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With the advent of the 1970's a new development arose upon the international economic scene, that of the American multinational corporation. In the wake of this development numerous economic effects with respect to employment, income, and labor standards resulted. These effects have had and will continue to have a profound impact upon the American labor force. It was the purpose of this thesis to investigate the operations of this new corporate concept with a thorough exploration of its effects upon American labor. It was hypothesized that unemployment could result from the outflows of capital and technology by multinationals.

The procedures employed were two: An intensive investigation of the recent literature on labor and international economics was made: Similarly, current statistical data were gathered. However, no complex statistical correlations were utilized. Presentation of both organized labor's and the corporation's arguments was made. An objective viewpoint was then attempted by the writer.

Due to the unavailability of relevant data on this phenomenon, the results of this study were necessarily inconclusive. Conditionally, it was concluded that unemployment was likely to be felt in the American labor force when direct multinational investment was permitted. Nevertheless, these effects might be mitigated as income from this investment flowed back to the American economy. Enough information was presented, however, to suggest that American labor standards and wage conditions must become the international norm in order to counteract any such effects. Protectionist proposals, as embodied in the pending Burke-Hartke Act, were rejected as less desirable.

THE MULTINATIONAL CORPORATION: ITS EFFECTS

ON THE AMERICAN LABOR FORCE

by

Joseph Edward Chappell, Jr.

A Thesis Submitted to
the Faculty of the Graduate School at
The University of North Carolina at Greensboro
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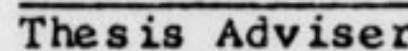

Thesis Adviser

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CHAPTER I

STATEMENT OF THE PROBLEM

Introductory Statements

In the economic arena, the decades of the 1950's and 1960's were two of the most complex periods in the relatively brief history of the United States. Adding to this complexity were two significant developments. Domestically, these two periods were marked by the rise of "big" business and giant corporate mergers; internationally, they were distinguished by the greatest increase in trade and investment the business world has ever witnessed.[1] It was through these two developments that the stage was set for the emergence of the main economic phenomenon in the 1970's--the multinational corporation.

What is this relatively new economic concept? How is it defined, organized, and what is the extent of its pervasiveness? Why has the multinational corporation generated so much controversy and influenced so much of Western trade for the last fifteen years? Before these questions are answered, it must be pointed out that international organizations, such as the multinational firm, are not new.

Louis Turner, a British economist, states,

> "In the 1760's, such wide-reaching companies as the East India Company or the Massachusetts Bay Colony were licensed by the British crown to make profits. The nineteenth century saw international companies formed to exploit Central America's banana republics or Africa's copper belt. And again, in the early parts of this century, American companies like National Cash Register, Eastman Kodak, Singer, Coca-Cola, Quaker Oats, and Woolworth were all active outside the United States."[2]

Richard Hays of Tulane University writes,

> "William Lever (in the 1920's)of Britain founded what was perhaps the first real mutinational firm when he established extensive manufacturing and distribution facilities in many foreign countries. All these firms were united by a strong organization designed to accomodate the multinational nature of the company."[3]

Raymond Vernon, of Harvard, estimates there were approximately seventy-five to 100 U. S. firms already manufacturing outside borders of the U. S. by the turn of the twentieth century.[4] Thus, although the controversy surrounding the multinational corporation is recent, the phenomenon itself is not; it has appeared numerous times throughout the history of the Western world.

Definitions of Multinational Corporation

If the above discussion does nothing else, it shows that the operations of the multinational firms are international in design. However, a more comprehensive definition is needed in order for the reader to fully grasp the economic dimensions of this phenomenon. While many different definitions exist concerning the multinational firms, there are some certain common characteristics.

Louis Turner and Richard Hays essentially describe the multinational corporation as any firm which has a number of directly controlled operations in different countries.[5] Professor Vernon posits another definition; to him the multinational firm is

> a company that attempts to carry out its activities on an international scale, as though there were no rational boundaries, on the basis of a common strategy directed from a corporate center ... (its) affiliates are locked together in an integrated process and their policies are determined by the corporate center in terms of decisions relating to production, plant location, product mix, marketing, financing ..."[6]

To these characteristics, Mr. Jacques Maisonrouge, President of IBM's World Trade Corporation, adds the necessity of stock ownership.[7] A

final position, one which will appear throughout this thesis, is stated by one Sir Arnold Hall of England. "A multinational corporation," he relates, "is an American-registered company manufacturing its products where labour is cheapest, and channelling its profits to another country where taxation is lowest or preferably nonexistant."[8] No matter how these definitions might diverge they all contain one important characteristic. The firm, instead of exporting and importing production, chooses to invest in a "host" country and produce internally in that country.

Types and Organizational Structure

A point must be injected at this point in conjunction with the above discussion. If international (world) production is the chief characteristic of all multinational corporations, then are all firms which invest in an overseas' market classified as multinational in this sense? The answer is no. In this context, it is necessary to examine the various forms of multinationals which have been classified by Professor Jack Behrman of the University of North Carolina. Although the distinctions between these forms may be somewhat unclear, they do represent a starting point in this thesis for an analysis of the multinational corporation.

To Professor Behrman, multinational firms are essentially classified into three types: "(1) the 'classical' or 'colonial,' (2) the 'international holding company' and (3) the 'multinational enterprise:'"[9] The "colonial" multinational, it would seem, represents imperialism in its highest sense, for organization is done solely for the purpose of exploiting the resources of a foreign country in order that the domestic firm might profit.[10] On the other hand, the "international

holding company" is essentially set up for production mainly in the host market, and, as Behrman points out, each country is treated as independent of the others in relationship to sales and exports.[11] It is with the third form of multinationals, however, that the previously-mentioned characteristic, that of international production, becomes most evident; for it is this type of firm, the "multinational enterprise," that has as its main objective, the welding of "its foreign affiliates into an operational entity, integrated with the activities of the parent, to serve the world market."[12] Thus, through this third area of multinationals, has flowed much of the American foreign investment in the past two decades; consequently, emphasis will be placed, throughout the remainder of this thesis, on this type of firm.

As can easily be seen in the above presentation, the concept of the multinational corporation is rather complex, involving numerous variables. Not the least of these variables is the organizational structure of this type of firm. As should be evident by now, the multinational firm, because of its great size, must be orgnaized within the substructure of our American corporations; however, only the largest possess the necessary economies of scale for this type of structure. As Dr. Virgil Salera of California State College notes, the American multinational enterprise is unlike either: (1) the American "uninational" company, which has no foreign segment of operations, or (2) the "classical" corporation, which essentially involves dealing with foreign entities through an export department of the domestic firm.[13] To Dr. Salera, the American multinational corporation must involve a number of specialized divisions;[14] however as complex as these divisions are, it must be pointed out that direct control for all

foreign operations is still essentially maintained by the parent company, much like the domestic corporation itself. Furthermore, although the multinational corporation may be complicated in its internal organization, the various methods by which its foreign operations are conducted are more easily discernible. These may include: (1) simple exporting, (2) licensing, (3) the joint venture, (4) the wholly-owned venture, or (5) combinations of each.[15]

A large capacity for operations, utilizing the above divisions to their fullest, would thus seem to be the prime requisite for international investment. If this statement is true, if large economics of scale are important for the overseas' investment decision, then how has this been shown in relationship to American direct investment over the past fifteen years? No precise data can be obtained, but excellent estimates have been made describing the number of American corporations investing overseas. From these estimates evidence has been found indicating that the majority of direct foreign investment has been accounted for mainly by the very large firms, those that could clearly be classified as "multinational." From a survey of <u>Fortune's</u> (1966) 500 largest corporations, Professors Louis Wicks and Raymond Vernon have found that approximately 187 corporations, manufacturing in at least six or more countries--with more than 2000 of the 2500 "subsidiary countries" in the entire <u>Fortune</u> group at that time--accounted for nearly eighty percent (80%) of U. S. foreign investment. These, Professor Vernon has noted, were situated mainly within the "multinational enterprise" group.[16] Statistical data from the Commerce Department's Office of Foreign Direct Investment (OFDI) and estimates from Professor Sidney Rolfe would seem to conform to Professor Vernon's

hypothesis. In a survey of over 3,350 enterprises subject to its control, the OFDI found that fewer than 140 multinational corporations accounted for nearly sixty percent (60%) of U. S. direct investment overseas.[17] Professor Rolfe, employing data from Fortune's 500 largest corporations had over twenty-five percent (25%) of their assets, employment, and production overseas in the mid-1960's.[18] Finally, the immensity of many U. S. multinational corporations comes clearly into focus when it is noted that General Motors' annual revenue is greater than any state in the Union; when multinationals like General Motors, Standard Oil, and Ford have annual sales greater than the gross national product of more than 130 foreign countries; and when the fifty largest firms in the United States have revenues greater than the fifty states.[19]

Necessary economies of scale would thus seem to be a major factor in the ability of the corporation to invest overseas. With this characteristic, such firms are able to obtain the skilled manpower and sophisticated management they need to go multinational. This, Professor Vernon notes, is the main reason for the "superiority" of these 187 firms, both in the American and foreign markets.[20] Tables I and II (see below) further illustrate this point. Table I, from a survey of Fortune's U. S., as well as foreign, corporations, gives the world's fifty (50) largest industrial firms in 1970. Of the top 50, 37 are American; of the top 20, 18 are American. (All of these corporations, it must be mentioned, are clearly among the giants in American business.)[21] Table II shows the profits, in 1970, of many of these major American firms. It must be noted that approximately forty percent (40%) of these corporations' revenue has come from overseas

TABLE I

World's Fifty Largest Industrial Firms

	Firm	Headquarters-Nationality	1969 Sales Billions of U. S. Dollars
1.	General Motors	U. S. A.	24.3
2.	Standard Oil (N.J.)	U. S. A.	14.9
3.	Ford Motor	U. S. A.	14.8
4.	Royal Dutch/Shell Group	Netherlands/Britain	9.7
5.	General Electric	U. S. A.	8.4
6.	IBM	U. S. A.	7.2
7.	Chrysler	U. S. A.	7.1
8.	Mobil Oil	U. S. A.	6.6
9.	Unilever	Netherlands/Britain	6.0
10.	Texaco	U. S. A.	5.9
11.	I.T.T.	U. S. A.	5.5
12.	Gulf Oil	U. S. A.	5.0
13.	Western Electric	U. S. A.	4.9
14.	U. S. Steel	U. S. A.	4.8
15.	Standard Oil (California)	U. S. A.	3.8
16.	Ling-Temco-Vought	U. S. A.	3.8
17.	DuPont (E.I.) de Nemours	U. S. A.	3.7
18.	Philips' Gloeilampenfabrieken	Netherlands	3.6
19.	Shell Oil	U. S. A.	3.5
20.	Volkswagenwerk	Germany	3.5
21.	Westinghouse Electric	U. S. A.	3.5
22.	Standard Oil (Ind.)	U. S. A.	3.5
23.	British Petroleum	Britain	3.4
24.	General Telephone & Electronics	U. S. A.	3.3
25.	Imperial Chemical Industries	Britain	3.3
26.	Goodyear Tire & Rubber	U. S. A.	3.2
27.	R. C. A.	U. S. A.	3.2
28.	Swift	U. S. A.	3.1
29.	McDonnell Douglas	U. S. A.	3.0
30.	Union Carbide	U. S. A.	3.0
31.	Bethlehem Steel	U. S. A.	2.9
32.	British Steel	Britain	2.9
33.	Aitachi	Japan	2.9
34.	Boeing	U. S. A.	2.8
35.	Eastman Kodak	U. S. A.	2.7
36.	Procter & Gamble	U. S. A.	2.7
37.	Atlantic Richfield	U. S. A.	2.7
38.	North American Rockwell	U. S. A.	2.7
39.	International Harvester	U. S. A.	2.7
40.	Kraft Co.	U. S. A.	2.6
41.	General Dynamics	U. S. A.	2.5
42.	Montecatini Edison	Italy	2.5
43.	Tenneco	U. S. A.	2.5
44.	Siemens	Germany	2.4
45.	Continental Oil	U. S. A.	2.4
46.	United Air Craft	U. S. A.	2.4
47.	British Leyland Motor	Britain	2.3
48.	Daimler-Benz	Germany	2.3
49.	Fiat	Italy	2.3
50.	Firestone Tire & Rubber	U. S. A.	2.3

Source: U. S. Firms, Fortune, March, 1970, p. 184; Foreign Firms, Fortune, August, 1970, p. 143.

TABLE II

1970 Multinational Profits

Company	Net Sales (millions)	Estimated Foreign Sales (millions)	% Total	Net Income (millions)	% Foreign	Where the Profits Come from
Standard Oil (N.J.)	$16,554	$8,277	50	1,310	52	Worldwide.
Ford Motor	14,980	3,900	26	516	27	Germany, Britain, Australia.
General Motors	18,752	3,563	19	609	19	Worldwide.
Mobil Oil	7,261	3,267	45	483	51	Canada, Middle East.
International Business Machines	7,504	2,933	39	1,018	50	Worldwide.
International Telephone & Telegraph	6,365	2,673	42	353	35	Canada, Europe, L. America.
Texaco	6,350	2,540	40	822	NA*	Worldwide.
Gulf Oil	5,396	2,428	45	550	21	Middle East, S. America, Canada.
Standard Oil of California	4,188	1,885	45	455	46	Middle East, Indonesia, S. America.
Chrysler	7,000	1,700	24	d 7.6*	NA	Worldwide.
General Electric	8,727	1,393	16	329	20	S. America, Canada,Italy
Caterpillar Tractor	2,128	1,118	53	144	NA	Export Sales Worldwide.
Eastman Kodak	2,785	874	31	404	19	Worldwide.
Union Carbide	3,026	870	29	157	NA	Worldwide.
Procter & Gamble	3,178	795	25	238	25	Britain, Europe,L.Americ
International Harvester	2,712	680	25	52	NA	Canada,Europ Africa.
Firestone Tire & Rubber	2,335	677	29	93	39	Worldwide.
E. I. duPont	3,618	634	18	329	NA	Export Sales Europe.
Swift	3,076	492	16	29	NA	Canada, Britain,German
General Telephone & Electronics	3,439	441	13	236	7	Canada,Europe, L. America.
Uniroyal	1,556	420	27	24	75	Canada, Mexico.
National Cash Register	1,421	643	45	30	51	Worldwide.

NA - Not available, d - Deficit.
Source: "Multinational Profits," Forbes, November 15, 1971, p. 77.

markets.[22] Viewing these two tables, plus any annual edition of Fortune's 500 largest U. S. corporations, one can readily see that U. S. corporation dominance as well as U. S. direct investment go hand in hand. The largest U. S. corporations are also the leading multinationals.

Extent of Direct Investment by Multinationals

The emergence of the multinational corporation as a dominant force on the international scene becomes even more apparent when the total investment picture of the United States over the past two decades is analyzed. (See Table III). In 1950, the book value of all U. S. international investments totaled approximately $54 billion; in 1970, this figure climbed to $167 billion, representing a growth rate of approximately six percent (6%) per year.[23] On the other hand, in 1950 direct investment by U. S. firms[24] stood at roughly $12 billion; by 1970, however, this figure had risen to $78.1 billion, representing a growth rate of approximately ten percent (10%) per year.[25] Thus, in 1950, foreign direct investment was roughly twenty percent (20%) of total U. S. domestic investment; by 1970 this percentage was well over one-half. (By the end of 1971, it is thought that this book value would be well over $84 billion.)[26] An even greater significance of the multinational corporation's influence on international investment is highlighted if the book value of direct investment is related to the United States' share of world trade, sales, and GNP. According to Mr. Judd Polk of the International Chamber of Commerce, there is approximately a 2 to 1 ratio between the book value and asset value of a country's investment position. Applying this ratio to the $78.1 billion of direct investment in 1970, one can quickly see that the total asset picture

TABLE III

International Investment Position of the United States at Yearend 1950-70
(millions of dollars)

Type of Investment	Total 1950	1955	1960	1965	1970p/
Net International Investment					
Position of the U. S. . . .	36,727	37,237	44,730	61,577	69,067
U.S. assets and investments abroad, total . . .	54,359	65,076	85,589	120,374	166,574
Private investments	19,004	29,136	49,310	81,528	119,890
Long-term	17,488	26,750	44,497	71,375	104,693
Direct	11,788	19,395	31,867	49,474	78,090
Other	5,700	7,355	12,632	21,901	26,603
Short-term assets and claims	1,516	2,386	4,813	10,153	15,197
U.S. Government non-liquid credits and claims	11,090	13,143	16,920	23,396	32,197
Long-term credits. . . .	10,768	12,420	14,028	20,200	29,699
Monetary reserve assets . .	24,265	22,797	19,359	15,450	14,487
Gold	22,820	21,753	17,804	13,806	11,072

[a]Note: Table is adapted from more detailed tables published in the Survey of Current Business, October 1970 and October 1971. Of the data shown, only the major underlined items add to totals.

[b]For foreign assets and investments in the U. S., see U.S. Department of Commerce, Bureau of International Commerce, The Multinational Corporation: Studies on U. S. Foreign Investment, Vol. I, Policy Aspects of Foreign Investment by U. S. Multinational Corporations (Washington, D. C.: Government Printing Office, 1972), p. 11.

p/Provisional.

of U. S. investment in 1970 may well have been close to $156 billion.[27] (Here again, by the end of 1971, this figure could probably approach $200 billion).

Which countries have received this direct investment? In what industries has this investment been greatest? Data from the U. S. Department of Commerce suggests that most of the United States' foreign investment has, in the main, gone to the advanced countries such as Canada and those in Europe. (See Table IV.) In 1970 about one-third ($23 billion) of the total foreign direct investment of $78.1 billion went to Canada, one third ($25 billion) to Europe--with the United Kingdom receiving $8 billion, Germany $5 billion, and France $2.16 billion--and the residual to those countries in Latin America, Africa, and the rest of the world--notably Japan ($1.5 billion) and Mexico ($1.8 billion).[28] (This, as must be noted, followed trends previously established in the 1960's.)[29] However, in comparative terms, investment in Canada dropped from a previous high of thirty-five percent (35%) of total foreign direct investment abroad in 1960 to thirty percent (30%) in 1970. Investment in Europe, on the other hand, rose from twenty-one percent (21%) in 1960 to thirty-one percent (31%) in 1970.[30] As for the industry breakdown, it can readily be seen that manufacturing has experienced the biggest increase in American investment over the past forty years, increasing from approximately twenty-four percent (24%) in 1929 to forty-one percent (41%) in 1970 ($32.2 billion).[31] This is thus solid support for the economists' contention that international production is the main form of American multinational business; for the manufacturing component especially requires the skills of the American multinational corporation.[32]

TABLE IV

Growth of U.S. Direct Investments Abroad, by Area and Industry
1929 - 1970 a/

	Amount in Billion Dollars			Percent of Total		
	1929	1950	1970p/	1929	1950	1970p/
All Areas, Total	7.5	11.8	78.1	100.0	100.0	100.0
Canada	2.0	3.6	22.8	26.7	30.5	29.2
Latin America	3.5	4.6	14.7	46.7	39.0	18.8
Europe	1.4	1.7	24.5*	18.7	14.4	31.4
Middle East & Africa .	0.1	1.0	5.1	1.3	8.5	6.5
Other areas	0.5	0.9	11.0	6.6	7.6	14.1
Developed Countries,Total.	n.a.	n.a.	53.1	n.a.	n.a.	68.0
Less Dev. Countries,Total.	n.a.	n.a.	21.4	n.a.	n.a.	27.4
International,Unallocated.	n.a.	n.a.	3.6	n.a.	n.a.	4.6
All Industries, Total. . .	7.5	11.8	78.1	100.0	100.0	100.0
Mining and Smelting. . .	1.2	1.1	6.1	16.0	9.3	7.8
Petroleum	1.1	3.4	21.8	14.7	28.8	27.9
Manufacturing.	1.8	3.8	32.2	24.0	32.2	41.2
Other	3.4	3.5	17.9	45.3	29.7	23.0

Notes: Detail may not add to totals because of rounding.
a/ Book value at yearend
p/ Provisional
* Excludes Eastern Europe
n.a. Not Available

Source: Survey of Current Business, passim.

