper preparation. The label may not depict infants or other graphics that appear to "idealize" the use of infant formula. The Infant Formula Code is not legally binding, but governments are encouraged to enact legislation for its implementation, and private companies such as Nestle have been pressured by church groups into accepting it.

It turns out that the Infant Formula Code is not the exception but the "entering wedge" for broader UN regulation of private enterprise. The World Health Organization is now considering formulating a code on the marketing of pharmaceuticals. It would create an international drug approval program and possibly include international rules on drug labeling and advertising. Such action would be an extension to all countries of something similar to WHO's existing Essential Drug Program, which lists 250 "essential" generic drugs necessary for adequate health care that must be made available to developing countries. Other suggestions for UN supervision include chemicals and related products.

The Economic and Social Council has agreed to present a sweeping consumer protection code before the UN General Assembly that would create new obstacles to international trade via controls on product advertising, safety, quality, and pricing. The advocates of the UN Guidelines on Consumer Protection claim that they are only intended to help the governments of less developed countries adopt the kind of con-


sumer laws which are in force in the United States. However, a reading of the fine print of the proposed Guidelines reveals that they would go far beyond current practice.

The proposed Guidelines advocate replacing the present reliance on market competition — reflective of consumer choices — with a system of government direction. When we look beyond their label, it is apparent that the Guidelines are a model of vagueness and over-blown phraseology. Grand goals are set forth in sweeping language that is, at best, highly generalized and unclear. The Guidelines would interfere with the goal of open international trade by establishing a new set of non-tariff barriers. The following examples of the many shortcomings of the Guidelines make it clear that "protecting the consumer" is the furthest thing from the minds of the drafters of this code.

The Draft Guidelines contain seven objectives which are supposedly written "with special emphasis on the needs of developing nations." But one objective is "to facilitate production patterns geared to meeting the most important needs of consumers." In economies organized along private enterprise lines, the needs of consumers are always the strongest influence on "production patterns;" the pressures of the marketplace dictate that. But the Guidelines suggest the need for a controlled, highly centralized economy in which consumer choices are, in practice, limited by the decisions of an all-wise government. This objective strongly implies that a central government must identify, and then control, the means of achieving the "most important needs" of consumers. We need only consult the dismal record of any of the world's centrally planned economies in feeding their citizens to know that promulgating this objective would severely hurt the developing nations.

Moreover, this objective overlooks the importance of world trade in meeting the needs of consumers. Most growing economies gear production for international markets rather than only for the so-called "more important needs" of their own consumers. The case of Japan is instructive. If its post-war economy had been limited to meeting the needs of its own population, it surely would not enjoy the strong position in world markets and the high standard of living that it has today.

One general principle in the Guidelines raises grave

concerns:

the right to economic safety from offenses or malpractices
which deny consumers optimum benefit within their eco-

cnomic resources.

On the surface, this phraseology sounds like mere gibberish. But given the propensity of totalitarian regimes, particularly communist governments, to throw people in jail for "economic offenses" against the state, one must wonder as to the ultimate application of such a provision.

Here is another provision:

Business practices affecting the processing and distribution of food products and especially the marketing of highly re-

fined and expensive food products should be regulated in

order to ensure that such practices do not conflict with con-

sumers' interest or government aims in the area of food

policy.

Why are "highly refined and expensive food products" singled out here? What all-wise power in a nation is going to determine that a specific category of food products presents a "conflict" with the interests of consumers, while another cate-

egory does not? In free societies with market economies, it is the consumers themselves who make these decisions, protect-

ing their interests by not buying the product. The true pur-

pose of this provision appears to be to project "government aims" in food policy.

REGULATION OF THE FINANCE FUNCTION

The finance functions of international firms are also be-

coming increasingly subject to the watchful eye of the UN. For example, information disclosure and accounting practices have come under the scrutiny of a variety of organizations. The proposed MNC Code mentioned earlier calls for public disclosure of a wide range of company financial data and would give national governments the justification for ex-
	ending those data requirements to cover many other aspects of a company's international operations. Again, there seems to be little awareness of the benefits and costs — and advan-
tages and limitations — of the existing national regulations requiring such paperwork.

For example, the MNC Code calls for annual public dis-

closure of company financial information, including balance

sheets, income statements, and data on sales, profits, inves-
tors, investments, capital outlays, and research and development expenditures. Additionally, information on the accounting policies used to compile these data would have to be made public. The information would be categorized by geographic area and line of business. Companies would also be required to supply to a government any information required for "legislative and administrative purposes" relevant to the policies of the country. Since the MNC Code gives governments the power to determine which information is "relevant," virtually any corporate information could be required to be disclosed.

