

# Ascent of Giants

NAFTA, Corporate Power  
and the Growing Income Gap

Jordan Brennan





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**ABOUT THE AUTHOR**

*Jordan Brennan* works as an economist for Unifor, Canada's largest union in the private sector, and as a research associate for the Canadian Centre for Policy Alternatives.

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# Executive Summary

THERE IS GROWING awareness in Canada of how unequal society is becoming. It is probably most obvious in the gap between the compensation of Canada's highest paid corporate executives and the average worker. The political pressure to do something to close this gap, for example by increasing taxes at the top of the income spectrum, is significant. At the same time, Canadian politicians, media commentators and the general public remain committed to an ideology (neoliberalism) that has not lived up to many of its promises and is, in fact, partially responsible for historically extreme levels of inequality and wealth.

Far from spawning an era of intensified competition, sustained export growth and high productivity, this report reveals that the last quarter-century of trade and investment liberalization (TAIL), beginning with the Canada-U.S. Free Trade Agreement (CUFTA) in 1988, is marked by lackluster growth, underinvestment and weak employment results. However, the most important and until now overlooked legacy of this period might be the scale and character of corporate merger activity, which has contributed to the expansion of large firms and is a key ingredient in the sluggish GDP growth and heightened income inequality of recent times.

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## Trade, Growth and Employment

The average Canadian tariff rate in 1988 was 2.9% and by 1996 it had fallen to a barely noticeable 0.9%. Trade surged from 51% of GDP in 1988 to a historic high of 83% of GDP in 2000, which fuelled enthusiasm for more, and ever more elaborate, free trade agreements (FTAs) by TAIL advocates. But over the next decade this number dropped dramatically, and in 2012 trade represented 62% of GDP — lower than in 1994 when the North American Free Trade Agreement (NAFTA) came into effect.

During this time the export intensity of the Canadian political economy decreased even though Canadian corporate ownership abroad surged to a historic high. In 1988, Canadian exports amounted to 26% of GDP while the foreign operations of Canadian business accounted for 23% of total corporate income. By 2012 Canadian exports were only 30% of GDP, down from 44% in 2000, while Canadian corporate ownership abroad climbed to 30% in 2000 and peaked at 47% in 2010.

The rebalancing of corporate earnings from domestic to foreign markets had a noticeable impact on growth and employment. In the quarter-century to 1988, the rate of growth of business investment in fixed assets — a key driver of GDP growth — averaged 4.8%. Private sector employment grew at a rate of 2.4% and GDP per capita at 2.8%. All three rates were *halved* in the quarter-century since 1988, falling to 2.4%, 1.3% and 1.2% respectively. What's more, the average unemployment rate *increased* from 7.1% to 8.1% between the two quarter-century periods, and that ignores the rise of precarious employment (e.g. poorly paid part-time, intermittent or shift work).

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## Mergers and Acquisitions

The TAIL regime has led to rapid and relentless restructuring in North American corporate ownership by opening the door to the two largest merger and acquisition (M&A) waves in Canadian history. Internationally, as we saw above in relation to export intensity, these merger waves have led to higher levels of Canadian corporate ownership abroad.

Domestically, heightened amalgamation activity has facilitated larger relative firm size and the attendant market power that greater size bestows. And because there is a tight and persistent relationship between corporate power and personal income inequality, the TAIL regime has also meant heightened Canadian income inequality.

In the three-quarters of a century between 1914 and 1988, for every dollar spent on expanding industrial capacity Canadian business spent an average of 23 cents on M&A. In the quarter-century since 1988, 93 cents was spent on corporate amalgamation for every dollar sunk into productive capacity — a four-fold increase. Because the bulk of amalgamation activity has involved foreign firms, not only has corporate amalgamation rapidly expanded in the TAIL era, it has globalized.

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## Amalgamation and Concentration

While small and large firms alike invest in fixed assets and increase employment, corporate amalgamation is a game initiated almost exclusively by large firms. This means that the effects of corporate amalgamation will be most clearly discernable on *large* firms. The fact that the globalization of Canadian business ownership closely tracks the relative size and performance of the largest Canadian-based firms supports this contention.

In the quarter-century to 1988 the stock of Canadian direct investment abroad (CDIA) averaged 8% of GDP and the equity market value of the largest 60 Canadian-based firms averaged 25% of GDP. In the quarter century since 1988 both metrics surged, with the stock of CDIA peaking at 40% of GDP in 2009 and the equity market value of the largest 60 firms peaking at 86% of GDP in 2007.

Corporate amalgamation fuels asset and profit concentration. In 1950 the largest 60 firms accounted for 29% of total corporate profit, which was little changed in 1993 (30%) on the eve of the NAFTA. Following the agreement Canada witnessed its two largest merger waves and profit concentration doubled, peaking at 58% in 2011. It's the same story with asset concentration. In the early 1960s the largest 60 firms held 27% of total corporate assets, rising to only 30% in the early 1990s. But by 2010 the largest 60 firms controlled 46% of all corporate assets.

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## A Drag on Growth

The TAIL era redistribution of business investment away from growth-expanding industrial projects (fixed assets) towards mergers and acquisitions has meant fewer corporate resources are deployed in building new structures and hiring more workers, which has put downward pressure on GDP growth. By concentrating corporate assets and centralizing income streams,

amalgamation waves have also contributed to the stockpiling of cash on corporate Canada's balance sheet, which is another key ingredient in the stagnant GDP growth of recent decades.

Between 1950 and 1990 the income share of the largest 60 firms was effectively flat, averaging 2% of GDP. In the two decades to 2012 the income share of the largest 60 firms nearly tripled, soaring to a historic extreme of 5.7% of GDP in 2007. This pattern is closely shadowed by the hoarding of corporate cash. Between the early 1960s and the early 1990s the stockpile of corporate cash averaged 4% of assets but this nearly tripled (to 11%) between 1990 and 2012. So as the income position of the largest corporate units increased, corporate cash hoarding increased in step, which has slowed GDP growth.

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## Concentration, Market Power and Inequality

Mainstream economists have a hard time integrating power into their models but power is apparent in Canada's political economy: it is directly related to organizational size and is manifest in pricing discretion and the control over income that comes with being big. In postwar Canada the market power of the largest firms is positively associated with aggregate concentration (the latter measures the overall position of large firms in the political economy).

In the early 1950s the largest 60 firms represented approximately half the equity market value of the entire Toronto Stock Exchange (TSX). By the late 1970s their relative value had fallen to just 14% of the TSX. By 1988, on the eve of the CUFTA, Canada's top 60 firms accounted for 21% of TSX value before soaring to a postwar high of 65% in 2008. This means, remarkably, that the remaining 4,000 firms on the TSX accounted for about a third (35%) of total equity market value.

The market power of the largest firms followed a similar pattern. In the early 1950s the markup (profit as a percentage of revenue) amongst the largest 60 firms hovered around 8% and trended downward for four decades. In 1993, on the eve of the NAFTA, the markup was less than 3% but surged to a postwar high of 12% in 2007. The windfall is not being shared equally between the owners of corporate equity and the labourers who help produce it. As corporate power increases, as it did in the decades since 1990, owners tended to win at the expense of workers.

This relationship is reaffirmed in the contrast of asset concentration and the top income share. As corporate ownership centralizes and corpor-



ate assets concentrate, the gains from growth converge in the hands of the richest income group. And because the TAIL era is associated with larger relative firm size and increased market power, the TAIL regime has indirectly served to exacerbate Canadian income inequality.

The linkages between corporate concentration and personal income inequality, then, run as follows: amalgamation increases concentration; increased concentration translates into less competition; less competition translates into enlarged earnings margins, greater profits and increased cash flows; the resulting increase in cash flow has the potential to translate into higher executive salaries and dividends; and it is the very high executive salaries that are playing a key role in driving Canadian income inequality.

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## There Is An Alternative

There is nothing inevitable about these developments. Over the past generation the Canadian political economy has been deliberately reconfigured to make conditions more favourable for business, which effectively means more favourable for *big* business. The advertised intention of neoliberal policy, including liberalized trade and investment (e.g. CUFTA, NAFTA) was to incentivize business investment in growth-expanding industrial projects. Everyone would win from such a change, so it was argued, insofar as it would lead to more rapid GDP growth and higher per capita income. The data shows this has not happened.

Though the resulting stagnant growth in the TAIL era may be socially detrimental, it is not necessarily detrimental from the standpoint of large firms, which have seen an enormous redistribution of income, wealth and power in their favour. Conventional economic thinking finds it puzzling that the past generation has seen business affluence amidst social stagnation — booming returns to capital in the context of sluggish GDP growth. From a heterodox viewpoint there is nothing strange about it. Corporate concentration and the associated increase in income inequality imply a moderate degree of GDP stagnation.

An alternative set of state policies could change these outcomes. A trade and investment regime that actually promoted domestic investment and Canadian exports, and which fostered inclusive, wage-led growth, would alter the distribution of income, wealth and power. A *strategic* trade and *managed* investment regime could produce an alternative set of outcomes should Canadians collectively decide to move in a different policy direction.

Before a decision is made about an ideal future, Canadians require a clearer understanding of the consequences of current policy.

# Introduction

The modern corporation has wrought such a change in the free market system that new concepts must be forged and a new picture of economic relationships created.<sup>1</sup>

– *Gardiner C. Means*

THE 19<sup>TH</sup> CENTURY British philosopher, John Stuart Mill, once remarked: “it is owing to a quality of the human mind, the source of everything respectable in man either as an intellectual or as a moral being...that his errors are corrigible” (1859: 22). The capacity for moral, intellectual and cultural growth is rooted in our ability to detect mistakes and take corrective action. If this is true, then there are practical implications for public policy, a domain of human activity that must perpetually concern itself with the success or failure of legislative action.

Despite the imperative to continually evaluate established policy the debate about trade and investment liberalization (TAIL) in Canada has been remarkable in its unwillingness to confront basic facts.<sup>2</sup> Commentary on the 25<sup>th</sup> anniversary of the Canada-U.S. Free Trade Agreement (CUFTA) and the 20<sup>th</sup> anniversary of the North American Free Trade Agreement (NAFTA) has tended to proceed in three steps. The commentator begins by trumpeting the virtues of the agreements, loudly proclaiming that its advocates were wise to counsel such a shift in policy. Commentary proceeds to deride those

who raised questions about the deal or who opposed it, declaring (by fiat) that “the debate is over,” usually without providing sufficient evidence to substantiate the assertion. The commentator often concludes by trotting out a few exhausting clichés about the glorious future Canadians can expect courtesy of the “free trade” agreements currently under negotiation.

If the Canadian intellectual class was serious about engaging in a debate about the merits and demerits of the TAIL regime, the argument sequence would proceed as follows. Commentary would begin by specifying the criteria to be utilized in evaluating the TAIL regime. Without specification of the criteria we have no way of determining if the agreements have succeeded or failed. The second step would be to remind Canadians what the advocates of TAIL promised would happen a quarter of a century ago and compare that with what the opponents feared would happen. The final step would be to consult the historic facts to see if they fit the criteria and whether the promises have been kept. Only then could we render a tentative judgement as to whether the TAIL regime has been a success.<sup>3</sup> For the most part this has not happened. As a result Canadians are not in a position to learn from or improve upon established policy.

The Canadian intellectual class has been nearly universal in its commitment to avoid noticing the profound affect the TAIL regime has had on restructuring the political economy. Not only did TAIL largely fail to deliver on its promises, contrary to received opinion, but it has transformed Canada in ways that have barely begun to be detected. The absence of contact with basic facts is not the most pressing problem, however. A much deeper problem is rooted in contemporary economic thinking, which radically circumscribes the range of permissible questions and the content of acceptable answers.

In his book *Concept of the Corporation*, Peter Drucker contended that the emergence of the modern corporate form was “the most important event in the recent social history of the Western world” (1946: 9). The 20<sup>th</sup> century not only witnessed the rise of the modern corporation as the dominant institution of the political economy; on its heels came the growth of “big government” and “big labour.” The ascent of the corporate form changed capitalism. As a consequence of the growth of large firms it has become difficult (if not impossible) to ignore institutional power as a permanent aspect of the operation of markets and business. As such, we will need to consult alternative explanatory frameworks if we are to understand the enduring political-economic significance of the TAIL regime.

This paper will put the TAIL regime in broad historic context and argue that the most important consequence of the agreements has been rapid and relentless restructuring in the Canadian corporate sector. Domestically, the TAIL regime facilitated larger relative firm size and the attendant market power that greater size bestows. Internationally, it opened the door to higher levels of Canadian corporate ownership abroad, which has reached a historic extreme. These central changes have numerous peripheral consequences, but our attention will be confined to two: the slower GDP growth associated with the TAIL era, and a radical redistribution of income from workers to proprietors and from the lower to the upper income brackets. In short, the internationalization of Canadian business ownership in tandem with the concentration of corporate power has meant slower growth and heightened inequality.

The argument will be delivered in nine sections. The next will briefly review an alternative approach to business development pioneered by Jonathan Nitzan and Shimshon Bichler (2009), which tries to come to terms with the power underpinnings of contemporary capitalism. The third section will put the TAIL regime in its historical context and argue that the enduring significance of the agreements have not been a sustained increase in trade flows but, rather, a sustained increase in the export of Canadian corporate ownership claims. The fourth section assesses how the TAIL era compares with the pre-TAIL era in terms of investment, employment and GDP growth. Far from catapulting Canada onto a higher growth trajectory, the TAIL era is associated with lower levels of investment and slower employment and GDP growth.

The fifth section provides a brief history of North American mergers and acquisitions as a prelude to the sixth section, which explores how Canadian corporate amalgamation has reconfigured Canadian business ownership abroad. The seventh section explores the interplay between amalgamation and domestic corporate restructuring, with the key takeaway being the tight and persistent relationship between corporate amalgamation, on the one hand, and corporate asset and profit concentration on the other. Given the amalgamation-fuelled concentration (read: power) of recent times, the eighth section probes some of the distributive consequences of larger relative firm size. The ninth section summarizes the findings and discusses some of the policy implications.

# An Alternative Approach to Business Development

IN HIS 1955 book *The Twentieth Century Capitalist Revolution*, Adolf Berle stated “no adequate study of twentieth century capitalism exists” for the singular reason that conventional economic thinking had failed to come to a satisfactory account of the modern corporation (1955: 1). Half a century later, Alfred Chandler Jr. echoed the spirit of Berle’s assertion, claiming that the multinational corporation is the “new Leviathan of our time,” but political science – the discipline nominally concerned with power – has systematically managed to “ignore the subject.” This is remarkable, Chandler insisted, when we consider that corporations are beginning to embody core political ideas such as sovereignty and transparency (Chandler and Mazlish 2005: 11). The reason why mainstream social science lacks an adequate understanding of the modern corporation was spelled out by Robert Gilpin: economists are unwilling to admit the reality of power while political scientists ignore markets (1975: 5). These deep disciplinary suppositions are a problem, then, insofar as the multi-unit, vertically-integrated, globally-scaled corporation is simultaneously a power institution that operates through markets.

Various schools of thought emerged over the past century to help explain the intertwinement of the corporation and power. Jonathan Nitzan

and Shimshon Bichler have done some of the clearest thinking on the subject. This pair of heterodox political economists has developed an alternative explanatory framework that can be applied usefully to the evolution of large firms.<sup>4</sup> As they see it, capital, which they define as capitalization, is at the centre of contemporary capitalism. The accumulation of capital does not entail the amassment of tools, machines, factories and technical knowledge. Instead, it entails the growth of capitalization. To study capitalization is to study “the algorithm that generates and organizes prices” (2009: 153).

