LABOR AND BUSINESS IN A NEW INTERNATIONAL ECONOMIC ORDER: WILL WORKERS OF THE WORLD UNITE?

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INTRODUCTION

In the discussion of a New International Economic Order (NIEO), the less developed countries (LDCs) speak of "massive transfers" of resources from more developed countries (MDCs), while MDCs are manifestly cool toward the LDC demand. The labor movements in MDCs, while expressing support for the LDC aspirations, tend to insist on certain priorities that have to be fulfilled as price for such support. MDC trade unions on the whole suspect that the NIEO of the type adopted by the United Nations (UN) might work against their interests unless extensive safeguards were erected beforehand. It almost appears as if, unless conditions were "ideal" at home giving everything they wanted to MDC trade unions, they would not cooperate with the UN-NIEO. The tall order that MDC trade unions, have placed before their national governments, their employers, and the world, when seen against economic stagnation, unemployment, inflation, and other economic difficulties in MDCs, obviously carries one clear message: i. e., MDC trade unions consider LDC interests expendable until a right kind of circumstances are restored. At best, then, MDC trade unions are only "dragging their feet" in the fear that another international action like a NIEO might just undercut their vested interests. The traditional "defensive instinct" of trade unions dominates their relations to the NIEO.

The dire plight of people in LDCs evokes verbal sympathy, but no action, from MDC workers. A recent colloquium in Vienna with participants drawn from MDC and LDC trade unions and international organizations shattered any lingering illusion of solidarity among workers of the world. The United Nations' *Development Forum* (November/December 1978) reported: "it became apparent that a higher growth rate and full employment in the industrialized countries was the main condition for achieving even a modest degree of international worker solidarity."[1]

MDC workers' refusal to close ranks with LDC workers only reflects the current malaise in North-South relationships. It is rather illuminating that many students of economic development, who used to be unequivocal supporters of the LDC cause a decade or two ago, have since been disaffected and in recent years have even found the honor of place for the "national interests" of MDCs as against LDCs' in their discussion of LDC development. The Club of Rome's "Limits to Growth," instead of generating the hoped-for community of interest throughout the world for an equitable sharing of the earth's finite and dwindling resources, has only stimulated national egotism and deepened the division among nations. There even arose sinister concepts like "life boat" and "triage." In order to save those who are already on the life-boat, others must be left to drown to death, says the life-boat thesis. MDCs are on the boat, but many LDCs are not. The latter must go under. According to the concept of "triage," a maximum of medical care should be devoted to those who have the best prospect of survival, while the hopeless are left to die uncared for. MDCs will live; some LDCs have a survival prospect; many LDCs must die. It is at this baseline of greed that one regretably has to discuss the responses of MDC trade unions to a NIEO at this juncture of history. Under more favorable circumstances of a decade or two ago, loftier ideals would have marked the point of departure. What a change!

Despite rhetoric, the LDC demands within the framework of the UN-NIEO are actually rather modest. A sort of maximum perimeter of resource transfers is set by one convenient number: i. e., an amount enough to raise the LDC share of the world's industrial output to 25 percent by the year 200 from 7 percent in and around 1975. A quick calculation shows that this objective would be attained if LDCs maintained a 5-percentage-point lead over the rate of industrial growth of MDCs.[2] The task would be the easier for LDCs, the slower the rate at which the MDC industries grow and the higher the rate at which capital accumulates in LDCs. But full employment in MDCs requires a certain minimum rate of industrial and economic growth which would still be too high for LDCs to surpass by a 5-percentage-point margin. For example, "Okun's Law" in the United States would require a 5 or 6 percent annual rate of growth only to reduce the currently high unemployment rate to an acceptable frictional level in the foreseeable future and a 3 or 4 percent rate of growth thereafter to maintain full employment. No doubt each MDC has its own "Okun's Law" which determines the medium-term growth rate to eliminate the existing backlog of unemployment and thereafter to maintain a long-term full-employment rate of growth. Resources are preëmpted, while the high MDC growth raises the required rate of economic growth for LDCs to maintain the 5 percentage-point margin over MDC growth. Even though much depends upon the LDC resolve, a likely consequence would be a delay in the attainment of the NIEO objective within the specified time span. LDC interests must always be set aside until MDCs have had their fill, it seems.

Percentages involved sound small, but these still imply enormous economic development for LDCs which have so far attained economic growth at modest 5 or 6 percent per annum, only a shade higher than MDC growth on the average, in the last two Development Decades. Whatever expansion LDCs now aim at will be extremely difficult to achieve unless facilitated by more resources for capital formation and by larger markets to absorb their fast increasing supplies of goods. This obviously means increased linkages with MDCs which currently dominate the world's markets, capital supplies, managerial and marketing skills, technological innovations, and R & D. Many characterize these linkages negatively as "dependence." Interdependence would be a more appropriate word, however.

Rapid economic development in LDCs means a rapid economic integration of the world. Does this trend of the world economy, which will continue regardless of NIEO or no NIEO, necessarily work against the interests of LDCs or those of MDC trade unions? Ideological preferences make much difference in answering this question. Anyone would agree, however, that the primary beneficiaries of a growing world economy would be those who have capital, technology, and skills and who are already in the markets where opportunities for economic gains abound. Opinions diverge about who these primary beneficiaries are and how economic gains multiply and diffuse throughout the world. People on the Left assume that the first, and final, beneficiaries of world economic development are "multinational corporations" with very little diffusion of gains outside their enclaves. People on the Right (although who they are is not as clear as those on the Left) would perhaps assume that the market forces would spread the gains far and wide throughout the world. They would also assume this to take place rather automatically.