As stated above, the more economically advanced countries of the world have received the biggest percentage of foreign direct investment over the past two decades, rather than the less-developed countries (LDC's). However one point must be made in connection with the LDC's at this juncture. Although their significance has declined over the past few years,[33] there is evidence that the trend is reversing itself somewhat. Professor Louis Turner states that there was a new burst of investment in the LDC's during the 1960's;[34] in this connection, Professor Vernon has given supporting evidence. Noting that the widespread impression of the role of the lesser-developed countries in foreign business has essentially been one of packaging and assembling, Professor Vernon relates that many foreign investors have gone from this role to one of actual production in the countries. This trend, as Professor Vernon further notes, has mainly arisen due to the price (and cost) benefits that could be gained in these countries.[35]

U. S. subsidiaries in Latin America alone, he later notes, exported $750 million worth of goods in 1968, more than forty percent (40%) of all Latin American exports in that year alone.[36] Although an unstable situation may exist in many of the lesser-developed countries, these economists, and others as well, realize their future potential. In the last decade alone, the rate of return on all industries combined within the lesser-developed countries has averaged almost twice that from the more developed countries--twenty-one percent (21%) as compared to approximately thirteen percent (12.6%).[37] Considerable benefits, hence, may await those who invest in this "Third World," and, as Professor Turner mentions, many multinationals may have to join the mainstream in order to survive in the 1970's.

Concluding Statements

During the past two decades, the net investment picture of the United States has almost doubled--from a rate of $36.7 billion in 1950 to $69.1 billion in 1970; this has mainly been because of an increase in U. S. assets abroad, from %54 billion in 1950 to $167 billion in 1970.[39] Probably the largest single factor accounting for all of this increase has been that of international production as generated by the multinational corporation. However, as this phenomenon has come to dominate much of international trade, controversy has begun to surround it. Due to its extreme size and large economics of scale, the multinational corporation has begun to cause some uneasiness among our domestic labor unions as well as among foreign governments. Consider the facts previously mentioned as well as these: (1) According to Mr. Judd Polk, and others, U. S. foreign direct investment by the multinational corporation has grown at a rate of approximately ten percent (10%) per year since the 1950's while our own GNP has only increased at one-half that rate (5%)[40] "Standard" exports, at this same time, have experienced a rate of growth of roughly seven percent (7%) per year.[41] (2) According to Business Week, in the later 1960's, while the profits of domestic corporations barely inched forward, those by the multinationals rose more than thirteen percent (13%).[42] (3) Finally, even though U. S. exports have continued to grow during the past twenty years, output associated with U. S. production abroad has increased five to six times over this rate of "standard" exports.[43]

Thus, in view of these facts, the emergence of the multinational corporation upon the international economic arena in the 1970's becomes clearly evident. At the same time, one can see how uncertainty

towards this phenomenon might prevail among many factions in our society--notably organized labor. For, with an increase in international investment and production, there may be a tendency, as labor has voiced, for the firm to shut down its domestic plants, dismiss its American work force, and invest overseas where the labor standards and (labor) costs are not as high.

Mr. Jean-Jacques Servan Schreiber wrote in 1968 that "Fifteen years from now it is quite possible that the world's third greatest industrial power, just after the United States and Russia, will not be Europe, but American industry in Europe."[44] If this becomes true, if American overseas' production does become even more prevalent in the future, then does labor have sufficient cause to worry?

It will thus be the objective of this thesis to explore the impact of multinational investments abroad on organized labor and employment levels. A subsidiary issue of union strategy and union growth is implicit in this realm and will also be discussed in this thesis. Specific current policy issues such as those embodied in the pending Burke-Hartke legislation will be analyzed in detail. The concluding chapter will evaluate these policy proposals and attempt some modest proposals of its own.

Footnotes to Chapter I

[1]Thomas J. Leary, "The Unemployment Effects of Foreign Investment by American Multinational Firms" (paper presented at the American Association for the Advancement of Science, Philadelphia, Pennsylvania, December 28, 1971), p. 1.

[2]Louis Turner, Invisible Empires (New York: Harcourt Brace, Jovanovich, Inc., 1970), p. 1.

[3]Richard D. Hays, Christopher D. Korth and Marucher Roudiana, International Business: An Introduction to the World of the Multinational Firm (Englewood Cliffs, N. J.: Prentice-Hall, Inc., 1972), p. 262.

[4]Raymond Vernon, Sovereignty at Bay (New York: Basic Books, Inc., 1971), p. 61.

[5]See Louis Turner, Invisible Empires, p. 2; Richard Hays, International Business, p. 260.

[6]U. S. Department of Commerce, Bureau of International Commerce, The Multinational Corporation: Studies on U. S. Foreign Investment, Vol. I, Policy Aspects of Foreign Investment by U. S. Multinational Corporations (Washington, D. C.: Government Printing Office, 1972), p. 7.

[7]Ibid.

[8]Norman Macrae, "The Future of International Business," Economist, January 22, 1972, p. xxv.

[9]Leary, "American Multinational Firms," p. 5.

[10]Ibid.

[11]Jack N. Behrman, National Interests and the Multinational Enterprise (Englewood Cliffs, N. J.: Prentice-Hall, Inc, 1970), pp. 1-2.

[12]Leary, "American Multinational Firms," p. 5.

[13]Virgil Salera, Multinational Business (Boston: Houghton Mifflin Company, 1969), p. 9.

[14]Ibid., pp. 10-11.

[15]Hays, International Business, pp. 264-265.

[16]Vernon, Sovereignty at Bay, p. 11.

[17]U. S. Department of Commerce, Policy Aspects of Foreign Investment, p. 41.

[18]Ibid., p. 8.

[19]See Louis Turner, Invisible Empires, p. 135; Raymond Vernon, Sovereignty at Bay, p. 7.

[20]Vernon, Sovereignty at Bay, p. 7.

[21]Hays, International Business, p. 169.

[22]"Multinational Profits," Forbes, November 15, 1971, p. 77.

[23]U. S. Department of Commerce, Policy Aspects of Foreign Investment, p. 10.

[24]"Direct Foreign Investment of the United States," Economic Review (Cleveland: Federal Reserve Bank of Cleveland, March 1971), pp. 15-16. (Here it is related that a foreign investment is considered to be direct if the U. S. individual or firm owns or obtains more than ten percent of the foreign investment. Likewise, the investment is direct if all U. S. residents together hold fifty percent or more of the voting stock of the firm.)

[25]U. S. Department of Commerce, Policy Aspects of Foreign Investment, p. 11.

[26]"Everybody's Favorite Target?", Forbes, March 1, 1972, p. 24.

[27]U. S. Department of Commerce, Policy Aspects of Foreign Investment, p. 8.

[28]Ibid., pp. 10-12.

[29]Ibid., p. 13. (These trends can also be observed by examining various issues of the Survey of Current Business, published monthly by the Commerce Department.)

[30]Ibid.

[31]Ibid.

[32]Salera, Multinational Business, p. 18.

[33]Turner, Invisible Empires, pp. 104-105.

[34]Ibid.

[35]Vernon, Sovereignty at Bay, pp. 100-102.

[36]Ibid., p. 102.

[37]U. S. Department of Commerce, Bureau of International Commerce, The Multinational Corporation: Studies on U. S. Foreign Investment, Vol. I, Trends in Direct Investments Abroad by U. S. Multinational

Corporations - 1960 to 1970 (Washington, D. C.: Government Printing Office, 1972), p. 11.

[38]Turner, Invisible Empires, p. 132.

[39]U. S. Department of Commerce, Policy Aspects of Foreign Investment, p. 14.

[40]Judd Polk, "The New World Economy," Columbia Journal of World Business, III (January-February, 1968), pp. 8-9.

[41]U. S. Department of Commerce, Policy Aspects of Foreign Investment, p. 10.

[42]"Rougher road for the multinational corporations," Business Week, December 19, 1970, p. 61.

[43]U. S. Department of Commerce, Policy Aspects of Foreign Investment, p. 10.

[44]Jean-Jacques Servan Schreiber, The American Challenge (New York: Atheneum House, Inc., 1968), p. 3.

CHAPTER II

ORGANIZED LABOR AS ANTAGONIST

Introductory Statements

From the early 1930's, when it first became a force to be reckoned with, until the middle 1960's, the history of organized labor, in regards to international trade and investment, was essentially one of liberality. Knowing that foreign trade was not that important to the United States (accounting for only five percent of total U. S. GNP), the labor unions often supported American efforts towards free trade. However, in the middle 1960's, this situation changed; arguments for protection from world competition began to replace those for free trade. Why did this happen?

First of all, the trade unions, after thirty years of solid growth, began to lose membership.[1] From 1930 until 1956 union participation grew until it reached 17.5 million, or approximately twenty-five percent (25%) of the total labor force in the United States; after 1956, decay began to set in. In the latter 1960's, although roughly 18 million workers were unionized, they represented only about twenty-two percent (22%) of the total labor force, a three percent decline in just twelve years. The reasons for this decline were probably many: the growth of white-collar employment in which union organization was difficult, the rise in government employment, the shift from goods-producing to service producing industries, et cetera; however the decline was readily evident and was often a sore point with many union leaders. From this loss of membership, due to the desire to protect what members were left, came a

more militant union attitude towards foreign investment by big business. Secondly, the rise of the war-shattered economies of Japan and Germany, among others, was clearly evident on the trade scene by the early 1960's. These economies, as the decade drew to a close, would greatly compete with the United States for world trade dominance.[2] Thirdly, another major development that signaled labor's switch was the emergence of numerous trading blocs, the most notable being the European Common Market.[3] Finally, for the first time, the United States' balance of trade position began to worsen--dropping from an annual average of $5.4 billion in the first half of the 1960's to $2.6 billion for the latter half.[4] Nevertheless, these events, although significant in themselves, were not enough to warrant labor's shift to protectionism. Overshadowing each--and at the same time incurring labor's ire as the main cause of American trade deterioration--was one major development, international investment and production by U. S. multinational corporations.

Organized Labor's Protectionist Arguments

As the present decade begins, labor's position on the multinational corporation has been summarized by Mr. Nathaniel Goldfinger, Director of the AFL-CIO's Department of Research, in clear terms:

> One of the underlying causes of the deterioration of the U. S. position in world trade (at the beginning of 1972 a deficit of $2.9 billion.[5]) is the operations of U. S.-based multinational companies, with far-flung foreign subsidiaries, patent and licensing arrangements with foreign companies, joint venture deals and other foreign arrangements... The operations of U. S.-based multinationals have exported American technology, with the loss of U. S. production and employment, for the private advantage of the firms. They are a major factor in the rapid and substantial loss of U. S. production in such relatively sophisticated goods as radios, televisions and other electrical products, as well as in shoes and apparel... A large and growing part of

> what is called U. S. exports and imports are now transactions within the structures of these multinational firms--between the U. S.-based company and its foreign subsidiaries... U.S. trade patterns are thereby affected by the operations of the multinational... The U. S. government cannot much longer permit the private decisions of multinationals to determine the future of the American economy, without regulations.[6]

Labor in the 1970's, is thus no longer a supporter of the law of comparative advantage, the "classical" basis for free trade. Submitting that the multinationals not only export employment and technology, but also marketing and management skills, as well as capital, the unions are calling for protection. At this juncture one must ask, how much employment opportunity, due to the above, is being lost? How badly are capital and technology exports hurting organized labor? Before these questions are answered, it is necessary to examine organized labor's changed position concerning the classical concept of comparative advantage; for this new position is at the core of union arguments for protection.

<u>Failure of Law of Comparative Advantage</u>

The classical doctrine of comparative advantage was first postulated by David Ricardo in the early nineteenth century--in his now famous England-Portugal, cloth-wine example.[7] According to this doctrine, each country should produce those goods which were suitable to its resource environment and trade for those less-suitable. This essentially meant that countries like the United States should focus their internal efforts on high-productivity products, embodying vast amounts of capital, as well as technology and skill, and trade for those products in which great quantities of unskilled labor were utilized. Only through this method could world income be maximized.

Organized labor today, however, argues that this doctrine is obsolete in view of our highly technological, fast-paced world. Not only do products tend to move internationally, but also the factors of production as well, except for labor, thus contradicting the assumptions in this classical free trade concept.[8] Capital, technology, and management, all represented as inter-plant transfers by the multinational corporation, are extremely mobile in today's international markets; labor is not.[9] Hence, the transfer of modern technology can take place with almost no time lag at all, so that a corporation can immediately send the most highly-sophisticated production facilities abroad and train the workers there to utilize these facilities at lower labor costs than in the United States.[10] U. S. labor (the only human resource in the economy), on the other hand, must contend with job losses and unemployment due to this outflow of capital and technology. Accustomed to one certain region and job, labor is not as free to relocate as are the other factors mentioned.

In short, in the 1970's, the unions contend there is no stable, lasting basis for comparative advantage. The list of the top countries in trade is constantly changing; likewise, the factor proportions within many of these countries, due to the influx of American capital and technology, are allowing them to effectively compete with the United States for world trade dominance. Such countries, notably Japan and many of those in Europe, are, at the same time, becoming more and more protectionist, following few of the principles found in classical free trade philosophy. All of the above has caused the unions to reconsider their position on this classical Ricardian doctrine. Reasoning that any free trade policy is harmful in light of today's shifting advantages, organized labor itself has become more protectionist. Also, in changing

to this viewpoint, union leaders are contending that, since international production by the multinationals is merely an extension of domestic production, then those economic principles applying to the domestic firm are more appropriate today than Ricardo's basic free trade doctrine.[11]

Employment Opportunity Losses

The main arguments, as seen by the unions, have thus been that capital and technology transfers have played an increasing role in the international arena, whereas wage and labor transfers have not; consequently, many American workers have lost their jobs, and countless more have lost their opportunity for employment. Although relevant data is virtually non-existent on the exact impact that multinational trade has had on U. S. workers (primarily, the unions say, because the so-called foreign trade experts have been indifferent to labor's demands), rough evaluations have been made. Based on U. S. Department of Labor data, it has been estimated that approximately 1.8 million jobs in 1966 would have been needed in the United States in order to produce seventy-four percent (74%) of U. S. imports assumed to be competitive with domestic (U. S.)-made products. "In 1969," it is further related, "if we had attempted to produce domestically goods equivalent in value to such imports... we would have needed 2.5 million additional workers..."[12] Hence, these estimates indicate that approximately 700,000 job opportunities were lost in this three year period, primarily because of imports. When the statistics concerning the number of jobs attributable to exports during this same period, roughly 200,000 are presented, a net loss of 500,000 job opportunities is evidenced.[13] (Recently, these estimates have been updated to approximately 900,000 jobs, or

400,000 opportunities lost in the last two years alone--1969-1971.)[14] Other approximations have also been forthcoming: in the electronics industry alone, which, coincidentally, has received the heaviest number of union complaints concerning foreign direct investment,[15] it is reported that employment has decreased by 107,000 jobs since 1966--roughly half of which (48,000) have been in the consumer aspect of the industry, notably radios, televisions, and household appliances.[16]

Why has this happened? Why has there been such a reduction in American chances for employment? The unions attribute this loss of employment opportunities, not solely to the increase in imports alone, but to the increase in American foreign investment, especially direct investment by the multinational firms. However, they then go even further. Such firms, union leaders claim, are not interested in increasing American exports, or even America's position in trade; they are essentially "runaway corporations" which, because of lower unit costs of labor abroad, have set up production facilities overseas. These facilities have then been used to export the finished product (or assembly) in the domestic market or competition with U.S.-produced goods in the world market.

Although the problem of "runaway" plants has never been quantified, economists relate that it is a serious one, at least as far as the unions are concerned.[17] Louis Turner notes that between 1961 and 1968, only 3.5 million jobs were created in the United States, despite the Vietnam war and widespread prosperity.[18] Although his examples are far less emotional than those of the unionists, Turner does admit that the aforementioned problem, is in part, responsible for this small increase in jobs, and that it is growing, both in America and abroad.[19] Robert d'A. Shaw, with the Overseas Development Council, notes that the movement

of direct investment that has already occurred (along with other factors in the economy) has left only twenty-six percent (26%) of the U. S. labor force involved in manufacturing, as compared to thirty-five percent (35%) in Britain and thirty-eight percent (38%) in West Germany.[20] (Manufacturing, as is already known, has been the main area of multinational investment overseas; at the same time, it has occupied the premier position of union membership in the goods-producing industries, with over fifty percent (50%) of union workers concentrated here.[21] Future international production, unions fear, may greatly decrease jobs in this area and, hence, membership rolls.)

World Disparity In Wages

Closely related to the above problems, the unions argue, has also been the disparity of wage differentials as seen in the various countries in which American direct investment has taken place. Employing data from the *Monthly Bulletin of Statistics*, it is seen that this disparity was extremely evident in the latter 1960's. On a comparable hourly wage rate scale in manufacturing, the bulk of multinational investment, the values (in terms of U. S. dollars) ranged as follows: from $0.28 in Colombia, to $0.71 in Italy, to $0.76 in France, to $1.19 in West Germany, to $2.22 in Canada.[22] Data from the U. S. Department of Labor for this same period, plus 1970, shows much similarity; 1970 wages in Italy - $0.94, France - $1.02, West Germany - $1.58, and Canada - $3.01, had improved, but the number of hours worked were much greater than those in the United States.[23] Robert d'A. Shaw, utilizing data on the ratio of U. S. hourly earnings to those of various U. S. foreign affiliates, seems to agree along these same lines; in 1969, he notes this ratio

was: Mexico - 6.2:1, Taiwan - 9.8:1, Korea - 10.1:1, and the United Kingdom - 2.3:1. However, he also states that productivity differentials, on a comparable basis, were far less.[24] Finally, data from the U. S. Department of Labor on Mexico's border industrialization program, the major sore point with many labor unions today, further illustrates this problem. Wages here, in 1970, averaged roughly $1.60 (U. S. rates) per day for unskilled workers, with the semi-and skilled workers receiving approximately $5.00 per day.[25] Organized labor thus disagrees with many corporate leaders' notions that the multinational firm will, in the long run, be an effective device for equalizing world-wide wages. Elizabeth Jager reports that these same corporations have been unable to even equalize their domestic wages between Northern and Southern workers; to do so among their foreign affiliates may take forever.[26] With U. S. unemployment running well over five percent since 1970, it would seem that labor's concern, in this situation, is not unwarranted.

Capital And Technology Outflows

The problem of "runaway corporations," it is asserted, with a subsequent loss of U. S. employment, is a major one with American unions today. However, job opportunities have not been the only item exported by these corporations; overshadowing this loss of job creation, have been those transfers of capital and technologically sophisticated products and facilities. (See Table V below.) Table V pictures the outflow of U. S. capital abroad between 1960 and 1970. In 1960, capital outflows were roughly $1.7 billion; by 1970, these had risen to $4.4 billion. Also shown in the table is new direct investment (net capital outflows plus reinvested earnings) between these same years. In 1960, this investment, which gives a better illustration of the true capital

TABLE V

U. S. Direct Investment Abroad

Total, All Industries

All Areas	Book Value	Earnings	Reinvested Earnings	Capital Outflows Total	Total Direct Investment Flows
1960	31,865	3,546	1,254	1,694	2,948
1961	34,684	3,815	1,054	1,599	2,653
1962	37,145	4,235	1,198	1,654	2,852
1963	40,736	4,587	1,507	1,976	3,483
1964	44,480	5,071	1,431	2,328	3,759
1965	49,474	5,460	1,542	3,468	5,010
1966	54,799	5,702	1,739	3,661	5,400
1967	59,491	6,034	1,598	3,137	4,735
1968	64,983	7,022	2,175	3,209	5,384
1969	71,061	8,128	2,604	3,254	5,858
1970	78,090	8,733	2,885	4,403	7,288

[a]Source: U. S. Department of Commerce, Bureau of International Commerce, The Multinational Corporation: Studies On U. S. Foreign Investment, Vol. I Trends in Direct Investments Abroad by U. S. Multinational Corporations - 1960 to 1970 (Washington, D. C.: Government Printing Office, 1972), p. 33.