If we are to make sense of corporate development from the standpoint of institutional power, this necessitates a significant shift in our thinking. Power is an inherently relational category and thus has no meaning apart from its relativity. Instead of examining the “corporate sector” as a whole or a “representative firm,” Nitzan and Bichler urge us to disaggregate and focus on the largest firms at the centre of the political economy – what they call “dominant capital” (2009: 319).<sup>5</sup> In terms of business behaviour, the two claim that large firms are not driven to accumulate in the absolute terms of “profit maximization,” as mainstream economics suggests. Instead, large firms strive to exceed the “normal” rate of return by beating some benchmark, which means that *differential* accumulation should be understood as the driving force behind contemporary capitalism (2009: 233).

If differential accumulation by dominant capital is the generative process of contemporary capitalism, how does it unfold? Nitzan and Bichler argue that raising differential earnings is the most potent pathway. They subdivide earnings into its constituent parts, namely the *number of employees* multiplied by *earnings per employee*. The former designates the formal size of the organization and the latter the “elemental power per unit of organization” (2009: 328). On the basis of this decomposition, differential earnings can increase (and, by extension, differential accumulation can unfold) through a combination of the following: by expanding employment faster than the average, which Nitzan and Bichler label “breadth,” and/or by raising earnings per employee faster than the average, which they label “depth.” Subdividing breadth and depth into “internal” and “external” dimensions leads to the taxonomy presented in *Table 1*.

At the level of an individual firm, the four pathways towards differential accumulation include the creation of new industrial capacity through green-field investment, the purchase of existing capacity through mergers and acquisitions, cost-cutting, and raising prices amidst stagnation (stagflation). At the aggregate level these pathways become broad “regimes of differential accumulation.”

**TABLE 1** Nitzan and Bichler’s ‘Regimes of Differential Accumulation’

	<b>External</b>	<b>Internal</b>
Breadth	Green-Field Investment	Mergers and Acquisitions
Depth	Stagflation	Cost-Cutting

**Source** Nitzan and Bichler (2009: 329), Table 14.2.

In what follows we will focus on “breadth” by exploring the linkages between business investment in industrial capacity and mergers and acquisitions, on the one hand, and the development of large firms on the other. Before we address these matters some context needs to be added to sharpen the relevant questions.

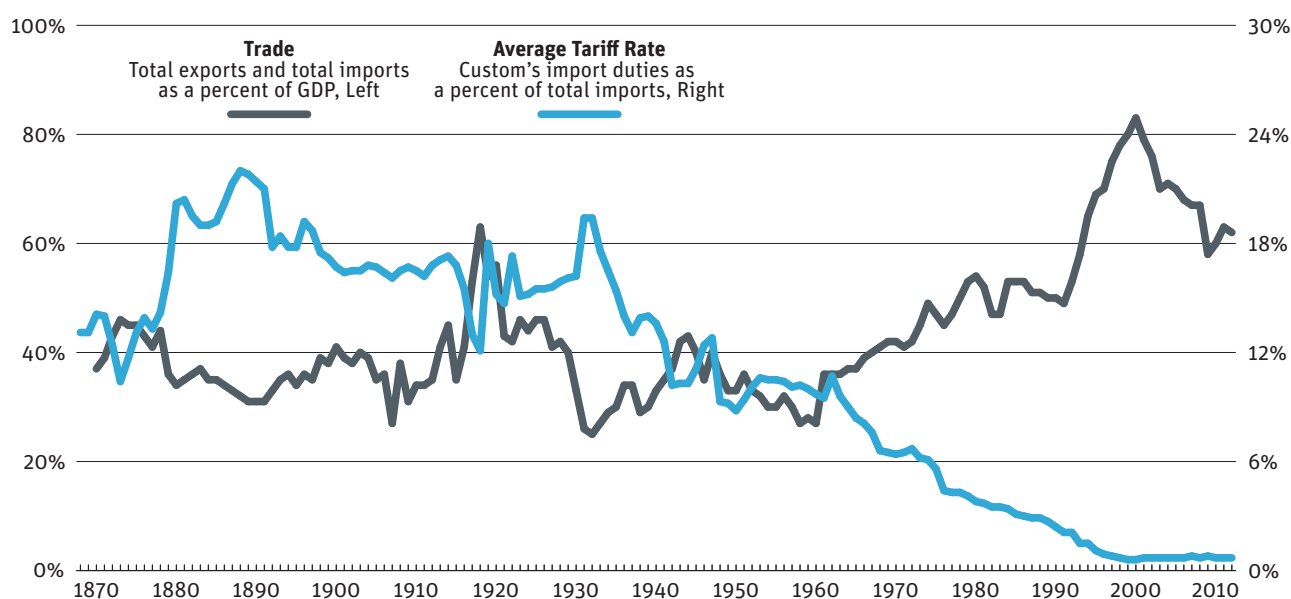


# Trade and Investment Liberalization: Some Background Facts

TAIL WAS SOLD to the Canadian public on two grounds: necessity and prosperity. Canadians were told that technological change meant that production and markets were globalizing, and should Canada not secure predictable access to the U.S. market it would be relegated to the periphery of the global political economy (Trefler 1999). Fear was not enough to induce Canadians, however. TAIL also had to hold out the promise of enhanced prosperity. The promises and predictions came from a variety of sources. The Economic Council of Canada forecast a 1.8% boost in employment (Robinson 2007: 261). The federal Department of Finance predicted a boost to long-term economic performance, including a long-term increase to inflation-adjusted GDP of 3%. On the question of distribution the explicit assumption was that gains from TAIL would be shared with workers in the form of higher wages (Jackson 2003: 2).<sup>6</sup>

Presumably the advocates of TAIL believed that the reduction of barriers to trade and investment would lead to more rapid GDP growth. With barriers reduced, trade and investment flows would increase, competitive pressures would intensify, the Canadian operations of firms would be forced to innovate (or perish), making their operations more efficient in the pro-

**FIGURE 1** Trade and Tariffs in Canada, 1868–2012



**Source** GDP from Global Financial Data (1870–1925, code: GDPCAN), Historical Statistics of Canada, Series F13 (1926–1960), Cansim Tables 380-0017 (1961–1980) and 380-0063 (1981–2012); exports and imports from Historical Statistics of Canada, Series G383 and G384 (1868–1960), and Cansim Tables 380-0017 (1961–1980) and 380-0070 (1981–2012); average tariff rate from Historical Statistics of Canada, Series G485 (1868–1975) and Cansim Table 384-0028 (1976–1980) and 380-0080 (1981–2012).

cess, increasing overall productivity and elevating per capita income. Did the TAIL regime deliver on these promises?

Let's begin with tariffs and trade. *Figure 1* plots trade and weighted average tariffs in Canada from 1868 through 2012. The trade series is measured as the sum of total exports and total imports as a percentage of GDP. Average tariff rates are computed by taking custom import duties as a percentage of total imports. Between 1870 and 1960, the level of trade fluctuated from a low of 25% of GDP during the Great Depression to a high of 63% during the First World War. For the three decades after 1960 the level of trade steadily rose before surging during the 1990s, reaching a historic high of 83% of GDP in 2000. The sharp escalation in trade during the 1990s was mirrored by a precipitous decline in trade following the terrorist attacks on the United States in September 2001. As of 2012 the level of trade in Canada was *below* what it was in 1994 when the NAFTA came into effect.

The story with the weighted average tariff rate, often considered a key impediment to international trade, is different. These rates increased in the decade following Prime Minister Macdonald's National Policy, peaked in 1888 and declined thereafter (with the exception of the 1930s). Canadian firms ex-

porting to the U.S. saw tariff protection negotiated away through the General Agreement on Tariffs and Trade (the GATT, signed in 1947) and had already gained reciprocal access to the U.S. market. The average tariff on Canadian exports to the U.S. was negligible at the time of the CUFTA, and the majority of Canadian exports entered the U.S. market duty-free. By 1988 average Canadian tariffs were less than 3% and declined to less than 1% by 1996.

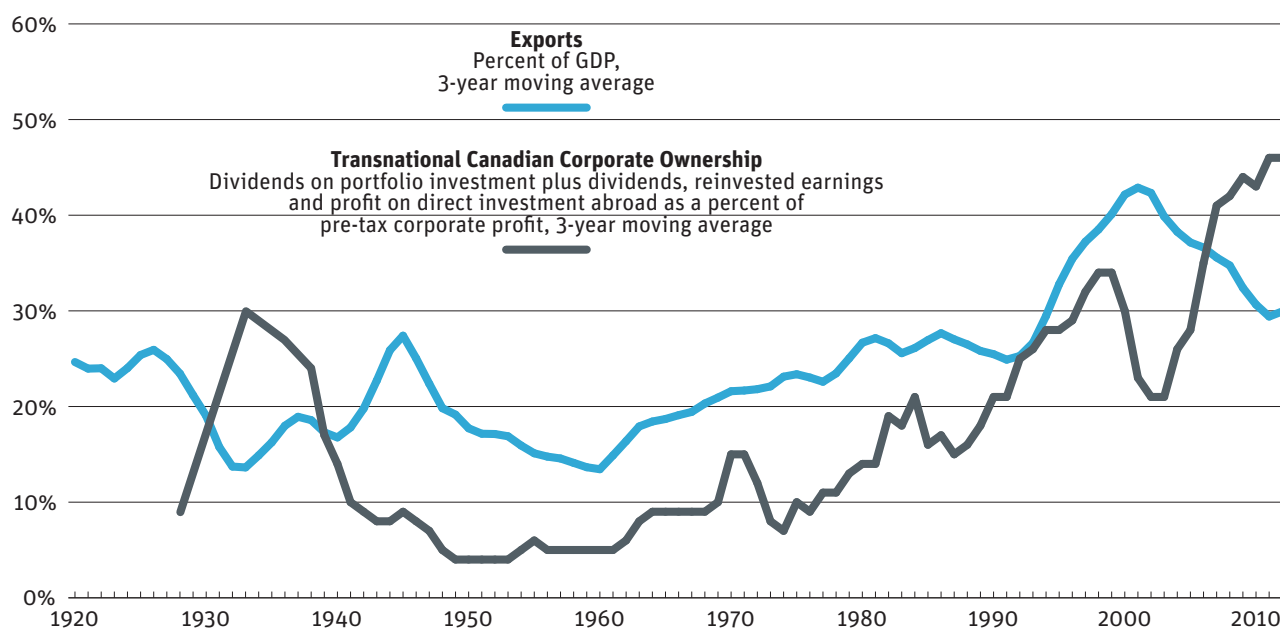
It is true that tariffs were reduced and trade increased with the onset of the TAIL regime, though it must be stressed that tariffs had been on the decline for a century before the agreements came into effect and the level of trade (relative to GDP) had been rising since 1960. What's more, the level of trade fell sharply after 2000 *even though average tariff rates continued to decline*, which gives rise to the question: did reducing tariffs contribute to the surge in trade during the 1990s? Put another way, if the reduction in the average tariff rate in the TAIL era was historically insignificant how do we account for the massive expansion of trade during the 1990s? Part of the answer almost certainly has to do with a highly devalued Canadian dollar during this time, which made Canadian exports more cost competitive than their U.S. rivals.

So a reduction in tariffs led to heightened trade, "open borders" being coterminous with "globalization." But there's a problem in this narrative: it's not entirely clear that globalization — that amorphous term — is primarily about the cross-border movement of commodities. If it was, then the decline of trade since 2000 would signal de-globalization (and therefore policy failure). While a part of the TAIL regime was undeniably geared towards tariff reduction and enlarged trade flows, the other, more significant, aspect of the agreement was a shift in the property regime to facilitate the globalization of Canadian investment and corporate ownership.

We have evidence to back this up. *Figure 2* contrasts the export of Canadian commodities with the export of Canadian corporate ownership claims. The former divides total exports by GDP. The latter is computed by taking the sum of dividends on portfolio investment plus dividends, reinvested earnings and profit on foreign direct investment as a percentage of total pre-tax corporate profit.<sup>7</sup> When this metric rises, the profit from the foreign operations of Canadian-based firms are increasing relative to the profit from domestic operations and vice versa. This is a loose proxy for the *transnationality* of Canadian corporate ownership. What do the facts in *Figure 2* tell us?

The transnationality proxy clearly depicts the rising significance of the foreign operations of Canadian corporations. Foreign operations rose rapidly in the 1920s and reached a peak of 30% in 1933. A three decade-long de-

**FIGURE 2** Exporting Commodities Vs. Corporate Ownership Claims, 1920–2012



**Note** Data for the transnationality index are interpolated between 1928, 1933, 1936 and 1938 (continuous thereafter). Series smoothed as 3-year moving averages.

**Source** GDP from Historical Statistics of Canada, Series F13 (1926–1960) and Cansim Tables 380-0016 (1961–1980) and 384-0037 (1981–2012); total pre-tax corporate profit from Historical Statistics of Canada, Series F3 (1926–1960) and Cansim Tables 380-0016 (1961–2011) and 384-0086 (2012); dividends on portfolio investment, and dividends, reinvested earnings and profit on direct investment abroad from Cansim Table 376-0012.

cline began thereafter such that by 1960 the profit of Canadian corporations was almost entirely domestic in origin, representing just 5% of total profit. A long-term rise in foreign operations followed, with foreign profit reaching a high of 47% of total profit in 2010.

Exports and transnationality rose together from 1960 through 2000, but the relative value of exports went into reverse after that while the transnationalization of Canadian corporate ownership continued to increase. This is significant. It shows that globalization has not gone into reverse; it has proceeded apace, but commentators are looking at the wrong variable. The globalization of Canadian trade may be on the decline, but the globalization of Canadian corporate ownership has continued to increase.

Whereas many small and medium-sized Canadian firms may export their goods and services abroad, Canadian investment abroad is restricted to a small number of very large firms. The overwhelming majority of firms in Canada are wholly domestic in their operations, from their assets and sales to their employment and profitability. A small cluster of firms account for the bulk of the profit associated with Canadian direct investment abroad. This

assertion is corroborated by researchers at Statistics Canada who note that as of 1994 there were only 1,300 Canadian-based firms operating abroad. At that time there were approximately 900,000 corporations registered in Canada, which means that less than 0.2% of all Canadian firms account for the entirety of foreign profit. What's more, there is a very high level of concentration within those 1,300 firms: the top 159 Canadian-based multinationals accounted for 50% of all foreign assets, with the top 20 accounting for 40% (Rao, Legault and Ahmad 1994: 107).

To restate this in slightly different terms: approximately 1% of 1% of Canadian firms account for nearly half the foreign operations of the corporate universe, which is a remarkably high level of concentration. So even though *Figure 2* depicts the extent of transnationalization for the Canadian corporate universe, we can safely presume that the largest firms account for the overwhelming majority of the foreign operations of Canadian firms.

To summarize, if the TAIL regime was meant to foster higher levels of trade the facts compel us to conclude that they were limited in their success. The surge in trade in the 1990s has been nearly matched by a precipitous decline in the relative value of trade since 2000. And while the level of Canadian exports has fallen the export of Canadian corporate ownership claims has continued unabated.