Where do I stand? Although I entertain a degree of optimism about the spread effects of the market forces, I do not believe that the market forces alone can spread the benefits of economic development in ways and degrees that many would consider fair to all concerned. In the potential sense, benefits of world economic development are enough to make everyone better off. However, it takes non-market rules, processes, and machineries of negotiation or bargaining in good faith to turn these potential gains into actual gains for everyone. It is in this spirit, and starting from the baseline of human greed, that I propose to discuss merits and failings of MDC workers and unions in relation to the UN-NIEO. The objective of my exercise is to initiate a search for an optimum path toward a harmonization of LDC interests and MDC worker welfare through dialogue and soul-searching on the basis of shared knowledge of what mankind is really capable of and what really is happening in the world economy.

1. THE BASIC PROBLEM IS DOMESTIC, NOT INTERNATIONAL

Resource transfers in the form of reparations like dismantling MDC industries and shipping the plants, materials, techniques, designs, etc. to LDCs with no reciprocal benefits to MDCs are inconceivable in the present-day world. Even the controversial provision for a "redeployment of industry" under the UN–NIEO, which conjures up an image of reparations, is essentially a plea for an accelerated application of comparative advantage in freer international trade to expedite structural changes in MDC and LDC industries. Resources are always moving back and forth between LDCs and MDCs and among all countries. Their movements are two-way, multi-path, criss-cross — interdependent in a word.

The reasons for and methods of resource flows between MDCs and LDCs are already well-known: i. e., international trade which promotes mutual gains of trading partners on the basis of comparative advantage and international division of labor; international investment and technological diffusion for which multinational corporations play a significant role; inter-governmental loans and grants, though subject to political calculations; and varieties of commodity-marketing arrangements designed to benefit both LDC producers and MDC consumers. All of these resource flows had long been in practice before anything was mentioned about a NIEO. The UN–NIEO intends to improve upon these conventional transactions.

When we speak of *inter-national* economic relations, the "nation" is the unit of action. All of the above reasons for and methods of international resource flows are mutually beneficial to all the countries involved in the transactions. But the gains of a country have a distributional problem within because of a multiplicity of groups claiming a share in those gains or refusing to share the costs required for making those gains. Although the country as a whole may gain, potential losers may object to and stifle the transaction that produces the gain. In dynamic international economic relations, the distributional aspects generate interest-group conflicts in each country. These conflicts constitute the "social" problems of an international economic order. These problems are chronic, since a given economic order generates a corresponding structure of interest groups with vested interests and any change in the order produces relative winners and relative losers among those groups. For example, dynamic "free trade" brings about rise and fall of industries in each country depending upon the changes in "comparative advantage," although each trading country makes a net gain. No one objects to "free trade" in principle. But one who is in an industry losing comparative advantage will surely condemn "free trade" as unfair.

The irony is that those who gain from "free trade" by happening to be in industries becoming comparatively more advantageous quietly pocket their increased gains and do not offer to share them with those in declining industries to make up the latter's loss. Thus a national political problem is generated by the complaints of the relative losers and aggravated if the political process fails to distribute the gains from trade to compensate the losers with dignity and still come out with a net improvement for the nation as a whole. The price of that failure is often the rise of protectionism by which everyone becomes a loser.[3]

Although adjustment to a change in comparative advantage in international trade is a purely domestic problem, the countries which innovate and initiate the change are often held responsible for the wellbeing of the relative losers in other countries as a consequence of that change. LDCs, which over the years have gained the capability to start up and prosper in some of the lower-grade industries like textiles and apparels, have been blamed for the unemployment of workers of these industries in MDCs. Likewise, when LDC workers become increasingly capable of performing jobs generated by multinational corporations, these corporations are blamed for "exporting" MDC jobs to LDCs, and LDC workers for taking jobs away from MDC workers.

The problem may be summarized thus: (1) every country will gain substantially from the economic processes which produce massive resource flows between MDCs and LDCs; (2) a country's net gain is the result of gains of some groups more than offsetting the losses of some other groups; and (3) all this implies the danger that politically powerful losers may make the country a loser by obstructing international resource flows. The last point indicates how important it is for a country to have an efficient mechanism by which the relative losers are compensated by a part of the gross gains from international transactions. If in a large number of countries, the potential losers are politically powerful, internation trade and investment may come to a standstill, freezing the status quo of international economic relationships and causing many countries to forego the gains that are sure to result from domestic structural adjustments. Politicized employers and workers in declining industries have the awesome potential to halt or distort world progress in economic welfare. Obviously, then, the government of every country is responsible to the world for the management of "social problems" arising from conflicts of interest among social groups in relation to the changing pattern of trade and investment.

I now propose to discuss in some detail negative economic effects of the political dynamics of losers' complaints in relation to (1) changes in comparative advantages of trading countries and (2) international direct investment by multinational corporations. For the first topic, I utilize my own experience as a bureaucratic "ghost writer" of a supplement of the general report of the ILO Director General to the Seventh Session of the ILO Textiles Committee, Geneva, May 6–17, 1963. The second topic is discussed more generally, though with special emphasis on the concept of "job exports" which is particularly widespread among American trade unionists.