In the fall of 1982 the Economic and Social Council gave permanent status to the Ad Hoc Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting. The Group has the mandate to improve the "availability and comparability" of information disclosed by multinational corporations, taking into "special consideration" the needs of developing countries. This language could mean that multinational corporations would be forced to disclose financial information according to UN-dictated accounting methods. Developing countries could then be supplied with information to use in their efforts to control business activities of multinational corporations operating in their countries.

The Accounting Group thus far has focused on issues of information disclosure; it has also discussed issues such as valuation and measurement. It has identified items of substance it wants to appear on corporate balance sheets, income statements, and statements of sources and uses of funds. In addition, the Group has agreed on specific accounting disclosure policies. It recommended that the following be disclosed by multinationals: the balance sheet, the income statement, the statement of changes in financial position, accounting policies, information on corporate structure, segmentation of financial information both by geographic area and by line of business.

The international business community has stressed that the costs of collecting such information should be weighed


against the perceived benefits. It has also warned against discrimination in reporting requirements between multinational and national enterprises.\textsuperscript{14}

Also, the UN Center on Transnational Corporations is collecting data on direct foreign investment by multinational corporations. Supposedly, such information will be furnished to developing countries to help them gain greater influence over private business. The very selective interest of this new form of business regulation is intriguing. In contrast to the focus on foreign investment by private corporations, outlays by international and foreign government agencies are usually welcomed with enthusiasm.

**REGULATION OF TECHNOLOGY**

Companies that sell or license high-technology products or services to developing countries would be affected by the Transfer of Technology Code (or TOT Code) being negotiated by the UN Conference on Trade and Development (UNCTAD).\textsuperscript{15} Many types of technology transfer contracts are covered by the TOT Code, including the following: The sale and licensing of industrial property. Know-how and technical expertise in either goods or the services of persons to advise, manage, or train. Technological knowledge required for installing and operating plant and equipment, including turnkey projects. Technological knowledge required for acquiring, installing, and operating machinery, equipment, intermediate goods, and/or raw materials which have been acquired by purchase, lease, or other means. Technology contents of industrial and technical cooperation agreements.\textsuperscript{16}

The TOT Code attempts to define the contractual responsibilities of parties involved in the transfer of technology. It sets forth rules for negotiating, contracting, and post-contract activities. For example, the technology-supplying country, upon request of the receiving party, is to provide specific information on various elements of the technology as required for "technical and financial" evaluation of the tech-


\textsuperscript{16} *Id.* paragraph 1.3.
nology. The extent to which this is required is not clear. But if a company selling a microcomputer could be required to deliver specific information on the components of the microprocessor, it would be giving away competitively sensitive and valuable information.

What the guidelines overlook is the extent to which such regulations would impede the flow of technology. That certainly has been the experience in more developed nations: regulation dampens the incentive to develop and utilize new technology.

Other regulations which would restrict the development and flow of technology are measures to redesign the current international system of patent rights. UN agencies have been actively trying to renegotiate the Paris Convention, which is the international treaty that defines the current patent system. Their goal is to implement a new patent system allowing Third World nations to reap the benefits of Western technological advances without paying any of the costs. For example, developing countries would be able to impose compulsory licensing if a patent is not used within two and a half years after the patent is issued. Companies could be forced to forfeit the patent — that is, turn the technology rights over to the government — if the patent is not used within five years after it is granted.

Those provisions sound innocuous until the regulatory process is examined. For example, industries needing product approval for manufacturing or marketing after patenting would be severely affected. Obtaining approval for a new pharmaceutical product often takes more than the five years. Thus, a patent could be appropriated before the company is ever allowed to manufacture or market the product.

**Regulation of Services**

As worldwide trade in services has expanded, so have attempts by international bodies to regulate it, including banking, insurance, and even tourism. The UN has become particularly involved in measures to closely regulate the shipping industry. These activities are aimed at promoting companies in developing nations at the expense of existing enterprises in the developed nations. The centerpiece of these efforts is the Code of Conduct for Liner Shipping, developed by

UNCTAD, which is now in effect.\footnote{18} In essence, this Code sets up a government allotment of participation in an industry by strict allocation of shipping tonnage.

The Liner Code recommends a "40-40-20" formula for allocating shipping rights.\footnote{19} This means that each of two countries involved in a transaction are entitled to 40 percent of the shipping tonnage, and independent shippers are allocated the remaining 20 percent. All the countries ratifying the agreement, with the exception of West Germany and the Netherlands, are developing countries.

The Liner Code contains some ambiguous provisions. It states that existing shipping services should not discriminate against shippers, ship owners or traders, and that shipping services (or "conferences") should consult shippers and make available to interested parties information on activities relevant to those parties and publish information on their activities. The Liner Code also limits rate increases to once every fifteen months\footnote{20} and includes a mandatory conciliation process. Thus, the Liner Code could serve to decrease demand for Western shipping services.