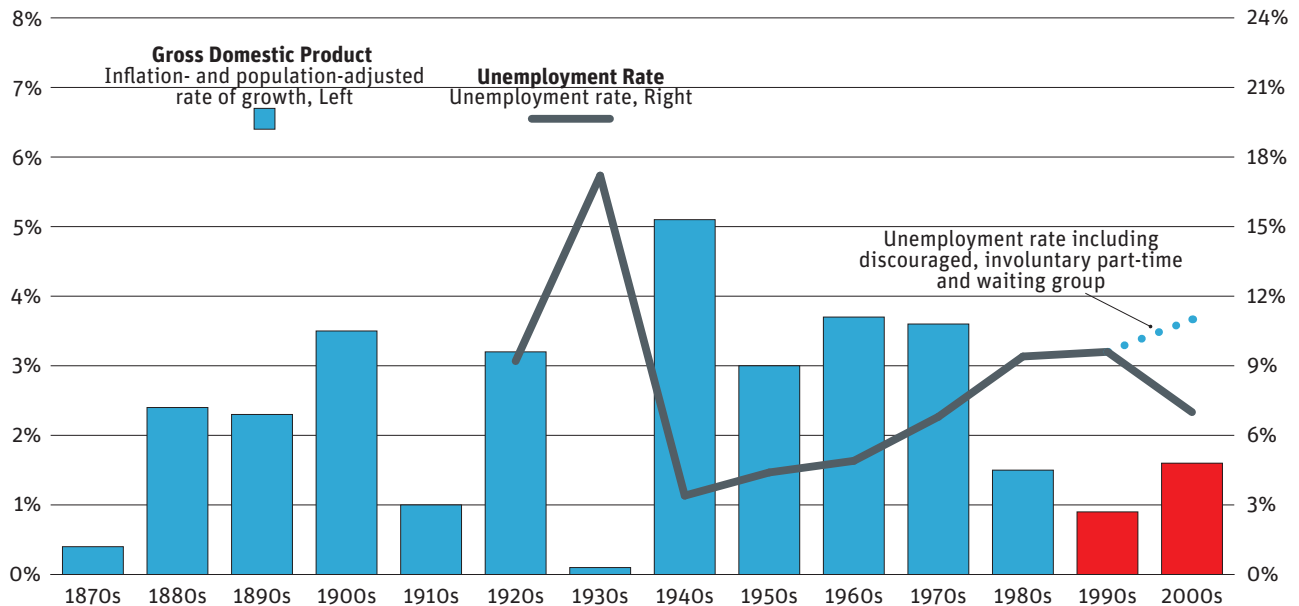
We must recognize that trade is not an end in itself; it is a means to higher ends, in this case higher per capita income. We should therefore determine whether or not TAIL led to an increase in the rate of GDP growth, how we should account for the level and pattern of transnational Canadian corporate ownership, and what some of the broader consequences of the globalization of Canadian corporate ownership are.

# Did the TAIL Regime Lead to Accelerated Investment and Growth?

GIVEN THE SYMPHONY of unqualified praise for the TAIL regime one would think it a forgone conclusion that the TAIL era compared favourably to the pre-TAIL era in terms of investment, employment and GDP growth. But as we saw with trade patterns, here, too, the facts get in the way. *Figure 3* contrasts two series. The bars represent a decade-by-decade breakdown of average inflation-adjusted GDP per capita rates of growth (the TAIL era is highlighted in red). The linear series captures average unemployment rates decade by decade, with an additional data point to capture the rise of precarious employment — the latter measured as the unemployment rate including discouraged, involuntary part-time workers and the waiting group.

What do the facts tell us? The depression-laden 1930s had the highest levels of unemployment on record. Unsurprisingly, it was the worst growth decade since Confederation. The 1940s was a sharp contrast, with unemployment falling to a historic low and GDP growth soaring to a historic high. By stripping proprietors of the power to enforce unemployment and by putting Canadians back to work in unprecedented levels to prosecute the Second World War, the Canadian State ushered in the most rapid growth decade in Canadian history. (Not coincidentally, income inequality was halved in that decade.) The 1950s, 1960s and 1970s were all decades of relatively rap-

**FIGURE 3** Decade Average GDP Growth and Unemployment



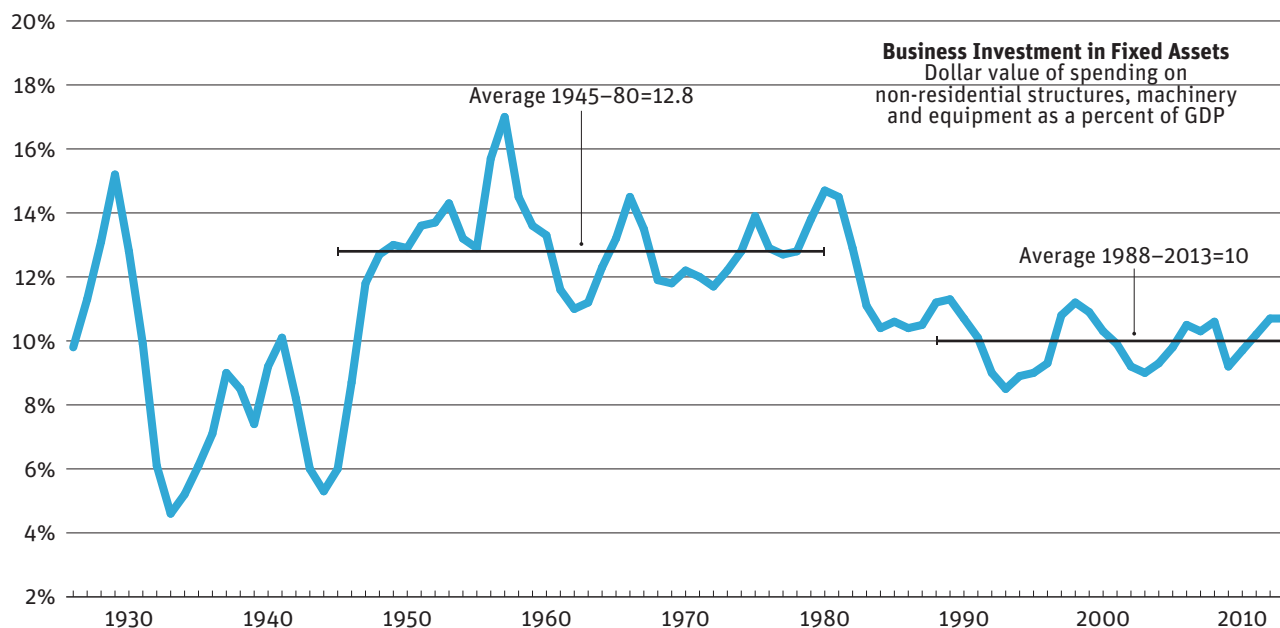
**Source** GDP from Global Financial Data (1870–1925, code: GDPCAN), Historical Statistics of Canada, Series F13 (1926–1960) and Cansim Tables 380-0016 (1961–1980) and 384-0037 (1981–2009); unemployment rate from Global Financial Data (1920–1975, code: UNCANM) and Cansim Table 282-0086 (1976–2009); CPI (code: CPCANM) and total Canadian population (code: POPCAN) from Global Financial Data.

id growth, and even though unemployment rates were rising, they still remained low by historical standards. The 1980s underperformed as a growth decade just as monetarism and neoliberalism began to take root.

Given all the hype around the TAIL regime and given the surge in trade flows in the 1990s (documented in *Figure 1*) one would expect the 1990s to have exhibited higher GDP growth and lower unemployment than previous decades. This did not happen. By both metrics the 1990s saw the worst growth since the 1930s. Even if we factor in a lag effect, allowing firms a full decade to adjust to the TAIL regime, the GDP growth experienced in the 2000s cannot be said to vindicate predictions about enhanced prosperity, given that GDP growth levels in the 2000s were far lower than in the decades when trade and investment was managed, not liberalized. And although it appears that unemployment levels fell during the 2000s (after having risen in the 1990s), when we take into account the rise of precarious work, unemployment remained higher than in earlier postwar decades.

Far from accelerating growth, the TAIL regime appears to have ushered in sustained stagnation. The facts depicted in *Figure 3* should make the cheerleaders for “free trade” very apprehensive about their policy advocacy. How

**FIGURE 4** Business Investment in Industrial Capacity, 1926–2013



**Source** Business spending on non-residential structures, machinery and equipment from Historical Statistics of Canada, Series F23+24 (1926–1960) and Cansim Tables 380-0017 (1961–1980) and 384-0038 (1981–2013); GDP from Historical Statistics of Canada, Series F13 (1926–1960) and Cansim Tables 380-0016 (1961–1980) and 384-0037 (1981–2013).

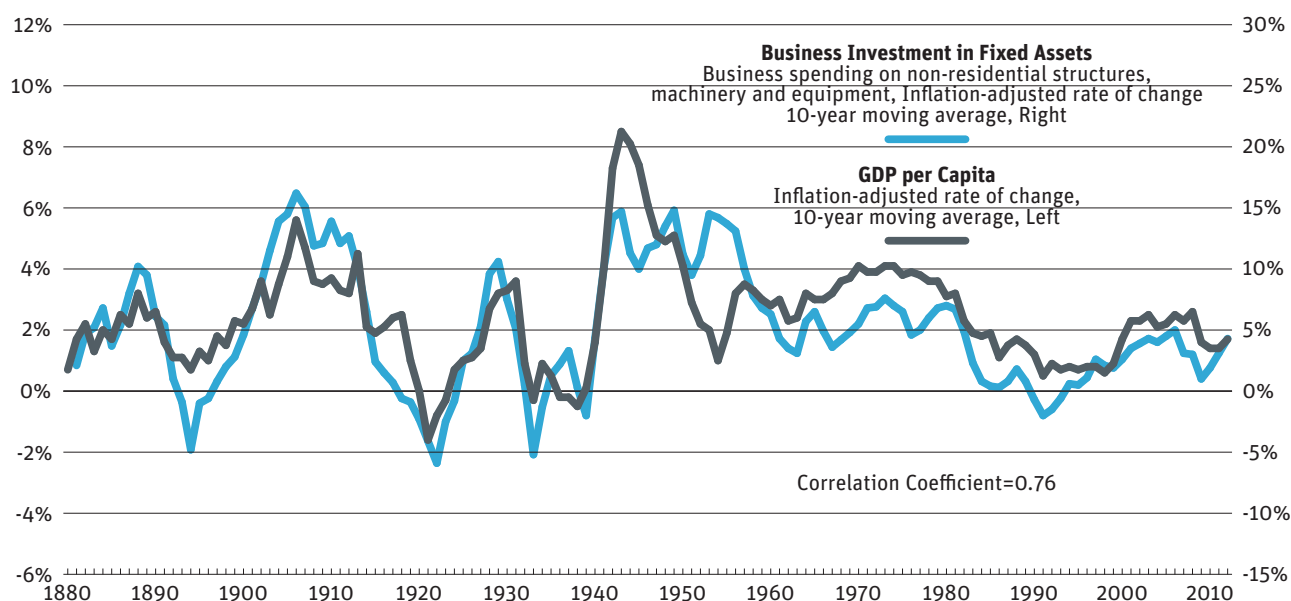
do we account for the four decade surge in GDP growth to the 1970s and the slowdown thereafter? Pinpointing the drivers of growth is a complicated matter, but business spending on fixed assets — non-residential structures, machinery and equipment — appears to be a crucial element.<sup>8</sup>

*Figure 4* captures investment in industrial capacity in Canada from 1926–2013, measured as business spending on non-residential structures, machinery and equipment as a percentage of GDP. The relative value of fixed asset investment sharply declined in 1929 and did not rebound in a significant way until the end of the Second World War. Despite the heavy cyclical-ity, the first few decades of the postwar era experienced an upward trend in investment (even though the postwar peak was in 1957).

It is noteworthy that the CUFTA instituted in 1988 did *nothing* to increase business spending on industrial capacity. Fixed asset investment averaged 12.8% of GDP in the postwar decades to 1980 and in the TAIL era it has averaged just 10% of GDP. The cyclical peak reached in 1997 was the lowest post-war business cycle peak at that time. The cyclical uptick from 2003–2008 was probably driven by the increased exploitation of Alberta’s energy reserves, which attracted heavy investment. Despite this, the peak reached in 2008



**FIGURE 5** Business Investment in Fixed Assets and GDP Growth, 1880–2012



**Note** Data for expenditures on non-residential structures, machinery and equipment only dates from 1926. For the period prior to 1926, the inflation-adjusted rate of change of gross fixed private investment (including residential and non-residential structures and equipment) is used as a proxy. Series smoothed as ten-year moving averages.  
**Source** Inflation-adjusted GDP from Global Financial Data (1870–1925), nominal GDP from Historical Statistics of Canada, Series F13 (1926–1960) and Cansim Tables 380-0016 (1961–1980) and 384-0037 (1981–2012); CPI (code: CPCANM) and total Canadian population (code: POPCAN) from Global Financial Data; expenditures on gross fixed private investment from Urquhart (1993: 16), Table 1.2 (1871–1926); expenditures on non-residential structures and equipment from Historical Statistics of Canada, Series F23+F24 (1926–1980) and Cansim Table 384-0038 (1981–2012).

was still only as high as in 1989. In sum, when we contrast the experience prior to the TAIL era (1945–1988) with the TAIL era (1989–present), we see a move from heightened industrial capacity expansion to capacity stagnation.

If the TAIL regime was meant to incentivize firms to invest in growth-expanding industrial projects, it clearly failed. But what is the relationship between fixed asset investment and prosperity? Does this type of investment actually fuel GDP growth? *Figure 5* contrasts the rate of change of business investment in fixed assets with the rate of change of GDP per capita. Both series are adjusted for inflation and smoothed as 10-year moving averages to capture the cyclically-adjusted (or “secular”) trend.

The relationship between the two series is remarkably tight. Investment soared in the 1930s, held steady till the early 1950s and then fell precipitously in the early 1960s. Despite the drop, the rate of growth of investment in fixed assets remained high in the 1960s and 1970s in relation to the decades that came after 1980. The decline in GDP growth since 1980 appears to be closely tied with the decline in business spending on fixed assets. So the TAIL re-

gime failed to accelerate GDP growth in part because it failed to incentivize business to increase investment in growth-expanding industrial projects.

The trade and investment liberalization regime was the capstone to the neoliberal political program whose other elements include anti-inflationary monetary policy (“monetarism”), privatization of publically-owned enterprises, deregulation of labour and other commodity markets, tax cuts (especially for business and the affluent) and balanced budgets. On the face of it, this program promised to deliver more freedom (in the sense of less government “interference”) and more prosperity than the Keynesian program that preceded it. Has the neoliberal political-economic program and the TAIL regime that stands as its centre delivered on this promise?

*Table 2* compares four performance variables in the quarter-century prior to and following the beginning of the TAIL era. They are the rate of growth of business spending on fixed assets, the overall unemployment rate, the rate of growth of private sector employment, and the rate of growth of GDP per capita (with relevant series adjusted for inflation). The long-term facts are sobering. The TAIL era not only failed to accelerate business investment and GDP growth; far from catapulting Canada onto a higher growth plane, *the TAIL era is associated with persistent employment stagnation, lower levels of investment and anemic GDP growth.* In the quarter-century to 1988, the rate of growth of business investment was 4.8%, the rate of growth of private sector employment was 2.4% and GDP per capita growth averaged 2.8%. All three growth variables were halved in the TAIL era and the average unemployment rate *increased.*

In a genuinely scientific inquiry, when a prediction is continuously refuted by a series of observable facts or events, the intellectually necessary thing to do is revisit the theory to critically assess its merits. The intellectually dishonest thing to do is invoke a counterfactual. The advocates of TAIL might readily concede that the TAIL regime failed to accelerate investment, employment and GDP growth. They may even concede that these growth variables slowed in the TAIL era. The facts demand nothing less. But the more obstinate advocates of the TAIL regime may be brash enough to assert that had Canada not entered into a TAIL regime — had their advice a quarter of a century ago not been heeded — these growth variables would surely have been worse than they actually are. The beauty of the counterfactual is that it is untestable and utterly irrefutable. Even if a scientific prediction is refuted by a series of facts, a pseudo-scientific theory can always be rescued by invoking a counterfactual.