[b]For a breakdown of this investment between the developed and under-developed countries, see the source above (and its same page number).

outflow picture, totaled $2.9 billion; by 1970, this had risen to $7.3 billion, an increase of one hundred and forty-seven percent (147%) in just ten years.[27]

Capital outflows have also been evidenced through the commercial technology that has been transferred abroad by U. S. multinational firms. Statistics indicating this transferral generally take the form of payments of royalties and fees to the parent company by the affiliate; thus, no exact data can be obtained covering the amounts of technologically related facilities that have gone to each country. Nevertheless,, it has been estimated that technology abroad increased by eighty percent (80%) between 1964 and 1969, roughly amounting to between $2 and $6 billion, depending on the source employed.[28] Payments of royalties and fees during this period totaled $2.5 billion, while management and service receipts amounted to $3.9 billion.[29]

Total direct investment in the past decade has increased by over one hundred and forty-five percent (145%), of which roughly seventy-five to eighty percent (75-80%) has been accounted for by the activities of U. S. multinational corporations.[30] It is these firms, the unions assert, that have been responsible for the increased transfer of capital and capital-related technology, mainly through their licensing and joint venture techniques. However, where have these transfers gone? Louis Turner states that the bulk of this investment has gone to those industries producing cars, computers, pharmaceuticals, electrical components, chemicals, and petroleum; in short, to those highly technological industries located mainly in the developed areas:

> In 1968 General Motors, Ford and Chrysler controlled 30% of the European car market; similarily American firms control 25-30% of the petroleum market in the U. K. and the Common

> Market... IBM manufactures around 65% of all the computers sold in the noncommunist world... The American lead is almost as serious in crucial fields such as micro-electronics and scientific instruments. One writer... estimates that 75% of Europe's science-based industries may be U. S.-owned within 10 years.[31]

Another author, Rainer Hellmann, relates that in the latter 1960's, the U. S. multinationals also controlled "33% of the petroleum refining capacity of the E.E.C.... (as well as) 16% of electronic production... accounting for 50% of industrial semiconductor production and 80% of electronic data processing related production."[32]

However, while a great percentage of U. S. direct investment has occurred here, Europe has not been the only continent invaded by the American multinational. Canada, as well as Mexico and the Far East (two major underdeveloped areas), have also received their share of technological investment. As is known, many electronics firms, such as RCA, General Electric, Zenith, and Admiral, have transferred their production to countries like Japan, Taiwan, Formosa, and Mexico.[33] In Mexico alone, it is reported that approximately forty percent (40%) of the firms there produce electrical components.[34] In 1971, it was expected that $350 million worth of these components would be exported back to the United States.[35] In Canada, U. S. dominance has been quite extensive: almost ninety percent (90%) of her automotive industry, eighty percent (81%) of her electronics industry, and over sixty percent (64%) of her chemical industry are American-owned today.[36]

Balance of Trade Deterioration

Up until this point, the union argument towards the transfer of capital and technology has been relatively weak. It can easily be seen that increased capital outflows have occurred; also easily seen is the fact that there has been an increase in technology diffusion throughout

the world. Nevertheless, how has the above influenced employment in the United States? The union answer is quite explicit. Admitting that the statistics relating to the adverse effects of capital and technology transferrals upon domestic employment are rare, union leaders have looked to one major area for proof that these exportations have hurt--the weakening position of the United States concerning the balance of trade (and payments as well).

The United States, in relation to her merchandise trade balance, had enjoyed a considerable surplus (in 1960-1965, averaging close to $5.4 billion annually) until the middle 1960's. Export growth during this period had averaged between seven and eight and one-half percent (7-8½%) per year, while import growth had risen between three and five percent (3-5%).[37] However, beginning in 1966, exports, although an increase up to $35.5 billion by 1968 ($43 billion by 1970) was seen, only continued to rise at their seven percent (7%) rate, while imports increased at a far faster pace, up to $32.3 billion by 1968 ($40 billion by 1970) for an increase of from six to twenty percent (6-20%) per year.[38] The trade surplus during this same period dropped to roughly $2.6 billion (later decreasing to a deficit of 2.9 billion at the beginning of this year). This decline was especially evident in the following areas: (1) the automotive industry, after a surplus of $1 billion in 1965, had a deficit of $2.3 billion in 1970, (2) the non-foods consumer goods industry deteriorated by more than $3 billion, from a deficit of $1.5 billion in 1965 to $4.8 billion in 1970, (3) the deficit in industrial supplies rose from $2.1 billion in 1965 to $3.2 billion in 1970, and finally (4) the balance in foods and beverages switched from a surplus of $1 billion in 1965 to a deficit of $0.3 billion in 1970.[39]

Thus, the latter 1960's were among the worst trading years the United States has ever experienced; nevertheless, the trend continued on into the early 1970's. By 1971, although the United States accounted for nearly $200 billion in trade, our share of the world market had dropped to one-fifth (with competition coming mainly from Japan and the Common Market), and our trade deficit was more than $2 billion. Estimates are that these trends will continue, reflecting, in part, the tremendous industrial growth in Western Europe and Japan, as well as the speedup in economic growth in countries like Taiwan and Mexico.[40]

What happened to cause this deterioration in trade? Although many reasons have been given,[41] union leaders essentially picture foreign investment by American multinational firms as the appropriate reason for this decline. In 1964, again viewing Table V, at the height of the trade surplus, annual investment flows from U. S. firms were roughly $3.7 billion; by 1970, when this surplus was rapidly heading towards a deficit, this figure had doubled to approximately $7.3 billion. New capital transfers, during this same period, had also increased from $2.3 billion in 1964 to $4.4 billion in 1970.[42] It must also be noted that, by 1970, sixty-one percent (61%) of these transfers had gone to the developed countries--the same ones competing with the United States today for world trade supremacy.[43]

At the same time, while capital was being transferred abroad, primarily by the multinationals, imports were increasing in the United States. Examples included the following: Imports of rubber manufactures increased two hundred and sixty-six percent (266%), while exports only increased twenty-seven percent (27%); imports of clothing increased two hundred and forty-four percent (244%), while exports increased

ninety-one percent (91%); and imports of textiles increased seventy-one percent (71%), while exports only increased twenty-three percent (23%).[44] However, not only did imports increase in these industries, but also in many of those technologically-related areas where American trade had been the strongest. In electronical apparatus, as well as transport machinery and equipment, this increase was apparent: "For example, while exports of autos, trucks and parts rose 138%, imports shot up 884%, exports of electrical apparatus rose 120% and imports went up 447%. Non-electric machinery showed a 112% rise in exports and a 474% rise in imports."[45] Finally, from the Congressional Record, estimates indicated that approximately twenty percent (20%) of automobile sales, thirty percent of television sets (30%)with forty-five percent (45%) of black and white televisions coming from the Far East),[46] and roughly sixty percent (60%) of sewing machines and calculating machines, had been taken over by imports.[47]

Capital Expenditures on Plants and Equipment

Capital expenditures on plants and equipment abroad was another facet of the multinationals' actions during these years in which our trade balance was declining. (See Table VI below.) In 1964, again when the trade surplus was at its height, plant and equipment expenditures by the multinationals totaled $6.2 billion; by the end of 1971, when the surplus had vanished, it was estimated that these same expenditures would be $15.3 billion, a doubling in just seven years.[48] (Manufacturing expenditures alone, it is noted, increased from $3 billion in 1964 to an estimated $8.1 billion by 1971, with concentrations mainly in the technologically developed countries of Europe and Japan. This, the Department of Commerce relates, was due primarily to the increase in demand

TABLE VI

Plant and Equipment Outlays

of Direct Foreign Investments 1960-70

(billions of dollars)

	1960	1961	1962	1963	1964	1965
Total	$3.8	$4.1	$4.6	$5.1	$6.2	$7.4
Mining & Smelting	.4	.3	.4	.4	.5	.6
Petroleum	1.5	1.5	1.6	1.9	2.1	2.3
Manufacturing	1.4	1.8	2.0	2.3	3.0	3.9
Other Industries	.5	.5	.5	.5	.6	.7
	1966	**1967**	**1968**	**1969**	**1970**	**1971***
Total	$8.6	$9.3	$9.4	$10.8	$13.2	$15.3
Mining & Smelting	.8	.9	1.0	1.1	1.2	1.5
Petroleum	2.5	3.0	3.3	3.6	3.8	4.2
Manufacturing	4.6	4.5	4.2	5.0	6.9	8.1
Other Industries	.7	.8	.8	1.0	1.4	1.5

[a]*Estimated

[b]Source: Various issues of Survey of Current Business, 1960 to 1970

stimulated by the fast growth and sophistication of business in these countries.)[49] Even accounting for inflation, union leaders state, this was a huge increase in expenditures. Another example lends further importance: the balance of payments reported by the Commerce Department in 1970 showed over $4 billion, as has been stated, in direct capital outflows while almost $8 billion was shown in returns on this investment, mainly from dividends, royalties and fees. However, union leaders note that capital expenditures, much of it financed by parent company reinvestment of remitted profits and depreciation allowances of foreign affiliates, totaled $13.1 billion during this same period; a deficit, not a surplus, should thus have been presented.[50] (By viewing Tables V and VI, this phenomenon can also be seen for all of the years between 1964 and 1970.)

Export Outflows

With the above trade deficit in evidence, the unions thus seem to have refuted one of the main premises of the multinational corporation--that this phenomenon has greatly helped both the United States' balance of payments and balance of trade positions. Let us first consider this refutation by examining the multinational firm's effect on exports. From data collected by the Department of Commerce in May, 1969, some interesting results are obtained.

In 1965 (the latest year for which this data was available), from interviews conducted with 330 U. S.-based companies with over 3,500 foreign branches, it was found that approximately $8.5 billion (or one-third of the $24 billion that was exported that year) was exported by U. S. firms with foreign affiliates.[51] Of this $8.5 billion, roughly one-half, $4.4 billion, was channeled directly through the foreign

affiliates of these firms. However, this survey stresses that this $4.4 billion figure was mainly accounted for by 19 of the 330 firms (less than six percent), while 184 corporations accounted for only seven and one-half percent (7.5%). Further stressed throughout these interviews is the fact that a large number of multinational affiliates bought nothing from their parent company, thus making no contribution to U. S. exports; of the over 3,500 affiliates, 1,651 were in this group. Also related is the fact that, in the manufacturing area alone, fifty-seven percent (57%) of the firms interviewed reported their affiliates had no part in distributing or selling abroad goods purchased from the parent company. Finally, it is estimated that one-half of this $4.4 billion, $2.5 billion, was sold abroad without further manufacture. Of this $2.5 billion, nearly half was sold by one percent (1%) of the affiliates, while ninety percent (90%) had no connection with any sales whatsoever.

In theory, as Elizabeth Jager points out, exports from the United States should be increased when American production is set up abroad. Nevertheless, the study above found the opposite to be true: "The great majority of U. S. parent companies and of the foreign affiliates contributed very little to export trade," the study noted. "This suggests that foreign direct investments by U. S. corporations do not necessarily contribute to the export trade of these corporations." Or, as Mrs. Jager relates, to increasing the export trade of the United States.[52] (Here, union leaders point out that such would be the case since most exports by the multinationals are only interplant transfers anyway.)

Export Displacement

In actuality, the unions assert, the actions of the multinationals

have not only been negligible concerning U. S. export trade; they have, in fact, served to displace American exports. Foreign investment has essentially been undertaken because the lower wages abroad have promised higher profit margins at home; capital and technology have been exported in order to realize these profit margins. Lower exports, in many technologically productive areas, as the previously mentioned figures have shown, have been the result. Extensive studies on export displacement in manufacturing (during the early 1960's) by G. C. Hufbauer and F. M. Adler have proven the above to be somewhat true. Employing three assumptions in their study (classical, reverse classical, and anticlassical),[53] these men have obtained interesting results. Under reverse classical assumptions (in which U. S. investment substitutes for native investment in the host country), Hufbauer and Adler have found that American exports were increased somewhat in Canada, Latin America, and Europe, but not elsewhere. However, more damaging results have occurred when the other two assumptions were used. Under classical or anticlassical assumptions (both of which relate that U. S. direct investment increases net capital formation in the host country), U. S. exports have been greatly displaced in both Canada and the "Rest of the World" (Third World), moderately displaced in Latin America, and somewhat displaced in Europe. This displacement of exports by international production is thus a serious problem, the unions contend, and should not be taken lightly. Yet the problem becomes even more serious when it is viewed in relationship to the increase in imports that have occurred in the United States during the past few years--and more importantly, the increase in imports that has occurred from American affiliates overseas.

Import Penetration

Estimates from the U. S. Department of Commerce have long shown that imports of petroleum and mining products have been regularly shipped from American affiliates to the parent company, citing the much higher production costs here as well as the need for these raw material products.[55] Union leaders, however, are not worried about such imports; for these imports have always been a facet of American trade. What is of concern to them is the present trend of an increasing percentage of affiliate-manufactured products that have begun to be imported back to the United States. In 1965, U. S. purchases from their manufacturing affiliates abroad amounted to approximately $1.8 billion, or roughly eight percent (8.3%) of total U. S. imports and four percent (4%) of total affiliate sales. Yet by 1968, the last year for which such figures are available, these purchases had increased to roughly $4.7 billion, or approximately fourteen and one-half percent (14.3%) of total U. S. imports and eight percent (8%) of total affiliate sales--a growth of over one hundred and sixty percent (160%) in just three years.[56] What is of even more concern is the fact that, although manufacturing imports from those facilities in the underdeveloped countries have been small, investment here has increased over two hundred percent (200%) in the last decade, posing a definite challenge for the future. In this connection, figures from those countries under Tariff Schedule 807, both developing and developed alike, have proven quite interesting.

Tariff Provision 807

Tariff Schedule 807, introduced in 1963 with the adoption of new schedules, was originally designed to provide for "duty-free entry of American products returned to the United States if they had not been

'advanced in value or improved in condition by any process of manufacture or other means.'" (In other words, the good was permitted free access to the American market if the only value added to it was the labor that had produced it.)[58] Its sponsor, Victor A. Knox, R-Michigan, proved himself a poor prophet by then forecasting: "I believe there is no possibility that these particular products would ever be shipped to such countries as Belgium, Spain, Portugal, and so forth, because of high transportation costs . . ."[59] Since its inception, this schedule has not only been used by the developing countries to export components back to the United States, but also by the developed ones as well; here again, the influence of the multinational corporation may be seen, for it is in these same countries that much of the U. S. direct investment has occurred. Statistics from the Department of Commerce show that, primarily, 11 countries have accounted for approximately eighty-eight percent (88%) of the total value of U. S. imports coming in under TSUS 807; these include West Germany, Canada, Japan, Britain, and Belgium, as well as Mexico and Taiwan.[60] Mexico, the largest re-exporter of electrical components to the United States, has been an extreme sore point with the AFL-CIO. With a twelve and one-half mile duty-free zone since 1965, Mexico has increased its imports tremendously under TSUS 807, from $3.1 million in 1965 to roughly $145 million in 1969 alone (rising to between $350-500 million in the early 1970's). At the same time, the number of U. S.-owned plants there has increased from 30 to 250 (or up 300, depending on the source employed), while the number of workers, as has been previously mentioned, has risen from 4,000 to 40,000.[61] This increase, the unions relate, has been at the cost of thousands of U. S. jobs.

It must also be stated that the growth in imports under TSUS 807 (which totaled $2 billion in 1970, with the developing countries accounting for roughly $400 million of this)[62] has not been restricted solely to the few labor-intensive industries seen in the developing countries, but has likewise occurred in those capital-intensive industries in the developed ones as well. Products imported under this schedule, from all countries, have included the following: motor vehicles, aircraft, tractors, and gas-powered engines from the more developed countries, with electronic memories, radio apparatus, scientific instruments, and televisions coming from the lesser-developed ones.[63] Another interesting fact is that, while overall imports have grown tremendously the past five years (averaging approximately thirty-four percent - 34% - between 1967-69 alone), imports under TSUS 807 have grown even faster (averaging roughly seventy-seven percent - 77% - during this same time span). Moreover, these imports have resulted in huge savings to the companies involved, increasing from $24 million in 1968 to roughly $30 million in 1969.[64]

Imports entering the United States under TSUS 807, as well as other schedules, have also presented the unions with another major problem--that of parts or components being assembled abroad and shipped back to the Unites for sale under the American "brand" name. (In this connection, the unions' argument that all multinational exports are merely interplant transfers, later to be used for domestic production, may seem well-founded. This contention becomes even stronger when Department of Commerce data relates that approximately one-quarter - 25% - of all U. S.-manufactured exports go to the foreign affiliates of the multinationals - $5 billion annually - some of which may be later re-exported.)[65]

Again, though no extensive data is available to verify this assertion, there are numerous examples: "The Dodge Colt," one source states, "one of the new American 'answers' to the small car imports, is 100 percent made-in-Japan, by Mitsubishi. If you buy Ford's Pinto, another of the U. S. industry's answers, you may get a car with an English-made engine and German-made transmission, assembled either in Canada or the United States."[66] However, the auto industry has not been the only one to practice this policy. Brand-name imports in the consumer products' aspect of the electronics industry have also been evident. In 1970, these included the following: sales of five million home radios, 1.73 million televisions, 400,000 phonographs, and 1.3 million tape recorders. Consumers, the International Union of Electrical Workers reports, did not benefit from these imports for sales, instead of rising, continued to fall.[67]

Other Losses

Harder to judge have been the overall effects of the multinational corporation on the U. S. balance of payments. Although no exact figures concerning this impact are available, several studies have been made, the results of which are somewhat imprecise. Professor Jack Behrman, of the University of North Carolina, has estimated that, in a balance of payments sense, income from direct investment usually has paid for itself within two years; after which time benefits were usually noted.[68] However, in econometric studies by C. C. Hufbauer and F. M. Adler, as well as W. B. Reddaway, this time span has been severely increased. Using a static model embodying the three assumptions previously stated, Hufbauer and Adler have found that the average recoupment period for American direct investment has been approximately nine years;[69]

Professor Reddaway of Cambridge University has found that this period has been roughly 14 years.[70] Again, although data concerning this aspect of trade is unavailable and these estimates are inexact, they spell trouble for domestic American workers who see jobs, as well as job opportunities, lost each year with no net discernible benefits on the American balance of payments, until after much time.

Protectionist Arguments Summarized

Labor's argument toward this economic concept, as the 1970's unfold, is thus based on world trade; more importantly, on the multinational corporation's influence concerning world trade. Realizing that trade, as it is now known, only makes up approximately five percent (5%) of total U. S. G.N.P., the unions point out that it is in this area that the multinational firms' impact has been the greatest. Reacting to criticism towards its new stand on protectionism, organized labor argues that the times have changed. No longer can world trade be viewed in the classical sense, merely as an exchange of goods; the multinational corporation, in replacing world trade with world production (a fact not reflected in trade statistics), has changed all of this. As this has changed, so has organized labor's views. The unions today are essentially worried about the trends in world trade and investment, both past and present. Union leaders are uneasy about the fact that direct investment abroad has increased from $12 billion in 1950 to $78 billion in this decade. They are even more uneasy about the loss of thousands of job opportunities that have occurred in the wake of this new investment, especially in the declining goods-producing industries in which manufacturing dominates and where most union membership has taken place.

The unions have witnessed many extraordinary events in the past decade. They have seen capital outflows more than double (rising by one hundred and forty-seven percent - 147% - since 1960). They have likewise viewed an eighty percent (80%) increase in technology; all of this going mainly to those lower-wage developed (as well as under-developed) countries which have risen to compete with the U. S. domination of world trade. The unions have also seen the results of such outflows--a dampening in the export growth of such main technological areas as chemicals and electrical and non-electrical machinery which have, in the past, made up one-third of all U. S. exports)[71] plus a tremendous increase in imports from the aforementioned countries, not only in the low-technology areas, but also in the higher ranges as well. The cost of all of this for labor; at the same time as our balance of trade has declined, due to these imports, the unions have witnessed even greater increases in investment, greater reductions in the domestic work-force, and a rising number of giant corporations going overseas to produce. As they look into the future, union leaders can only believe this will increase.

Such trends are recent to union beliefs; as a consequence, the threats imposed by these "runaway" multinationals are still relatively new to union strategists. However, even though they are new, there is evidence that such trends are growing (witness the increase in manufacturing affiliates abroad, as presented earlier, as well as the exportation of goods back to the United States). "It is now quite common," as Louis Turner states, "for multinational managements to stress to uncooperative union leaders that continuing (domestic) troubles will mean locating further investment in another country where a more docile

labour force will welcome the extra work."[72] Moreover, in this connection, the unions are faced with an even greater problem--for if they strike to halt this investment, there is the chance that the firm can import output from its overseas' affiliates. One example to illustrate this fact is described by Turner:

> Charles Levinson of the International Chemical Workers tells of Goodyear, which has plants in the U. S., Sweden and West Germany. Around 1966, the Swedish subsidiary stockpiled in anticipation of a strike in the U. S., but was persuaded that the strikebreaking attempt was not worth the company's trouble. A year later, the same stockpile was a threat to union strategy in Germany.[73]

Examples such as this understandably worry the trade unions, and unless measures are taken, their leaders reason, the end of certain labor-intensive industries in the United States may soon be evident.