2. LESSONS FROM THE ILO TEXTILES COMMITTEE, 1963

The Director General's report to the Committee carried a supplement entitled "Trade, Wages and Employment in Textiles," an offprint of an article published in the *International Labour Review* (January 1963). In a sense, the article was a plea for free trade in textiles on the basis of comparative advantage. It discounted the significance of the claims made by MDC textile employers and trade unions that imports from low-wage countries were "disrupting" the MDC textile markets and creating the problem of structural adjustment for employment. The article urged not to increase restrictions on the textile trade any more, in the interest of efficient resource allocation and economic growth in LDCs according to the market forces and comparative advantage. The article argued, with statistical support, that the adjustment problem for MDCs due to the challenge of low-wage LDC products was no worse than similar problems of adjustment that had arisen in the course of dynamic growth of MDC economies due to other causes such as changes in consumer taste and production technology.

The supplementary report generated a lively discussion at the meeting. The carefully edited version of the proceedings of the Committee published in the *Official Bulletin* sums up the division of national interests as follows:[4]

> The subject of international trade in textile goods figured prominently in the general discussion. The delegates from developing countries and Japan were in broad agreement with the view put forward in the Supplement to the General Report that the problems of the textile industry are similar to those of other industries from which demand is shifting ··· and that a long-term response to the position is *to help resources follow the movement of demand, and to accept, and adapt the economy to, the structural changes* arising both from the industrialization of developing countries and from the continuing economic advance of the developed countries. Delegates from developed countries felt, on the other hand, that *this estimate of the situation of the textile industry was based on mistaken premises.* (Emphasis added.)

It appears from this quotation that the basic conflict of interest is between MDCs and LDCs. But a moment's reflection will make it clear that the real clash of interests was between textile industries and all other industries *within each country*. The underlined "long-term response" in the above quotation is something that at least in principle every country, MDC or LDC, can accept as rational and beneficial. There is a net gain for every country. The MDC delegates reject it because they are likely to be the losers in the process of adjustment in which greater gains accrue to employers and workers in other industries within their countries. Economic nationalism, on which more will be said later in this paper, does divide people along the national boundaries. But it is important to note in connection with the textile industries under discussion that the impression of a clash of "national interests" is largely illusory and due only to the fact that we are putting together the relative losers in some countries (MDCs) not with the relative winners in the same countries, but with the relative winners in other countries (LDCs). The relative losers should take their complaints to the governments and publics of their own countries, not to the relative winners of other countries who would be under pressure in their own countries to share the gains with others in the interest of national development. (If this paragraph sounds a little esoteric, one can profit from recalling the theory of comparative advantage in international trade. A mutually profitable trade occurs between two countries not because one country can produce commodity X more cheaply than another country, while the latter can produce commodity Y more cheaply than the former. The trade occurs because one country can produce X *relatively* more cheaply then Y and another country Y *relatively* more cheaply than X.)

A Chinese Employers' delegate put the matter clearly by the logic of comparative advantage: "…highly industrialized countries could develop industries such as chemicals and metal products, and … in regard to cotton textiles they could concentrate on the production of high-quality goods; this would provide an opportunity for less advanced countries to develop light industries and specialize in lower varieties of cotton textile goods." The Indian Government delegate pointed out that "the establishment of a textile industry often marked the first necessary step in the industrialization of a country." Both the Chinese and the Indian are saying in effect that all of us will gain from international division of labor and that therefore (at least inferentially) MDC textile employers and workers should discuss their problems with their own governments and publics, not with delegates from other countries within the specific framework of one industry.

In contrast, Employers' delegates from France and the United Kingdom, only worried about their own problems, "claimed that it would not be possible to maintain the textile industry in industrialized countries at its present level if such countries were to concentrate their production on high-quality goods alone…"[5] In another connection, a U. K. Employers' delegate urged that "there must be order in international trade" and that "each country should make a political and economic decision as to what level of textile imports it would allow in terms of a percentage of domestic consumption."[6] A Belgian Workers' delegate observed that "the real problem concerning competition from developing countries was that they did not seek export markets only after the domestic market was satisfied, but rather as a substitute for it, since the income and purchasing power of the local population were too low to absorb local textile production." The representative of the International Textile and Garment Workers' Federation expressed similar views. About the impact of trade on the level of employment, a Belgian Workers' adviser felt that "the displacement of the textile industry from Western European countries to developing countries would result in the disappearance of hundreds of thousands of jobs in Europe."[7] He left unstated another likely development; i. e., other expanding industries would be creating hundreds of thousands of jobs.

One can draw a number of lessons from the ILO Textiles Committee proceedings selectively quoted above. Historically, MDC employers and workers in general have adjusted well to the required changes in industrial employment structure and job qualifications arising from many sources of change — mechanization, automation, shifts in consumer demand, rising aggregate income, etc. But they somehow find it hard to accept and adjust to when the required change, however legitimate in economic logic, comes from comparative advantage of other countries in production and trade of certain products. The reason is that they tend to feel that the competitive advantage of LDC producers is "unfair" because the LDC wages and standards of living are lower than theirs. They scarcely stop to think that unless the LDC producers and workers are allowed to earn from industries in which they can at least economically compete well, they would have to remain low-wage and at inferior standards of living. The defense of vested interests has often been disguised as a humanitarian concern about the lot of "exploited" workers of LDCs. But it is not difficult to see through the smoke screen, when the MDC employers and workers piously urge for higher wages and better working conditions for LDC industries. Since 1963, textile industries have changed mightily even in developing countries and diversified over a wider range of products and techniques. And yet it is a good question whether MDC employers and workers in textiles have become more rational and humane. International control has spread from cotton textiles to synthetic fibers, and these restrictions have become more complex, renewal after renewal. The outcome of such irrationalities is that both MDCs and LDCs are compelled to forego the greater benefits which would have resulted from freer trade.