**TABLE 2** Performance Variables for the Quarter-Century Pre- and Post-TAIL

25-Year Period	Business Investment in Fixed Assets <sup>†*</sup>	Unemployment Rate	Private Sector Employment <sup>†</sup>	GDP per Capita <sup>†*</sup>
1964–1988	4.8%	7.1%	2.4%	2.8%
1989–2013	2.4%	8.1%	1.3%	1.2%

<sup>†</sup> Average annual rate of growth

\* CPI-adjusted

**Source** GDP from Cansim Tables 380-0016 (1961–1980) and 384-0037 (1981–2013); consumer price index (code: CPCANM) and total Canadian population (code: POPCAN) from Global Financial Data; business investment in non-residential structures, machinery and equipment from Cansim Tables 380-0017 (1961–1980) and 384-0038 (1981–2013); private sector employment from Historical Statistics of Canada, Series D528 (1964–1975) and Cansim Table 282-0012 (1976–2013); unemployment rates from Global Financial Data (1964–1975, code: UNCANM) and Cansim Table 282-0086 (1976–2013).

How do we explain the disjuncture between the omnipresent cheerleading for “free trade” by the Canadian intellectual class and the negative investment, employment and growth performance in the TAIL era? If trade flows are falling, investment has lessened, employment growth has worsened and GDP growth has slowed, why the unrestrained euphoria for more “free trade” agreements like the Canada–European Union Comprehensive Economic and Trade Agreement (CETA) and the Trans-Pacific Partnership (TPP)?<sup>9</sup>

In Nitzan and Bichler’s framework, green-field investment involves proprietors paying to have new capacity built and/or adding net new employment. They identify two limits to green-field investment. First, a dominant capital firm is limited by the extent of the waged labour force. But the more immediate limit is the downward pressure on prices and earnings per employee resulting from additional capacity (2009: 329–30). In other words, growth-expanding industrial projects threaten corporate earnings margins.

We should not expect large firms to continuously increase green-field employment faster than the average. Nitzan and Bichler claimed such a strategy would be “suicidal.” The chief goal, they wrote, is not to increase the formal size of the organization but to increase differential earnings (2009: 335). The threat of excess capacity means that expanding industrial capacity (growth) is not the best pathway towards differential accumulation. As they see it, a better route for dominant capital is through mergers and acquisitions, which is the subject to which we now turn.

# A Brief History of Corporate Amalgamation

MARKET EXCHANGE IS a common feature of life in contemporary Canada. But there is a type of market exchange that is alien to most of us despite playing a central role in the development of Canadian capitalism: the market for corporate ownership and control. The acquisition of corporate organizations through mergers and acquisitions (M&A) is a form of market exchange, but it is unlike other markets in a few crucial respects. First, we normally think of a commodity as something produced for sale on a market (Polanyi 1944), but corporate organizations are neither *produced* in the conventional sense of the term nor are there established marketplaces for them to be *exchanged*, at least not in the ordinary sense of the term “marketplace.” Second, commodities are typically acquired for one of two purposes: either as inputs in a production process or for direct consumption. A corporate organization is neither directly consumed nor is the organization itself used as an input in a production process. Third, and finally, the acquisition of a corporate organization has an unusual property in that it has the potential to eliminate markets as a basis for exchange. In other words, corporate amalgamation is a form of market-destroying market exchange.

These aspects of corporate amalgamation create puzzling questions. Why do proprietors engage in this type of market exchange? And what are some of the long-term consequences of corporate amalgamation on the Canadian political economy?

The narrative around the development of M&A from the late 19<sup>th</sup> to the early 21<sup>st</sup> centuries is one of a series of “waves,” each leading to different organizational forms and market structures. The first U.S. merger wave began after the depression of 1883 and lasted until 1904. The major form that M&A took was *horizontal*, meaning that firms combined with competitors in their own industries to form monopolistic market structures. US Steel, for example, was formed when JP Morgan conjoined Carnegie Steel with his Federal Steel. By the end of the first merger wave, US Steel controlled nearly one-half of the U.S. steel industry, having combined 785 separate steel-making units. Morgan wanted to dislodge “aggressive competitor managers” and replace them with an “orderly market” (Gaughan 2007: 33). In practice, this meant restraining price competition, which would produce a more proprietor-friendly distribution of income.

The first merger wave in Canada began in the closing decades of the 19<sup>th</sup> century. Spurts of M&A activity, measured in terms of the absolute number of acquisitions, can be seen in the periods 1889–1893, 1899–1903 and 1905–1907 before a burst of sustained activity from 1909–1913. In terms of the number of acquisitions, Canada’s M&A wave of 1909–1913 was small relative to the U.S., but adjusting for size, the scale of activity was significant (Marchildon 1996). Price-fixing had been legalized in Prime Minister MacDonald’s 1889 *Anti-Combines Law* insofar as action would only be taken if restrictive activity “unduly” or “unreasonably” reduced competition. From this law it followed that cartels were legally endorsed in Canada (Morck et. al. 2005: 115). Despite this endorsement, the heightened consolidation of the first M&A wave led to the *Combines Investigation Act* in 1910, which prohibited monopolies, price-fixing and other monopolistic behaviour.

The second U.S. merger wave lasted from 1916–1929 and was christened the “oligopoly wave” by Nobel laureate George Stigler because vertical mergers – combinations in the same sector amongst firms that stand in a buyer-seller relationship – predominated (1950: 31). The second merger wave in Canada was fuelled, in part, by a crisis in the financial system. The years after the First World War brought deflation, bankruptcy and bank failure. By the mid-1920s the Canadian state responded by consolidating financial institutions, such that in 1910 the Canadian financial system had 30 chartered banks and by 1928 there were only ten (Morck et. al. 2005: 112).

The third U.S. merger wave lasted from 1965–1969 and was baptized the “conglomerate wave” because large firms diversified their holdings by acquiring firms in unrelated sectors. A fourth merger wave lasted from 1984–1989, the twin attributes of which were the prevalence of mega-mergers and the

role of hostile takeovers. In the conglomerate wave of the 1960s large firms swallowed small- and medium-sized firms in unrelated sectors. The merger wave of the 1980s saw large firms absorb other large firms, such that the number of \$100 million dollar U.S. mergers increased 23 times from 1974 to 1986.

A fifth merger wave began in the 1990s that was international in scope. Whereas most merger activity in prior waves had been concentrated in the U.S., the fifth wave saw intensive takeover activity in Britain, Germany, France, Asia and Central and South America. In addition to being international in scope, the merger wave of the 1990s was fuelled, in part, by a global privatization push fuelled by widespread adoption of neoliberal doctrine post-Cold War. Another feature of the fifth wave was the emergence of a developing country-domiciled acquirer, whose size was usually a consequence of the privatization of state assets (Gaughan 2007: 40–41, 53–55, 63–66).

The third merger wave in Canada also unfolded in the 1960s and saw the rise of conglomerates, while the fourth merger wave in the 1980s brought larger deals and the beginnings of continental consolidation. In the late 1980s the Progressive Conservative government in Ottawa uncorked ownership restrictions in the financial sector, and over the next decade Canada's Big Five banks swallowed the largest brokerage houses, underwriters and trust companies (Morck *et. al.* 2005: 112). The fifth merger wave in Canada brought many more cross-border deals, but the activity was largely confined, both in terms of acquirers and targets, to the United States. A sixth merger wave began in 2003 and lasted to 2007. Its defining feature, for Canada at any rate, was the absorption by foreign investors of some of the largest Canadian-based firms. Household names like Inco, Falconbridge, Alcan, Dofasco, Stelco, Algoma, Molson's and the Hudson's Bay Company – some of the oldest and most iconic firms in Canada – disappeared as the largest global players in energy and base materials swept up their rivals.

At a minimum, explanations for M&A usually try to account for two things: merger motives (*causes*) and post-merger outcomes (*effects*). This seems appropriate insofar as a merger outcome, or intended effect, will be either incoherent or meaningless unless it is logically tied to an underlying cause or motivation. Growth and efficiency are two of the most cited reasons why firms engage in M&A. Another reason, which fits uncomfortably within the confines of mainstream economic thinking, is enhanced power. In this context, power is meaningful in terms of organizational size (structure), pricing discretion (market power) and control over income (distribution). We may validly assume that corporate amalgamation is driven by

these motivations if merger activity leads to larger firm size, greater market power and/or a deeper distribution of income.<sup>10</sup>

In their discussion of the evolution of M&A, Nitzan and Bichler asked why there are M&A cycles in the first place and how these cycles relate to the development of dominant capital. The metaphor they use in discussing the increasing importance of M&A is the need for large firms to “break their envelope.” The emergence of large firms coincided with the first merger wave, Nitzan and Bichler wrote. Firms expanded within their original industries, eventually arriving at a leading (and often monopolistic) position. At this point, further expansion compelled large firms to penetrate their industrial universe, their “envelope,” and expand outwards across an entire sector. This involved large firms absorbing competing firms up the supply chain towards extraction and down the supply chain towards the ultimate consumer. Consequences included the formation of vertically integrated, oligopolistic market structures. For large firms to continue to expand, they needed to transcend their sectoral universe and push up against the universe of nationally domiciled firms through the formation of diversified conglomerates. Once the pool of desirable nationally-based takeover targets had been exhausted, large firms needed to puncture their “national envelope” and acquire firms in other jurisdictions, hence the need for a global merger wave.

This line of reasoning leads to Nitzan and Bichler’s assertion that the inner logic of M&A has within it “spatial integration” and “globalization” (2009: 330, 348–49). If differential accumulation requires large firms to increase their differential earnings, and if earnings are tied to ownership, then heightened M&A activity should simultaneously concentrate corporate ownership and centralize corporate income streams. This is a testable set of hypotheses insofar as the empirical facts will either support or undermine these assertions. Is it true, over the long haul, that corporate amalgamation leads to the internationalization of Canadian business ownership, increased relative firm size (concentration), enhanced market power, and the centralization of corporate income streams?

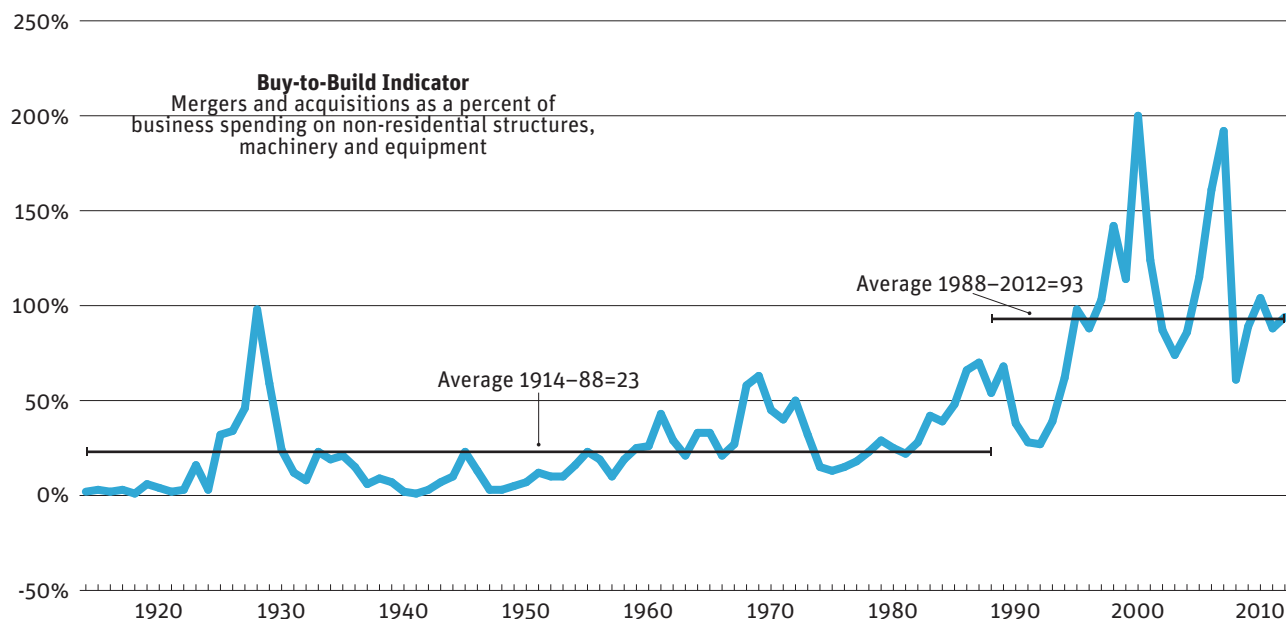
# Amalgamation and the Globalization of Canadian Corporate Ownership

HISTORICALLY SPEAKING, BUSINESS investment has three primary components: proprietors can pay to have existing industrial capacity maintained, or to have net new fixed assets built, thereby adding to industrial capacity, or else they can buy existing assets and/or entire corporate organizations in the form of mergers and acquisitions. The former two activities add to industrial capacity and, according to the facts in *Figure 5*, are closely associated with GDP growth. The latter activity (M&A) is wholly and only an act of redistribution, transferring legal titles between business owners.

One way of examining the growing importance of M&A is to contrast it with investment in fixed assets. Nitzan and Bichler (2009: 338) plotted a “buy-to-build” indicator, which captures the basic calculus open to proprietors: purchase existing assets in the form of M&A or pay to have them built anew. In their framework this ratio depicts the relationship between internal and external breadth and it is plotted for Canada from 1914 to 2012 in *Figure 6*. For every year it measures the dollar value of Canadian M&A as a percentage of business spending on fixed assets (see the Appendix for a description of the data).



**FIGURE 6** Canadian Corporate Amalgamation, 1914–2012



**Note** Data on non-residential structures, machinery and equipment only dates to 1926. Values for 1914 through 1925 are estimated using gross fixed private investment (from Urquhart (1993), Table 1.2, pp. 16–17), with proper rebasing.

**Source** See Appendix for data on mergers and acquisitions; business spending on fixed assets from Historical Statistics of Canada, Series F23+24 (1926–1960), Cansim Table 380-0017 (1961–1980) and 384-0038 (1981–2012).

Two things should be noted. First, the series clearly depicts the wave-like pattern of M&A over the past century. The second, third, fourth, fifth and sixth Canadian merger waves are clearly discernible on the chart. The second feature to note is the increasing importance of M&A relative to investment in industrial capacity, especially in the TAIL era. In the three-quarters of a century from 1914–1988, for every dollar spent on building new industrial capacity an average of 23 cents was spent on M&A. In the quarter-century since 1988, for every dollar spent on expanding industrial capacity an average of 93 cents was spent on M&A — a four-fold increase. So the “free trade” era is associated with the reorganization of Canadian investment, ushering in rapid and relentless restructuring of corporate ownership. What impact has this had on the structure of the corporate sector?

