Classifying "globally integrated" production firms from a worker/citizen perspective

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Modern economists frequently describe production chains, and the firms involved in them, as "globally integrated." This global integration can refer to one firm that is vertically integrated with production steps performed in many countries. It can also refer to multiple firms involved in different steps of the production of a product, firms which are spread out across many countries, each involved in one aspect of the product's design, manufacture, and/or retail. "Globally integrated production" is implicitly or explicitly contrasted with earlier times, in which production of a product tended to be done completely in one country.

Nonetheless, from the perspective of a worker/citizen of any one country, describing firms or production chains (henceforth referred to only as "firms") as "globally integrated" can be rhetorically misleading. I propose a three-part definition of global integration that better captures what it means to describe a firm as "globally integrated." This definition will be based on whether the worker/citizens of a particular country are included in the "global integration" of production to the extent to which they are also included as consumers.

This definition is especially important for those who believe that there is global underemployment, and that economies may not trend quickly toward full employment and full capacity equilibria (for example, John Maynard Keynes' view, or currently, a post-Keynesian view). In such a view, lost jobs in a country are not quickly replaced by other jobs, and so finding ways to employ a broad section of the population may require policy actions, and not just the assumed magic of the market. However, no matter what assumption one makes about employment and equilibria, the new proposed definitions are more accurate than simply calling a firm "globally integrated."

The worker/citizen perspective

In evaluating what it means for a firm to be "globally integrated," consider the perspective of country X's worker/citizens, defined as members of country X, who cannot easily move to other countries for employment. They depend on labor income for their livelihood (or must request assistance). Worker/citizens are distinguished from managers and investors, who either can depend on much higher labor incomes (allowing more savings to see them through tougher times), or receive a significant share of their incomes from investment returns, including investments in other countries.

From the worker/citizen perspective, calling a firm "globally integrated" obscures whether the firm is using workers from country X at similar levels at which it sells to consumers in country X. For worker/ citizens, it may be important to understand whether a firm is an employer, and not just a provider of products for consumption. With that concern in mind, this paper proposes breaking down the definition of "globally integrated" into three categories from this

[1] This essay is meant to represent solely the opinions and research of the author.

worker/citizen perspective, i.e., whether the firm uses workers from country X in a similar amount to which it sells to consumers in country X. (Some allowance for mark-ups to cover manager and investor compensation would not change this basic metric.)

Firm type 1: A globally integrated firm

From the perspective of the worker/citizen of country X, a truly globally integrated firm may have production and sales in many countries, but it pays workers from country X at least the same amount as it sells to consumers in country X. For example, if workers in country X contribute $1,000 of the value of a product, consumers in country X then consume not much more than $1,000 in sales of the product. I suspect that many users of the term “globally integrated” firm intend this image when they use the term “globally integrated.” After all, who in country X could object to global integration of firms if workers in country X are contributing their share of global production?

Importantly, though, this is not the only type of globally integrated firm.

Firm type 2: A domestically-owned, but foreign-producing, firm

A second type of firm is one that is owned by country X investors, but has most of its production in other countries, even though a much larger share of its sales are in country X. For example, this firm might use only $10 of country X labor to produce one unit of a product with $1,000 of global production costs, and then retail it at $2,000 in country X’s consumer market.

Since it is headquartered in country X, the firm will have some legal, marketing, and managerial employees in country X. If the firm also handles retail, it will have some retail employees (drawn from the worker/citizen labor pool). However, the vast majority of the receipts from sales of the product will likely end up in the hands of country X’s managers and investors as well as foreign workers, and not the worker/citizens of country X.

From the perspective of a worker/citizen of country X, calling firm type 2 “globally integrated” obscures the reality that this kind of firm likely results in a net outflow of money from country X’s worker/citizens to (1) other countries and (2) managers/investors in country X. In other words, the “global integration” is not integrating the worker/citizens of country X. Using the term “globally integrated” to describe such a firm to country X’s worker/citizens may be an attempt to invoke an image of firm type 1 (in which country X’s worker/citizens are producers and consumers in roughly equal amounts) to describe something very different, i.e., firm type 2 (in which country X’s worker/citizens are mostly consumers).

