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International Capital Movements and External Policies

by Michihiro Ohyama

As is well known, John H. Williams once indicted the Classical Theory of International Trade for its undefendable disregard of factor movements *between* nations as well as its exorbitant emphasis upon those *within* a national bonndary. Though we are now left with a handful of theoretical contributions dealing with international capital movement, it is still far from the truth to presume that his indictment is outdated. There are indeed a great deal of Classical legacies in the Theory of International Trade remaining to be reexamined in the light of international capital movement, whereas many of the few theorems in the Theory of International Capital Movement also stand in critical need of rescrutiny taking account of the simple fact that not only capital but also commodities are moving internationally.

In this paper we present a simple general equilibrium model composed of a set of assumptions reflecting *both* commodity trade and capital movement between nations. And we intend to investigate in this realistic context the validity of the famous proposition that a country can improve its welfare as compared with the free-trade *cum* free-capital-movement position by imposing either a tariff on imports or a tax on the earnings of overseas investment. As a preliminary to our investigation, we first establish a theoretical formula which represents an infinitesimal change in the real income of the countries concerned in terms of an infinitesimal change in the terms of trade *and* capital movement. In the same respect, we also determine the stability condition in the commodity markets and identify five possible cases of trade-production pattern the distinction between which is essential to the further analysis.

Assuming that the capital lending country is in the position to do what it likes without provoking any retaliation of the capital borrowing country, we proceed to the case-by-case examination of the effect of a tariff as well as of a tax on the terms of trade, on capital movement and, by the help of the aforementioned formula, on the real income of the relevant countries. Against this background, we also solve for the expression of the optimal rates of the tariff and the tax, optimal in the sense that they are due to maximize the real income of the imposing country, first on the assumption that the two policies are independently (that is, in a single-handed way) made use of, secondly on the assumption that they are jointly (that is, in a combined way) applied. In the final section of this paper, we try to reassert, by way of memorandum, the traditional contention that the free-trade *cum* free-capital-movement leads to the maximization of the *world* real income within the framework of the present model. Likewise, we briefly discuss the hitherto neglected symmetrical situation where the policy making country coincides with the capital borrowing country.

The main conclusions of our analysis are as follows.

First of all, it is of course made clear that the imposition of a tariff or a tax generally gives rise to a change both in the terms of trade and in the amount of capital movement. A tariff is, in many instances, apt to induce an increase of capital outflow as well as an improvement of the terms of trade. On the contrary, a tax frequently produces not only a decrease of capital outflow but also a deterioration of the terms of trade. Secondly, by the consequent line of reasoning, the direction of the real-income effect of either policy is shown, except for a couple of cases, to be indeterminate. Thirdly, the sign of the optimal tariff or tax rate turns out, again except for a couple of cases, to be indeterminate when they are independently contemplated. This result is immediately inferable from the second conclusion. Fourthly, the sign of the optimal tariff or tax rate is bared, except for just one case, to be positive definite when they are jointly operated. The reason for this is that the joint operation of the two policies makes it possible to bring about an improvement of the terms of trade and a decrease of capital outflow at the same time.

It is worth noting, finally, that the text-book case for a tariff or a tax is true only to the limited extent failing to preserve its theoretical elegance and operational significance so long as we take into consideration both commodity trade and capital movement in a one model.

Historical Formation of the Lifetime Commitment System: A Case Study of the Yawata Basic Steel Corporation, 1896–1934

by Haruo Shimada

It is widely accepted that the institutional system composed of the lifetime commitment of workers and wage schedules determined primarily according to length of service has been a dominant feature of intrafirm industrial relations in Japan. Such a compound of institutions is called the Nenko-system. When the theory of the Nenko-system was developed in recent years, it suggested that the system emerged as a new development of the post World War period but had its origin in a pre-war era. Quite a few studies on Japanese labor problems or labor-management relations have dealt more or less with the question of the origin of the Nenko-system. Thanks to these efforts, data gathered and hypotheses offered have remarkably increased. However, a comprehensive theory of the historical formation of the Nenko-system bringing together all these results into account is not yet available. There have been very few attempts to examine the findings precisely. The present study is an effort to examine the hypotheses there have been offered by utilizing an intensive case study of the pre-war experiences of the Yawata Steel Mill.