Foreign ownership has been a major concern of Canadian political economy from the birth of the discipline. Scholars like Harold Innis (1930) examined Canada’s colonial history and questioned why important decisions about Canada’s industrial future were perpetually being settled outside its borders. Kari Levitt (1970) struck an intellectual chord with her generation

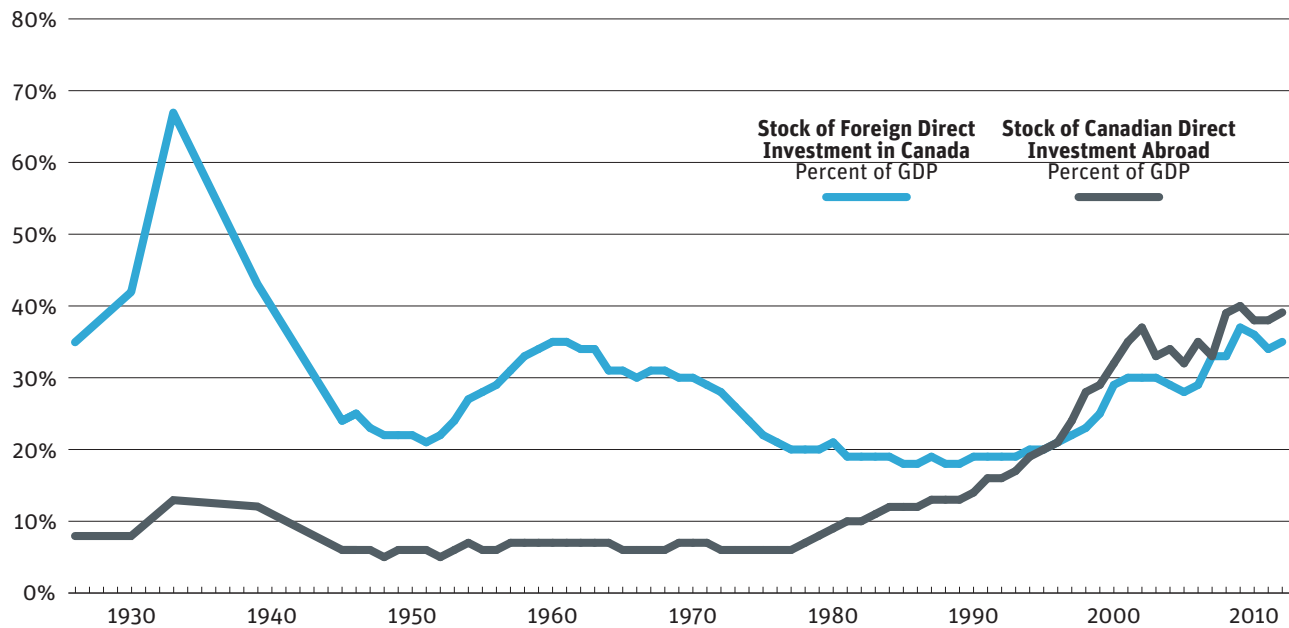
by expressing fear about high levels of foreign ownership, a situation that made Canada the richest dependent country in the world. The chief instrument of its dependence, she thought, was U.S. foreign direct investment (FDI). Mel Watkins (1977) linked inward FDI with Canada's over-reliance on staples exports or base commodities, which hindered Canada's industrial growth and diversification. Gordon Laxer (1989) followed Levitt in trying to sort out Canada's dependent economic status. Harry Arthurs (2000) is the latest in a long line of scholars who have wondered if Canada can maintain its political-economic sovereignty in the face of centripetal forces of U.S.-led globalization.

*Figure 7* maps the history of foreign ownership in Canada from 1926 to 2012. The grey line captures the stock of Canadian direct investment abroad (CDIA) and the blue line captures the stock of FDI in Canada, both as a percentage of GDP. The stock of FDI hit a historic high in 1933. At that time, for every dollar of CDIA there were more than five dollars of FDI in Canada. Foreign ownership of Canadian business decreased dramatically in the following decades, but by 1960 the ratio of inward to outward FDI reached five-to-one again. Foreign ownership diminished in the 1960s and 1970s, something that puzzled scholars. Randall Morck *et. al.* (2005: 117) speculated that the nationalist manoeuvres taken by the Liberal government of Pierre Trudeau, particularly the creation of the Foreign Investment Review Agency, contributed to the decline of foreign ownership.

Even though the stock of FDI in Canada has approached postwar highs in recent years, there has been an even more significant shift with the stock of CDIA. There is virtually no change in the stock of CDIA for the three decades after the Second World War. Canadian capitalists were not at all outward-oriented at this point. But that began to change in the late 1970s as Canadian business expanded abroad. It took until 1986 for the stock of CDIA to match its 1933 high (relative to GDP), but the historic moment came in 1996 when for the first time since record keeping began the dollar value of CDIA surpassed FDI in Canada. Canadian capitalists have internationalized their activities over the past three decades, and while the most recent market downturn appears to have acted as a stumbling block to international investment, the level of CDIA remains above FDI.

If the increasingly outward orientation of corporate Canada represents the maturation of Canadian capitalists, how does this relate to the development of corporate amalgamation? Recall section 3, which asked how to account for the globalization of Canadian corporate ownership over the past century given the pattern it takes in *Figure 2*. Nitzan and Bichler hypoth-

**FIGURE 7** Foreign Ownership, 1926–2012



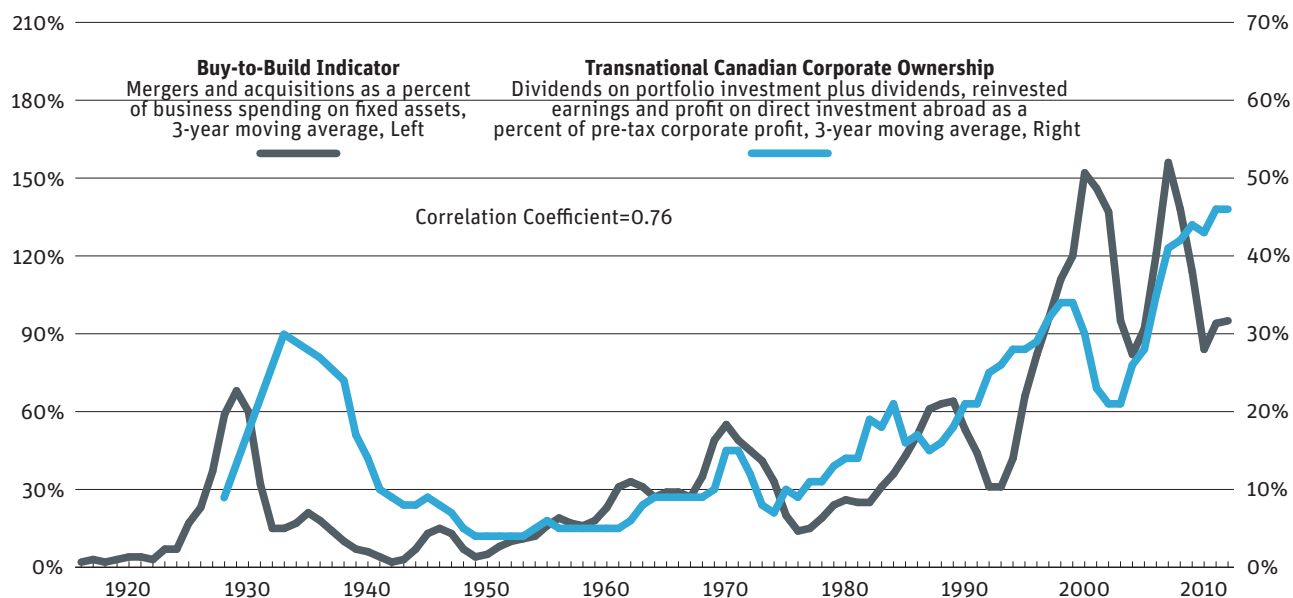
**Note** Data are interpolated between 1926, 1930, 1933, and 1939 and are continuous after 1945.

**Source** Stock of direct investment from Cansim Table 376-0037; GDP from Historical Statistics of Canada, Series F13 (1927–1960) and Cansim Tables 380-0016 (1961–1980) and 384-0037 (1981–2012).

esized (2009: 332) that the logic of M&A, which grows out of the constituent parts of differential accumulation, points in the direction of “spatial unification” and “globalization.” Can the globalization of Canadian corporate ownership be accounted for by the drive for differential accumulation?

According to *Figure 8* the answer is yes. The grey line portrays Nitzan and Bichler’s amalgamation index against a proxy for the transnationalization of Canadian corporate ownership. The two series are tightly and positively correlated from the 1920s onward. The timing and duration of the amalgamation waves in Canada appears to have contributed to an increase in the foreign operations of Canadian-based firms relative to their domestic operations. This is consistent with Nitzan and Bichler’s argument that amalgamation waves require large firms to “break their envelope” by expanding outward from their original universe of corporations, the final envelope being the universe of nationally domiciled firms. The amalgamation waves of the 1990s and 2000s were primarily global and, unsurprisingly, the transnationalization of Canadian corporate ownership sharply increased over those two decades, reaching a historic high.

**FIGURE 8** Amalgamation and the Globalization of Canadian Corporate Ownership, 1916–2012



**Note** Data on corporate transnationality interpolated between 1928, 1933, 1936 and 1938 (continuous thereafter). Series are smoothed as three-year moving averages.

**Source** See Appendix for data on mergers and acquisitions; business spending on fixed assets from Historical Statistics of Canada, Series F23+24 (1926–1960), Cansim Table 380-0017 (1961–1980) and 384-0038 (1981–2012); dividends on portfolio investment and profits, reinvested earnings and dividends on direct investment from Cansim Table 376-0012; total pre-tax profit from Historical Statistics of Canada, Series F3 (1928–1960) and Cansim Table 380-0016 (1961–2012).

The reasons for the strong statistical relationship between the buy-to-build indicator and the transnationalization proxy are not obvious, but the fact that both series are semi-cyclical and rise secularly over the postwar era suggests what the answer might be. Each amalgamation wave in Canada appears to have increased foreign assets relative to domestic assets, and hence foreign income relative to domestic income. But why would foreign income decline relative to domestic income after the merger wave subsides? Each of the major merger waves in Canada was followed by a downturn (1929, 1973–74, 1981, 1990, 2000–01 and 2008) and it is possible that large Canadian-based firms that built up their foreign assets during the merger wave divested themselves of a portion of those assets in order to cope with the downturn (whether they used their increased liquidity to reduce their debt-load or for some other reason is beside the point). It would not make sense to acquire foreign assets during the boom only to fully divest in the bust, so the long-term consequence of foreign acquisitions is a rise in foreign income relative to domestic income.

Small and large firms alike expand industrial capacity and increase employment, but corporate amalgamation is a game initiated almost exclusive-

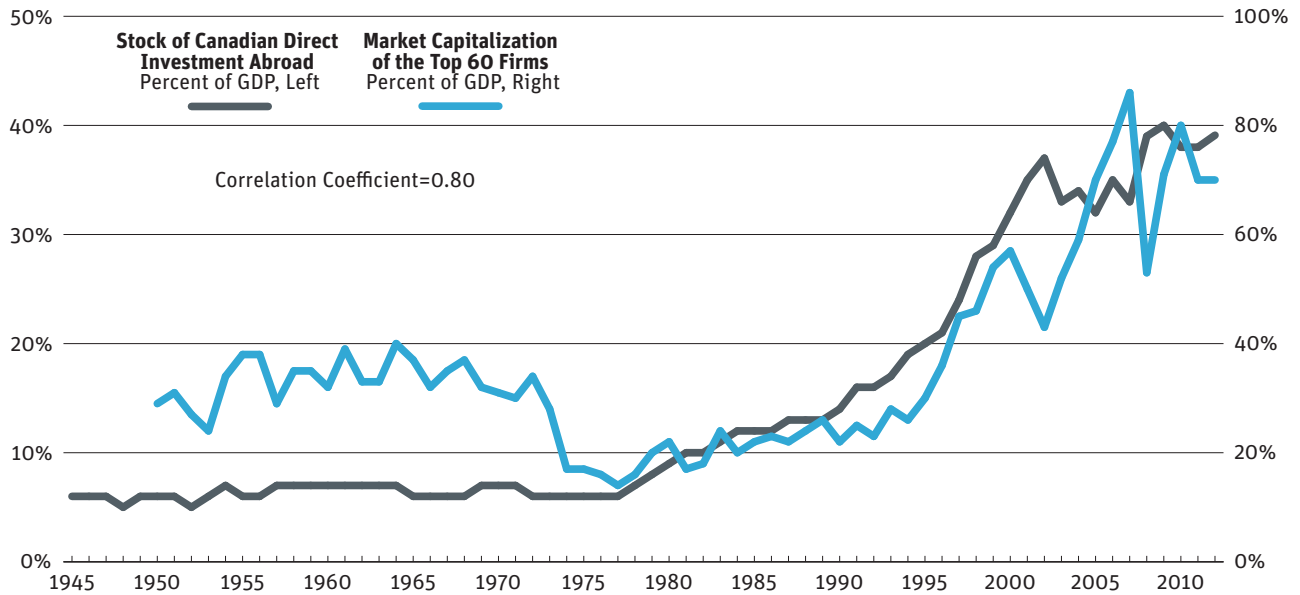
ly by large firms. And given that the bulk of CDIA is held by a small number of firms (ranging in the dozens) it follows that the differential drive by large firms to enlarge earnings compels them to acquire other firms. Nitzan and Bichler told us there is a logical progression to this acquisition process, with large firms first merging in their industries, breaking the envelope into broader sectors and then pushing up against national boundaries through the formation of multi-unit, vertically-integrated, nationally-embedded firms. The final “envelope” being the national political economy, if differential accumulation is to continue, large firms are compelled to seek acquisition targets outside their domestic sphere. The flurry of TAIL agreements in the past generation (of which the CUFTA and NAFTA were but two examples) facilitated and secured the expansion of Canadian corporate ownership abroad.

If the causal sequence outlined here is correct, it follows that the internationalization of Canadian corporate ownership should be closely associated with the relative value of the *largest* Canadian-based firms, since it is large firms that account for the lion’s share of Canadian direct investment abroad and for M&A activity. The facts in *Figure 9* support this assertion. The stock of Canadian direct investment abroad is tightly and persistently correlated with the market value of the top 60 firms (both measured as a percentage of GDP). *Figure 2* indicated that in 1950 only 5% of Canadian corporate profit came from international sources. In more recent times this ratio has risen to nearly 50%. We also know it is large firms that have international operations, so it follows that when we speak of the “globalization of Canadian business,” we are effectively referring to a small number of firms at the top of the corporate dominance hierarchy.

In the early decades of the postwar era, the stock of CDIA held steady at 6% of GDP and the market value of the largest firms averaged 30% of GDP. As large firms began to acquire targets in other jurisdictions, increasing their foreign holdings, their market value increased in tandem. Then, with the advent of the CUFTA and the NAFTA, and the related assurances on the “safety” of international investment, the stock of CDIA began to soar along with the market value of the largest firms. The stock of CDIA rose from 6% to 40% of GDP and the market value of the largest firms increased from 30% to 86% of GDP. As large firms acquired foreign-based firms they gained control over the income streams associated with these firms. The globalization of Canadian corporate ownership, then, is tantamount to growing concentration at the top of the corporate dominance hierarchy.

If, as we’ve seen, the enduring political-economic significance of the TAIL regime is *not* increased trade flows and more rapid GDP growth, as supporters

**FIGURE 9** Globalization of Canadian Corporate Ownership and the Equity Capitalization of Dominant Capital, 1945–2012



**Note** Top 60 firms are ranked annually by equity market capitalization.

**Source** Stock of direct investment from Cansim Table 376-0037; GDP from Historical Statistics of Canada, Series F13 (1945–1960) and Cansim Tables 380-0016 (1961–1980) and 384-0037 (1981–2012); market capitalization from Canadian Financial Markets Research Centre and Compustat through WRDS for common shares outstanding and closing share price.

promised and often still proclaim, but the internationalization of Canadian business ownership, what does this mean for the domestic political economy? How has the new investment regime reconfigured the domestic corporate sector? And what are some of consequences of this reconfiguration?

# Some Structural Consequences of Corporate Amalgamation

AGGREGATE CONCENTRATION IS one way to measure the overall power of large firms. Twentieth-century heterodox political economists began to notice that price behaviour in concentrated markets with a few large firms differed from price behaviour in competitive markets with many small and medium-sized firms. Institutional power seemed to explain the difference.

In 1934 Gardiner Means supplied evidence of bifurcated price behaviour in the United States. In concentrated markets with a few large firms, “administered prices” prevailed. An administered price is set for a period of time across a number of transactions. This rigidity suggested a degree of pricing discretion on the part of the seller. In less concentrated markets classical price formation was on display. Classical prices were flexible and changed frequently, which implied that the seller had little or no pricing discretion.<sup>11</sup> Michal Kalecki, the Polish political economist, also tried to understand the relationship between corporate concentration and market power. He devised a concept, the “degree of monopoly,” to capture price formation in semi-monopolistic settings. Among the numerous factors influencing the degree of monopoly, Kalecki argued, are the “process of concentration” and the subsequent “formation of giant corporations” (1943: 49–50).<sup>12</sup>

We know that large firms are more likely to lead M&A activity than small firms. We also know that Canadian direct investment abroad is almost exclusively conducted by a small number of very large firms. If differential accumulation requires large firms to beat the average — to exceed the “normal” rate of return, as Nitzan and Bichler said — and if this requires enlarged income streams, does it follow that corporate amalgamation is linked with corporate concentration?