The ILO experience offers another lesson which should be more important in the long run than all other lessons. Given the sanctity of nation-state sovereignty and the concept of *inter*-national trade, it is largely futile to coordinate national interests within a specific industry or commodity framework when the level of economic development and the structure of factor endowments widely differ among countries. Focus on an industry or a commodity quickly generates the atmosphere of a zero-sum game in which the gain for one is perceived as another's loss in the equal amount. When the parties succeed in getting out of this fix, they probably do so by making extra gains from other industries through a cartel or similar arrangements. Although the textile industry offers very little possibility for a world-wide cartel of producers against consumers, the similar notion of "industry-specific" interests applied to other industries or commodities has sometimes produced devastating consequences, of which petroleum is most notorious.

3. MULTINATIONAL CORPORATIONS AND "JOB EXPORTS"

Structural adjustments required for benefiting from freer international trade are painful enough, but at least theory and evidence are clear in this respect as to who gains and who loses in the first round, how gains and losses offset, what can be done to compensate the losers and still to realize a net social gain, etc. A new agent of international trade and resource transfer is not as clearly understood as the conventional type of trade, and evidence to support various contentions about its consequences is extremely murky. This is the multinational corporation. Ignorance breeds fear, and fear induces wrong policy. Nowhere is the danger of cumulative effects of ignorance, fear and mistaken policy greater than in the responses of trade unions to the phenomenon of multinational corporations.

In the United States, when the unprecedented spell of economic prosperity under the Kennedy and Johnson Administrations came to an end in 1968, a new period of unemployment and economic difficulties began under the Nixon Administration. About this time, the American labor movement discovered a new enemy of American workers : i. e., multinational corporations based in the United States. It was also about this time that British labor began to become suspicious of multinational corporations.[8] A multinational corporation was depicted as an unbridled profit-seeker which would not hesitate a moment to close down and dismantle a going concern in one spot and move everything to wherever the costs were lower and the profits higher. By exclusive attention on plant shutdowns with no careful follow-up studies as well as on the basis of a rough counting of jobs associated with a given value of output or investment, the American labor movement loudly complained that hundreds of thousands of American jobs were "exported" to low-wage countries. Analytically and empirically, the notion of "job exports" is hardly worth bothering, but its political consequences should not be underestimated.

An interesting aspect of the controversy over the impact of foreign direct investment on domestic employment is the absence of studies undertaken by reliable methods. Opinion surveys abound, however. An ILO publication, *Multinational Enterprises and Social Policy* (1973), devotes considerable space to the presentation of views on this question of the American Federation of Labor, the American Chamber of Commerce, and other organizations of workers and employers. Unfortunately, these views are not based on hard facts or careful analysis. Labor groups believe in "job exports", while employer groups deny them. The O. E. C. D. has also published similar opinion surveys, *International Trade and Its Social and Economic Effects* (1972), *The Industrial Relations and Employment Impacts of Multinational Enterprises* (1977), etc. A British — North American Committee has published *Multinational Corporations in Developed Countries: A Review of Recent Research and Policy Thinking* (1973).

Based on a number of assumptions, the U. S. Tariff Commission obtained "net job loss" due to multinational corporations ranging from −1,297 thousand to +488 thousand employees. Since there is no way of ascertaining the practical significance of these assumptions, the estimates remain only as illustrative exercises.[9] It should be noted that different assumptions result in different conclusions. This tends to encourage people to "vote" for the assumptions which give the conclusions they like, for whatever reasons. A series of studies by Business International enables one to see degrees of correlation between foreign direct investment and domestic employment among sampled firms. It is found repeatedly that domestic employment increases faster in firms involved in foreign direct investment than in all of the U. S. manufacturing sector, and among them, faster in those with more foreign investment than in those with less.[10] The findings may be open to various interpretations, but one can at least say that a firm's international expansion does not necessarily imply its domestic contraction. This contradicts the hypothesis of "job exports" which implies that jobs created abroad by a multinational corporation are direct substitutes for domestic jobs of that firm. The hypothesis of "job exports" is difficult to prove empirically, while the concomitant growth of domestic and foreign jobs in multinationalizing firms is widely observed. Under these circumstances, a common sense leads one to be skeptical about "job exports" and, at least, to be a little optimistic about multinationals' domestic employment effects.

An expanding enterprise multiplies its plant by a rational analysis of locational advantages of alternative places scattered over the surface of the globe. The ease or difficulty of crossing national borders as well as advantages or disadvantages of different nations can be quantified for the purpose of rational locational decisions. The transnational network of production and marketing within a multinational corporation can be regarded as a network of comparative advantages of various countries. The costs, skills and productivity of labor are a significant part of comparative advantage. Thus, the "freedom of enterprise" for multinational firms, like "free trade", allocates resources and diffuses economic activities throughout the world according to the principle of comparative advantage. In fact, substantial "international trade" takes place within each multinational corporation. Furthermore, unlike the usual "international trade" involving different firms located in different countries, this intra-firm "international trade" is organized by an integrated management and more responsive to changes in the market conditions and comparative advantages of various countries. In this sense, multinational corporations can be said to be great facilitators of international trade and resource allocation. Indeed, the quickening of pace in the rise and fall of multinational corporations based in various countries in recent years indicates how flexibly resources are flowing from country to country, producing ever-increasing output everywhere. In the 1950s and early 1960s, multinational corporations were largely an American phenomenon. Since the late 1960s, European and Japanese multinationals have been growing fast. In recent years, multinational corporations have sprung even in LDCs and grown rapidly. When "inter-investment" criss-crosses throughout the world in this way, job exports and imports via foreign direct investment become difficult to sort out, but probably have mutually reinforcing effects, to the detriment of no nation. (However, like "free trade," the multinationalization of the "multinational" corporation is still imperfect in the real world. More on this later.)