Remedies - Burke-Hartke Act

Although no well-developed statistics can be generated concerning the multinationals' impact on U. S. employment, the unionists argue that such facts are unwarranted. Events being what they are, union leaders reason, that, by the time such figures are produced, international production will be too well-entrenched to be dislodged. Action must be taken now. With this in mind, union leaders, together with two major politicians, have derived one of the most protectionist trade bills ever presented to Congress--this bill, the Foreign Trade and Investment Act of 1972 (the Burke-Hartke Act). Among its more stringent provisions are the following:[74] (1) Title I - Tax procedures would be set up to make U. S. corporations' overseas operations more closely conform to their domestic operations (in 1968 alone, many corporations received a $2.3 billion credit from the Internal Revenue),[75] where, in the past,

foreign investment has increased sixty percent (60%) faster than domestic investment. This provision would end the practice of allowing most multinationals to credit their foreign taxes against the tax bill owed to Uncle Sam (now a 100% savings to many corporations); instead, such taxes would now be deducted from the corporations' taxable income (only a 48% savings). (2) Title III - Provisions to establish a "sliding-door" concept for imports would be instigated. Import quotas on the basis of those that entered between 1963-1969, the worst years in our balance of trade, would be set up; this, in effect, would stop the wide-open door on imports now seen, while those imports admitted would be guaranteed a certain annual percentage (not mentioned) of U. S. production. In addition, those goods not produced here (bananas, for example) or those goods already under legislated quotas would be exempted from the above. Likewise, in succeeding years, the number of imported units would rise or fall in relation to the number of units produced in the United States. (3) Title VI - Devices to regulate the flow of capital and technology (the unions' major problems) would be instituted. Finally, Title VII - Provisions to identify foreign-made components for use in American brand-name products would be established. Here, consumers would have a stake, for they would not be fooled into paying an American price for a car or radio whose parts had been assembled overseas. Also, a repeat of TSUS 806.30 and 807 would be evidenced, thus preventing all U. S. firms from re-exporting home any products assembled in the countries presently under these schedules.

Concluding Statements

Union leaders, in judging this act, essentially agree that the

bill's restraints on imports, as well as those on the outflows of capital and technology, are deliberately tailored to meet today's changing world. Ten years ago the cry of "free trade" was consistent with union believes; however, times have changed. The tremendous increases in capital-related outflows to the developed countries, together with the resultant increases in imports from such countries, have meant the loss of countless job opportunities for American workers. With the repeated occurrence of these tendencies, labor has become more protectionist; the above-mentioned bill is the primary example of this sentiment. Free trade today essentially means keeping the U. S. market wide open for the foreign affiliates of the American multinational corporation. This is a reality that organized labor will not stand for.

Footnotes to Chapter II

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[3]Ibid.

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[5]Thomas Humphrey, "Changing Views of Comparative Advantage," Monthly Review (Richmond: Federal Reserve Bank of Richmond, July, 1972), p. 9.

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[11]Thomas J. Leary," The Unemployment Effects of Foreign Investment by American Multinational Firms" (paper presented at the American Association for the Advancement of Science, Philadelphia, Pennsylvania, December 28, 1971), p. 6.

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[17]For examples of this problem, see Paul Jennings, "Electronic Subassemblies and Components: Growth Potentials and Problems - A Trade Union View," (Washington, D. C.: AFL-CIO, 1970), pp. 1-10; U. S. Congress, House, Banking and Currency Committee, On H.R. 13120 To Increase the Par Value of Gold, Statement, by Andrew J. Biemiller, Director, Department of Legislation, AFL-CIO, before a sub-committee of the Banking and Currency Committee, House of Representatives, on H.R. 13120, March 6, 1972, pp. 1-13; "Importing woe for the worker," Business Week, July 26, 1969, p. 68.

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[19]Ibid., pp. 74-75 and 90-95.

[20]Shaw, "Foreign Investment and Global Labor," 58.

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[32]U. S. Department of Commerce, Policy Aspects of Foreign Investment, p. 35.

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[61]See U. S. Congress, House, Committee on Ways and Means, On Pending Foreign Trade Proposals, p. 22; U. S. Congress, House, Committee on Banking and Currency, On H.R. 13120 To Increase the Par Value of Gold, p. 6.

[62]Shaw, "Foreign Investment and Global Labor," p. 56.

[63]Ibid.

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[65]Behrman, National Interests and the Multinational Enterprise, p. 80.

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[70]Ibid.

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CHAPTER III

THE MULTINATIONAL CORPORATION AS PROTAGONIST

Introductory Statements

The history of multinational trade is probably as old as the history of the world itself. Among the major economic forces throughout the centuries, this phenomenon has appeared numerous times in the international arena--examples include the East India Company, the Massachusetts Bay Colony, and the ventures into Asia and Africa. However, it has only been in the twentieth century that this concept has come to dominate international trade and investment; synonymous with this dominance has been the rise of American "big" business with its huge corporate structure.

In the last fifty years, due to the efforts of such entrepreneurs as J. P. Morgan, Henry Ford, John D. Rockefeller, and Andrew Carnegie, American business has been organized into highly efficient corporations, whose gross profits have come to rival, quite often, the GNP's of entire nation-states. As the structures of these corporations have increased in size, their influence has become more and more prevalent, both in domestic and foreign affairs. As a result of this influence, the major economic development in this century has been the American multinational corporation; through this one development corporatism and trade have become analogous in international economic affairs.

The American multinational corporation has originated changes in essentially two major areas. As can be seen from Table IV shown

previously, there has been a noticeable increase in the activities of manufacturing multinationals (reflecting the impact of the above entrepreneurs), in contrast to the more gradual increase in the petroleum, as well as the other raw materials, multinationals. Consistent with this increase has been the shift in investment concentration from Latin America to both Europe and Canada. This table also illustrates, quite conclusively, the change that has occurred in the nature of multinational business over the past fifty years. As Louis Turner states:

> The typical multinational company in the past was a primary producer (petroleum, bananas, coffee, meat, cocoa, etc.) which had to invest abroad because that was the source of its basic products. These were multinational because their supplies and markets were in different nations; they were thus forced to coordinate production, markets and transport on an international basis.[1]

However, the multinational of the 1970's is less tied to any one investment or location, preferring to invest where the market growth, and thus profits, is the greatest.[2] This has been mainly brought about through the technological advances that have occurred in transportation and communications.[3] Where the tycoon of forty years ago, in order to view his investment, had to take a voyage of approximately six days across the ocean, he now has only to travel in a jet roughly six hours; where forty years ago, primitive telephone and postal links hampered communications with his overseas manager, today there are international telephone services and communications satellites, so that he may speak to this man in a matter of minutes. Not only have personal transportation and communications services improved, freight services have also witnessed rapid innovations. Overseas manufacturing plants, from which spare parts can be easily flown, are but one consequence of such innovations.[4]

The above rise in American multinational corporatism, together with the rise in overseas direct investment by this same phenomenon, has generated much in the way of controversy during the past decade. Centering in this controversy have been the demands by organized labor that this phenomenon has essentially led to a decrease in American employment opportunities as well as to a deterioration in the U. S. balance of trade. Corporate leaders, in return, have denied such charges. The multinational corporation, these men have contended, has not advanced unemployment in the United States. On the contrary, this concept, to these corporate leaders, through its freeing of world capital and technology, has helped to increase employment in the United States, as well as contributing positively, to our balance of trade. Likewise, in further reply to the unions' assertions, direct overseas investment has not taken place solely in response to the lower labor costs abroad, but, in the main, has occurred because of various other factors.

Relevant statistical data, as is known, has related how much investment has occurred and where this has gone; however, such figures have not reported the why. Why has this investment taken place? Why have the corporate leaders invested where they did? How has this investment helped domestic employment? It is necessary to examine these questions before continuing.

Rationale For Direct Investment Overseas

Follow The Competition

Numerous reasons have been given by corporate leaders for their investment decisions abroad; however, most can be placed within certain categories. The first such category, usually defensive in nature, can

be defined as the desire to "follow the competition" or to maintain "our share of the market." Conclusive studies by the Harvard Graduate School of Business suggest that, although most U. S. firms would rather operate here, they must invest abroad in order not to lose their overseas market to competitive foreign firms, usually in Japan or Europe.[5] To such studies, many businessmen have readily concurred.[6]

Evidence, especially in Europe and Canada, suggests that the above reason is not entirely without merit. Europe has long been a continent conducive to rapid multinational growth. With the formation of the EEC in the 1960's, an extremely flexible environment within which to invest, especially in regards to trade and antitrust barriers, was created. Consequently, the United States, along with the other powers (notably Japan), has undertaken such investment here. From statistics already quoted in Chapter II, it is easy to see that this investment has been extensive, permeating much of Europe's automotive, electronical, and petroleum markets.

Canada, with an economy extremely dependent on trade, has also been another haven for foreign investment; in the latter 1960's, nearly one hundred percent (100%) of her manufacturing industry, and sixty-four percent (64%) of her oil industry were foreign-owned.[7] At the same time, of her 743 largest corporations, 380 were foreign-controlled; among these largest, 351 were in manufacturing, of which 221 were foreign-owned.[8] American investment here, as has also been noted in Chapter II, has accounted for much of the above ownership; in this connection, total U. S. investment in Canada, in the 1960's, generally ranged between thirty and thirty-five percent (30-35%), the highest percentage for any one country during this period.[9]

It would thus seem that, to remain competitive in the 1960's, U. S. corporations had to invest overseas. Further support for this contention can be obtained from the most extensive survey of the multinational corporation to date. In the summer of 1971, members of the Harvard University Graduate School of Business began an investigation of this phenomenon (the results of which will be presented later) and its relation to international business. In deriving a framework within which to study this concept, they utilized a relatively new approach--the product life cycle.[10] Formulated by Professor Raymond Vernon, this hypothesis is relatively simple in design. The United States' market, because of its large population and high per capita income among consumers, is, more often than any other country, quite aware of new product innovations. Consequently, it is the world's largest market for such products, due to the freedom possessed by U. S. producers to change their inputs, and to the rapid communications between themselves, their suppliers, and the consumer. As the product is developed by these men, close contact is maintained with the U. S. market. As a result, these manufacturers thus originally locate one hundred percent (100%) of their firms within U. S. borders, exporting their product overseas.

Later, as the product matures and some standardization is seen, production begins in the other major industrial nations. At this point, U. S. manufacturers, sensing a threat to their export trade from these lower-cost foreign competitors, may begin to locate outside the United States. Production to meet foreign demand (especially evident if the product has a high income elasticity of demand or is a substitute for labor), will now be filled from the host market, instead of being exported. As this procedure becomes more pronounced, other U. S. producers,

seeing their competitive position, their "share of the market" imperiled, may begin to follow this "pathfinder." As a result, high-income and labor-saving devices, formerly exclusive factors to the United States, are now exported, with a resultant decline in the U. S. export trade and its share of the world market. However, one point must be made at this juncture: regardless of whether the United States is the first to produce outside its borders, its share of the world market would still decline, as foreign firms, utilizing diffused American technology, would begin competitive production.

Late in the product cycle, as production becomes more standardized, cost considerations more important, and competition keener, the lesser-developed nations, with their low-cost labor, may begin to play a part in production. At any rate, it must be concluded that the U. S. manufacturers must invest abroad, in order to retain their market. Although this hypothesis deliberately simplifies reality, there is considerable evidence that much of U. S. manufacturing abroad does originate in the above terms.[11]

Freedom From American Trade Barriers

Another major category accounting for this increase in overseas investment is the desire by many firms to escape U. S. trade and anti-trust barriers. Tariffs and quotas, as can easily be seen in any economics textbook, are essentially deviations from free trade. Designed for numerous reasons, these devices mainly redistribute income, raise production costs, and hurt the consumer. However, even though the United States has called herself a free trade nation, the history of American trade has been one of these numerous restrictions. From the early 1800's,

through the McKinley Tariff of 1890 (the peak of pre-World War I tariffs), to the Fordney-McCumber and Smoot-Hawley Tariffs of the 1920's and 30's, devices restraining free trade have been many.[12] Moreover, even with the Kennedy-Round agreements and the formation of GATT in the 1960's, such restrictions are still prevalent today. Statistical evidence from the State Department supports this assertion.[13]

In an unpublished analysis by John Renner, head of the State Department's international trade section, it is stated that the average tariff rate on industrial goods in the United States is roughly eight percent (8%); whereas, in the Common Market, Japan and Canada, these figures are approximately eight and one-half percent (8.4%), eleven percent (10.9%), and eleven percent (11%), respectively. However, as Renner notes, the United States levies tariffs of twenty percent (20%) on more than 60 of the 919 most frequently traded industrial products. This levy is much higher than those seen for any of the other countries trading in these goods. Japan, for example, levies this tariff percentage on only 26 of these same products. Also, our use of import quotas has increased; since 1963, Japan has done away with 71 quotas (with another 20 to have been gone by the beginning of this year), and the EEC has deleted 11; the United States, on the other hand, has added 60 during this same period. Finally, U. S. quotas now cover approximately seventeen percent (17%) of total industrial imports; in Japan and the EEC, only twelve percent (12%) and four percent (4%), respectively, are covered by such quotas. Although Renner admits that these figures cannot be taken at face value, there is enough evidence here to establish the importance of tariffs and quotas on U. S. trade.

Antitrust Escape

Antitrust legislation has also created barriers through which the multinationals have tried to escape. U. S. antitrust laws, expressed in both the Sherman and Clayton Acts, are founded on the principle that competition is necessary for the health of the economy; thus, any acts, mergers, or combinations to restrain this competition by creating monopolies, or oligopolies, are illegal. European law, on the other hand, encourages such combinations or mergers; dominance of any industry by one or two firms is not considered illegal. Likewise, European governments, especially those in the Common Market, consider these concentrations of industries to be beneficial if they serve to increase productivity, advance economic growth through technological inflows, and reduce prices.[14] Hence, two definite contradictions exist: on the one hand, U. S. courts constantly seek to block any industrial mergers threatening competition; on the other, European industries (and those in other countries as well) are actively encouraged by the courts to engage in cartel arrangements. U. S. corporate leaders are not unwilling to take advantage of the gains from overseas antitrust (or lack of it); consequently, much movement has taken place in order to maximize such gains. As this movement has occurred, U. S. courts have become increasingly interested in the affairs of these multinationals (as they relate to domestic commerce), especially those of the joint venture nature; however, at this writing, no controversial cases have been prosecuted.[15] In the future, antitrust may be relegated to a lesser role in international affairs as the multinationals increase in numbers (thus reducing the concept of a dominating industry), as they spread into more national markets, hence freeing trade, and as these national

markets expand, permitting more domestic growth.[16]

Host Countries' Growth Potential

The growth potential of various host countries has also been a factor in American overseas investment. As can easily be seen from Table IV shown earlier, American investment abroad, at the beginning of this century, was mainly confined to the raw materials countries of Latin America; however, by the 1940's and 50's this picture had begun to change.[17] Europe and Japan, after World War II, began to build themselves (mainly with U. S. aid and technology) into effectively competing countries. Operating behind tariff protection, using lower cost labor, and effectively employing American technological advances, these countries soon presented a well-developed threat to American dominance in international economics. This threat manifested itself even more in 1959, with the implementation of the Common Market. Hence, in the 1960's, in response to this threat and partially due to an increased demand in Europe for even more American technology, investment began to switch to here--as shown in Table IV. As a result, the U. S. share of the European market, enjoying the gains from reduced internal tariffs as well as less stringent antitrust laws, is firmly entrenched in Europe today, having exported over $24.5 billion worth of capital to many of her countries by 1970.

However, the growth potential possessed by the lesser-developed countries has not been neglected. Although most of American investment, in the past, has gone to Canada and Europe, there are signs today of an increased interest by the multinational corporation towards the lesser-developed countries.[18] Though only seventeen percent (17%) of the $32 billion book value of American manufacturing investment in 1970 was com-

mitted to the "Third World," these countries did account for a larger proportion of total book value in the other industry categories; notably petroleum--forty-six percent (46%), and mining and smelting--forty percent (40%).[19] Likewise, the rate of return on investments here was substantially higher, throughout the 1960's, than the same rate for the developed countries (twenty-one percent - 21% - as compared to twelve and one-half percent - 12.6%).[20] The multinationals have, in the past, been reluctant to invest in the "Third World" for fear their investment would be lost; nevertheless, the benefits from locating here, from low labor costs to little host pressure, may be indicative of the future growth potential to be found in these countries.

Other Reasons

Numerous other reasons have also been advanced to explain the increase in American multinational investment; among them are: a desire to produce in the host market instead of exporting to it, lower production costs, and a need to diversify product lines to avoid fluctuations in earnings.[21] All, however, can be seen to fit within the previously-mentioned classifications. Likewise, these same classifications, though diverse in origin, seem to have one common thread: in each, the tested ability of the large American corporation to survive in the world market is clearly evident. As Dr. Virgil Salera relates, this type of firm has learned from experience how to spot the best domestic market with the least costs, where to place its specialized production facilities, and how to solve the problems of communications and transportation.[22]

Dr. Salera further notes:

> It (the firm) has probably operated in New England, the Midwest, the South and the Far West and it has mastered the challenges of industrial logistics. The difficulties

> and problems of recruiting and training labor have largely been solved. . . . Research and development on both the product and production fronts are pursued with imagination. . . . The firm has acquired sophistication in the management of short-term and long-term finance, employing diverse financial instruments.[23]

In short, this corporation has survived in the largest, most complicated market in the world. Logically, the next step for the firm, assuming exportation has been proceeding for some time, is to engage in world competition. With such engagement, seen through international production in the world markets, the firm can thus realize its optimal growth potential.

Impact of Multinational Investment

The American multinationals that have invested overseas have thus mastered this technique of survival. Attaining the forefront in domestic management and production, these firms have then transferred their skills to foreign markets. However, much controversy has resulted from these transferrals; union leaders have pictured such corporations as "runaways" taking with them American employment, capital and technology. Have such corporations transferred employment? Have their exportations of capital and technology hurt American job opportunities? In other words, have these corporations defied the Ricardian law of comparative advantage, the very basis for the free trade actions their managements advocate? On this, opinions are varied.[24]

Comparative Advantage Issue

Critics of the multinational corporation, and of free trade in general, have essentially maintained that this phenomenon has violated the major assumptions in Ricardo's law: that only commodities can move

internationally, while productive factors cannot. In violating this assumption, the critics argue, the multinational corporation has exported capital, management skills, and technology, all of which are classified as factors of production. As a consequence, the stable, lasting characteristics of product movement under this classical law have been changed; hence, the law itself is no longer applicable to today's fast-moving markets and rapidly advancing technologies. As this has become more apparent, most critics have become protectionist in order to offset the impact of these imperfectly flexible multinationals, thus allowing the U. S. economy to adapt to the changing advantages created by them.

Proponents of free trade, notably the multinationals, while not denying that comparative advantages have been altered since Ricardo's time, assert that this law is still applicable to trade.[25] Likewise, they believe that our economy can adjust to any changing advantages created by the multinationals (without restrictions), thus assuring the stability of this classical doctrine. Inherent in this belief is the ability of the economy to adapt to the declining merchandise trade balance, most often cited by the critics as the reason for their protectionist attitude. This decline, proponents assert, is only a normal reaction to the above changing advantages, whereby our exports of merchandise have been replaced by net exports of capital, management skills, and technology. In fact, many free traders are predicting a persistent decline in this trade balance; however, any increase in the outflows of capital and technology will essentially be supplanted by an increase in the dividends and royalties associated with these outflows, thus maintaining overall equilibrium.[26]

In answer to critic's claims that protection is needed in order to allow the economy to adapt to these changing advantages, proponents

argue that such protection would mainly reduce this adaptability. By shielding domestic producers from all foreign competition, any restrictions would only diminish domestic production, reduce many technological advances introduced overseas, and hurt the American consumer.[27] Moreover, proponents point out that comparative advantages even within U. S. industries are constantly modified by changes in style, tastes, technology, or location; however, protectionists do not want restrictions placed on these domestic trade industries or on the capital and labor that migrate to such industries.[28]

In short, proponents argue that the doctrine of comparative advantage is still the main basis for trade today. Once thought to be stable and long-lasting, the concept, advocates will admit, has been modified by recent outflows of capital and technology, thereby raising the human costs of both specialization and labor's ability to adjust. Critics have maintained such costs are too high; hence, Ricardo's doctrine is no longer applicable. This, advocates argue, is untrue; Ricardo's basic concept, though somewhat changed, still provides for the optimal allocation of world resources and maximization of world welfare. In other words, the benefits from all unrestricted investment and free trade still outweigh, as they did in the early 1800's, the costs.

Employment Issue

If the benefits from free trade and investment, as advocates of the multinational corporation contend, do outweigh the costs, then domestic employment should eventually be increased as a result of such investment. In this connection, however, much disagreement has been witnessed. Union leaders have estimated that roughly 500,000 domestic job opportunities

were lost between 1966-1969 (with another 400,000 between 1969-1971), the same years for which imports made their greatest gains in U. S. markets. These losses, they have further stated, were mainly due to overseas investment by "runaway" multinational corporations. Trade proponents have strongly disagreed with this estimate. George Hildebrand, former Undersecretary of Labor, holds that these supposed job losses were only "phantom jobs," not even representing employable persons. The years 1966-1969, he notes, were years of full employment (unemployment at approximately 4%, with which this writer agrees); hence, most American workers had jobs. The only way these 500,000 workers could have been put to producing the equivalent of any imports that entered the United States during these years would have been to divert them from their jobs.[29] Since full employment was evident, Mr. Hildebrand notes, this did not happen.