*Figure 10* contrasts Nitzan and Bichler’s buy-to-build indicator, measured as the dollar value of mergers and acquisitions as a percentage of business spending on fixed assets, with the concentration of corporate assets, measured as the total assets held by the top 60 firms (our proxy for dominant capital) as a percentage of the Canadian corporate universe. The two series are tightly and positively correlated over half a century, which supports the contention that amalgamation is a key driver of corporate concentration.

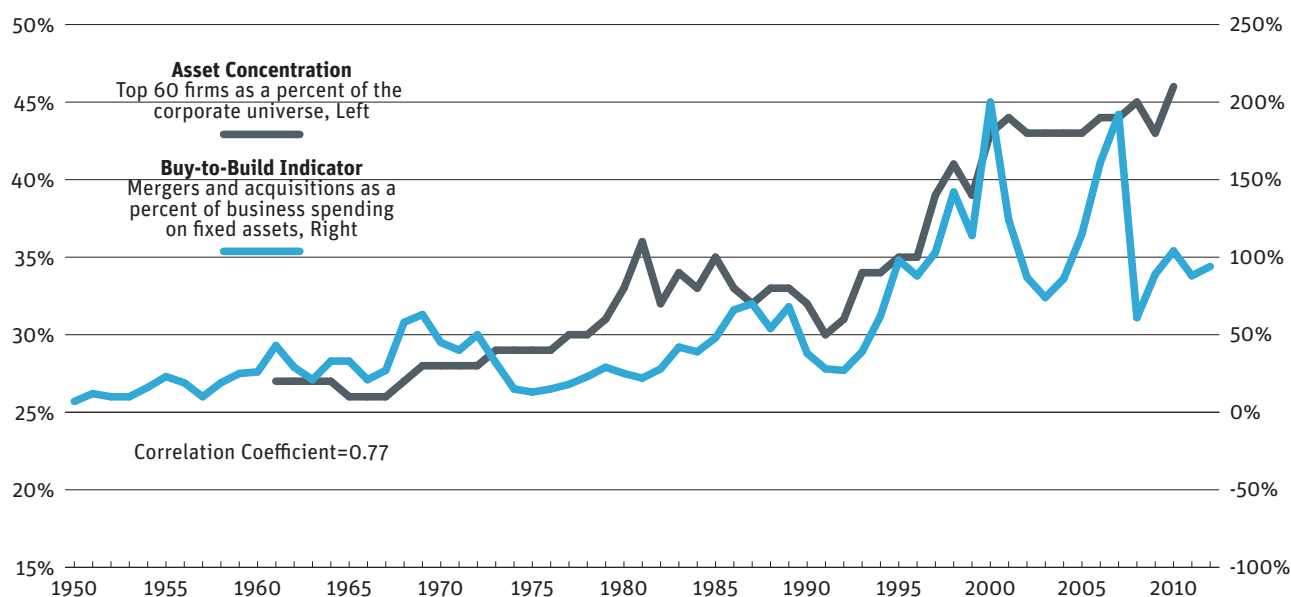
Asset concentration among the largest 60 firms rose from 27% in the early 1960s to 37% in the early 1980s, before falling to 30% in 1990. Over the next decade, and in tandem with the largest merger wave in Canadian history, asset concentration increased by one-half. As of 2010, the top 60 firms accounted for 46% of all corporate assets. To put that into perspective, it means that today, of the roughly 1.5 million registered corporations in Canada, just 60 of them account for nearly half of all assets — a startling degree of concentration.

The amalgamation index appears more cyclical than asset concentration, which makes sense when we consider that each amalgamation wave serves to concentrate corporate assets. However, when the wave subsides, firms do not fully divest themselves of their newly acquired assets. Thus, while amalgamation is wave-like in its pattern, its consequences for concentration tend to be cumulative.

How should we understand the tight relationship between amalgamation and concentration? In mainstream economics capital is conceived as a double-sided entity. “Real” capital or “capital goods” registered on the left-hand side of the balance sheet are thought to be material-productive entities used in the production process to expand output and satisfy human desire. Theoretically, the underlying productivity of these material-productive entities is generative of “capital value” or “financial capital,” which is represented by the equity and debt on the right-hand side of the balance sheet, and which lubricates the production process (i.e. nominal finance facilitates the expansion of the “real capital stock”).



**FIGURE 10** Amalgamation and Aggregate Asset Concentration, 1950–2012



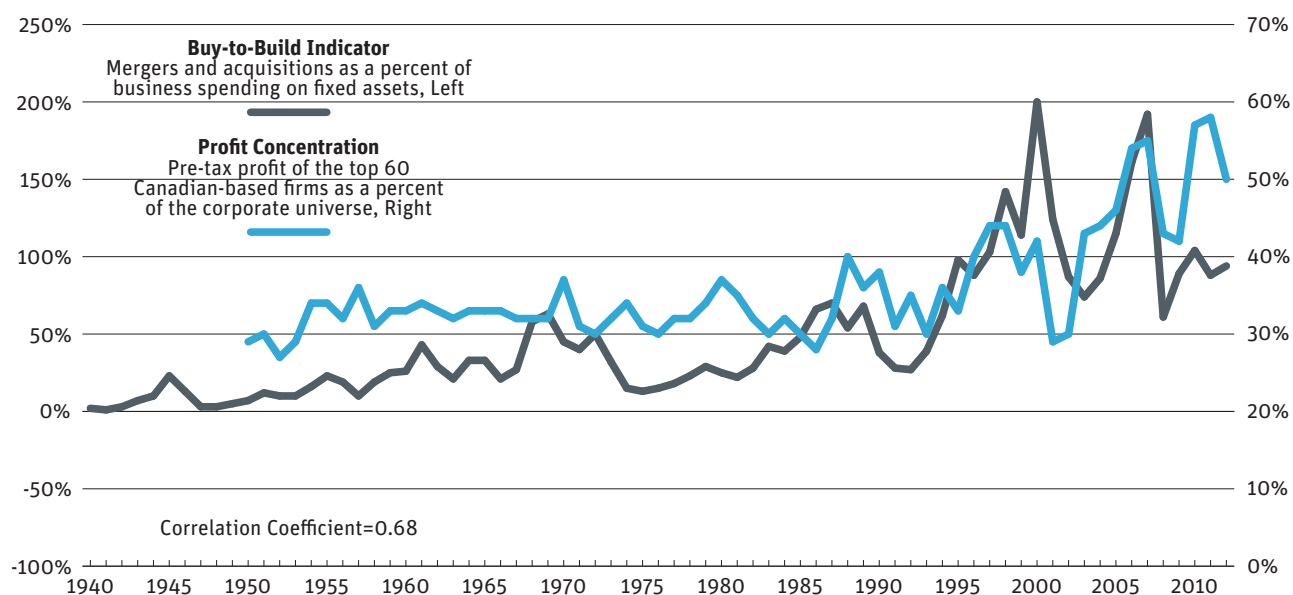
**Note** Total corporate assets are tabulated by subtracting the total assets of government financial and non-financial business enterprises from the total assets of government and business enterprises. Top 60 firms are ranked annually by equity market capitalization.

**Source** Canadian Financial Markets Research Centre and Compustat through WRDS for common shares outstanding, closing share price and total assets; Moody's Corporate Manuals through Mergent Webreports; Report on Business Top 1000 Companies (various issues from 1985–2010); total corporate assets from Cansim Tables 378-0052, 378-0055 and 378-0072; business spending on fixed assets from Historical Statistics of Canada, Series F23+24 (1926–1960), Cansim Table 380-0017 (1961–1980) and 384-0038 (1981–2012); see Appendix for data on mergers and acquisitions.

Taking our cue from Thorstein Veblen (1908a; 1908b) and from Nitzan and Bichler (2009), who reject this formulation, capital will *not* be thought of as tools, machines, factories and technical know-how, but as finance *and only finance*. It follows that if capital is *not* a material-productive entity but is wholly and only a financial magnitude — a claim on earnings or legal title to an income stream — then the concentration of corporate assets among large firms should be associated with the centralization of corporate income streams amongst the largest corporate units. After all, when the owners of large firms acquire other firms the chief motivation is the enlargement of income streams, not the synchronization of industrial processes. Is it true that the concentration of corporate ownership implies the centralization of income streams?

*Figure 11* stacks corporate amalgamation up against aggregate profit concentration, the latter measured as the pre-tax profit of the top 60 firms as a percentage of the Canadian corporate universe. The two series are tightly synchronized over six decades. If the causal sequence outlined above is correct, then it follows that the concentration of corporate ownership, which

**FIGURE 11** Amalgamation and Aggregate Profit Concentration, 1940–2012



**Note** Top 60 firms are ranked annually by equity market capitalization.

**Source** Canadian Financial Markets Research Centre and Compustat through WRDS for common shares outstanding, closing share price and pre-tax corporate profit; Moody's Corporate Manuals through Mergent Webreports; Report on Business Top 1000 Companies (various issues from 1985–2010); total pre-tax profit from Historical Statistics of Canada, Series F3 (1950–1960) and Cansim Table 380-0016 (1961–2012); business spending on fixed assets from Historical Statistics of Canada, Series F23+24 (1940–1960), Cansim Table 380-0017 (1961–1980) and 384-0038 (1981–2012); see Appendix for data on mergers and acquisitions.

centres on legal rights and control (not productivity), captured in *Figure 10* should be closely associated with the concentration of corporate income. The facts in *Figure 11* support this line of reasoning. Each amalgamation wave has funnelled corporate assets up the corporate dominance hierarchy, leaving large firms with a greater share of total corporate assets. And because asset ownership implies a claim on earnings — legal title to an income stream — the concentration of assets among the largest firms is logically and empirically tied to the concentration of income streams among the largest firms, hence the tight fit between amalgamation and profit concentration.

In the decades when Canadian merger waves were small and infrequent (1940s through the 1980s), the concentration of profit among the 60 largest corporate units remained stable, amounting to roughly one-third of corporate profit. With the onset of the TAIL regime in the 1990s, rapid and relentless restructuring in the corporate sector took place in tandem with larger and more frequent merger waves. One consequence of this transformation appears to be an enormous concentration of corporate profit among the largest firms, which nearly doubled in just two decades. To restate: there are 1.5 million registered corporations in Canada, 4,000 of which are listed on

the Toronto Stock Exchange. The 60 largest firms, our proxy for dominant capital, account for roughly 60% of all corporate profit in Canada – an astonishing level of concentration.

If business investment has three main parts – the maintenance of existing industrial capacity, the creation of new industrial capacity and the redistribution of control of existing industrial capacity (through M&A) – and if the first two processes are closely associated with GDP growth (*Figure 5*) while the latter is not, then it follows that a surge in the relative value of mergers and acquisitions may depress the rate of GDP growth. Stated differently, the acceleration of corporate amalgamation may decelerate GDP growth.

Notice that three of the largest merger waves in Canadian history have unfolded since the 1980s, which is precisely the time that business investment in fixed assets fell to postwar lows and GDP growth slowed to near-stagnation levels. The TAIL regime did nothing to accelerate investment in fixed assets, but it has been closely associated with surging M&A activity. So business investment has shifted away from industrial capacity, which in practice means lower levels of GDP growth. But as the foregoing analysis has shown, the reconfiguration of business investment towards M&A is closely associated with the concentration of corporate assets and corporate profit among the largest firms. So slower growth may be detrimental from a social standpoint, but it is by no means self-evident that anemic growth is detrimental to large firms.

There may be another aspect to the amalgamation–GDP stagnation–corporate concentration causal chain that bears investigation and it pertains to the way in which the activities of large firms have contributed to the slower growth of recent decades. Consider what Mark Carney said in a speech to the Canadian Auto Workers union in 2012. The former governor of the Bank of Canada chastised corporate Canada for holding large quantities of what he called “dead money,” rather than investing it in expansionary activities (Carmichael, Blackwell, Keenan 2012). At the time of Carney’s statement, the non-financial corporate sector had stockpiled more than half a trillion dollars of cash on its balance sheet.

In his *General Theory*, John Maynard Keynes argued that an economy can remain in a period of prolonged underemployment and stagnation in the context of unhindered markets. This view was foreign to many economists in the 1930s who assumed the truth of Jean-Baptiste Say’s law of markets, which held that the mere offering of a commodity for sale on a market automatically generates the income required to purchase it. Say’s law meant that, in the aggregate, supply would equal demand. This line of rea-

soning implied that the unencumbered market would tend towards equilibrium — full employment and stable prices — thus making the persistence of glut impossible (Hunt 2002: 135–9).

Whereas Say argued that all output was transmitted through to income, that all income would either be consumed or saved, and that savings would be transmitted through to investment, Keynes argued that some income might be not be spent on either consumption or investment. A gap might arise between savings and investment and as a consequence money would fall out of circulation. This gap created the possibility, in Keynes' term, of *sustained disequilibrium*. He referred to this gap as “hoarding.” Keynes stated:

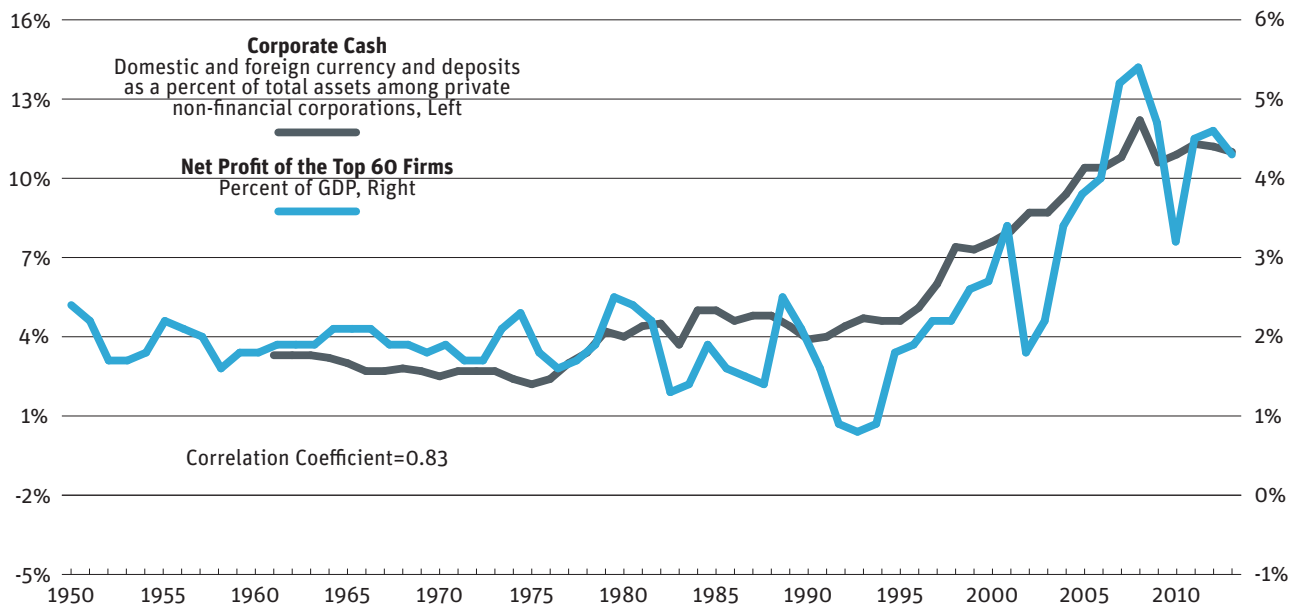
So long as it is open to the individual to employ his wealth in hoarding or lending money, the alternative of purchasing actual capital assets cannot be rendered sufficiently attractive...except by organising markets wherein these assets can be easily realised for money (1936: 160–61).