Firm type 3: A foreign-owned, and mostly foreign-producing, firm

A final type of firm would be like firm type 2, but the headquarters of the firm would be in a foreign country. There might be some production in country X, and maybe some managerial employment as well, but likely less than in the case of firm type 2. For firm type 3, then, the same logic as used on firm type 2 applies, and again, from the perspective of worker/citizens in country X, this is not a firm that has integrated them.

This type of firm is separated here from firm type 2 for two reasons. First, doing a little production in country X does not turn a foreign firm into a domestic firm, from a worker/citizen perspective. From the perspective of country X's worker/citizens, the question is whether the firm pays out roughly as much to country X's worker/citizens as it takes from them in sales receipts. If the firm does not, then it has not integrated the worker/citizens of country X, and falls into this category. Secondly, the country of headquarters (or key production links) potentially raises further issues, discussed below.

Country of ownership

For centuries, commentators and policymakers in many countries have had concerns about foreign ownership of production of particular products. Using a term like "globally integrated" implies that a firm's country of headquarters, or particular production stages, does not matter. The term implies that all work is spread out across the globe in some sort of random distribution, or by an efficient process, rather than treating those possibilities as hypotheses that could be either true or false. Saying "globally integrated" minimizes key questions like:

- Are all the headquarters of firms in some sectors located in particular countries?
- Do some countries' firms control key chokepoints in production chains?
- Could government policies, or anticompetitive behavior, have helped shape which countries ended up with which firms, or which parts of the production chains?
- Does having these firms in control of key chokepoints or in headquarters or as large employers provide other, perhaps long-run, benefits to the countries with those firms?

If the answer to any of those questions (or similar ones) is "yes", then there is some bumpiness in the distribution of global integration, and thus some caution is warranted before using a term like "globally integrated". Worker/citizens in country X, who are relatively more tied to the fortunes of country X than investors from country X (who may have international investments), may have more reason to be concerned about that bumpiness than investors do.

Conclusions

Describing a firm as "globally integrated" is often technically correct but nonetheless can also be rhetorically deceptive. For many of the world's citizens, a hypothetical statement like "products are increasingly made globally" hides the reality that "products are increasingly made globally, *but not here*." Like Dark Ages Europeans living near Roman ruins, in many countries, worker/citizens live near empty buildings that once housed factories. Those factories produced products that are still consumed in their countries, and are still made by human workers. However, now those workers are in other countries. And no new factories have blossomed in those communities to make products or services to trade for those imports.

Doctrinaire free traders may argue that worker/citizens in country X benefit from any trade deficit, as consumers, or that the net benefit to country X as a whole outweighs the cost to some workers. Without arguing these hypotheses (the truth of which depend on, among other things, the assumption that markets quickly move to full-capacity equilibrium), the separate point of this paper is that describing firms as "globally integrated" is potentially deceptive, and weighted in favor of assuming, rather than testing, the doctrinaire position. The term "globally integrated" implies, to worker/citizens of country X, that somehow they are integrated into these global production chains. However, they may not be, except as retailers and consumers. Whether it is to one's long-run benefit to be a consumer and not a producer is a separate question that should not be hidden by calling a firm "globally integrated".

Occasionally, some economists may observe that particular countries are not in the "global" production chains of particular products. Such observations are important, and it is also important to characterize such exclusions using terms that do not have misleading connotations. Calling a firm "global" if it does not include the worker/citizens of country X (except as consumers) may imply to those worker/citizens that their exclusion from the firm's production chain is their fault somehow, as the firm is otherwise "globally integrated". A more accurate, and older, term might be simply calling such a firm "foreign", as the word "foreign" accurately characterizes the relationship between the firm's production and the worker/citizens of country X.

In other words, before accepting a statement about whether a firm is "globally integrated," worker/citizens should ask, "when you say globally integrated, does that include me?"

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SUGGESTED CITATION:
Benedetto, John B. (2020) "Classifying 'globally integrated' production firms from a worker/citizen perspective." *real-world economics review*, issue no. 91, 16 March, pp. 128-131, http://www.paecon.net/PAEReview/issue91/Benedetto91.pdf