Hitherto developed hypotheses may be summarized in the following 4 points. The first three deal with the underlying conditions in which the Nenko-system could be established and the last refers to a critical period in which there were changes in environmental factors that favour the formation of the Nenko-system.

1. The differential wages and employment structure under the Nenko-system within the firm corresponds implicitly with the persistent external social stratification of Japan.
2. The length of work commitment to any given firm correlates highly with the level of skill.
3. The paternalism has dominated management-labor relationships and hence does not tend to be compatible with the idea of competitive relationships between managements and labor unions.

4. A rapid decrease in the demand for labor and a drastic change in the labor market structure that take place in the late 1920's enabled big firms to eliminate older workers who tended to be mobile and who at times resisted management policy and management therefore limited recruitment only to inexperienced young workers who had just completed the elementary school. Firms successfully undertook an overall reorganization of the internal labor market structures in which even newly recruited workers were obliged to commit themselves fully and become immobile in the given firm. This was accomplished by continuous threat of discharge and at the same time confining the main trunk of the employment structure exclusively to those workers brought up from the beginning of their careers in the educational facilities of the firm. These workers were regarded as the most faithful to the firm.

The results of the intensive research in the case of the Yawata Steel Corporation which, it should be noted, accounted for about three fourth of total iron and steel production in pre-war Japan, revealed that some of these hypotheses may be exaggerated or even inappropriate even though certain of their points are verified. One of the principal findings is that the firm did not undertake such overall and drastic changes in its employment structure in the late 1920's as implied by hypothesis 4. The firm, in fact, excuted wholesale discharges only twice in that period and even then these discharges affected all age groups. It did not drive out older experienced workers but they were rather warmly retained. It did not limit its recruitment only to young boys who had just finished school. The age composition of new workers varied from 16 years old to the thirties even during the period of shrinking demand for labor. Also the firm's educational facilities which presumably had been designed to bring up selected inexperienced young workers turned out to be less effective for this purpose that the management had expected. Thus hypothesis 4 is either an exaggeration or an inappropriate synthesis of various facts.

The facts presented in the study seem to suggest that high propensity of worker commitment to the firm was not solely caused by changes in labor market during the late 1920's but had already been formed in the early stage of the firms development in the 1910's. The commitment was brought about partly by 1. the firm's attempt to maintain skilled workers, 2. the existing immobile nature of workers who had been peasants and 3. uselessness of workers outside the firm because their skill was peculiar to the firm and no similar firm had developed in the neighboring area. These findings seem to support first three hypotheses.

However, further examination is required even for their verification. It will be necessary to analyse different types of industries at the different stages of development. Such study should be developed and supplemented by further intensive analysis at the micro-scopic level of aspects of industrial relations such as job structure and workshop organizations.

A New Model of Foreign Investment

by Takahiro Miyao

Recent work on the theory of foreign investment has been based on the assumption that existing stock of capital is completely mobile internationally. Under this assumption, it is natural to lead the conclusion that any international differences in rates of return on capital immediately induce the movement of capital from the low-return country to the high-return country so that rates of return are readily equalized everywhere. The assumption of the international mobility of existing capital stock, however, is highly unrealistic. Besides, the conclusion of the international equality in rates of return may be refuted by the fact that direct investment from U. S. to the Common Market (E. E. C.) usually enjoys higher return than does domestic investment in U. S.

The purpose of this paper is to build a model of foreign investment with new assumptions that

(1) existing stock of capital is perfectly immobile internationally,

(2) it is only currently produced investment goods that can be carried in to the foreign country in order to perform the foreign investment, and

(3) the proportion of foreign investment to current savings in a country depends on the international difference in rates of return such that the larger the difference in rates of return, the higher the proportion of foreign investment to savings in the low-return country.

Once these assumptions are adopted, it is easy to explain the existing international difference——rather than the equality——in rates of return and to refute the general validity of the 'excessive foreign investment' dogma. The last section of the paper intends to investigate the optimal allocation of foreign investment under a world's welfare criterion and to lead the international 'golden rule' of capital accumulation.