Issuing a rebuttal to the conservative economic doctrine of Say, Keynes argued that “hoarding” can lead to glut and stagnation. What's more, the difference between saving and investment can be exacerbated by a highly unequal distribution of income, since the rich are far likelier to save and store their money than are workers (Hunt 2002: 413–14).

Let us take Keynes' idea of hoarding and connect it with the distribution of corporate income (since this is a type of distribution too). We've already seen that aggregate GDP growth is closely associated with investment in fixed assets. It seems plausible to surmise that as a small cluster of large firms increase in size and market power, they pull away from the rest of the corporate universe in terms of cohesiveness, business behaviour, political activities, etc. If this cluster of large firms manages to increase its income share as a consequence of amalgamation-fuelled asset concentration, then these firms will acquire a larger proportion of the “funds available” to control investment. If these large firms choose to stockpile a larger quantity of cash (to reduce risk, facilitate snap acquisitions or for some other reason), it may be the case that the growth of large firms itself figures heavily in corporate hoarding. And the growth of corporate hoarding may be a key driver of GDP stagnation.

Let's explore this line of reasoning empirically. *Figure 12* contrasts two series. The blue line portrays the income position of the top 60 firms in the Canadian political economy by dividing their net profit by GDP. The grey line is total corporate cash, measured as domestic and foreign currency and deposits as a percentage of the total assets amongst all private non-financial corporations. The two series are tightly intertwined over half a century. Be-

**FIGURE 12** Income Share of Dominant Capital and Corporate Hoarding, 1950–2013



**Note** Top 60 firms are ranked annually by equity market capitalization.

**Source** GDP from Historical Statistics of Canada, Series F13 (1950–1960) and Cansim Tables 380-0016 (1961–1980) and 384-0037 (1981–2012); common shares outstanding, closing share price and net profit from Compustat through WRDS; total corporate assets and corporate cash from Cansim Tables 378-0054 (1961–1989) and 378-0121 (1990–2012).

tween the early 1960s and the early 1990s the stockpile of corporate cash averaged 4% and the band within which it varied was narrow, falling between 3% and 5%. This pattern broke down in the 1990s, just as the TAIL regime came into effect and a major merger wave commenced. Between 1990 and 2012 the stockpile of corporate cash nearly tripled from 4% to 11% of assets.

This is a significant fact on its own, but it becomes more significant when we plot it against the income position of dominant capital. For the four decades between 1950 and 1990, the income share of the largest firms was effectively flat, averaging 2%, and falling within a range of 1% to 3%. This pattern would have already indicated considerable power among the top 60 firms. In 1950 there were approximately 40,000 registered (and active) corporations in Canada and the top 60 among them accounted for 2.4% of GDP through their net profit. Fast-forward to 1988 and we find 672,000 registered corporations and the top 60 accounted for 2.5% of GDP through their net profit, despite the fact that the corporate universe had expanded seventeen-fold. Now, this pattern broke down after 1990, and the income share of the top 60 firms nearly tripled over the next two decades, reaching a historic extreme of 5.7% of GDP in 2007.

We must note that it is *large* firms that stockpile cash on their balance sheet. Small and medium-sized enterprises have little or no cash available to idly sit on their books. So it makes logical and intuitive sense that as the income position of the largest corporate units increases, the capacity for corporate cash hoarding increases in step.

It seems plausible to suppose that as the largest firms claim a larger proportion of national income through greater size and market power, their capacity to stockpile cash increases. By hoarding cash, they help stabilize dividend payments, thus depressing risk, and have more liquidity for acquisition activities (and to hedge against downturn). One consequence of the stockpiling of cash is that fewer national resources get deployed for the expansion of employment and industrial capacity.

And because the rapid growth associated with full capacity utilization and full employment will be feared by business (because of the downward pressure it puts on earnings margins), we see that, conceptually and empirically, there is nothing inherently incompatible with large firms improving their relative position in the political economy even though the hoarding of cash effectively restrains growth, whether the restraint is the intentional or not. It is in this way that the growth of large firms may indirectly contribute to slower GDP growth, thus making stagnation the “flip side” of increasing corporate concentration.

Let’s take stock. Corporate amalgamation is a game initiated by large firms. It has the effect of increasing the relative size of the largest firms, and because concentrated ownership implies concentrated income, successive amalgamation waves have upwardly redistributed corporate income. The co-movement of amalgamation and corporate asset and profit concentration is synchronized with Canada’s descent from relatively rapid GDP growth to anemic growth. Far from catapulting the Canadian political economy onto a new and higher growth plane, the TAIL era is associated with the reconfiguration of business investment, the concentration of corporate assets and income, and depressed rates of GDP growth. The hoarding of corporate cash is also closely associated with the relative growth of large firms, which lends weight to the notion that heightened corporate concentration depresses GDP growth.

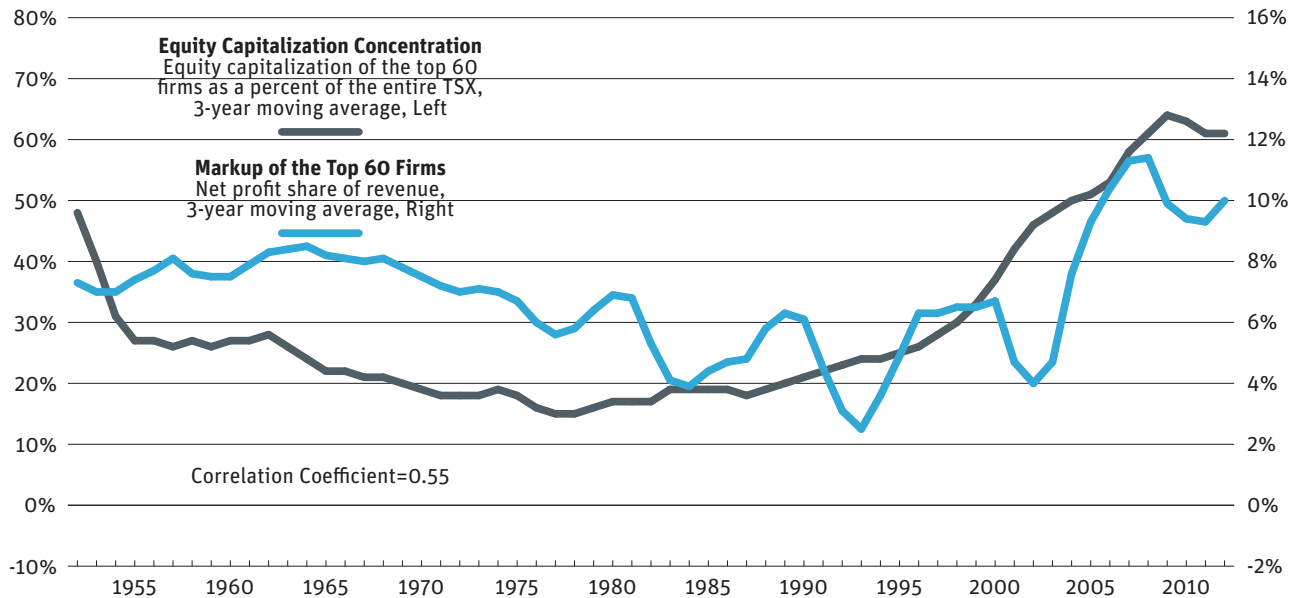
Now that we have documented the tight and persistent linkage between amalgamation and concentration, what are the consequences? Does larger relative firm size entail greater market power? And what does the heightened corporate concentration (read: power) of recent times tell us about the distribution of personal income?

# Corporate Concentration, Market Power and the Distribution of Income

IT STRIKES AT the intuition that if we are to meaningfully speak of power in the political economy it should be positively related to organizational size, such that larger firms have greater market power than smaller firms. Means (1935) connected concentration and prices in a way that indicated that the existence of larger corporate units leads to “non-classical” price formation or “administered prices.” Kalecki (1943) also coupled the existence of larger corporate units with differences in price formation. The “dual economy” literature would have us believe that the existence of large firms has the effect of reducing competition because relative differences in firm size gives rise to different competitive behaviour, performance and market power (Bowring 1986).

The question to be addressed is: do increases (and decreases) in the level of aggregate concentration bear any relationship to increases (and decreases) in the market power of the largest corporate units? Were Means and Kalecki correct in assuming a linear relationship between institutional structure and market power? *Figure 13* begins to answer this question by contrasting two series. The grey line captures aggregate equity capitaliz-

**FIGURE 13** Aggregate Capitalization Concentration and Market Power, 1952–2012



**Note** Top 60 firms are ranked annually by equity market capitalization.  
**Source** Compustat through WRDS for common shares outstanding, closing share price, net income and total revenue; Canadian Financial Markets Research Centre; Moody's Corporate Manuals through Mergent Webreports; Report on Business's Top 1000 Companies (various issues from 1985–2010); total market capitalization (code: SCCANM) from Global Financial Data, TSX Review, e-Review and Factbook.

ation concentration by dividing the market value of the top 60 Canadian-based firms by the market value of all the stocks listed on the Toronto Stock Exchange (TSX). The blue line depicts the markup of the top 60 firms measured as their average net profit share of revenue. The former may be understood as a proxy for the institutional-organizational structure of the corporate sector and the latter as a proxy for the market power of the largest firms.

The two series are positively correlated over six decades. In the early 1950s, the 60 largest Canadian-based firms represented nearly half the value of the TSX. By the late 1970s their value had fallen to just 16% of the TSX. By 1988, on the eve of the CUFTA, they accounted for 20% before soaring to a postwar high of 65% in 2008. This means that the remaining 4,000 firms on the TSX only accounted for 35% of total market value! The pattern with the markup is similar, trending downward in the pre-TAIL era and upward in the TAIL era, reaching a historic high of 12% in 2008, just as aggregate concentration peaked. So Means and Kalecki were correct for Canada: as market structure becomes more concentrated, the market power of large firms increases.



The establishment of quantitative linkages between concentration and market power is difficult enough; the qualitative mechanics of how large firms increase their market power is more difficult to uncover. In the language of classical and neoclassical economics, “perfect competition” is a condition in which there are a large number of buyers and sellers, perfect information, free entry and exit, and homogenous products prevail. Under this market structure, sellers do not have the ability to influence price. But as firms combine and the market structure moves from the competitive end of the spectrum to the oligopolistic and monopolistic end, large firms go from being price-takers to price-shapers and price-makers.

John Blair argued that as aggregate concentration increases, market behaviour changes. “Communities of interest” form around powerful families and financial groups and this enables them to coordinate their activities to a greater extent than would otherwise be possible. Independent (read: competitive) behaviour is lessened, Blair continued, as dominant proprietors and executives openly or tacitly agree that firms should avoid the disruptions associated with “price competition” and aim, instead, at a healthy “target profit rate” (1972: 60–61).

This line of reasoning helps explain why shifts in the relative size of the largest firms are linked with changes in their degree of market power. The irony is that the TAIL regime and neoliberal globalization more generally were supposed to *increase* competitive pressure, which should lessen aggregate concentration and restrain the earnings margins of large firms. Instead, the TAIL era that has witnessed historically unprecedented levels of concentration and market power.

If amalgamation fuels concentration and heightened concentration leads to greater market power, is there a relationship between these processes and the distribution of income? The first way to address this question is by contrasting the income shared within the firm between the two primary categories of owners: the owners of corporate equity (who collect profit) and the owners of labour power (who are remunerated with wages and salaries) — capital income and labour income, respectively.

Kalecki argued that the degree of monopoly is of “decisive importance for the distribution of income between workers and capitalists” (1943: 51). Large corporations in “semi-monopolistic” settings not only tend to have greater pricing discretion, but they tend to have deeper earnings margins (*Figure 13*). Kalecki posited:

The long-run changes in the relative share of wages...[are] determined by long-run trends in the degree of monopoly... The degree of monopoly has a general tendency to increase in the long run and thus to depress the relative share of wages in income...[although] this tendency is much stronger in some periods than in others (1938: 65).

For the purposes of this study, Kalecki's basic assertion will be restated as a question: is it true that the degree of monopoly (in this instance measured using the markup among the largest firms) has a bearing on the relative share of wages and on the distribution of income between workers and capitalists more generally?

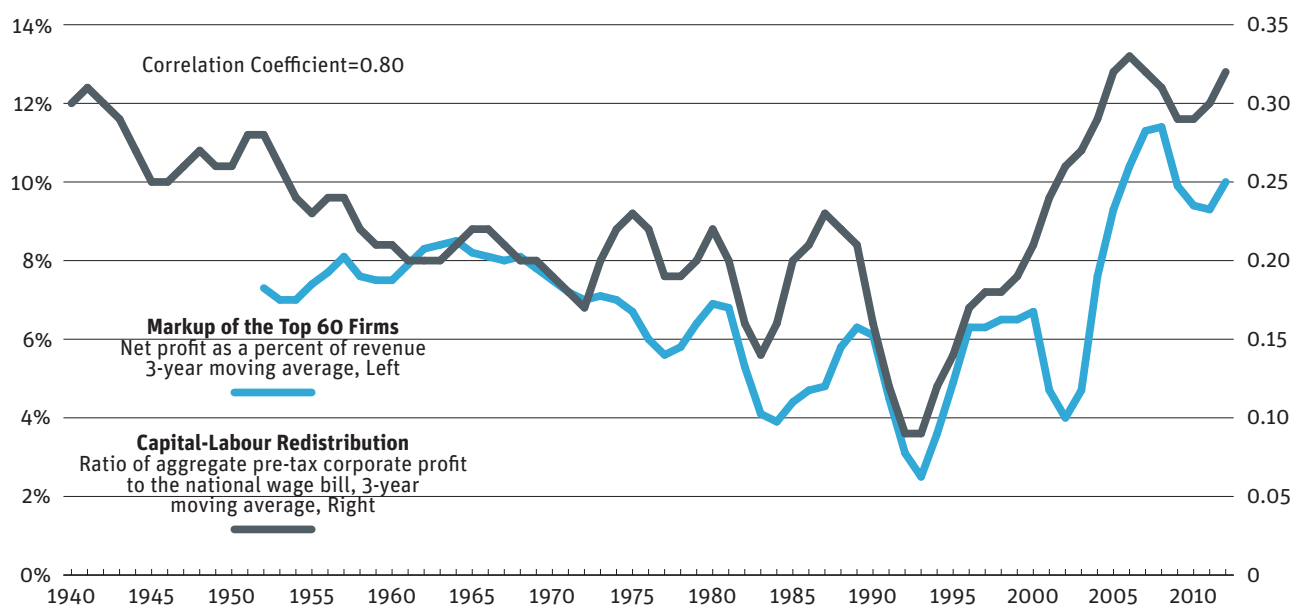
To answer this question let us extract two indicators from the national accounts: total pre-tax corporate profit, and wages and salaries. By dividing the first variable by the second we arrive at a metric that captures the distributive struggle between capital and labour over profits and wages. When this ratio rises, capital is redistributing income from labour; when it falls, labour is redistributing income from capital.

*Figure 14* stacks this redistribution metric against the net profit markup of the top 60 firms. The two series are tightly intertwined over six decades. In the half-century spanning the 1940s through the 1980s, labour redistributed income away from capital. This process is closely mirrored by the declining market power of the largest firms, registered in the markup. It was only after the TAIL regime was instituted in the early 1990s that both series began to trend upward, with capital redistributing income away from labour (eliminating all the labour income gains in the Keynesian era) and the markup soaring to a historic high.