But trade unionists anywhere, MDC or LDC, do not look at multinational corporations the way outlined above. In each country, trade unionists believe that the growing global sector of multinational corporations is damaging the employment situation of that country. The problem is posed as one of multinationals *versus* the nation-state.

The apparent irrationality of trade union responses to multinational corporations or to the process of multi-nationalization of national companies requires an explanation that is broader than the conventional theory of economic behavior. This can be done by adding "nationalism" as a constraint on economic behavior. Nationalism is a sentiment that exalts one's own nation and downgrades other nations, implying a resolve to generate national power to support that exalted claim. Nationalism tilts a person's preference in favor of fellow countrymen and their activities as compared to foreigners and their activities. Fellow countrymen can be trusted, but foreigners are suspect. Differently put, nationalism is a preference for those who have always been inside against those who are outside, the national territory. The entry of outsiders is severely restricted and allowed only after careful scrutiny. Nationalism breeds a sense of community among nationals despite differences in wealth, status, and power. To summarize in the language of economic analysis, a nation's power or glory relative to other nations is a public good to its nationals, and nationals discriminate in favor of one another against foreigners. Penalities are imposed on the disloyal nationals who do not contribute to the nation's wellbeing or who violate the community of interest among nationals.

How nationalism intervenes in economic behavior may be illustrated by means of a simplified model.[11] A convenient indicator of national power nowadays is gross national product. The excess of exports over imports is popularly viewed as one of the factors that contribute to the growth of GNP. (So far, economists do not demur.) The earnings of the foreign exchange permit capital exports. Within limits, capital exports are viewed desirable, because they extend nationals' property ownership or business control into foreign countries and thereby represent the growth of national power. In a nationalist language, "our countrymen and our companies are conquering the world!" (Economists begin to feel uncomfortable at this point.) For the same reason, when the balance of trade turns adverse, it is time to fear invasion of "our country" by foreigners. Workers feel humiliated to have to work for foreigners. Workers look for causes of their unhappiness. They discover that some of their countrymen and companies are still investing in foreign countries to the detriment of the balance of payments and making "our country" more vulnerable to foreign invasion. (Economists are decidedly uncomfortable now.) Those individuals and companies are branded disloyal to their nation. Restrictions are slapped on outgoing investment as well as in-coming one. "We should keep our capital and know-how at home, and we do not want foreigners to make profits at our expense." Furthermore, to correct adverse trade balances, tariffs and non-tariff barriers go up. The nation retreats into an autarkic fortress. (Economists feel crushed.)

Although the above model is derived from political-economic tendencies observed in the United States, it should be applicable to workers in any country by and large. During the golden days of American supremacy, when trade balances were positive and American corporations were investing all over the world, American workers were intensely proud of America and American business. Those were the days when American labor even graciously smiled at a potentially damaging charge that they were after all an accomplice of American business for "American imperialism." What is more important, however, is how workers must have felt at the receiving end of "American imperialism" — those countries which were importing more from than exporting to America or hosting increasing amounts of American foreign direct investment. The model of workers' economic nationalism would predict that they must have been extremely fearful, unhappy, and even angry. Indeed, the anguish about "le Défi Americain" (J. -J. Servan-Schreiber's 1967 best-seller) was not only an intellectual exercise, but should also have indicated a general sentiment among the European masses.

However, the relative inferiority of Europe vis-à-vis the U. S. did not last long. The economic growth of Europe and export successes produced sustained positive trade balances. Now it was Europe's turn for national glory. Europe's lag behind America in foreign direct investment was only an aspect of Stephen Hymer's "law of uneven development," which was able to predict the turn-around in the flow of international investment when no one had yet suspected an eclipse of American glory.[12] According to one measure European (and Japanese) firms' foreign direct investment was not too far behind American firms' even during the 1960s and definitely began to surpass the latter around 1970.[13] Europeans and Japanese have fulfilled the classic combination of positive trade balances and growing stocks of assets held in foreign countries by their nationals and companies, to the satisfaction of the nationalists. It may well be due to this ideal combination that Europeans in the early 1970s, despite growing foreign direct investment, did not pay much attention to the possible problem of "job exports."[14]

The model of nationalism applies to Japanese foreign direct investment with special effectiveness, although Japan's nationalism has been highly consistent with all that is expected from rational economic analysis. The model of nationalism is also supported by how other countries have reacted to the growth of Japan's international trade and investment. The Japanese are "nationalistic" in the double sense that Japan's status in the world is a public good to the Japanese nationals and that the Japanese have a taste of discrimination in favor of their countrymen, perhaps in a degree that is far higher than the level of such taste in other countries. Compared with their foreign counterpart, for example, Japanese businessmen are highly nationalistic and have traditionally tended to value their activities inside Japan more than what they can do abroad. By the intense concentration of economic activities in Japan, the Japanese have entrenched themselves in their own country so thoroughly that competitive disadvantages of foreigners (i. e., newcomers) in Japanese markets have been great. This, in fact, is an aspect of a widely shared sense of "national defense" among the Japanese. "Opening of Japan" to foreigners in whatever manner has always been likened to the humilitation of involuntary opening that the closed pre-industrial Japan suffered at the hand of a U. S. naval squadron led into Japan by Commodore Perry in 1853. This historical precedent is universally regarded as the key to the understanding of Japanese reaction to anything or anybody coming into Japan, be it a commodity (imports), capital (foreign capital), or businessman (foreign direct investment). Given this psychic imperative, then, when the Japanese relate to the outside would, one can be sure that they are taking utmost care not to weaken "national defense" by importing more than exporting or by investing abroad beyond the limits of foreign exchange earnings.[15]