Support for the above assertion has come from essentially two areas. According to recent information from the Department of Labor, a comprehensive study, covering roughly 190 industries (in which most of America's manufacturing is found), has been made to try to match employment with any import changes that occurred during 1966-1969.[30] In the course of this study, it has been found that, during this period, only 37 out of the 190 industries suffered any net employment decline; moreover, only 26 industries out of this 37 had any rising level of imports to speak of. Finally, the total number of jobs lost during this period, in the 26 industries, was 117,000, approximately one-half percent (1/2%) of total manufacturing employment in 1969--where 2 million new jobs had been created. The study concluded that imports were not the sole reason jobs were lost during these years; declining productivity and demand in these

industries also played their part.

An input-output analysis of trade and employment between 1970 and 1971 provides further reliance for the above:

> Using Bureau of the Census trade data and Bureau of Labor statistics input-output technical coefficients ... Lawrence Krause and John Mathieson (two major trade economists) have found that 16,600 jobs were lost because of shifts in imports and exports between the first quarter of 1970 and that for 1971. With a jump in unemployment of over 1.5 million persons in the same period, the estimated direct contribution of international trade to U. S. unemployment was barely 1%.[31]

Upon further reading, one discovers that increased imports cost 134,000 jobs in such American industries as steel, motor vehicles, textiles, et cetera, during this period, while exports created 181,400 jobs in the same period.[32]

If the proponents of free trade are correct, as the above suggests, then the impact of the multinational corporation on U. S. unemployment, during the years of greatest import penetration, was not significant. However, did the multinationals, through trade, significantly increase employment during this same period? For the answer, an examination of this phenomenon's impact on capital flows, technology, and overall balance of trade must be made.

Repatriation of Capital

Critics of the multinational corporation have often emphasized the increased outflows of capital that were evident during the years in which imports were the greatest in the United States. Indeed, such increased outflows did occur. In 1960, as has already been evidenced, capital outflows were roughly \$1.7 billion; by 1970 these had risen to \$4.4 billion. Moreover, in 1960, new direct investment (capital outflows plus reinvested earnings) amounted to \$2.9 billion; by 1970 this had risen to

$7.3 billion. Finally, in 1960, the book value of all direct investment was $32 billion; by 1970 this had increased to $78 billion (reflecting the increased capital outflows to an even greater extent).

Proponents admit that such outflows are stated as negative items in the U. S. balance of payments; nevertheless, corporate heads, unlike their critics, are quick to point out that the income repatriated to the United States in the form of royalties, fees, interest, and dividends exceeded such outflows regularly in the 1960's, representing a positive reflection on these same balance of payments.[33] In 1960 such income was approximately $3 billion; by 1970 this had increased to roughly $8 billion (see Table VII below). Moreover, total earnings on all direct investment increased by $62.3 billion over this decade ($3.5 billion in 1960 to $8.7 billion in 1970); at the same time, total income on such investment (the earnings above minus the reinvestment of funds) increased by $57.2 billion. (Total direct investment outflow for the decade, on the other hand, was roughly $49 billion; thus, a net positive balance of $7 billion was seen.)[34] Likewise, the 1960's yield on this investment was, roughly, thirteen percent (12.6%), an extremely generous return.[35] (It must be noted here that, although the rate of return on direct investment in the lesser-developed countries was higher than that for the more developed ones; this was primarily due to the structure of petroleum affiliates in the former. The yield on manufacturing affiliates--12%--was approximately the same in all countries.)[36] Lastly, another $6 billion in patents, licenses and other services was also repatriated to the United States during this decade.[37] Thus, from the above, it can easily be seen that such outflows have generated much in the way of positive returns on the U. S. balance of payments, a key institution in American trade.

TABLE VII

Receipts of Income on U. S. Direct Investment Abroad

(millions of dollars)

Year	Fees and Royalties	Interest, Dividends and Branch Earnings	Total
1960	590	2,355	2,954
1961	662	2,768	3,430
1962	800	3,044	3,844
1963	890	3,129	4,019
1964	1,013	3,674	4,687
1965	1,199	3,963	5,162
1966	1,329	4,045	5,374
1967	1,438	4,518	5,956
1968	1,546	4,973	6,519
1969	1,682	5,658	7,340
1970	1,880	6,026	7,906

Source: _Survey of Current Business_, June, 1971, p. 32.

Technology Issue

Technology transferral has also been a source of contention between the multinational corporation and its critics. Studies have long shown there exists a relationship between research and development and a country's export position. In this connection, as long as a country can maintain a lead (gap) over its foreign competitors in the higher-range technological products, its balance of trade (and payments) position should be enhanced. Union leaders today assert, however, that technology transfers by the multinationals have resulted in the closing of this "technological gap," citing the 1960's import increases in the higher technological ranges. As a consequence of this closing, America's competitive advantage has declined in world trade, due to combinations of this technology with low-cost foreign labor. With such contentions, Dr. Richard Boretsky, of the Department of Commerce, would seem to agree.[38] After a thorough investigation of development (R & D) trends, Dr. Boretsky concludes that, for the past several years, the United States has been losing its technological leadership in the higher-range products. He attributes this loss to a number of factors, among them: the increased ability of foreign firms to adopt "old technology"--and, at the same time, new innovations, and the slower increases in productivity by U. S. firms. If this continues, it is stated, America can only face a worsening balance of payments position.

Proponents agree that much technology has been transferred abroad by the multinationals; however, for a number of reasons, they disagree with the critics as to the results of this transferral. First of all, the technological "gap" of the past, it is noted, has only been one of management.[39] As Europe employs more Americans (which she has done in

the past), as well as further training her own workers, one can expect this gap to close. Secondly, any foreign subsidiary will permit the continued exploitation of American technology long beyond the time of its beneficial usefulness, simply because it will probably be the most established firm in the host country. Due to the large size of its parent, this subsidiary will have built up the economies of scale necessary to maintain such a leadership rule. Thirdly, even though our balance of trade has declined, U. S. exports of those products in the high-technological areas, including chemicals, computers, and aircraft, still show a surplus; again, although foreign competition for world trade dominance has increased with the United States, dependence on any new innovations created here still exists.[40] Finally, proponents do admit that foreign labor, in those countries receiving most of our technology, has been cheaper relative to U. S. wages; nevertheless, these countries have made tremendous strides in wage parity.[41] Consequently, with such strides the traditional idea of low-cost foreign labor has begun to lose much of its significance.

Advocates of the multinational corporation do admit that much technology has been transferred overseas; nevertheless, corporate leaders are quick to point out that much in the way of balance of payments' aid has been gained from this transferral. At all times between 1960 and 1970, receipts of royalties and fees from affiliated (multinational) firms were much greater than those from non-affiliated foreign firms. These receipts amounted to $13 billion in 1970, compared to $4 billion from the non-affiliated firms. (Such receipts, it must also be stated, were almost thirty-two percent - 32% - of all investment returns from our foreign subsidiaries.)[42] Moreover, total receipts (from all firms)

were far greater, in the same period, than any payments which had to be made to these firms ($17 billion compared to $1.6 billion).[43] Hence, while outflows of technology may have indeed been a factor in the relative decline of U. S. exports in the 1960's, receipts from such investments exerted a far more position impact on our balance of payments (and thus trade). The bulk of such receipts, it must be restated, came from Europe. Thus, even as she closed this technology "gap," European dependence upon new U. S. innovations still existed.

Direct capital and technology-related capital outflows have greatly increased since the middle 1960's; the multinational corporation, it has been asserted, has been the principal vehicle for such outflows. At the same time, critics have stated, our balance of trade has greatly decreased, imports have permeated the American market, and many employment opportunities have been lost. Has the multinational, as these critics relate, been the principal agent for the above? For this answer, an overall view of our balance of trade must be made.

Balance of Trade

The latter 1960's were probably the worst trading years in U. S. history. Exports, which had helped to generate a trade surplus averaging approximately $5.4 billion annually, fell off to around seven percent (7%), while imports began to increase greatly, averaging between six to twenty percent (6-20%); the result was a decrease in our surplus to roughly $2.6 billion (with a deficit of $2.9 billion to be later evidenced). Union leaders, witnessing increased outflows of capital and technology at this same time, blamed the multinationals for this decline. However, these men neglected one major aspect of macro-economic policy: when a country is at full employment (as the United States was during

the middle 1960's) and prices, costs, incomes, et cetera, begin to rise (again the picture here at this time), then the demand for imports is likely to become stronger.

Inflation

Of the numerous reasons which accounted for the huge increases in imports during the latter 1960's, inflation was probably the one most often mentioned. As the Federal Reserve Bank of St. Louis explained in 1968, "The disappearance of what had come to be considered our traditional area of strength in the balance of payments is due almost entirely to domestic inflation."[44] Department of Commerce data for the 1960's essentially agreed with the above statements. In analyzing the data, it was stated that the inflationary factor existing in the United States during this period overshadowed all others in stimulating the increase in import growth. Indeed, imports in 1968 (increasing at a rate of 23.6% over 1967) alone were $5.2 billion larger than they would have been if the eight and one-half percent (8.3%) import growth rate of 1962-64 had remained in effect.[45]

In a special 1969 report to the President on U. S. foreign trade policy, further support is given to the above. From a committee consisting of corporate leaders as well as union heads (George Meany and I. W. Abel included), attention was directed towards inflation as being the primary cause of import increases in the latter 1960's. Indeed, imports had even helped, somewhat, to reduce the rapidly-rising prices during this period. The committee related that, when economic growth is normal, imports usually tend to decrease; this contention was explained by Paul McCracken, then head of the Council of Economic Advisors:

> For the U. S. economy imports tend to grow at about the same percentage rate as GNP if the latter is growing

> about 5-6 percent per year. When GNP begins to race ahead more rapidly, the rise in imports quickly starts to become close to 2 percent for each 1 percent rise in the domestic economy. This is to be expected. When the domestic economy becomes overheated, delivery schedules at home stretch out, and increasingly demand spills over to foreign markets.[46]

In connection with this idea, the committee noted that GNP, for example, increased by an average of eight and one-half percent (8.4%) during 1965-66; imports, at the same time, averaged increases of sixteen and one-half percent (16.5%). The same pattern was repeated in both 1967 and 1968.[47] Until efforts were employed to reduce these inflationary trends, the committee argued, imports would continue to inundate the American market. (This inflationary argument, business men say, probably accounts for much of the trade deficit in 1970-71, also.)

Thus, when business activity increases, incomes become higher, and costs rise (one of which is labor--for strikes were often prevalent during the latter 1960's), inflation is apt to occur, and with it, imports. As this phenomenon increases, any trade surplus is likely to fall. Final support for this assertion is gained from a recent econometric study of world trade by two economists, Gerald Adams and Helen Junz. Realizing that inflation and full employment represented the main U. S. economic picture in the latter 1960's, these economists likewise noticed that other major countries, notably Germany (1966-67), Japan (1965-66), and France and Belgium (1964-68), were having slack periods of growth during this time. (These same countries, it must be stated, were among those whose exports to the United States increased during this period.) If these major industrial economies had maintained full employment during these years, Adams and Junz noted, the U. S. trade balance would have been improved by more than \$5 billion annually.[48]

Union critics, in nonacceptance of the above argument, have pointed to five major ways in which multinational investment has accounted for the decline in our balance of trade, with the subsequent loss of American jobs, over the past seven years. These are as follows: increased capital and technology outflows, the rise in expenditures on plants and equipment, the increase in imports from multinational foreign affiliates, the rise in imports under TSUS 807, and the reduction in U. S.-based exports from all multinational firms.

Internal Affiliate Reinvestment

Corporate dissent, it must be noted, on all capital and technology outflows has already been evidenced; likewise, disagreement may also be seen in relationship to all plant and equipment expenditures by U. S. multinationals. Capital expenditures on plants and equipment by multinational affiliates, businessmen agree, increased greatly between 1964-1970 (from $6.2 billion to an estimated $15.3 billion); however, in response to union critics, such expenditures were not financed entirely by the parent company, but came instead from internal sources within the affiliates themselves. (In 1965, U. S. sources--retained earnings, dividends, et cetera--had accounted for twenty-four percent - 24% - of affiliate expenditure funds; by 1968, this had been reduced to fifteen percent 15%.)[49] In this connection, it must be noted that one major event, which probably reduced this dependence on U. S. sources, occurred in 1968 through the institution of OFDI controls. With these controls in evidence, affiliates were forced to increase their practice of borrowing from foreign banks in order to finance their expenditures on plants and equipment.[50] (Estimates on the amount of borrowing, at the present, have varied from $1 to $2 billion, and, as this practice increases in the

future, such borrowing could become a negative item on the U. S. balance of payments. To determine this, however, would be extremely complex and far beyond the scope of this thesis.) Hence, as the 1960's ended, most of these expenditures were being financed from sources outside the United States; moreover, even with the capital limitations imposed by strict OFDI controls, affiliates were able to increase their earnings remittances to the parent company (thus helping our balance of payments) through foreign borrowing.[51]

Imports

A third major area of union contention has been the increase in imports from multinational-owned affiliates, most of which, it is claimed, have resulted from the outflows of direct investment. As a consequence of such outflows, union leaders have become increasingly worried over the rise in affiliate-manufactured products that have entered the American market (rising from 8% in 1965 to 14.3% in 1968). Again, to this assertion, corporate leaders disagree. According to the U. S. Department of Commerce, sales by multinational affiliates in 1968 (the last year for which such data is available) totaled \$59.7 billion (see Table VIII).[52] Of these sales, most were made in the market where the affiliate was located, with Canada receiving the largest amount, followed by Great Britain. In this regard, local sales, it is noted, accounted for seventy-eight percent (78%) of the total, with fourteen percent (14%) exported to other countries, and only eight percent (8%), a small amount, going to the United States. (Such trends, it is further stated, occurred in the earlier 1960's, as can also be seen from Table VIII.)

The union uneasiness towards U. S.-affiliate manufacturing imports, corporate leaders argue, has also been largely unfounded and can be

TABLE VIII

Sales of Foreign Manufacturing Affiliates,
By Area, Industry and Destination, 1965, 1967, 1968
(millions of dollars)

	Total Sales			Local Sales		
	1965	1967	1968	1965	1967	1968
All areas	42,317	53,151	59,676	34,686	44,994	46,465
Food products	4,015	5,098	5,366	3,482	4,423	4,593
Paper	1,803	2,172	2,534	944	1,192	1,420
Chemicals	6,881	8,857	10,215	5,799	7,401	8,497
Rubber Products	1,710	1,978	2,126	1,569	1,801	1,948
Primary & fab. metals	3,091	4,049	4,666	2,331	2,969	3,437
Machinery excl. elec.	5,364	7,384	8,192	4,158	5,406	6,165
Elec. machinery	3,992	4,752	5,298	3,516	4,186	4,655
Transport equip.	10,745	12,850	14,522	8,975	9,756	10,402
Other products	4,716	6,011	6,757	3,912	4,860	5,348
Canada	13,349	16,585	18,548	10,890	12,361	13,369
Latin America	5,526	7,128	7,966	5,111	6,458	7,213
Europe	18,685	23,080	25,835	14,264	17,408	19,195
Common Market	9,850	12,002	13,921	7,517	8,858	10,042
Other, incl. U.K.	8,835	11,078	11,914	6,747	8,550	9,153
Other areas	4,757	6,358	7,327	4,421	5,767	6,688

	Exported to United States			Exported to Other Countries		
	1965	1967	1968	1965	1967	1968
All areas	1,789	3,688	4,741	5,842	7,469	8,470
Food products	119	187	211	414	488	562
Paper	643	697	745	216	283	369
Chemicals	171	172	189	911	1,284	1,529
Rubber products	7	29	30	134	148	148
Primary & fab. metals	183	340	398	577	740	831
Machinery, excl. elec.	167	250	338	1,039	1,728	1,689
Elec. machinery	59	62	90	417	504	553
Transport equip.	278	1,744	2,485	1,492	1,350	1,635
Other products	162	207	255	642	944	1,154
Canada	1,380	2,956	3,787	1,079	1,268	1,392
Latin America	101	161	212	314	509	541
Europe	231	394	549	4,190	5,278	6,091
Common Market	100	191	305	2,233	2,953	3,574
Other, incl. U.K.	131	203	244	1,957	2,325	2,517
Other areas	77	177	193	259	414	446

Source: Survey of Current Business, October 1970

easily explained.[53] Before 1965, American cars shipped to Canada were subject to a seventeen and one-half percent (171/2%) import duty; in that year, however, an automotive pact was signed between the United States and Canada, in which all such duties were eliminated. The result, commerce experts explain, was a tremendous increase in transportation equipment imports, accounting for the six percent (6%) increase (to 14.3%) in total manufacturing imports. Excluding this equipment (mainly automotive) imported from Canadian affiliates, only about eight percent (8%) of total U. S. imports came from foreign manufacturing affiliates in 1968, approximately the same percentage as in 1965.[54] Thus, no major increase whatsoever occurred in this area.

Tariff Provision 807

Neither has the American market been excessively "swamped," as union critics contend, by imports entering under Tariff Schedule 807. TSUS 807 has long been a sore point with organized labor; to these men this law essentially allows the multinationals to take advantage of lower-cost foreign labor in their production, thus harming American workers. President Nixon in 1969, in response to this union alarm, ordered an investigation of this schedule by the U. S. Tariff Commission in order to determine its effects on employment opportunities and wage levels in the United States. Allowing for uncertainties, the Commission concluded that any repeal of TSUS 806.30 or 807 would not only not increase job opportunities for American workers but would result in a further trade deterioration amounting to between $150-200 million.[55] Moreover, the repeal:

> ... Would not markedly reduce the volume of imports of the articles that now enter the United States under these provisions. Rather the products would continue to be supplied from abroad by the same concerns but in many cases with

> fewer or no U. S. components, or by other concerns producing like articles without the use of U. S. materials... The effects of repeal on U. S. employment can only be estimated. Foreign assembly operations utilizing these provisions now provide employment for about 121,000 workers in foreign countries. Only a small portion of these jobs would be returned to the U. S. if items 807 and 806.30 were repealed. On the other hand, these provisions now provide employment for about 37,000 people in the U. S.... Repeal would probably result in only a modest number of jobs returned to the U. S., which likely would be more than offset by the loss of jobs among workers now producing components for exports and those who further process the imported goods.[56]

(In Mexico, center of the main union argument for repeal of TSUS 807, little support can be gained: while only 350 U. S. jobs can be identified as having been gained under the program here, only 1,700 jobs in the United States can be said to have been lost.)[57]

The union argument concerning imports, corporate leaders agree, thus loses much of its impact when the above evidence is presented. Further support for this contention can be gained from the U. S. Department of Commerce. Experts here are quick to point out that those import categories which have experienced the most rapid growth and are perhaps most responsible for the displacement of U. S. firms, as well as workers (for example, steel, textiles, shoes and automobiles), are overwhelmingly the output of foreign-based firms, not of American multinationals. Of the 13 million tons of iron and steel imported in 1970, for example, little came from U. S. subsidiaries. Likewise, of the 1,321,000 foreign cars imported in this same year, over ninety percent (90%) were made by foreign-based firms. In cases where auto components, another sore point with unions, were re-exported to the United States, such imports were in response to foreign competition and helped to save U. S. jobs.[58]

Exports

While the multinationals' effect on imports is easy to state, its effects on exports is less easily discernible. The major emphasis of the multinational corporation, businessmen note, has been on international production rather than direct exportation. (Earlier in the paper, it was reported that such production was some five or six times larger than exports.) However, a relationship between multinational investment and overall exporting does exist, especially in the higher technological ranges. Such a relationship, it must be noted, has had a substantial effect on our balance of trade.

Although a 1969 study (made of exports in 1965) concluded that the overall effect of the multinational firms on U. S. export trade was insignificant, a definite relationship was shown between the multinational affiliate and U. S. exports. (Affiliates in 1965, handled approximately twenty-one percent - 21% - of all U. S. exports; recent data show that an increase here has occurred, with affiliates today handling over one-quarter - 25% - of all U. S. exports.)[59] This relationship has even greater significance today, especially in the high-technology industries. It is known that the concentrations of most multinational firms today are largely in mining, oil, computers, electronics and electrical equipment, chemicals, and drugs, among others.[60] All these industries, it can clearly be stated, are among those employing the most advanced technological techniques which, according to 1971 Department of Commerce figures, have enabled them to become extremely large exporters with constantly increasing net trade balances, both in absolute terms and as a percentage of U. S. production. (Two industries, computers and chemicals, best illustrate this favorable effect on trade: manufacturers of computers have

increased their trade balance substantially since 1963, going from $181 million in that year to $1.001 billion in 1970. The chemicals industry, at the same time, has seen exports greatly outdistance imports, mainly due to the rise in pharmaceutical and industrial chemical products.)[61] Likewise, the overall trade balance in these technologically-intensive industries has continued to increase--from approximately $6 billion in 1960 to $9.1 billion in 1965 and $9.6 billion in 1970. (This would have been higher had it not been for the Canadian-American Auto Agreement in 1965.)[62]

In the lower-technology industries, exports, it is admitted, have decreased drastically since the 1950's, running a deficit of $5 billion by 1970.[63] However, businessmen are quick to realize that the lower-cost foreign labor in these industries is substantial; thus any job dislocations, due to the export decreases in such industries, have been mainly a result of the low-skill nature of this work plus the above realization. In order to remain competitive at home and abroad, these businessmen say, operations have had to be transferred overseas (mainly to the underdeveloped countries). If this had not been done, chances are these products today would be wholly produced by foreign competitors.[64]

Export Displacement

As far as the displacement of U. S. exports by affiliates abroad, much controversy and very little evidence, corporate leaders relate, has occurred. On the one hand, there is organized labor maintaining that most U. S. production abroad has been at the expense of our exports. An intermediate position, that such displacement has only occurred for a short time, is taken by some analysts. Finally, there are those, namely the multinationals, who say that little displacement has taken place.