Free enterprise in the shipping industry is further under attack with a UN effort to eliminate open-registry shipping. Current shipping companies could literally be forced out of business if treaty negotiations proceed according to the agenda set by developing countries. Their proposal includes regulation of labor, management, financing, and ownership of the shipping industry. For example, one objective is to require that a certain share of equity in a shipping company be held by nationals of the flag (registry) state of a ship. If investment capital is scarce and, therefore, high-priced in these countries, the shipping firm will be faced with the choice of paying the higher cost of capital or changing the registration.

Another provision of the proposed treaty would require that a fixed percentage of the shipping firm's managers be nationals of the flag state. Experienced managers would have to be fired and new management trained. More important,
however, is the usurpation of private decision making by an international agency.

Companies that register their ships under flags of convenience or in open-registry countries do so because costs of fleet maintenance are lower in these countries. The irony is that if the UN regulations are adopted, these countries could lose their competitive advantage as low-cost suppliers of ship registrations — and thus lose the benefits hoped for and even the pre-regulation benefits as well. Consumers world-wide would bear the burden of the cost increases to the shipping firms.

**REGULATION OF INFORMATION**

The value of information in the world today is apparent from the increasing efforts to control it. One effort to do so has been spearheaded by the United Nations Educational, Scientific, and Cultural Organization (UNESCO) in its notion of a New World Information Order. The stated aim of the Information Order is to correct the "imbalance of information flow" between developed and developing nations.

In 1980, a General Conference of UNESCO embraced a set of recommendations which would downgrade the role of the free press and enhance the position of government-controlled news agencies. The recommendations are quite ambitious. They include the following: Restriction on news-gathering by "multinational" communications agencies. The development of a code of ethics for journalists. Exploration by the UN and the media of a means for international "right of reply" to news accounts. Proposals include a UN news service, the censorship of the release to the Western press of information about the developing countries, and a requirement that multinational corporations supply governments of the nations in which they operate with information for "legislative and administrative purposes" relevant to their activities. This information is meant to facilitate the monitoring of those corporations — at the same time that news on the developing countries themselves would be controlled by governments. This would reduce "the influence of market and commercial considerations" on communications flows — thus emphasizing government-run, rather than privately financed, news media. There is also a proposal that guidelines be developed "with respect to advertising content and the values and
On December 15, 1983, the UN General Assembly took a step toward instituting a system of world journalistic censorship. A resolution was adopted promoting the development of a New World Information Order. The U.S. strongly opposes the Order and generally has protested UN actions to limit freedom of the press.

In response to these and other concerns, the United States and the United Kingdom announced that they would formally withdraw from UNESCO in 1985, unless the organization made a variety of changes. These changes ranged from improving the agency’s management to refraining from promoting policies that impinge on the free flow of information. In an apparent attempt to abide by the guidelines proposed by the U.S., UNESCO issued a policy statement that represented a shift away from one aspect of the New World Information Order, the licensing of journalists. It is interesting to note that this statement was issued shortly before the U.S. was scheduled to review its decision to withdraw from UNESCO.

SUMMARY AND CONCLUSIONS

The examples presented in this paper are a small sample of a large and rapidly growing phenomenon. Yet, the public at large knows little about this new development.

Americans still think of the UN as an organization devoted to peacekeeping — the function with which it is most explicitly charged in its charter. There is little awareness of the extent to which the UN is becoming an economic body involved in radically changing the performance and character of private economies throughout the world. The UN’s regulatory efforts focus on controlling the operations of private enterprise by pejoratively labeling every company that tries to do business in any other country as a “multinational” corporation or “transnational” enterprise.

The proposals of the various units of the UN are alien to consumers in Western nations that thrive on private markets and the principle of competition. Large private companies


(the so-called multinational corporations) are given special attention — and penalized — in the UN's proposals. Is it because they are the major alternative to direct government control and operation of the economic development process? More basically, business firms are singled out because they pose a real threat to the establishment and maintenance of concentrated economic power in government.

Regardless of the motivation of their sponsors, many of these rules would increase costs to firms and ultimately to consumers, and create new barriers to the flow of trade and investment among nations. At a time when many of the developing nations are hard-pressed to earn the foreign exchange to service their existing debts, such regulation would be counterproductive to their own needs. It is clear that the rush to regulate by the UN and its agencies is misguided.

We should not be intimidated by the strong rhetoric contained in the justification for these activities. The formal labels applied to international regulatory efforts by the UN and other world bodies merely cloak fundamental political concerns. On the surface, the proposals deal with consumer safety, family health, advertising, technology, and so forth. In reality, however, these efforts are an integral part of an old-fashioned, political power struggle. That struggle goes by a variety of names, but its object is clear. For those concerned with free markets and free societies, it is a dangerous delusion to believe that they can remain spectators aloof from the consequences of this new, international attack on private enterprise.