Careful calculations for a rational use of the market forces also go so well with Japanese economic nationalism that many observers are thoroughly confused as to the relative strength of the two — economic rationality versus economic nationalism. (I have long thought that whatever the Japanese have done has been nothing but an exemplar of economic rationality. Now I am willing to allow a role for nationalism in producing such an unusually high degree of taut rationality in Japanese economic behavior.) Despite strategic concessions to irrational pressures on Japan from other countries, the pattern of Japanese foreign direct investment is something that anyone would consider as a paragon of classic economic rationality, i. e., perfect adaptation to the market forces and relative factor endowments under changing circumstances.

Observers have noted the unusual importance of labor costs as a decision variable in Japanese foreign direct investment. That is, it is in proportion to the pressure of rising labor costs in Japan that Japanese firms have extended their productive activities outside the country. Initially this has tipped the preferences of Japanese direct investors in favor of low-wage countries which also offer a geographical advantage by being in Asia.[16] The more labor-intensive the operations, the faster these were transferred to the Asian countries. The Japanese were practicing the UN-NIEO's most difficult program, i. e., "redeployment of industries," long before the NIEO came into being! There are no "job exports" either, because these labor-intensive operations had already lost the meaning as a source of jobs in Japan. As with Asian countries, so is with America and Europe. Now that Japanese labor has become as costly as American and European labor, Japanese firms have increasingly found it advantageous to locate their operations in America and Europe. Witness also how Japanese locational choices operate even there — low-wage South in the U. S. and low-wage countries in Europe.[17]

If economic rationality and economic nationalism are indistinguishably blended in Japanese practice, this is not so in other countries. In Asian LDCs, for example, where the arrival of labor-intensive industries should be regarded most consistent with their relative factor endowments and therefore the hosting of Japanese direct investment is a most rational thing to do, the Japanese are universally disliked for doing the rational thing! Complex forces of nationalism (not only economic nationalism) are at work in the host countries, and it is obvious that nationalism often wins over rationality. If they dislike labor-intensive Japanese direct investment, for the same reason they are more receptive to capital-intensive American and European investment. Thus double irrationality appears on the scene. It is irrational for American and European investors to take capital-intensive investment into LDCs. It is irrational for LDCs to prefer such investment against labor-intensive alternatives. The joint effect of these irrationalities is the birth and accentuation of a dual economy in the host country, producing a large, troublesome gap between a small "modern" sector and all the rest of the economy. A political dynamite hidden in such economic duality is awesome, as amply demonstrated by the experience of Iran. The LDC economic nationalism which prefers up-to-date technology and capital-intensive industries illustrates that the job-creative ability of an investment is largely irrelevant in the international flow of resources between MDCs and LDCs.[18] The American notion of "job exports" via American corporations' foreign direct investment implies a rebuke of the host countries for desiring jobs which should have been given to American workers. Nothing is farther from the truth; witness how LDCs are infuriated at the thought that they have to do the jobs discarded as uneconomical at home by MDCs. No LDCs have ever rejoiced at "job imports." Neither have MDCs, as most spectacularly illustrated by the British workers' rejection of the Hitachi investment.[19]

The conflict between economic nationalism and economic rationality and unpredictable shifts in their relative strength in the direction of one or the other in many countries put the multinational corporations in a peculiar fix and increase the "country risks" for them. Many of the "multinational" corporations themselves are unfortunately only over-sized national companies with extensive international activities. As if to show off a lack of rhetorical consistency, many speak of "American" multinationals, British" multinationals, etc. Few "multinationals" have ever cut their umbilical chord with their countries of origin by shifting their headquarters to other countries. Rarely have the personnel of a "multinational" corporation become truly multi-national with equal opportunity for all regardless of nationalities.[20] Thus it is still inconceivable that the so-called "multinational" corporations can be entirely free of the nationalisms of their originating countries. Faced with the problem of dealing with such "multinationals," international (i. e., inter-governmental) organizations are ambivalent about the direction in which they would like these firms to develop. At the present stage of their development, they can be either brought back under firmer control by national governments of their headquarters countries or encouraged to become more non-national or at least a-national by cutting their ties with their countries of origin. No bold innovative policy exists in either direction at the international level. Under the circumstances, the character of multinational corporations is likely to be determined by nationalistic attitudes and policies of host countries toward them. Host countries' willingness to accept or their ability to reject multinational corporations will affect the structure of operations of these companies more directly than the policies of their headquarters countries toward them. Either for nationalistic reasons or by sheer inertia, the countries of origin seem to prefer laissez-faire to regulation or control in relation to their own multinational corporations.