In any extent, the Hufbauer-Adler study cited by the unions, businessmen say, has had little to add to this controversy, since both authors have stated their examination revealed much uncertainty surrounding all export displacement estimates in the investigated countries.[65] Likewise, the study, both men have admitted, covered only manufacturing investments. Foreign direct investment of other types (mining, petroleum, et cetera) was not likely, as both have reported, to displace our exports to any significant extent.[66] Until more substantive evidence occurs, corporate heads state, this controversy will continue.

Other Impact

Overall balance of payments effects, in agreement with organized labor, are again hard to judge, due to the length of the recoupment period involved, which as has been previously stated is extremely volatile. Although the Hufbauer-Adler study, as well as the one undertaken by Professor Reddaway, are often cited as damaging to the multinationals, there are contentions by many economists that these studies are essentially non-conclusive.[67] Hufbauer and Adler, it is often argued, employed a static model (no real world changes due to the investment) in their study; in the real world, direct investment may well institute frequent changes in the firm which will greatly influence its future performance. Reddaway's study has been criticized for numerous reasons, among them: his information was based on a small number of firms; large gaps in the data occurred--only 10 industries and 15 foreign countries were studied; and respondents could not know what may have happened had they not made their investment. If anything then, the above criticisms essentially illustrate the difficulties in evaluating such a problem.

Overall Employment Effects

Thus the multinational corporation, businessmen state, has not been the villain that organized labor has pictured it to be. Rather than transferring jobs abroad, the outflows of capital and technology by this phenomenon have generated positive effects on both America's employment and balance of trade positions (witness the 200,000 export jobs created in 1966-69 alone). Further support for this assertion is provided by probably the most extensive study of the multinational firms' operations to date. In the summer of 1971, as has previously been reported, graduate students and faculty at Harvard University made an in-depth investigation of nine major manufacturing industries which could clearly be classified as multinational.[68] These industries, it was noted, belonged to a group accounting for the bulk--over ninety percent (90%)--of U. S. foreign direct investment in manufacturing facilities; also noted was that production in these industries ranged from food products to chemicals, to petroleum, to electrical and transportation machinery. (The nine cases, as was likewise stated, were leaders in their field; moreover, only nine cases out of the thousands available were needed because their results essentially reaffirmed those more general studies already completed.) The results of this investigation were quite conclusive.[69]

Of the nine cases of investment, six--paper, chemicals, tires, wire cable, farm machinery, and automobiles--were made to serve the local market; two--food and oil--were made to serve third country markets; and one--electronics--was made to serve the U. S. market. Thus the above provided substantial support for the corporate argument that most U. S. foreign direct investment is made to serve foreign markets (coinciding with the previously-mentioned Department of Commerce estimates). The

other results were also as concrete. First of all, it would appear that the employment effects from these investments were quite positive. In total, the study group estimated that roughly 250,000 jobs, most of them involving production workers, would be lost if there were no U. S. foreign direct investment. Combined with the 250,000 jobs estimated to exist in the parent offices of all U. S. multinational enterprises plus an additional allowance for supporting workers, there would be a total of approximately 600,000 jobs relying on multinational investment. Secondly, on the basis of sound judgment, since little or no empirical data was available, it would also seem likely that, if U. S. foreign direct investment did not exist, American exports would be lower than they otherwise might be. In this connection, two things would become clearly evident: with no investment, American workers would probably be employed in many industries competing, somewhat inefficiently, with lower-cost foreign imports, and, since average American wages are relatively higher than elsewhere, such industries would immediately find their resource costs had risen, endangering their position even further. Finally, since American direct investment has taken place, a net positive effect of $3 billion on the U. S. balance of payments has occurred. This effect coincides with Department of Commerce estimates during the 1960's. Even as the U. S. trade surplus was declining, direct investment, then averaging between $2-$3 billion annually (after trade balance deductions), was exerting much in the way of positive effects on our balance of payments.[70]

Final support for this contention can be gained from a Department of Commerce examination of the effects of U. S. foreign direct investment on domestic employment trends between the years 1965-1970. (Again, the periods of greatest import penetration in the United States.)

According to Commerce data, 92 of the 133 largest U. S. direct investors abroad are located in roughly 14 Standard Industrial Classification (SIC) groups, ranging from petroleum refining (291), to motor vehicles (371), to communications equipment (366).[71] An investigation of these groups shows that, in eleven, employment increased between 1965-1970. The increase ranged from six percent (6%) for paper products to forty-five (45%) for office and computing machine products. For all whose employment went up during this period, the composite rate of growth was sixteen percent (16%), nearly equal to the seventeen percent (17%) rate registered for total U. S. employment during these years.[72] Three industries, including motor vehicles, on the other hand, registered declines of approximately five percent (5%) during this period. In the motor vehicles industry, however, employment rates often vary, reflecting special factors--one of which was the Canadian Auto Agreement in 1965.[73]

Concluding Statements

Responding to the criticism surrounding it, the multinational corporation, businessmen state, has essentially become a powerful, yet benign, force on the international economic scene as the 1970's commence. It is admitted by many corporate leaders that this phenomenon has resulted in increased outflows of capital and technology; however, at the same time, such outflows have had a positive effect on the U. S. economy. Income from these outflows has been considerable during the past decade; indeed, the inflows of interest, dividends and branch earnings on U. S. direct investment have risen two and one-half times from $2.4 billion in 1960 to $6 billion in 1970. When income from fees and royalties, which have tripled since 1960, are added, the sum of these items is roughly $3.5 billion more than the outflows of new direct investment abroad during

this period.[74] All of this, it must be noted, has had a positive effect on U. S. balance of payments (representing approximately twelve percent - 12% - of all balance of payments current account receipts).[75]

Likewise, the multinational firm has greatly helped the U. S. economy through its effects on employment and exports. Although overall unemployment has risen during the past decade, employment, in many of those firms which have been the largest direct investors overseas, has significantly increased. Moreover, exports (especially in the higher-technological ranges) have also been increased markedly due to this phenomenon--of further importance here is the fact that more than one-quarter of all U. S. exports have been sold to multinational affiliates abroad. If, at the same time, imports have increased and the overall trade balance has declined, then the fault must lie elsewhere, for the multinational firm cannot take sole blame for such events. More than likely, this blame rests essentially on the inflationary increases that have occurred within the U. S. economy during the past seven years.

However, the multinational firm has received much of the blame for the decline in the U. S. trade balance, especially from organized labor. Criticism of this type, businessmen suggest, has been entirely unfounded, and several weaknesses in the union argument have been analyzed. For one thing, labor's estimate of "competitive imports" raises many questions. How can such imports be quantified? Are competitive imports in one industry the same as those in another? Secondly, while organized labor has consistently argued against those imports produced by foreign workers, it has ignored frequently those export products produced by American labor; in any estimate of foreign effects on domestic employment, both sides of the ledger must be taken into account. A third major weakness in their

argument has been the union's failure to take into account the overall health of the U. S. economy. During the 1950's and early-middle 1960's, when the domestic economy operated at full employment, foreign direct investment was only of limited concern to organized labor. Nevertheless, in the latter half of the 1960's, when domestic inflation and unemployment were evident, labor's concern towards direct investment began to increase. Finally, a fourth weakness in the union argument is their limited understanding of the nature of multinational investment itself. Most of direct investment by the multinational corporation has gone to the more advanced, capital-intensive countries of Europe and Canada. Thus, how can organized labor say this investment has been to low-cost, cheap-wage countries? Moreover, in this regard, the benefits from such investment have been many, not only on the U. S. economy, but also on the world's economies. A free flow of goods and capital can only further benefit world-wide employment and income; this, the multinational firm, corporate leaders state, has long been in favor of. As Dr. N. R. Danielian, President of the International Economic Policy Association, has suggested, the multinational corporation has done for the world economy what the limited liability company did for Europe during the Industrial Revolution: namely, pooling development capital and skills and applying them to the entire world.[76] Such benefits, the corporations argue, must be allowed to continue.

There has been a basic misunderstanding between organized labor and the multinational corporation during the last seven years. This misunderstanding may grow even larger if the impending Foreign Trade and Investment Act of 1972 (Burke-Hartke Act) is passed by the Congress. This bill, businessmen are certain, will undercut all the gains that have been

made by the multinationals since the early 1960's. Too much risk will be involved for any future investment to proceed at the pace that it has in the past. Passage of this bill would thus be extremely unwise, for not only would the multinationals be hurt, but also many of the affiliate countries, and, inevitably, organized labor itself. Labor's uneasiness towards the multinational has been unwarranted; future events, businessmen are sure, will prove this out.

Footnotes to Chapter III

[1]Louis Turner, Invisible Empires (New York: Harcourt Brace Javonovich, Inc., 1970), p. 5.

[2]Ibid., pp. 5-6.

[3]Ibid.

[4]Ibid., p. 7.

[5]U. S. Department of Commerce, Bureau of International Commerce, The Multinational Corporation: Studies on U. S. Foreign Investment, Vol. I, U. S. Multinational Enterprises and the U. S. Economy (Washington, D. C.: Government Printing Office, 1972), p. 28.

[6]See Robert T. Gray, "New Peril for the Multinational Corporation," Nation's Business, February, 1972, pp. 34-40; Sanford Rose, "The Rewarding Strategies of Multinationalism," Fortune, September 15, 1968, pp. 100-105 and 180-182; Sterling F. Green, "Multinational Firms Becoming World Political Force," The Greensboro Record, July 1, 1971, p. A 10; Sterling F. Green, "U. S. Firms Moving Overseas Rapidly," The Greensboro Record, June 28, 1971, p. A 5.

[7]Jack N. Behrman, National Interests and the Multinational Enterprise (Englewood Cliffs, N. J.: Prentice-Hall, Inc., 1970), pp. 32-54.

[8]Ibid., p. 34.

[9]U. S. Department of Commerce, Bureau of International Commerce, The Multinational Corporation: Studies on U. S. Foreign Investment, Vol. I, Trends in Direct Investments Abroad by U. S. Multinational Corporations - 1960 to 1970 (Washington, D. C.: Government Printing Office, 1972), p. 4.

[10]See Raymond Vernon, Sovereignty at Bay (New York: Basic Books, Inc., 1971), pp. 65-106; Raymond Vernon, "International Investment and International Trade in the Product Life Cycle," Quarterly Journal of Economics, LXXX (May, 1966), 190-207; Raymond Vernon, "The Multinational Enterprise: Power versus Sovereignty," Foreign Affairs, 49 (July, 1971), 736-740.

[11]See Raymond Vernon, Sovereignty at Bay, pp. 65-112; Louis T. Wells, Jr., "Test of a Product Cycle Model of International Trade: U. S. Exports of Consumer Durables," Quarterly Journal of Economics, LXXXIII (February, 1969), 152-162.

[12]Richard D. Hays, Christopher D. Korth, and Manucher Roudiani, International Business: An Introduction to the World of the Multinational Firm (Englewood Cliffs, N. J.: Prentice-Hall, Inc., 1972), pp. 75-82.

[13]Sanford Rose, "No Need to Panic," Fortune, August, 1971, pp. 109-110.

[14]Behrman, National Interests, p. 116.

[15]See Jack N. Behrman, National Interests, pp. 119-122; Louis Turner, Invisible Empires, pp. 49-54.

[16]Behrman, National Interests, p. 125.

[17]Vernon, Sovereignty at Bay, pp. 86-90

[18]Ibid., pp. 98-106

[19]U. S. Department of Commerce, Trends in Direct Investments Abroad, p. 7.

[20]Ibid., pp. 10-11.

[21]U. S. Department of Commerce, Bureau of International Commerce, The Multinational Corporation: Studies On U. S. Foreign Investment, Vol. I, Policy Aspects of Foreign Investment by U. S. Multinational Corporations (Washington, D. C.: Government Printing Office, 1972), p. 14.

[22]Virgil Salera, Multinational Business (Boston: Houghton Mifflin Company, 1969), p. 21.

[23]Ibid.

[24]See Raymond Vernon, Sovereignty at Bay, pp. 60-112; Virgil Salers, Multinational Business, p. 21; Richard Hays, International Business, pp. 31-33; Thomas Humphrey, "Changing Views of Comparative Advantage," Monthly Review (Richmond: Federal Reserve Bank of Richmond, July, 1972), pp. 9-15.

[25]Humphrey, "Changing Views of Comparative Advantage," p. 14.

[26]See Sanford Rose, "No Need to Panic," p. 186; Lawrence B. Krause, "Trade Policy for the Seventies," Columbia Journal of World Business, VII (January-February, 1971), 9-10; Thomas Humphrey, "Changing Views of Comparative Advantage," p. 14.

[27]Humphrey, "Changing Views of Comparative Advantage," p. 14.

[28]Ibid.

[29]George Hildebrand, "Unions, Devaluation, and Foreign Trade," Monthly Labor Review 95 (April, 1972), 15.

[30]Rose, "No Need to Panic," p. 188.

[31]Hildebrand, "Unions, Devaluation, and Foreign Trade," 16.

[32]Ibid.

[33]See U. S. Department of Commerce, Policy Aspects of Foreign Investment, p. 65; U. S. Department of Commerce, Trends in Direct Investments Abroad, pp. 12-14.

[34]U. S. Department of Commerce, Trends in Direct Investments Abroad, p. 12 and p. 33.

[35]Ibid., p. 10.

[36]Ibid., p. 11.

[37]Ibid., p. 14.

[38]U. S. Department of Commerce, Policy Aspects of Foreign Investment, p. 31.

[39]Turner, Invisible Empires, p. 30.

[40]See "The U. S. searches for a realistic trade policy," Business Week, July 3, 1971, p. 67; U. S. Department of Commerce, Policy Aspects of Foreign Investment, pp. 33-34.

[41]Gilbert Burck, "Union Power and the New Inflation, Fortune, February, 1971, p. 64.

[42]U. S. Department of Commerce, Trends in Direct Investments Abroad, p. 15.

[43]Ibid., p. 17.

[44]Salera, Multinational Business, pp. 24-25.

[45]U. S. Department of Commerce, Bureau of International Commerce, U. S. Foreign Trade: A Five-Year Outlook with Recommendations for Action (Washington, D. C.: Government Printing Office, 1969), p. 23.

[46]Future United States Foreign Trade Policy, Report to the President submitted by the Special Representative for Trade Negotiations, January 14, 1969, by William M. Roth (Washington, D. C.: Government Printing Office, 1969), p. 2.

[47]Ibid.

[48]Rose, "No Need to Panic," p. 186.

[49]R. David Belli, "Sources and Uses of Funds of Foreign Affiliates of U. S. Firms, 1967-68," Survey of Current Business, November, 1970, p. 17.

[50]U. S. Department of Commerce, Policy Aspects of Foreign Investment, pp. 41-46.

[51]Ibid., p. 53.

[52]U. S. Department of Commerce, Trends in Direct Investments Abroad, p. 18. (See also the graph on p. 54.)

[53]Turner, Invisible Empires, pp. 15-16.

[54]U. S. Department of Commerce, Policy Aspects of Foreign Investment, p. 73.

[55]Ibid., p. 25.

[56]Ibid., pp. 25-26.

[57]Anna - Stina Ericson, "An analysis of Mexico's border industrialization program, Monthly Labor Review, 93 (May, 1970), 34-35.

[58]U. S. Department of Commerce, Policy Aspects of Foreign Investment, p. 22.

[59]See Louis Turner, Invisible Empires, p. 70; U. S. Department of Commerce, Policy Aspects of Foreign Investment, p. 22.

[60]Elizabeth Jager, "The Conglomerate Goes Global," AFL-CIO American Federationist, January, 1970, p. 2.

[61]U. S. Department of Commerce, U. S. Multinational Enterprises, p. 32.

[62]Ibid., pp. 32-33.

[63]See "The U. S. searches for a realistic trade policy," Business Week, p. 65; C. Fred Bergston, "Crisis In U. S. Trade Policy," Foreign Affairs, 49 (July, 1971), 623.

[64]U. S. Department of Commerce, Policy Aspects of Foreign Investment, pp. 22-23.

[65]Ibid., p. 72.

[66] Ibid.

[67] Ibid., pp. 76-78.

[68] U. S. Department of Commerce, U. S. Multinational Enterprises, pp. 1-37.

[69] Ibid., pp. 28-34.

[70] U. S. Department of Commerce, Trends in Direct Investments Abroad, p. 26.

[71] U. S. Department of Commerce, Policy Aspects of Foreign Investment, pp. 26-27.

[72] Ibid., p. 28.

[73] Ibid.

[74] U. S. Department of Commerce, Trends in Direct Investments Abroad, p. 25.

[75] Ibid.

[76] U. S. Department of Commerce, Policy Aspects of Foreign Investment, pp. 23-24.

CHAPTER IV

MULTINATIONAL INVESTMENT AND AMERICAN LABOR:

EFFECTS AND PROPOSALS

Introductory Statements

In the past decade international trade, in the conventional sense, has undergone a distinct transformation. Exporting and importing, long the traditional avenues through which the world's goods were traded, have been rapidly losing in importance to a new type of international economic activity dependent entirely upon corporate direct investment. As one result of this activity, Ricardo's theory of comparative advantage has also undergone considerable change. Manufacturing has grown to replace agriculture as the major share of world trade. As a consequence, raw materials, the essential endowments in Ricardo's doctrine, have been displaced by new technological developments by an industrialized society. Competitive advantage in manufactures today is only partially dependent upon raw materials; its main advantage rests on the capabilities of particular firms to produce superior bundles of good and services. Such production can only be done by those firms which are the most efficient, which employ superior technical knowledge to its fullest, and which, on the basis of past R & D activities, produce the best product--in short, the American multinational corporation.

Although the rise to prominence has been exceedingly rapid for the new phenomenon, its power has not gone unchallenged. Proponents claim that the benefits to be derived from multinational investment are numerous,[1] and, in all instances, this investment induces positive effects on the local, as well as American, economies. Critics, most notably

the trade unions, considered such claims one-sided.[2] To most unions, no clearly beneficial effects result from this increase in American investment. Indeed, the aftermath of this outflow of capital and technology spells disruption, especially in the American economy. Although exact data concerning such arguments are not available, union critics do not believe the issues to be as one-sided as proponents claim.

Employment Issue

An important dispute generated from these arguments concerns the relationship between American direct investment and employment (or unemployment, as the case may be) in the United States. In this regard, corporate leaders have asserted that multinationals, through their many investments, have contributed much in the way of employment opportunities for American workers; labor leaders, on the other hand, disagree. Domestic employment opportunities to these men, instead of increasing, have been lost by the thousands due to this investment. In the absence of overall statistical data concerning the exact employment impact of multinational investment, organized labor has thus suggested that the government be equipped with various measures with which to control the rising outflows of capital and technology by such firms;[3] the Burke-Hartke Act has been but one such measure suggested by organized labor.

Although little relevant data has been presented by either side in connection with this phenomenon's impact on American workers, some assessment of the unemployment effects resulting from the outflows of direct capital investment can be made. However, a few clarifications are necessary in order to assess this impact more clearly. If the adverse effects on foreign workers are ignored, then one can justify the recent outflows of capital and technology only under two situations: (1) when

there is a condition of overfull-employment at home, and (2) when, at any level of domestic employment, the investment would not in any event have been undertaken domestically."[4] Under the first situation favorable effects would be felt by all countries involved if the investment were to take place. However overfull-employment has not been the state of the American economy during the past three years in which the greatest increases in direct multinational investment have been made.[5] Under the second situation it must be assumed that such factors as trade and anti-trust barriers, lack of domestic natural resources, favorable treatment by foreign governments, and so forth, have arisen which would make domestic investment infeasible, and hence, foreign investment more inviting. However, in many cases, other reasons, such as the desire for lower foreign labor, have provided the main emphasis for direct investment abroad.[6] Whatever reasons there are for investing abroad, one point must be asserted: initially, under any set of conditions, direct investment will create unemployment effects in the domestic economy due to the outflows of capital from American plants to those abroad. This is not to say that such investment will not have greater offsetting employment effects as time passes. It is to say, however, that some unemployment effects, under most circumstances, result as capital and technology flow overseas.[7]

In the first chapter of this thesis three types of multinational firms were classified: (1) the colonial, (2) the international holding company, and (3) the multinational enterprise. Each of these, it must be noted, creates different unemployment effects on the U. S. economy. On the one hand, the international holding company poses little or no definite threats to American employment, mainly because it is organized

solely to serve the host country.[8] However, on the other hand, the colonial firm, imperialistic in nature, as defined earlier, as well as the multinational enterprise, present a discernible threat to the U. S. economy. Because of their abilities to sell their overseas production in American markets, these two types have created a distinctive uneasiness among organized labor.[9] (Such sales, it must be noted again, increased one hundred and sixty percent--160%--from 1965 to 1968 alone, rising from four percent of affiliate sales in 1965 to over eight percent in 1968.)[10] Whether this uneasiness will increase in the future remains to be seen.