It must be stressed that the markup is contingent upon the institutional and organizational structure of the corporate sector, and the latter is driven by corporate amalgamation. This means that the TAIL regime indirectly served to increase corporate power, thus paving the way for the dramatic redistribution of income between capital and labour. Note that the capital-labour redistribution metric trended downward for half a century, but it has only taken the past two decades for all that labour-favouring redistribution to be wiped out.

Elsewhere (Brennan 2014a) I have explored the progressive role unions historically played in increasing average worker compensation, accelerating the rate of wage growth, increasing the national wage bill and reducing personal income inequality. Historically speaking, organized labour has acted as a “countervailing power” to the size and influence of large firms (Gal-

**FIGURE 14** Market Power and Capital-Labour Redistribution, 1940–2012



**Note** Series smoothed as three-year moving averages. The top 60 firms are ranked annually by equity market capitalization.

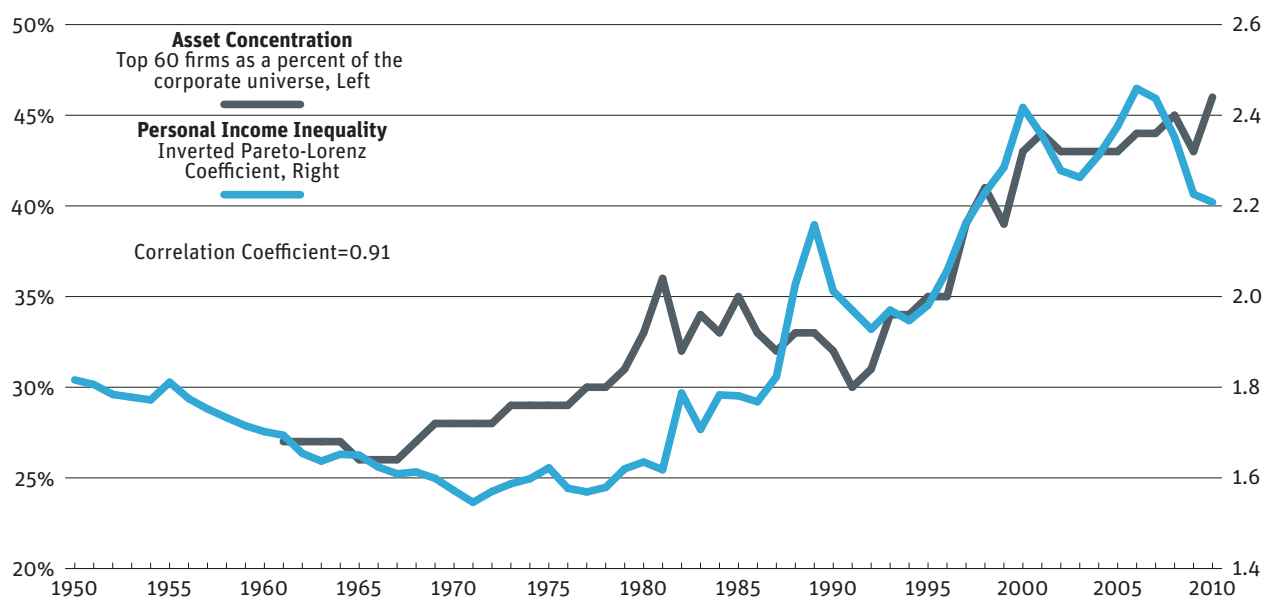
**Source** Compustat through WRDS for shares outstanding, closing share price, revenue and after-tax income; Canadian Financial Markets Research Centre; Moody's Corporate Manuals through Mergent Webreports; Report on Business Top 1000 Companies; GDP, wages and salaries and corporate profit from Historical Statistics of Canada, Series F1-13 (1940–1960) and Cansim Tables 380-0016 (1961–1980) and 380-0063 (1981–2012).

braith 1952). *Figure 14* documents how the different income groups have shared the gains from growth. In the decades when unions were expanding and corporate power was declining, workers tended to win the distributive struggle. In the decades when unions were weakening and corporate power increasing, namely the TAIL era decades, proprietors tended to win the distributive struggle.

If concentration has increased in recent decades and if it is driven by amalgamation, is there a relationship between corporate concentration and personal income inequality?

*Figure 15* paints a stark picture by plotting the concentration of corporate assets against personal income inequality. The latter is measured using the inverted Pareto-Lorenz coefficient, which captures the concentration of income among the rich. The higher the coefficient, the lower the concentration, which means that when the *inverted* Pareto-Lorenz coefficient rises, the distribution of income is becoming increasingly unequal. The two series have a correlation of 0.91 over the past half-century, which is extraordinarily high. Heightened income inequality appears to be driven, in part, by the concentration of corporate power.

**FIGURE 15** Aggregate Asset Concentration and Income Inequality, 1950–2010



**Note** Total corporate assets are tabulated by subtracting the total assets of government financial and non-financial business enterprises from the total assets of government and business enterprises. The top 60 firms are ranked annually by equity market capitalization.

**Source** Canadian Financial Markets Research Centre and Compustat through WRDS for common shares outstanding, closing share price and assets; Moody's Corporate Manuals through Mergent Webreports; Report on Business Top 1000 Companies (various issues from 1985–2010); total corporate assets from Cansim Tables 378-0052, 378-0055 and 378-0072; Pareto-Lorenz Coefficient from Saez and Veall (2007), Veall (2010) and Veall (2012), retrieved online from <http://topincomes.g-mond.parisschoolofeconomics.eu/>.

Why would personal income inequality be related to asset concentration? Amalgamation simultaneously increases firm size while shrinking the number of corporate units. In principle this reduces competition and has the potential to eliminate markets as a basis for exchange. So as concentration intensifies, coordination through markets is replaced by intra-firm transfers, which are subject to hierarchical decree. Recall what Adam Smith said about markets and distribution. Smith would have us believe that his “system of perfect liberty” (the free market) would produce distributive outcomes that were either perfectly equal or continuously trending towards equality. He said:

The whole of the advantages and disadvantages of the different employments of labour and stock must...be either perfectly equal or continually tending to equality (1776: 114).

One reason why income inequality might rise, Smith argued, is a restriction of competitive pressures. Competition keeps the wages of labour and the profits of stock fluctuating around their “natural” level, that is to say,

low relative to the social norm. The restriction of competition leads to an increase in price, thus undermining the tendency towards equality. The public is the loser in this, Smith believed, for they are left with higher prices.

If it seems intuitive that amalgamation increases concentration, concentration reduces competition and reduced competition leads to thickened earnings margins, it is still unclear how concentration fuels *personal* income inequality. It seems reasonable to suppose that the greater profits accruing to the largest firms (and the resulting increase in cash flow), which is a consequence of larger size and greater market power, has the potential to translate into higher executive salaries, whether the executives have an equity stake in the firm they manage or not.

As has been argued elsewhere (Brennan 2012), there appears to be a positive relationship between surging executive salaries and income inequality, on the one hand, and corporate concentration on the other. Consider Hugh Mackenzie's (2012) report, *Canada's CEO Elite 100*, which examined executive compensation in Canada. Of the top 100 executive salaries, 59 are derived from a firm within the top 60 — our proxy for dominant capital. A further 16 of the top 100 executive salaries are derived from firms in positions 61 through 100 (ranked by equity market capitalization).<sup>13</sup>

The linkages between corporate concentration and personal income inequality, then, run as follows: amalgamation increases concentration; increased concentration translates into less competition; less competition translates into enlarged earnings margins, greater profits and increased cash flows; the resulting increase in cash flow has the potential to translate into higher executive salaries and dividends; and it is the very high executive salaries — many among Canada's richest 0.1% — that are playing a key role in driving personal income inequality across Canadian society.

# Conclusions and Implications

SO WHAT DOES neoliberal globalization (and the trade and investment liberalization regime that stands at its centre) mean in the Canadian context? Contrary to established doctrine, it does *not* mean a sustained increase in trade flows. Nor does globalization mean higher levels of business investment in industrial capacity, more rapid employment growth or accelerated GDP growth. And insofar as large firms go, it most certainly does not mean greater competitive pressure. There may be greater competitive pressure elsewhere in the Canadian political economy, notably in the market for labour, but globalization has not increased competitive pressure on large firms.

In practice globalization has meant the internationalization of Canadian business ownership (read: control), which has reached historically unprecedented levels in recent years. As large firms chase corporate assets (and the associated income streams) outside Canada's borders, they grow in relative size. And as corporate amalgamation waves become larger, more frequent and increasingly internationalized, not only does Canadian corporate ownership globalize, it concentrates. Asset concentration is logically and empirically tied to corporate profit concentration. And because concentration implies less competitive pressure, an increase in the relative size of the largest corporate units has also meant a dramatic increase in the market power of dominant capital.

The TAIL era shift to heightened amalgamation activity means less business investment in industrial capacity, which has put downward pressure on GDP growth. As corporate units amalgamate and as corporate assets concentrate, the largest firms gain ever-more control over corporate (and national) income. In other words, the heightened market power associated with larger relative firm size means an upward redistribution of corporate (and national) income. This enlargement of the income position of dominant capital increases the potential for corporate cash hoarding, which has reached a half-century high in recent years. Corporate hoarding puts even more downward pressure on GDP growth. So accelerated corporate amalgamation and the associated concentration are two (hitherto undetected) ingredients in the slower GDP growth of recent decades.

Increased market power among large firms is closely associated with the national redistribution of income between capital and labour – owners at the expense of workers. And because the top income group in Canada owns and effectively controls the largest corporate units, or has senior management positions within them, the concentration of corporate income has effectively meant the convergence of personal income towards the richest income group. It is an unorthodox conclusion, but the facts strongly suggest that enhanced corporate power exacerbates personal income and wealth inequality.

There is nothing inevitable about these developments. Over the past generation the Canadian political economy has been deliberately reconfigured to make conditions more favourable for business, which effectively means more favourable for *big* business. The advertised intention of neo-liberal policy, in particular free trade and investment liberalization, was to incentivize business investment in growth-expanding industrial projects. Everyone would win from such a change, so it was argued, insofar as it would lead to more rapid GDP growth and higher per capita income. This has not happened. Though the stagnant growth in the TAIL era may be socially detrimental, it is not necessarily detrimental from the standpoint of dominant capital, which has seen an enormous redistribution of income, wealth and power in its favour.

This point is crucial: mainstream economics does not seem to understand the interplay between the development of large firms and GDP growth, in part because power is a causal element and mainstream economics is ill-equipped to handle power. Conventional economic thinking finds it puzzling that the past generation has seen business affluence amidst social stagnation; booming returns to capital in the context of sluggish GDP growth. From

a heterodox viewpoint there is no disjuncture between the two. Corporate concentration and the associated increase in income inequality imply a moderate degree of GDP stagnation.

An alternative set of state policies could change this set of outcomes. A trade and investment regime that actually promoted domestic investment and Canadian exports (like the Auto Pact) and that fostered inclusive, wage-led growth (which typically arises when the trade union movement is nurtured and strong) would alter the distribution of income, wealth and power. A *strategic* trade and *managed* investment regime could produce an alternative set of outcomes, should Canadians collectively decide to move in a different policy direction. To get to that point, however, Canadians will need a clearer understanding of the consequences of current policy in the TAIL era – to correct our errors, as Mill might have put it.



# Appendix

## Data on Mergers and Acquisitions

TO THE BEST of the author's knowledge a continuous data series on mergers and acquisitions does not exist for Canada. The data used in this study are drawn from numerous sources. The total number of M&A for 1914–1948 comes from Weldon (1966), *Table 1*, p. 233. The data represents the number of enterprises absorbed through merger. The data hereafter are for the total number of M&A announcements. The years 1949–1974 are drawn from Globerman (1977), *Table 1*, p. 55. The years 1975–1987 come from Brander (1988), *Table 1*, p. 117. The years 1988–1989 come from Khemani (1991), *Table 1*, p. 4. There is a gap in the data from 1990–1993. These values were estimated using data from UNCTAD on the number of Canadian cross-border M&A as a proxy, with proper rebasing (the correlation between the total number of M&A and Canadian cross-border M&A is 0.78, or very high). The years 1994–2012 come from Financial Post Crosbie Mergers and Acquisitions.

The dollar value of all announced M&A comes from Financial Post Crosbie Mergers and Acquisitions in Canada for 1994–2012 (not all announced M&A are completed, but that is the data that are available). The estimated dollar value of mergers and acquisitions for prior years comes in a series of steps. The first step was to create a unified TSX Composite Price Index by fusing two separate indices, one from the OECD through Global Insight for the years 1960–2012 and the second from Global Financial Data for the years 1914–1959 (with the year 2005 set to 100). The second step was to multiply

the total number of M&A by the unified stock price index. The third step was the creation of a rebasing number so that the total number of M&A could be multiplied by the proxy value. In step four the resulting number (the number of M&A multiplied by the stock price index) was multiplied by the rebasing number. The product is an estimate of the dollar value of M&A going backwards in time. The final step was to reproduce for Canada Nitzan and Bichler's buy-to-build indicator (*Figure 6*), which divides the dollar value of M&A by business spending on non-residential structures, machinery and equipment.

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# Notes

**1** In this passage, Means is partially quoting the conclusion he and Adolf Berle reach in *The Modern Corporation and Private Property* (1932: 351). Quoted in Means (1983: 469).

**2** “Free trade” is a misnomer, though a politically expedient one. As a slogan and a political advertisement, “free trade” is a brilliant label, in part because the word “free” is unqualifiedly good and “trade” is inevitable, but also in part because it conceals the other, more significant aspect of the agreements: the TAIL regime reconfigured investment rules and so paved the way for the radical restructuring of corporate ownership (read: control).

**3** See Brennan (2013a; 2013b) for an argument sequence that follows these steps (which need not be repeated in this study).

**4** See their *Capital as Power* (2009), freely available on their website: <http://bnarchives.yorku.ca/>.

**5** They do not confine the category “dominant capital” to large firms alone, but instead use it to encompass the “leading corporate-government coalitions” (2009: 315). For the purposes of this study, the conventional notion of the state will be retained and the concept “dominant capital” will be used to denote the largest publically traded firms.

**6** See Stanford (2003) for a complete review of the macroeconomic predictions associated with the CUFTA and NAFTA.

**7** This figure is inspired by a similar figure in Nitzan and Bichler (2009), page 357, Figure 15.6.

**8** I say “business spending” instead of “capital expenditures” in order to differentiate the *control* of industrial processes, which appears to be what investment centres on, from the industrial processes themselves. The creation of new productive capacity is an *industrial* act, not a business act. Business centres on investment, ownership and the control of industrial processes. Investment and ownership are not industrially creative acts in themselves. See Veblen (1919) for a discussion.

**9** The CCPA released an extensive independent analysis of the CETA on September 25, 2014, a day before Canada and the EU officially concluded negotiations and released a consolidated text. It looks at the agreement’s likely impacts on democratic decision-making in areas including intellectual property rights (patents and copyright), investment protection and financial services

regulation, infrastructure procurement and buy-local food policies, public services, and many other areas. The analysis concludes the CETA is an unbalanced agreement, favouring large multinational corporations at the expense of consumers, the environment, and the greater public interest. Like the NAFTA and other TAIL-era FTAs, the CETA is more importantly a “constitutional-style document that affects many matters only loosely related to trade.” See <https://www.policyalternatives.ca/publications/reports/making-sense-ceta#sthash.7yv4pbCf.dpuf>.

**10** Brennan (2014b), Chapter 6, critically reviews the M&A literature in North America in a more fulsome way.

**11** See Means (1935) for the research results and Means (1983) for a retrospective discussion of what his findings meant.

**12** Other factors affecting the degree of monopoly include the power of trade unions. Kalecki (1938: 65) asserts that the degree of monopoly also has a bearing on the distribution of income amongst social classes, a claim we examine in this report.

**13** See Mackenzie (2015) for a more recent examination of executive compensation in Canada.



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