A country's ability to deal with "foreign" multinationals (to commit rhetorical inconsistency once again) obviously varies from country to country, especially between MDCs and LDCs. MDCs are on the whole successful in making use of foreign companies within the limits of their overall economic policy, encouraging more to come in when they need them and "nationalizing" some of them (by encouraging their nationals to acquire shares of the foreign subsidiaries) when economic nationalisms has to be satisfied. Except in a small number of cases, LDCs are generally failing to use their governmental power as effectively as MDCs. Many LDC economies were already organized with foreign companies as their core before governments were constituted or before governments became aware of the need for dealing with foreign companies. Thus, despite spasmodic attempts at and successes in "nationalization" (alias "expropriation"), many LDCs are highly dependent upon foreign companies. There is an illuminating episode from the World Symposium on the Social Implications of a New International Economic Order convened in Geneva in January 1976 by the International Institute of Labor Studies.[21] At one session for which I served as a rapporteur, a clear-headed LDC labor leader graphically illustrated the dilemma of LDCs in relation to multinational corporations, by saying: "we cannot do with multinational corporations; nor can we do without them." When I proposed to put this singularly eye-opening statement in my draft report to the plenary session, there was a concert of voices against it for its potentially demeaning implications for LDCs. At this session there was another incident which took us straight to the core of the problems existing between MDCs and LDCs. Several participants from LDCs believed in "solidarity of workers of the world" and seriously demanded in the name of solidarity that MDCs accept a little more unemployment among their workers in order to help LDCs reduce some of their massive unemployment. MDC trade unionists rejected the demand uncompromisingly. (This demand survived in the first draft report to the plenary session, where it provoked an apparently interminable discussion causing many to skip the lunch. I was later rebuked for creating hunger, but obviously the conferees had enough solidarity to suffer an inconvenience together.)

Conclusion: toward a harmonization of national interests

The world is integrated in a number of ways. Three most visible forces of integration that have surfaced in this paper are (1) international trade, (2) foreign direct investment, and (3) inter-governmental relations including international organizations. One powerful factor which, depending on circumstances, can work for or against world integration is nationalism. Even the "multinational" corporations which are principal agents for international direct investment are still largely "national" companies doing extensive international operations. A true "multinationalization" of multinational corporations is clearly desirable.

The labor movement is decidedly national, or even nationalistic in many countries. At the present stage of world development, the sovereign nation-state is obviously the basic organizational unit of mankind with extensive legitimate powers for the mobilization of human, material and cultural resources for its own goals. The world as an aggregation of nation-states has no independent interests of its own other than an aggregation of national interests. Nationalism ensures that a national interest is a public good to nationals, but the world counterpart of nationalism (if it exists at all) is too weak to ensure that a world interest be a public good to all the members of mankind. It is therefore through the relations among nation-states, cooperative sometimes, and competitive at some other times, that the objective of an equitable distribution of economic welfare on earth has to be achieved.

Fortunately, the international flow of trade and investment is in principle a positive-sum game which enables every nation to be better off. The rules of the game can be devised so as to ensure this distributive outcome. However, the UN-NIEO by itself hardly constitutes such rules. Its rhetorical slant rather suggests that it is a zero-sum game. Many discussions of the UN-NIEO are gradually clearing the air. Indeed, when both LDCs and MDCs are expected to grow economically, though the former considerably faster than the latter, the outcome can never be zero-sum. Nevertheless, in view of the lingering misgivings about the outcome of the NIEO, there is always the danger that inter-governmental negotiations may become fruitless because some governments, lacking rules, procedures, or machineries for an equitable distribution of national gains among their nationals, may frustrate those negotiations under pressure from some of their nationals who perceive themselves to be potential losers. Thus it seems clear that the success of the UN-NIEO depends upon the availability of equitable distributive measures in major MDCs which are powerful enough to promote or destroy international action. The labor movements in these countries are in the most suitable position to ensure the required equitable distribution of national gains from the NIEO. For this reason, it is not an exaggeration to say that the NIEO's success or failure is in the hands of MDC trade unions. Can they rise to the challenge?

National trade union centers of various countries can learn from one another and help one another to work for the institution of equitable measures in their respective countries, as obviously being done under the aegis of the International Confederation of Free Trade Unions. An international alignment of national trade union centers with a maximum of autonomy ("sovereignty") reserved to the latter is perhaps the most logical form of international coordination of labor movements commensurate with the nation-state system of the present-day world. By the same logic, one would accord lower priority to the international coordination of labor movements by specific occupational or industrial lines. There is no one-world economy which can be disaggregated by industry or occupation on a global scale. The question of fair wages and working conditions for workers in a given industry or occupation must still be answered with reference to the wage structure of each nation. Attempts at a harmonization of wages and working conditions by industry or occupation throughout the world only cause an ethical embarrassment on the part of MDC trade unions.[22] Their insistence on bringing LDC wages and working conditions up to MDC levels would distort the cost and income structures of LDCs, forcing wrong technical choices and unjust socio-economic differentiation on these countries. Indeed, even the noble International Labor Organization itself has never been free of this blemish on its record.

Between the world and a nation, there are regions where countries are roughly at similar developmental levels. Depending upon the degree of regional economic integration, a region-wide labor movement either as a federation of national labor centers or as one of transnational trade unions by industry or occupation may be feasible. Well-known international trade union centers are transnational in this "regional" sense (Europe, the North Atlantic, or OECD). How these essentially European regional bodies manage their relations with national labor movements in diverse kinds of LDCs should be watched carefully for many years to come.