As has already been discussed, most of past American direct investment has originated under the third type of firm presented above--the multinational enterprise. The management skills and organization know-how inherent in this classification, some economists have noted, have allowed it to attain a forefront position in U. S. domestic and foreign investment and trade. As this attainment has occurred controversy has increased. Not unexpectedly, many labor leaders have characterized this phenomenon as detrimental to the classical concepts of free trade. To these men, such investment has not resulted in international trade but rather international production, or in an extension of the domestic market power of these firms across global lines. Such firms, rather than both producing and selling in the United States, have chosen to produce in either Taiwan, Mexico or Europe and sell much of this production here. In this connection lower resource costs abroad, instead of trade barriers or other factors, have been the real motive for investing overseas. Realizing the threat imposed by such circumstances on American workers, most union officials have thus begun to argue that those economic

principles applicable to domestic production are more appropriate in describing this phenomenon than Ricardo's doctrine of comparative advantage and the "gains from trade."[11]

Multinational Pricing Policies

To illuminate this point, a consideration of the multinationals' pricing policy must be examined. It has already been established that size is the decisive factor in the corporate decision to invest abroad; in other words, the largest domestic corporations, embodying the greatest percentage of American market power, are also the leading multinationals. Coinciding with this emphasis on size is the ability of such firms to "set the pace" as far as their industry's pricing and production policies are concerned. As a result of this ability to "administer" domestic prices, a "monopoly return" (one far above a competitive norm) should result in such firms' profits. This pricing aspect of production, it must be stated, need not be limited entirely to the domestic operations of these firms.

If the objectives of most multinationals, as has been cited earlier, are to integrate the activities of their affiliates within the substructure of the parent company, then their overseas pricing policy must be an essential part of such integration. As one observer has written:

> This suggests a perfect price discrimination model in which the multinational firm will charge "what the traffic will bear" in the various markets in which the output is sold. This should mean that when the output is sold domestically its price will be influenced if not determined by the domestic price of an identical product or, in the case of displacement, of a previously domestically-produced identical product.[12]

Thus what this means is that most, if not all, of the powerful attrubutes of the domestic multinationals, such as their high degree of

market power or their ability to "set" prices, are likely to be transferred to their overseas affiliates. As a result of this transference the price of any commodity produced abroad and sold in the U. S. market is likely to reflect a "monopoly return" gained by such advantages. If this happens, if the firms can sell the lower-cost, foreign-produced output at American prices (thus earning "monopoly" benefits), then most "gains from trade" are nullified.[13]

If such a model has any validity, then other unemployment implications arise. Many labor economists have noticed that unions often push for wage increases even when total unemployment is growing.[14] When this happens (when the labor market may become "soft" due to the union push), the multinational firm may choose to further reduce employment rather than price, especially if this firm is a price "administrator." This reduction in employment only serves to further restrict output and to maintain the product-price at a level above that produced by competition.[15] In the aggregate, as one economist notes, if such practices continue, the economy begins to experience higher-rising prices along with increasing unemployment or, as many texts have named it, the "unemployment-inflation dilemma."[16]

Barrier to Entry Issue

Further observations are also in order at this point. Economic theory has suggested that in industries controlled by one or a very few firms possessing much market power several barriers to entry are likely to be constructed which would severely limit competition within such industries. Professor George Stigler, among others, has defined these barriers to include the following:[17]

(1) Economies of scale (corporate largeness) within the industry

(2) Economies of scale for capital (where only a few firms possess the large amounts of capital needed for entry)

(3) Superior resources (both natural and unnatural)

(4) Franchises and patents

(5) The pace of entry

In regard to the last classification, Stigler recognizes that no monopoly can last forever; however, entry into the industry can be delayed either through secrecy or by not seizing the entire profits that could be gained in the total absence of entry.[18] Furthermore, in order to retain these barriers, micro-economic theory also suggests that the market price in such industries not be set at too high a level so as to be "entry-inducing."[19] If this happens, new competition, attracted by the favorable price, may enter the market. The price should be set at that level which will be "entry-forestalling," taking into account the other barriers just mentioned. At any rate, whatever price is established it will more than likely be above that of one competitively-determined.[20]

It must now be maintained that, if international production is merely an extension of this domestic market power, then the above anti-competitive conditions are likely to be transferred overseas, especially since foreign competitors are less well-known (smaller) and thus less likely to operate on the same scale as American-based multinationals.[21] If such conditions arise, then unemployment, as well as the other anti-competitive aspects of domestic American monopolies, may increase in the American economy.

A Restatement

In the above analysis, attention has been centered on approximately two major assumptions: (1) initially, the multinational corporation

creates unemployment effects through its outflows of capital and production facilities; these may decline as income from such outflows is repatriated to our economy, and (2) such effects are greater when some of the affiliates' production re-enters the United States. Corporate leaders, it is stated, have objected to these assumptions citing: (1) the hundreds of thousands of jobs created by such multinationals (especially from 1965-1970); (2) that more than eighty percent (80%) of the affiliates' sales are made in the country where the production facility is located, whereas only eight percent (8%) are re-exported to the United States (here again see labor's argument in Chapter II); and (3) the positive contributions of this investment to the U. S. balance of payments. However, in the light of more concrete, up-to-date information, several factors must be restated: (1) the leading multinationals today are the giant American corporations; (2) these same corporations have gained much in the way of domestic market power, in many cases dominating their respective industries; (3) if their overseas production is only an extension of this power, which in many instances it clearly must be, then much in the way of anticompetitive conditions ("administered" prices, barriers to entry, "monopoly returns") may be increased; and (4) an increasing percentage of this production, reflecting the above, is delivered back home to be sold at U. S. prices. In this latter case adverse welfare effects may result. As a consequence of the above, employment opportunities may rise.

Turner Thesis

Professor Turner has stated that the problem of such "runaway corporations" is about to swamp America.[22] The United States, he notes, has been in the past a relatively high-wage economy, protected by both its

isolation from Europe and Japan and the high productivity of its labor. However, the American lead in management and technology has been rapidly disappearing; as a result, the U. S. market in the 1970's has become vulnerable to foreign competition. Noting the wage differentials between countries such as Mexico, Taiwan, and the United States, Turner admits the multinationals would be foolish if they did not utilize these markets as a means of production. With exactly this in mind many corporations have thus left America's confines seeking the lower-wage labor that is to be found overseas. (Much in the way, for example, that numerous northern corporations have gone South to exploit the lower-cost labor there.)

Such endeavors, microeconomic theory suggests, are but one aspect of the rational decision-making process of the domestic multinational corporation. In this connection, the desire for lower production costs, with subsequent higher profits, has enhanced the firm's leadership role in its respective (domestic) industry. Thus, it is only logical that this desire should be extended to the firm's direct investment overseas. However, as the 1970's have commenced and this process has increased, organized labor has become increasingly worried about such trends. Unless protective action is taken, union leaders reason, the current outflows of capital may mean the end of certain labor-intensive industries in the U. S. economy. With this in mind, the Burke-Hartke Act has thus received labor's hearty endorsement for this Act would essentially undercut all future multinational investment. Through its numerous provisions, the Act would probably remove much of the freedom that has surrounded American direct investment in the past. Although the bill is relatively new in design, many Congressmen agree with its assertions.[23] As developments in Mexico and Taiwan, for example, unfold, more Congressmen are likely to join

the ranks.

Title III, Burke-Hartke Bill

Nevertheless, in the absence of available data concerning the multinationals' impact on American employment, many students of economics have objected to the obvious protectionist intent behind this bill. No detailed analysis of the bill can be made until it is introduced on the floor of Congress (which probably will not occur until 1972) and proceeds through the legislative process. However, the protectionist provisions in the Act, as first announced, are clear. Though other provisions are important, the key title, as organized labor views it, is Title III.[24] This provision calls for the use of import quotas as protection against foreign-affiliate production. In fact, all future products which enter the United States would be subjected to an annual quota based on the number of units of that product that entered here between 1965-1969. In this respect, the Act makes no distinction between third-country multinational operations, multinational imports, or conventional imports; all would be subject to the quota.

As any economics textbook will assert, import quotas, much like tariffs, are mainly devices to restrain free trade and are, hence economically undesirable.[25] Designed to restrict the volume of imports entering a country through the imposition of quantitative limitations, this policy technique reduces international trade by virtually severing international price-cost links. In allowing the domestic price mechanism to work only up to the point that the quota is filled the restriction largely renders all price considerations irrelevant beyond this point. One result of such a restriction is almost assured: the domestic price in the

country imposing the quota is quickly raised above the world price.[26] How far above depends upon the magnitude of the quota and the elasticities involved. Who does this help? Certainly not the consumer, for he is forced to pay the higher domestic price for the protected good. Domestic employment may be helped somewhat since the quota reduces imports while maintaining exports; however, this situation may not last for any length of time if other countries retaliate with controls of their own and because of the adverse income effects in the foreign country. Clearly, all countries cannot simultaneously reduce imports and maintain exports; thus if a country tries to spread its unemployment internationally, with others subsequently following, nothing is gained. As Professor Delbert Snider states, the only ones most likely to benefit from this restriction are those special-interest groups who have placed the law on the books.[27] In total, it is hard to see how this device aids international trade or domestic producers, for in disrupting the price mechanism, the quota only allows many inefficient firms and industries to maintain production.

One can sympathize with those employees in industries rendered unviable by the competitive growth from lower-wage economies (textiles, for example). This is often the reason the quota is imposed. However, with the existence of such a policy technique, there is always the chance that an inefficient industry will be maintained; thus, objectively, such industries should be allowed to decline. A strong protectionist case can probably be made for many "infant" industries in the underdeveloped world, yet none can be made for such industries in the United States. If these industries are inefficient, provisions such as "adjustment assistance" should be utilized. The American consumer cannot afford to subsidize this inefficiency forever nor can the international arena. Relief by way

of quotas amounts to subsidies.

Though other provisions are included in the Burke-Hartke Act,[28] the main protectionist thrust of the Act is focused on this one key provision. The labor union aim here is rather clear: imports from the multinational corporations are the primary reasons for the main unemployment increases in the United States during the past few years. Therefore, imports must be reduced, and with them multinational investment itself. However, it is this writer's belief that such will not happen. Multinational investment is too well-entrenched in international trade and economics today to be easily dislodged. Indeed, in the future such investment may be the core of international economics. The large American firms are the leading multinationals and the unions will have to come to grips with this fact of life. Protectionist measures to decrease their effectiveness or market power may work in the short run but, in the long run, international political realities make such protection impossible. Thus other proposals must be put forth for the unions to survive in their competition with the multinationals. Protectionist measures, such as the ones embodied in the Burke-Hartke Act will not be effective in the long-run.

Alternatives to Protectionism

Adjustment Assistance

One of the valid alternatives to the protectionist restrictions previously mentioned has been the creation of adjustment assistance under the Trade Expansion Act of 1962.[29] In this Act the U. S. government recognized two essential facts: (1) that labor, unlike the other factors of production, was more immobile and hence less able to be transferred from one region to another; and (2) import competition could result in severe hardship on this less-mobile resource. Realizing further that many

American workers, due to an increase in imports, would need special assistance in relocating or job retraining, the Congress enacted this comprehensive program to provide such aid. However, results in the recent past have been less than encouraging.

To qualify for adjustment assistance, as originally proposed, a firm must have shown three things: "(1) the article in question must be imported in increased quantities; (2) the increased imports must be caused 'in major part' by a trade concession; and (3) increased imports must be 'the major factor' causing injury to the party in question."[30] In all the cases that came before the Tariff Commission between 1962 and 1968, however, not one instance was found to qualify for such assistance, principally because the firm could not prove provisions 2 or 3 above.[31] (Between 1969-1970, the AFL-CIO notes, there were only six findings of such injury.)[32] The record raised serious doubts as to whether it was possible to segregate trade concessions, many of which went back 30 years or more, from other reasons as the major cause of increased imports. In this respect, a firm's weakened condition could have arisen from factors such as location, the labor market, product competition, and so forth, even though the increase in imports may have been a major factor but not "the" major factor. Experience thus suggests that, if the program was to be helpful, the language of this provision would have to be clarified.

In a special report to the President in January, 1969, by a board composed of both labor and corporate heads, the beginnings of such clarification were undertaken. First, it was recommended that the criteria in the 1962 Act for adjustment assistance be amended to "eliminate the requirement that increased imports be causally linked to past tariff

concessions."[33] In this connection, the group realized it was hard to separate one cause for injury from another. Secondly, it was suggested that the Act be amended to require only that increased imports be a substantial cause of unemployment in the firm, not the major one.[34] The board here noted that this would require a petition from the workers involved stating that imports had had considerable bearing on the amount of unemployment in their firm; the petitioners would not, however, have to demonstrate that such imports were greater than any other cause of injury. In addition, the group recommended that an inter-agency board, other than Tariff Commission, be executively appointed to deal with this program. This, the board noted, has already been done in one industry. Under the Automotive Products Trade Act of 1965, evidence obtained from an impartial committee indicates that the concept of adjustment assistance was extremely viable in the auto industry, and could consequently be employed as an alternative to import displacement.[35] Thirdly, the board advised that the provisions of the Manpower Development and Training Act of 1962 (as amended in 1968) should be so implemented as to give workers in endangered industries advance warning of the impact of imports on their respective industries.[36] In this regard, the board urged that all manpower policies be re-examined in order to improve the mobility of labor. Finally, the group advocated that all grievances concerning world fair labor standards be reviewed by an international agency, such as GATT or the ILO, in order to determine if any enforcing of such standards was needed.[37]

Although the Tariff Commission has implemented some (but not many) of these suggestions and has tried to change the situation, viz., recently certifying definite injury to 11 firms and 15,000 workers (with

$250 million as compensation)[38] organized labor is still skeptical as to this program's benefits. Thus the concept essentially remains ineffective today.[39] This skepticism is due mainly to three reasons. First, on the basis of the previous ten years' experience with the program, labor leaders can see no substantive gains from it as a whole. Second, the program itself is viewed by the AFL-CIO as merely a supplement to the "more needed" protectionist Burke-Hartke Act. Those workers who have already been adversely affected by imports, union leaders agree, should be aided. Moreover, the imports themselves, the cause of such job losses, should be stopped. Third, organized labor is extremely distrustful of the Tariff Commission itself (remembering the stringent rulings by the Commission in the past) and advocate instead a Presidential Commission to find cause for injury. Until these conditions and others are met, union leaders reason there can be no further cause for discussion in this area.

It is the contention of this writer that the concept of adjustment assistance as described in the previously-mentioned suggestions, unlike the protectionist Burke-Hartke Act, offers the unions a longer-lasting solution to their problem. Union leaders have only become uneasy about multinational investment in the last five years. However, it must again be repeated, direct multinational investment is so large in scope as to be easily reduced and the unions must learn to live with it. To discredit out of hand the program of adjustment assistance is to ask for unnecessary friction. If implemented correctly, with the suggestions as presented above, the program offers the unions much in the way of compensation from job losses as well as an opportunity for retraining in another area. Until their views of the multinational corporation can

mature over time the unions would do well to try to improve this concept of adjustment assistance instead of discrediting it. The adjustment assistance concept is consistent with classical economic principles which encourage mobility and flexibility in the economic system.

International Unionism

In dealing with the multinational corporation today organized labor finds itself in a precarious situation. Unlike the early days of their organization labor unions in the 1970's have found they are bargaining with a business structure that is international in design and capable of affecting their survival with one quick investment decision. Consequently, with this realization in mind, most labor leaders have become uneasy towards this phenomenon and are not quite sure how to deal with it. Most, it must be stated, but not all. For some union leaders have begun to understand that the most effective way, possibly the only way, to deal with this highly efficient overseas organization is through advocating their own beliefs abroad--in other words, international unionism. In this respect, the International Metalworkers Federation (with 11 million members and world councils in the automotive, steel, shipbuilding, and electrical industries) and the International Federation of Chemical Workers have been the most influential.[40] However, these plans made little headway until 1966, when four automotive councils were created under the joint sponsorship of the IMF (International Metalworkers Federation) and the UAW. Each of these four councils (one each for Ford and General Motors, another for Chrysler, Fiat, Simca and Rootes, and the other for Volkswagen and Mercedes-Benz) were designed to bring together all union personnel concerned with their respective companies' global

activities.[42] Though meetings with the top management officials of Ford and GM were held in Detroit of this same year very little in the way of collective bargaining was done. Not until the following year did the councils begin to "show their worth."

In 1965, it must be remembered, the United States-Canadian Auto Agreement was signed. One union fear resulting from this agreement was that American jobs might be undermined by lower Canadian wages. With this fear in mind, the UAW in 1967 set about to establish Canadian-U. S. wage parity in this industry. Although Ford, which suffered the major auto strike during this year refused to capitulate, the UAW managed to gain significant concessions from the weaker Chrysler firm. Chrysler guaranteed that the "40¢ per hour wage differential suffered by its 13,000 Canadian employees would be wiped out within two and one-half years."[43] This was the first notable example of international collective bargaining.

Since 1967 the UAW, today one of the few unions to represent workers on both sides of the border, has continued to maintain its leadership in this international aspect of unionism. Numerous illustrations of this role have included the following: (1) One of the most radical steps has been to arrange informal discussion meetings between international delegations of union leaders and management leaders of such firms as Ford and General Motors. Though no collective bargaining has occurred, policy statements have been issued which have illustrated the importance of such meetings.[44] (2) Another aspect of this role is seen through the computerized dissemination of information concerning grievances, bargaining procedures, and wage rates to all its members both domestic and foreign.[45] (In this connection, the union has recently completed studies of the entire collective bargaining situation in Latin America and Europe where

contracts now include many of those same stipulations as are found in U. S. union agreements.)[46] (3) Finally, much in the way of technical assistance, seminars, and solidarity assistance have also resulted from this role.[47]

International Harmonization of Wages

In spite of the importance of the above achievements, there is perhaps one major objective towards which the UAW has been working; that is, the eventual goal of complete, world-wide, harmonization of wages and working conditions. This objective has probably been best summarized by the UAW's original leader, Walter Reuther:

> Never again should workers go to the bargaining table without knowing what their employer has already agreed to in negotiations with unions in other lands. Thanks to the World Auto Council program, this documentation is now available. . . . We . . . know our employers are most anxious to take advantage of weaknesses in the labor movement. Consequently, we reason, we too must abandon the rigid frames of national reference.[48]

It is hoped that implementation of this goal can begin in 1973 when the UAW's contracts with Ford, General Motors, and Chrysler are renegotiated. However, for this end to be attained, cooperation with its overseas affiliates must be evidenced; thus, the UAW has struck a bargain with many of its affiliates in several countries, notably Britain and Canada, whereby they will coordinate their bargaining against the major auto manufacturers and will swap information about agreements struck in all the plants of these firms.[49] The future of these affiliates hence lies ahead; if the multinationals are to be checked, this aspect of unionism must work.

Though there are 18 international secretariats (global federations of unions) in the world today, only a few are strong enough to bargain

with multinational management. Among these are the International Metalworkers Federation, of which the aforementioned World Auto Council is a part, and the International Federation of Chemical Workers.[50] Although the former, mainly through the influence of the UAW, has received most of the international attention focused on these federations, it is perhaps the latter which has been the most ambitious.

Worldwide attention was first focused on the ICF in early 1969 during contract disputes involving the French multinational glass firm, St. Gobain.[51] This firm is the largest glass manufacturer in Europe today with 143 plants scattered over 12 countries, the U. S. included. Towards the beginning of 1969, contracts with four of its subsidiaries in France, West Germany, Italy, and the United States, came up for renewal. During the course of these negotiations, the ICF, looking for suitable multinationals to tackle, entered the picture. Coordinating support for these negotiations, the federation reached agreements with all four subsidiaries whereby no contract was to be signed until all gave their permission. After weeks of various supporting strikes in the countries involved, St. Gobain's management conceded defeat and granted a new nine percent (9%) per annum wage package for the four subsidiaries, despite previous losses for two years in at least one of the subsidiaries (U.S.).