Footnotes

1. The same *Development Forum* earlier reported on an interview with Roel von Meyenfeldt, on the staff of SOSV, a foundation created by the three Dutch confederations of trade unions (January–February 1976). The objectives of this foundation include education of workers regarding structural changes and a loss of their own jobs that may result from the "international division of labor". It is encouraging to know some trade union centers are directly facing this issue in this manner. It would be very useful to know how this educational program has fared since then. The North-South relationships have given rise to many round tables and symposia lately. See *International Development Review* (February 1978); *ibid.* (January 1979); *OECD Observer* (January 1979).
2. Let LDC industry and MDC industry grow at r and r′ percent per annum between 1975 and 2000. That is,

$$I\,(\text{LDC, }2000) = I\,(\text{LDC, }1975)\,(1+r)^{25}$$

$$I\,(\text{MDC, }2000) = I\,(\text{MDC, }1975)\,(1+r')^{25}$$

If $I\,(\text{LDC, }2000)=0.25\ I\,(\text{MDC, }2000)$ and $I\,(\text{LDC, }1975)=0.07\ I\,(\text{MDC, }1975)$ then $r=0.0522+1.0522r'$. When $r'=0$, $r=0.0522$.
3. Specialists would readily notice that this is an exercise in welfare economics.
4. International Labour Office, *Official Bulletin*, vol. xlvi, no. 3 (July 1963),p. 388.
5. So far quoted from *ibid.*, p. 387.
6. *Ibid.*, p. 388.
7. *Ibid.*, p. 389.
8. John Gennard, *Multinational Corporations and British Labour: A Review of Attitudes and Responses* (London: Alfred H. Cooper & Sons, 1972).
9. These estimates are quoted and commented on by Daniel J. B. Mitchell, in his *Labor Issues of American International Trade and Investment* (Baltimore, Maryland: The Johns Hopkins University Press, 1976), pp. 78–82.
10. Business International, *The Effects of US Corporate Foreign Investment*, first published in 1972 covering the period 1960–1970. The latest number I have seen is the 6th in the series, updating the findings through 1976.
11. This model of nationalism is adapted from Harry Johnson, ed., *Economic Nationalism in Old and New States* (Chicago: University of Chicago Press, 1967).
12. Stephen Hymer, "The Multinational Corporation and the Law of Uneven Development," in J. Bhagwati, ed., *Economics and World Order from the 1970s to the 1990s* (New York: Collier-Macmillian, 1972).
13. "The Continental Challenge," *The Economist* (February 4, 1978), p. 78.
14. G. B. J. Bomers, *Multinational Corporations and Industrial Relations: A Com-*

parative Study of West Germany and the Netherlands (Assen, The Netherlands: Van Gorcum & Co., 1976), pp. 110–115.

15. Robert S. Ozaki, *The Control of Imports and Foreign Capital in Japan* (New York: Praeger Publishers, 1972).

16. For this and alternative views of Japanese foreign direct investment, see John E. Roemer, "Japanese Direct Investment in Manufactures: Some Comparisons with the U.S. Pattern," *Quarterly Review of Economics and Business*, vol. 16, (Summer 1976).

17. "Japan Starts Exporting Jobs" *The Economist* (December 17, 1977), pp. 96–97. The Japanese themselves are biginning to catch up with Americans so far as the use of the words is concerned. Japan's "Business Week," i. e., NIKKEI BUSINESS (published in Tokyo by Nikkei-McGraw-Hill) in its number 239 dated May 7, 1979 (pp. 42–45) reports on "Job exports," though partly to counter the more well-known charge that Japan was "exporting unemployment." It is roughly estimated (not by methods anywhere approaching those of the U.S. Tariff Commission previously mentioned) that Japanese direct investment has created more than a million jobs overseas directly and indirectly. At the same time, it is also pointed out that an increase in domestic employment has also been induced by the increase in production and employment abroad.

18. This may be part of the widely observed labor market distortions in countries hosting considerable amounts of foreign direct investment. See for example, Guy Standing and K. Taira, "Labor Market Effects of Multinational Enterprises in Latin America," *Nebraska Journal of Economics and Business*, vol. 12 (Autumn 1973), pp. 103–118.

19. "Hitachi was Chased Away" *The Economist* (December 10, 1977), pp. 85–86.

20. Howard V. Perlmutter, "The Tortuous Evolution of the Multinational Corporation," in Courtney C. Brown, ed., *World Business: Promise and Problems* (New York: Macmillan, 1970), Chapter 6.

21. On the accomplishments of this conference, see Mario Bettati, "General Report on the World Symposium on the Social Implications of a New International Economic Order," *Labour and Society*, vol. 1 (July/October 1976), pp. 5–32.

22. Jonathan F. Galloway, "Labor and the Multinational Challenge," *Stanford Journal of International Studies*, vol. xi (Spring 1976).

APPENDEX

At one stage in the course of preparation of this paper, I sent a letter of inquiry to, and received cooperation from, a number of international and national trade union centers. The organizations that were kind enough to respond to my request were: Organization for Economic Co-operation and Development, Directorate for Social Affairs, Manpower and Education; Organization for Economic Co-operation and Development, Trade Union Advisory Committee; International Confederation of Free Trade Unions; International Metalworkers' Federation; Confédération Générale du Travail; Deutscher Gewerkschaftsbund; Landsorganizationen i Sverige; and Trades Union Congress.

I would like to express my sincere thanks to these organizations and their officials who took the trouble to respond to an inquiry suddenly thrust upon them from nowhere. I have greatly profited from a careful reading of their letters and printed materials. I do not hesitate one moment to praise these organizations and their leaders for having arrived at positions in which the need for a New International Economic Order is generally accepted. If I sound critical of labor movements in developed countries in this paper, it is because I expect more from them.