Since this time, the ICF has grown in size (86 unions in 33 countries) until there are almost three million members within its affiliates today.[52] Its work has become worldwide in nature with, among its more interesting disputes, those concerning the pressure placed on Swiss-based multinationals in behalf of unionists in Japan,[53] and with its efforts to introduce to the United States the job security won by German unions. In this latter arrangement German workers over 50 years old cannot be fired; also,

workers with 15-20 years seniority must be given 12 months' notice plus 12 months severance pay in case of job loss.[54] Similarly, this federation has also become interested in trying to internationalize demands for continuous training, industrial democracy, and worldwide integration of manual and non-manual workers.[55] Finally, on an even more ambitious scale, the ICF is today in the process of setting up a data-bank on the collective bargaining agreements struck worldwide by 30 major chemical multinationals. Charles Levinson, its head, hopes to have this bank fully operative by the end of this year (1972) based on computers owned by German and U. S.-affiliated unions. Naturally, there may be some difficulties in comparing different agreements since, among other things, earnings can be calculated in various ways--salaries, piecework, overtime, for example--but the idea is that any affiliated union will be able to arrange a printout of all relevant information about a firm's concessions around the world, other bargains in the same country, and so forth.[56] Although the scheme is ambitious in scope, there is no reason to think it cannot work.

Other unions just recently have also become interested in the international aspects of their respective organizations. Following the automotive lead has been the U. S.-based International Union of Electrical Workers (IUE), the union in the electronic Industry. Created in September, 1970, this group initially focused its efforts on General Electric and Phillips Electric and recently called for a worldwide boycott of GE's products during a U. S.-based strike.[57] It also intervened in electrical workers' strikes in Latin America and Japan.[58] Although relatively little has been accomplished by this federation to date, its beginnings are notable. Other union efforts, though comparatively modest in design, have also begun in the oil,[59] steel and rubber industries. The

Steelworkers Union, another council within the IMF, has provided much in the way of solidarity aid, including information on salaries, dividends, and working conditions to those unions about to embark on the bargaining process.[60] The United Rubber Workers has formed councils to deal with Michelin, a multinational with over eighty percent (80%) of its workers overseas.[61] All the above efforts are, at the moment, restricted to isolated cases and individual firms. However, as these unions increase the quality of their information services which the UAW and the ICF have already accomplished, and emphasize aid to their fellow-workers overseas such instances may become more commonplace.

Writer's View

It is this writer's contention that international unionism today is perhaps the only significant countervailing force against the power of the multinational corporation. Indeed, where union organization has been strong IMF and ICF), disparities in wages, fringe benefits, and working conditions have been reduced for overseas workers. If international unions, mostly American-based, are determined there are numerous ways their power can increase against the multinationals. Among them are:[62]

(1) A really determined union can block several multinational plants which produce key components for worldwide sale, in many cases shutting them down to prevent a shifting of operations from plant to plant during a strike (St. Gobain, for instance).

(2) Such unions can conduct publicity campaigns concerning multinational malpractices hidden from public view. In this respect, the ICF, in winning large wage hikes and

one hundred percent (100%) unionization for a firm once threatened to employ national advertising and full coverage in all media if the issue was not settled.[63]

(3) Representatives in Congress or Parliament can be pressured by labor unions to provide assistance in negotiations with powerful multinationals. Here, European laws establishing an international right of workers to be that of firms revealing the financial status of their subsidiaries have been instituted in a few countries.[64]

(4) Finally, financial aid from the more advanced unions, especially those in America and Europe, may be given to strikers in other countries. As one economist notes,[65] such goals as the above, as well as that of overall global bargaining, may be accomplished if these unions are willing to forget their political differences and join together to bargain with the multinational managements. In the past, however, such tasks have often proved formidable.

Some Difficulties

America's brand of organized unionism has proven difficult to implement in many of the unions overseas. Examples of this have included the following:

(1) In West Germany, unions are highly nationalistic and many are company-oriented.

(2) In Italy, thirty percent (30%) of all unions members are concentrated into four politically-oriented unions.

(3) France has little or no autonomous unionism as such.

(4) In Britain, principally through the efforts of American organized labor, the number of craft unions has been reduced. However, these unions are still politically-oriented and bargaining procedures, by U. S. standards, are archaic.[66]

(5) In Canada, where unionism has been extremely strong, workers have nevertheless often been torn between French and English ideologies.[67]

(6) In Japan, there exists seven major unions. All, however, are undermined by historical support of the lifetime employment system and resulting close links with management, and are further weakened by organization along company rather than industry lines.[68]

(7) In Mexico and the Far East (Taiwan, South Korea) unionization, especially in the electrical components' industries, has either been rudimentary in design or non-existent.[69]

As a consequence of this difficulty, many U. S. labor leaders haven given up trying to utilize international unionism as a device against the multinational corporation, concentrating instead on protectionist legislation. Yet, the ones who have adhered to this idea have experienced success.

Summary Statement

As organized labor enters the 1970's, not quite certain how to deal with multinationalism, the protectionist Burke-Hartke Act has been offered as the unions' only chance of survival against this phenomenon. Nevertheless, it is this writer's belief that only international unionism provides this chance, for protectionist legislation is not going to work

if the foreign countries retaliate. This is what the more concerned unions (the UAW, for example) fear will happen. Hence, the Trade Secretariats have begun to grow in importance as international cooperation among many of these concerned unions has developed. Where corporate decision-making has become more diffused from the local community, many overseas and domestic unions have joined together in order to deal more fully with this "distant corporate management."[70] For all unions to continue to function as a viable force in this ever-changing decade this aspect of union activities must be allowed further growth. Protectionist legislation, to offset this phenomenon, is only a short-term measure and, as such, should not be given the serious attention that it has attained. As Professor Vernon has noted, the multinational corporation is strong, and when confronted by an adversary, has options that U. S. labor does not.[71] Its management is young and extremely intelligent and is quite willing to take advantage of the rational benefits to be gained from international production. Organized labor, for the most part, is run by an extremely conservative older generation and is often loathe to engage in any international union relations abroad. Generally speaking, it must be noted that those unions which have enjoyed any success in this area have been run by younger, more energetic, leaders. Consequently, multinational production could well lead to organized labor's decline in the 1970's, unless international unionism is given first priority. A dynamic emphasis on international unionism together with a program of comprehensive adjustment assistance to help those workers adversely affected by foreign competition may thus be the only answer to any unemployment effects generated by the multinational corporation in the 1970's.

Footnotes to Chapter IV

[1]Thomas J. Leary, "The Unemployment Effects of Foreign Investment by American Multinational Firms" (paper presented at the American Association for the Advancement of Science, Philadelphia, Pennsylvania, December 28, 1971), p. 2.

[2]Ibid., p. 3.

[3]Future United States Foreign Trade Policy, Report to the President submitted by the Special Representative for Trade Negotiations, January 14, 1969, by William M. Roth (Washington, D. C.: Government Printing Office, 1969), pp. 70-72.

[4]Leary, "American Multinational Firms," p. 4.

[5]See Tables V and VI. Also, from various sources, too numerous to mention, it can easily be stated that overfull-employment has not been the state of the American economy since late 1969; in fact, unemployment has averaged over five percent (5%) during this period.

[6]See Louis Turner, Invisible Empires (New York: Harcourt Brace Jovanovich, Inc., 1970), pp. 41-66 and 135-189; Norman Macrae, "The Future of International Business," Economist, January 22, 1972, p. xxv.

[7]Leary, "American Multinational Firms," pp. 4-5.

[8]Ibid., p. 5.

[9]Ibid.

[10]Robert d'A. Shaw, "Foreign Investment and Global Labor," Columbia Journal of World Business, VI (July-August, 1971), 55-56.

[11]Leary, "American Multinational Firms," p. 6.

[12]Ibid., p. 7.

[13]Ibid.

[14]Gordon F. Bloom and Herbert R. Northrup, Economics of Labor Relations (Homewood, Ill.: Richard D. Irwin, Inc., 1969), pp. 394-395.

[15]Leary, "American Multinational Firms," p. 7.

[16]Ibid., pp. 7-8.

[17]George J. Stigler, The Theory of Price (New York: The Macmillan Company, 1966), pp. 220-227.

[18]Ibid., p. 227.

[19]Leary, "American Multinational Firms," p. 8.

[20]Ibid., pp. 8-9.

[21]Ibid., p. 8.

[22]Turner, Invisible Empires, pp. 93-95.

[23]Richard L. Barovick, "a 'Horseshoe in the Glove' for the Multinational Corporations," Columbia Journal of World Business, VII (March-April, 1972), 7-9.

[24]U. S. Congress, House, Banking and Currency Committee, On H. R. 13120 To Increase the Par Value of Gold, Statement, By Andrew J. Biemiller, Director, Department of Legislation, AFL-CIO, before a subcommittee of the Banking and Currency Committee, House of Representatives, on H. R. 13120, March 6, 1972, p. 10.

[25]Delbert A. Snider, Introduction to International Economics (Homewood, Ill.: Richard D. Irwin, Inc., 1967), pp. 141-164.

[26]Ibid., pp. 143-149.

[27]Ibid., pp. 160-164.

[28]See U. S. Congress, House, Banking and Currency Committee, On H. R. 13120 To Increase the Par Value of Gold, pp. 9-12; Dan T. Smith, "The Foreign Trade and Investment Act of 1972," Columbia Journal of World Business, VII (March-April, 1972), 12-13.

[29]Future United States Foreign Trade Policy, p. 41. (Before 1962 the principal form of adjustment assistance had been the escape clause section of this Act, whereby the injured industry might receive assistance, as created under this new provision, provided an alternative to such trade barriers. Aid was now possible without import restrictions.)

[30]See Future United States Foreign Trade Policy, p. 42; Tracy W. Murray and Michael R. Egmand, "Full Employment, Trade Expansion, and Adjustment Assistance," Southern Economic Journal, 36 (April, 1970), 418.

[31]See Tracy Murray and Michael Egmand, "Full Employment, Trade Expansion, and Adjustment Assistance," 418; C. Fred Bergston, "Crisis In U. S. Trade Policy," Foreign Affairs, 49 (July, 1971), 630.

[32]U. S. Congress, House, Committee on Ways and Means, On Pending Foreign Trade Proposals, Statement, by Andrew J. Biemiller, Director, Department of Legislation, AFL-CIO, before a subcommittee of the Committee on Ways and Means, House of Representatives, on pending foreign trade proposals, May 19, 1970, p. 20.

[33]Future United States Foreign Trade Policy, p. 42.

[34]Ibid., p. 43.

[35]James E. Jonish, "Adjustment Assistance Experience Under the U. S.-Canadian Auto Agreement," Industrial And Labor Relations Review, 23 (July, 1970), 553-560.

[36]Future United States Foreign Trade Policy, p. 43.

[37]Ibid., p. 44.

[38]Bergston, "Crisis In U. S. Trade Policy," 630.

[39]See C. Fred Bergston, "Crisis In U. S. Trade Policy," 630, U. S. Congress, House, Committee on Ways and Means, On Pending Foreign Trade Proposals, p. 20.

[40]Richard L. Barovick," Labor Reacts to Multinationalism," Columbia Journal of World Business, V (July-August, 1970), 41.

[41]Turner, Invisible Empires, p. 95.

[42]Ibid.

[43]Ibid., p. 96.

[44]Ibid.

[45]David Blake, "Corporate Structure and International Unionism," Columbia Journal of World Business, VII (March-April, 1972), 21-22.

[46]Barovick, "Labor Reacts to Multinationalism," 41.

[47]Karl F. Treckel, "The World Auto Councils and Collective Bargaining," Industrial Relations, 11 (February, 1972), 77.

[48]Barovick, "Labor Reacts to Multinationalism," 42.

[49]See Karl Treckel, "The World Auto Councils and Collective Bargaining," 77; Louis Turner, Invisible Empires, p. 102.

[50]Barovick, Labor Reacts to Multinationalism," 41.

[51]Turner, Invisible Empires, pp. 98-100.

[52]Barovick, "Labor Reacts to Multinationalism," 41.

[53]Turner, Invisible Empires, p. 100.

[54]Ibid., p. 102.

[55]Ibid.

[56]Ibid., pp. 102-103.

[57]"Unions move against the multinational corporations," Business Week, July 24, 1971, p. 48.

[58]Barovick, "Labor Reacts to Multinationalism," 43-44.

[59]"Unions move against the multinational corporations," p. 48.

[60]Blake, "Corporate Structure and International Unionism," 21.

[61]"Unions move against the multinational corporations," p. 48.

[62]Turner, Invisible Empires, pp. 100-102.

[63]Ibid., p. 101.

[64]I. A. Litvak and C. J. Maule, "The Union Response to International Corporatism," Industrial Relations, 11 (February, 1972), 64.

[65]Blake, "Corporate Structure and International Unionism," 23-25.

[66]"Unions move against the multinational corporations," p. 48.

[67]"Canadian unions press for U. S.-size wages," Business Week, January 6, 1968, p. 92.

[68]"A shortage of workers changes Japan," Business Week, January 31, 1970, p. 72.

[69]Barovick, "Labor Reacts to Multinationalism," 44.

[70]Blake, "Corporate Structure and International Unionism," 23-25.

[71]Raymond Vernon, Sovereignty at Bay (New York: Basic Books, Inc., 1971), pp. 190-191.

CHAPTER V

SUMMARY AND CONCLUSIONS

Summary

The quotations below illustrate three major views that characterize discussion about the multinational corporation today. They also summarize the subject matter of this thesis:

> Businessmen in the Free World are building an international economy, an economy which transcends old borders and old ideologies . . .. the international corporations and world commerce are the most effective supranational relationships the world has and they survive and flourish today) in a political and legal world designed in an earlier era.[1]

> We view with real concern the warmness with which the administration has embraced the multinational corporations as being "good for America." These international runaway firms, however, do not have the same sense of warmness for America. Their heart is the profit dollar.. . . As a result of this attitude, corporations have abandoned U. S. factories and U. S. communities. . . . They have abandoned tens of thousands of American men and women (also) who once worked in their U. S. plants.[2]

"Potentially, the multinational company is an overwhelming force for material progress in the world. The best of their products, we should accept; the political and social cost, we must not overlook."[3]

With respect to the first quotation or what this writer has called the protagonists' position, the phenomenon is described as a benign force, acting in the international arena to free world capital and technology for the betterment of all countries concerned. In this role, the multinational company, as Professor C. P. Kindleberger of M.I.T. notes, has operated much like a domestic corporation in developing a national market within the United States.[4] In the course of this development, it has

broken down regional trade barriers, created thousands of U. S. export-oriented jobs, contributed positively to the U. S. balance of payments. led to a more equal and wider distribution of economic benefits, and has greatly aided in the impressive surge of our overall economic growth.

With respect to the second quotation, or what can be described as the antagonists' position, this phenomenon has been looked upon with much skepticism and concern. In adopting this viewpoint, organized labor has characterized the multinational corporation as "runaway" in impact, rapidly leaving American markets for the lower-cost productive facilities and labor abroad. Thus, as capital, managerial skills, and technology have moved across national borders at an accelerating rate, labor--one of the least mobile of the factors of production--has developed an increasingly negative assessment of the effects of such flows. Contrary to corporate beliefs, American labor unions claim that the activities of U. S.-based multinational corporations have resulted in the export of U. S. jobs, in an adverse impact on the U. S. balance of payments, and in an overall decline in our balance of trade. Moreover, the international nature of such firms has put them beyond the reach of collective bargaining by the unions as well as beyond the regulatory powers of the national governments themselves. In this context multinationals are free of governmental or other restraints and thereby possess enhanced market power.

In the final quotation, or what can be classified as the "disinterested-viewer" approach, the multinational corporation is seen as neither benign nor malevolent. Rather, the international investment aspects of this phenomenon are observed to be the results of rational decision-making (including the two rational goals of lower costs and higher (profits) by the corporate entities involved. As far as the employment effects of

such investment are concerned, it would seem, in theory, that some unemployment occurs as the initial outflows of capital and technology commence. Whether this remains abroad as unrepatriated income from these investments or re-enters the United States is a matter of conjecture. Statistical data are not conclusive one way or the other. Investment has both beneficial and detrimental effects.

Conclusions

With the advent of the 1970's organized labor feels itself in a rather unenviable position. Union membership, which had evidenced much growth until the past decade, began to decline especially in labor's most productive realm, namely manufacturing industries.[5] Similarly, employment in this vital area has also begun to decrease. Many economists, among them Lawrence Krause, expect these trends to continue as 1980 approaches.[6] Krause notes that the service industries, in which little union organization is evident, have increased employment by over eighty percent (80%) in the past 20 years. At the same time employment in the goods-producing industries, the unions' growth stronghold, has only risen by thirty percent (30%). If such trends continue, he further states that by 1980 the United States will enjoy comparative advantages only in the service industries. As a consequence, exports and manufacturing as a whole for that matter, will become less important in the international arena. His conclusion: the unions must begin to penetrate these service industries for if they do not they will no longer represent the average workers. When this happens, the need for organized unionism will no longer exist.

A major cause of the above dilemma, the unions have reasoned, is the multinational corporation. More specifically, the cause is the outflow

of capital and technology by multinationals. If such outflows could be reduced, then organized labor might survive. With this end in mind, unions have abruptly departed from their traditional free trade position to the more protectionist position embodied in the Burke-Hartke Act. With their growth in membership and power threatened, unions are abandoning the tactics and ideology that brought them growth in their early history. For the most part, they are unwilling to go abroad and organize the workers there to contest the multinationals. Such unions, it must be noted, have essentially become complacent in their 40-year reign over American labor. With this complacency has come a sense of conservatism or unwillingness to change. In a capsule, the unions want to deal with this new phenomenon with old methods. Such methods, this writer contends, will not work.

It is this writer's belief that the multinational corporation _is_ international economics today. As this phenomenon is new in concept, it must be offset with different methods of which international unionism is a major one. For the unions which have tried this method, notably the IMF (UAW) and the ICF, some success has been attained. For this success to continue, other unions must be willing to try. The union fear of multinationals is only of five years' duration. Consequently, their stratagems to counteract this force are of recent origin. However, more U. S. unions must be willing to make the needed sacrifices if this method is to work. Financial and moral aid must be given to overseas workers. Union information on contracts, bargaining procedures, grievances, wages, and working conditions must be provided on a worldwide basis. Wage harmonization for all workers, foreign and domestic, must become a union goal for the future. In spite of labor's willingness to do so at the

present, it is this writer's assertion that the trade unions will soon realize that international unionism may be the only way they can survive in the coming decades.

In the 1970's I visualize a twofold union drive taking place. Domestically I foresee unions organizing the service industries, for this is the only way they will preserve any future voice for the workingman in the United States. Also, I view the union acceptance of a comprehensive program of adjustment assistance as designed to help those goods-producing industries affected by the further strengthening of the trade secretariats; (2) additional emphasis on union exchange of information concerning contracts, grievances, and so forth; (3) increased financial aid for the support of worldwide strikes plus the international coordination of the strikes themselves; and finally (4) the beginnings of regional and global wage harmonization. One point must be stressed, however: I foresee these events occurring only if unions are willing to fight as they did in the early days of their organizational drives. Hiding behind protectionist legislation, hoping the problem will go away, is not an answer. The multinational corporation is a strong and vital force in the international arena today; organized American labor must be just as strong and vital. In any case protectionism is self-defeating in the long run.

Footnotes to Chapter V

[1]Louis Turner, Invisible Empires (New York: Harcourt Brace Jovanovich, Inc., 1970), p. 190.

[2]"International Trade and Investment," The AFL-CIO Platform Proposals (Presented to the Democratic and Republican National Conventions, 1972), p. 23.

[3]Turner, Invisible Empires, p. 213.

[4]U. S. Department of Commerce, Bureau of International Commerce, The Multinational Corporation: Studies On U. S. Foreign Investment, Vol. I, Policy Aspects of Foreign Investment by U. S. Multinational Corporations (Washington, D. C.: Government Printing Office, 1972), p. 81.

[5]Max S. Wortman, Critical Issues in Labor (London: Collier-Macmillan Limited, 1969), pp. 65-66.

[6]See C. Fred Bergston, "Crisis in U. S. Trade Policy," Foreign Affairs, 49 (July, 1971), 622; Sanford Rose, "No Need to Panic," Fortune, August, 1971, p. 186; Lawrence B. Krause, "Trade Policy for the Seventies," Columbia Journal of World Business, VI (January-February, 1971), 7-11; Gordon F. Bloom and Herbert R. Northrup, Economics of Labor Relations (Homewood, Ill.: Richard D. Irwin, Inc., 1969), pp. 22-23.

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